



Private Health Insurance – where to next?



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

Private Health Insurance: The Facts

Australia's world-class healthcare system delivers universal access, patient choice and excellent health outcomes. Declining private health insurance (PHI) participation is putting the sustainability of our public/private system at risk.

As our population lives longer, and consumer expectations increase, so too does the cost of healthcare, leading to higher premiums and unexpected out-of-pocket costs. The younger generation is feeling financially squeezed as health funds are paying record claims for hospital procedures in people aged over 55.

The result is the proportion of Australians with private health cover has fallen to the lowest level in 12 years, and by 2030-2035 could drop to 30%. This will have significant flow-on

effects to the public system – blowing out wait lists, reducing choice and access and greater demand for public health spend.

Every day Australian health funds are working to reduce costs to the consumer and improve the value they get for their money. The funds cannot do this alone. Red tape from regulation that is past its use-by date is forcing up premium costs. More needs to be done and it requires whole of sector cooperation and action.

Dr Rachel David
CEO
Private Healthcare Australia

About Private Healthcare Australia

Private Healthcare Australia (PHA) is the peak representative body for Australia's private health insurance industry.

PHA represents 25 Australian health funds with a combined membership of over 13 million Australians (97% of the sector on membership).



The State of Play



Approximately half the Australian population (13.6 million) is covered by some form of private health insurance (hospital and/or extras cover).

Like other developed countries, Australia is seeing its healthcare costs rise well above the consumer price index and wages. Healthcare is increasing its share of both government spending and consumer spending.

The drivers of the rising cost of healthcare include demographic factors such as our population living longer and expecting a better quality of life, as well as the increasing prevalence of chronic disease.

Overwhelmingly consumers cite premium affordability as their main concern about private health insurance and the main reason for dropping or downgrading their cover.

The affordability of healthcare has been reduced by years of rising premiums, increasing (and unexpected) out-of-pocket costs and the decline in the government rebate (now below 25%).

Participation is declining. In the five years to 2019, the proportion of the Australian population with PHI hospital cover has declined from 47 percent to 44.1 percent. Over the past 5 years the proportion of 25-29-year-olds with PHI cover has fallen by 8 percent.

Recent government and regulatory interventions have focused more on reducing complexity in the system and addressing

transparency, rather than addressing these more fundamental issues.

The key selling propositions for private health insurance remain choice and peace of mind. Consumers value control over their timing of admission to hospital for elective surgery and continuity of care from fully trained specialist doctors. For younger people, private health insurance gives them access to mental health services not available in the public system and affordable dental care.

State and Federal Governments of both persuasions have a strong political interest in maintaining private health coverage. If private health participation continues to decline to 30%, where it was in the late 1990s, we are facing a 91% increase in current wait times and an additional \$19 billion Australian Governments will need to find to address this.

Public hospital waiting lists are already increasing around the country – fewer people with private health insurance means more people on waiting lists.

Multiple reviews have found the private health sector is heavily regulated. The regulatory framework is out-of-date, pushes up premiums by forcing funds to pay claims which are inflated or wasteful, restricts competition between health funds and restricts the type of services that can be offered to health fund members.

Ensuring the stability of our public/private healthcare system

Health funds can deliver better value and affordability to members if the regulatory burden is removed.



What the health funds have delivered:

- Lowest average premium increase in almost two decades (under 3%)
- Reduced management expense ratios
- Increased no or known gap services to over 97%
- Addressing compliance issues to reduce premium costs
- Working with providers to reduce low value care and improve customer experience
- Invested \$100 million in technology for seamless implementation of PHI reform (including four tiers, youth discounts & travel benefits)

