



Statement by Dr Rachel David to the Senate Inquiry into the value and affordability of private health insurance and out-of-pocket medical costs

I am here on behalf of Private Healthcare Australia, the peak representative body for the private health insurance industry. We represent 20 health funds, both for-profit and not-for-profit. This covers over 96 per cent of Australians who hold private health insurance.

This inquiry is important because 13.5 million Australians rely on private health insurance and more than half of them have disposable incomes under \$50,000 per year. This is not a luxury market in Australia. We know that 84% of people believe that they get value for money from their private health insurance and cite peace of mind, choice of specialist for continuity of care, choice of hospital, and timing of medical treatment as the main reasons.

Private health insurance pays for close to two thirds of non-emergency surgery in Australia. 90% of day admissions for mental health care and 50% of all mental health admissions; 70% of joint replacements, 60% of chemotherapy, and 88% of retinal procedures take place in the private health sector. In addition, under Extras cover, health funds pay out more than \$2.59 billion for dental care per year, which is more than dental care expenditure by the Federal Government.

PHA is a research-based policy and advocacy organisation. Over the past 18 months, PHA has commissioned research with 20,000 consumers for accurate, real-world information to provide evidence for into policy proposals.

We know that Health Fund members value their Private Health Insurance but their main concern is affordability of both premiums, and out-of-pocket costs.

Our research shows there is concern among Australians about the issue of health system sustainability and costs, driven by the fact that the inflation of health input costs has risen at a rate much higher than CPI and household wages. Therefore, keeping private health insurance sustainable and premiums affordable ultimately benefits all Australians by keeping pressure off the public hospital system, particularly in elective surgery.

Funds have been working with the Federal Government to improve the affordability and value of Private Health Insurance for members. We have been working to bend the cost curve down, reduce waste and address a perceived lack of competition and transparency in our sector. PHA member funds have already made a considerable investment in this process to benefit their members, and will continue to do so as the reforms roll out.



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The results of this were demonstrated through the Government's recently announced Private Health Insurance reform package. An important measure to address participation in Private Health Insurance is the Lifetime Health Cover discount, which will allow health funds to offer customers discounted premiums as an incentive to take out cover in their 20s. Young, healthy Australians who hold insurance and who have lower-cost claims cross-subsidise costs for the sick and elderly who make claims more frequently. Under Australia's universal health system of community rating, this helps to keep premiums lower for everyone and can also reduce pressure on the public health system.

The most recent market research we commissioned in September 2017, indicates there is pent-up demand for Private Health Insurance in people aged under 30. This however, is also the age group most likely to also be challenged by housing affordability, education and rising energy costs. The Lifetime Health Cover discount will help put private health cover in the reach of younger people. People aged under 30 are particularly conscious of the need for **preventive dental care**, treatment of sports injuries and other accidents, and cover for mental health problems treated in hospital. These are all things which are difficult to access without private health insurance.

As this Committee is well aware and as our testimony at your previous Inquiry demonstrated, the fastest growing area of health fund costs is that of medical devices or prostheses. The Private Health Reform reform package goes some way to addressing the obscene mark-ups health fund members are paying for medical devices in Australia compared to the rest of the world. We thank you for your contribution to this outcome.

Health funds have pledged that all savings made from reducing inflated prostheses list benefits will be passed on to consumers in the next premium rounds, announced in April 2018 and April 2019. This process started last year, with an average premium increase of 4.8%, the lowest in a decade. Prosthesis List reform is the most effective short-term measure to achieve downward pressure on premiums.

The Private Health Insurance reform package addresses the issues of participation, affordability, and the value of Private Health Insurance. PHA worked with the Government on a simpler product classification to 'Gold/Silver/Bronze/Basic' with a focus on reducing complexity and simplifying consumer choice. It is vital that consumers know what they are buying, what they are not buying, and that their policy of choice is not only affordable, but meets their health and life-stage needs.

Health funds will introduce a new mental health safety net for people on low-cost policies to recognise that many people find it difficult to assess their own risk of developing a mental health problem. If they are unexpectedly admitted to hospital for a serious mental health condition, this will give them a one-off opportunity to upgrade their cover, and have their hospital stay fully covered without a waiting period on lower benefits.



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Other features of the reform package include the introduction of standard clinical terminology; increased capacity for the Private Health Insurance Ombudsman; the introduction of a “rural health product” and lifting the cap on excess to improve consumer choice. These are all measures supported by PHA and its member funds to improve the customer experience and affordability of Private Health Insurance.

After premium affordability, out-of-pocket costs are the major area of concern for health fund members. While there are more ‘no-gap’ services provided than ever before, out-of-pocket costs are rising for those which do attract a gap.

Health fund data shows there is a market for specialist fees; it’s just that consumers either don’t have access to this information or have great difficulty accessing it. Health funds have made considerable investments in directory services like Whitecoat (supported by HBF, Bupa and nib) and Healthshare (supported by Medibank and HCF), which aim to provide consumers and their GPs with quick access to information about specialists including scope of practice, location and likely fees and charges. We do however need a whole-of-sector commitment to transparency for these initiatives to be truly effective, and to bring the private health sector up to speed with the rest of the economy and consumer expectations.

In addition, as health technology improves it will be increasingly important to reconsider the legislative prohibition on health funds contributing to medical treatment provided out of hospital where a Medicare benefit is payable. This is currently acting as a perverse incentive encouraging unnecessary admissions to hospital in some key treatment areas, and needs to be addressed.

Health funds remain committed to working with stakeholders and the Parliament to foster greater transparency on medical-specialist and allied-health quality and out-of-pocket costs, and the industry has received strong support from across the political spectrum for this measure.

Private Healthcare Australia remains fully committed to a sensible reform plan to improve affordability, participation and value in the private health sector. We welcome this Senate inquiry into the value and affordability of private health insurance and hope it will have the equivalent, positive impact the Committee’s other inquiries have delivered for Australian consumers.

If it pleases the Chair, I would now like to hand over to my colleagues. Thank you.

Private Healthcare Australia is the peak representative body for Australia’s private health insurance industry. PHA represents 20 Australian health funds with a combined membership of 12.9 million Australians, or 96% of the sector on membership. Promoting the value of private health insurance to consumers in the Australian economy and keeping premiums affordable for our members is the number one priority of PHA members. PHA’s CEO Dr Rachel David is available for interview.

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