



Press Release

4 Dec 2019

Throwing out community rating will make private health insurance less, not more, affordable

Private Healthcare Australia Chief Executive Dr Rachel David has warned community rating is critical to Australia's current health system and keeps healthcare affordable for our ageing population.

Dr David said the latest report from the Grattan Institute highlighted issues of concern in the private health sector previously identified by government and stakeholders, however it failed to offer any workable solutions.

Australia's private health insurance is based on a system of community rating which means everyone pays the same premium for their health insurance regardless of their health status. Furthermore, health funds are prevented from discriminating against members based on health status or claims history. This contrasts with other types of insurance such as car and life insurance which are risk rated and influenced by factors such as your driving record, age and health.

Dr David said while maintaining a system of community rating posed challenges for Australia's health system, it was also one of the features which helped Australia maintain its international reputation for fairness in healthcare.

"Community rating underpins Australia's private health insurance regulations and changes to a risk rated system would severely destabilise premiums for older Australians and threaten the future of fair and equitable healthcare. Generational transfer of risk would mean a lot of Australians would have a very uncertain future. Risk rating would also make PHI unaffordable for young people with chronic health conditions, particularly those requiring ongoing mental health care.

"Community rating, however, facilitates affordable access to private health care for all Australians. It means everyone pays the same premium regardless of whether they're sick or well. If you have a number of chronic conditions, you pay the same premium as someone who's completely healthy.

The key challenge with community rating is there's a cross-subsidy from younger people to older people. In the past that's worked well because as younger people have aged, they've been cared for. The system is under pressure as the large baby boom population is claiming more than ever before.

"There's no question we have to address the very significant demographic challenges that are being faced by health funds as the baby boom population reaches what we call the age of 'peak surgery' and are having more procedures and more hospital admissions than ever before. This coupled with expectations to live longer and better lives means the generations behind the baby boomers are finding it hard to keep up with the premium increases that are going towards funding this.



Private Healthcare Australia
Better Cover. Better Access. Better Care.

Press Release

“We need to adjust policy levers to incentivise younger people to take out PHI and we have given the government a number of options to consider including restoring the 30% PHI rebate for those under 40 years of age.

“Removing the rebate from extras as proposed by the Grattan paper will only price more young Australians out of private health cover. Research shows that young people value PHI for dental and optical coverage. It provides timely access to dental health care, an important preventative health measure. In the year to September 2019, health funds subsidised 43.6 million dental services on behalf of members, with benefits paid totalling \$2.84 billion. (APRA 2019)

“The means-tested rebate is a proven way to promote participation and keep private cover more affordable for all Australians. Providing subsidies to private health insurance is the most cost-effective way for the Australian Government to support the growth in hospital and health services over the coming decades.

“Subsidies for private health insurance-funded services cost the Commonwealth Budget around 30 cents in the dollar. The alternative, providing more services in public hospitals, would cost the Commonwealth Budget 45 cents in the dollar.

“Both major political parties have previously accepted the critical role the PHI rebate plays in maintaining balance in our mixed private public health system and ensuring its sustainability into the future.

“Health funds understand affordability is a major concern for members and are working with the government to keep premiums as low as possible. PHA will continue to advocate for reforms that reduce the costs of healthcare and ensure the sustainability of our mixed health system,” said Dr David.

Private Healthcare Australia is the peak representative body for Australia’s private health insurance industry. PHA represents 24 Australian health funds with a combined membership of over 13 million Australians, or 97% 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.

Media contact: Jen Eddy 0439240755