**Health funds
can deliver
further value
& make
cover more
affordable by**

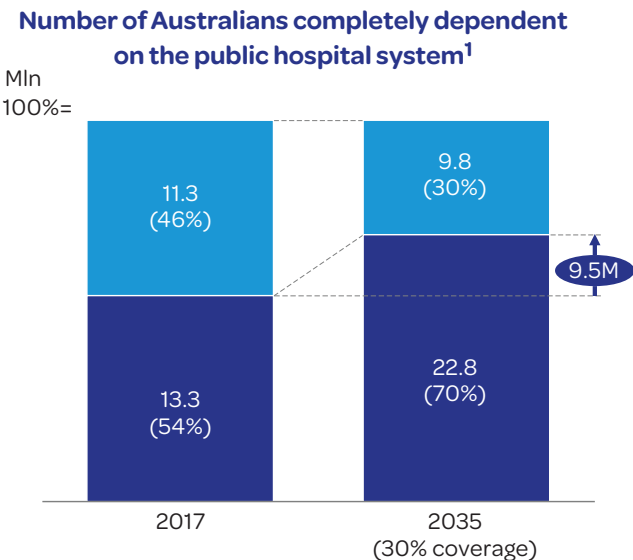


Cutting red tape

- Amend second-tier default benefits
- Abolish outrageous pricing on the Prostheses List
- Stop sales reps from driving sales of expensive devices beyond clinical need
- Stop aggressive cost-shifting practices in public hospital EDs
- Allow PHI to fund out of hospital care to reduce consumer co-payments (e.g. rehab at home, mental health)
- Reduce the scope of mandatory payments for low value care

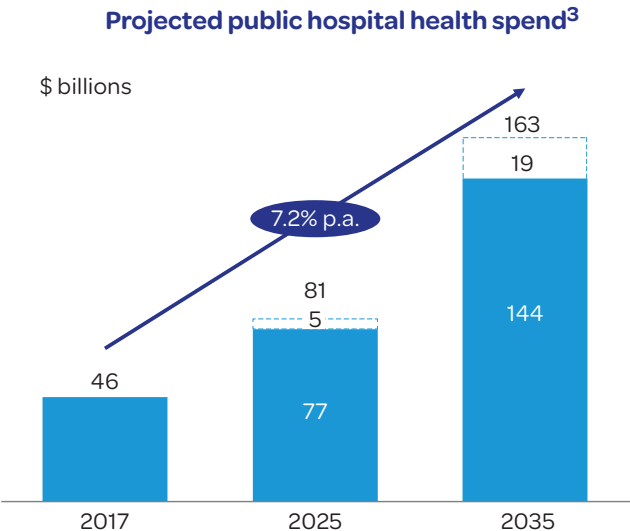
The importance of a balanced public/private system:

A decrease in coverage to 30% of the population would mean 9.5 million new users of the public hospital system.



1. Includes increase in people fully dependent on the public hospital system due to population growth (i.e. coverage proportion is applied to projected FY35 population, assuming population grows at 1.6%); 2. Includes only those who have hospital coverage. Source: APRA Private Health Insurance Statistics (membership), ABS

Wait times would increase & so too would federal funding of public hospitals.



From additional members coming out of private

3. Includes Federal and State funding; assumes underlying health inflation of public hospital government funding at 6.5%. Source: APRA Private Health Insurance Statistics, AIHW Australia's Health Expenditure 2015-16

Already, more people are waiting for surgery.

More people are being added to surgery wait lists (893,000) than receiving surgery (758,000).

And wait times are getting longer.

	2014-15	2015-16(b)	2016-17	2017-18	2018-19
Days waited at the 50th percentile	35	37	38	40	41

The proportion of patients who waited longer than 365 days to be admitted was 2.1% in 2018-19, up from 1.8% in the previous year.

What Australian health funds are doing:

Health funds have delivered the lowest premium increase in 19 years.

The funds collectively invested over \$100 million dollars to implement the last round of private health insurance reforms to ensure a smooth transition for consumers.

Management expenses are very low – around 9% for private health insurance, compared to 19% for private motor vehicle insurance, 17% for professional indemnity insurance and 24% for general insurance.

Funds have also been working hard to reduce costs and address fraud and compliance issues, and working with professional and

clinical leadership organisations to improve patient care.

Funds have improved contracts with doctors and with hospitals to reduce out of pocket costs. For the first time, last year, more than 97% of medical services under private health insurance were delivered with no gap or a known gap.

The funds have also introduced initiatives to provide no-gap care for consumers in and out of hospital, loyalty programs for consumers to incentivise healthy behaviour, affordable dental care, personally managed health records and simplified claiming.

At-home care

Funds are providing more services in the home and introducing programs that fast track a patients return to their own bed, when it is clinically appropriate. This includes rehabilitation, chemotherapy and nursing taking place in the comfort of a member's own home – so they don't have to attend hospital for certain treatments.



For example, Medibank at Home is a program allowing customers with specific health needs to receive care in the comfort and convenience of their own homes, instead of hospital. The program spans a range of care services, including rehabilitation, chemotherapy, reconditioning rehab, infusions, palliative care and dialysis.





No gap cover

Funds have introduced no-gap cover options that don't leave consumers with surprise out-of-pocket costs after surgery. By partnering with private hospitals and practitioners who don't charge egregious fees, consumers can be assured their whole hospital treatment is covered.



HCF launched a No Gap Obstetrics package with the Sydney Adventist Hospital. This was an Australian first as it included all related specialists and services involved in the maternity care continuum, guaranteeing members a no out-of-pocket experience.




Health Partners introduced enhanced benefits through provision of owned and operated dental and optical hubs (passing on product savings to consumers by way of better benefits, e.g. unlimited Optical, unlimited dental).

What Australian health funds are doing:

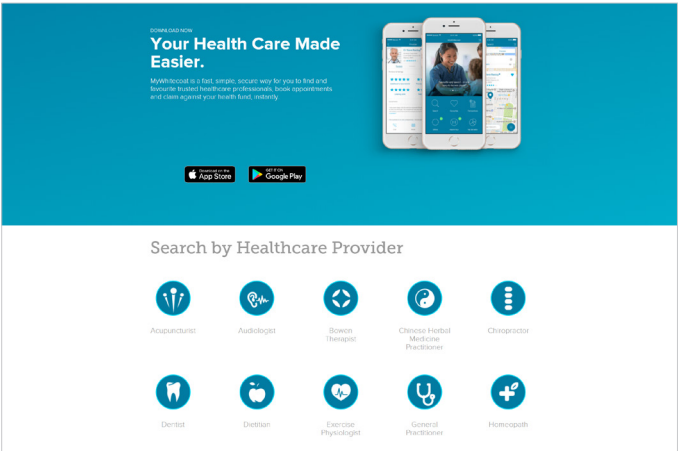
Technology investments


Health funds have invested in online tools and platforms to improve consumer transparency of costs and assist them with navigating a complex health system.



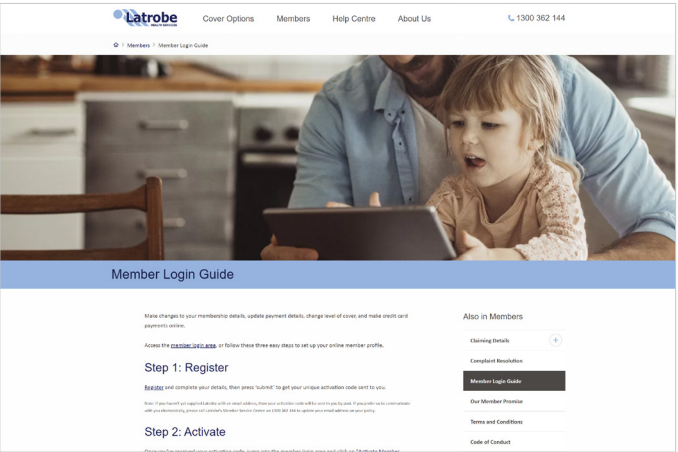
it's worth it

nib launched Whitecoat, a search and comparison website that helps Australian consumers make better purchasing decisions when choosing an ancillary healthcare provider. Dubbed the “TripAdvisor” of healthcare, the website allows members to search, find and book a healthcare provider, as well as share their healthcare experiences.





Latrobe Health Services has launched a new mobile app for members so they can manage their membership and claim on the go.





Wellbeing

To help combat the increasing rates of chronic disease in Australians, health funds are providing members with extra value and incentives when they partake in wellbeing initiatives. This includes weight loss programs, heart checks, flu shots, mental health support lines and exercise rewards points.



GMHBA have partnered with AIA Vitality, a globally renowned health and wellbeing program that rewards members for healthy behaviours. AIA Vitality is a personalised, science-backed health and wellbeing program. The more activities you engage in the more points you earn, the higher your AIA Vitality Status and the greater the rewards and discounts.



Bupa's TeleHealth service offers telephone-based health support at no extra cost for Bupa members with long-term health conditions such as heart disease, diabetes, back pain, stroke and osteoporosis. The health coaching program involves developing a one-on-one relationship with a Health Coach who is a specially trained and qualified nurse, dietitian or other health professional.



HBF has introduced a range of preventative health services provided via pharmacy including flu jabs; weight management programs and health screenings.



Medibank's "Live Better" program rewards customers for making healthy choices, allowing them to earn and redeem rewards, including savings on their premiums.



HIF gives members access to its Healthy Lifestyle Blog which provides diet and lifestyle advice.

What can the Australian Government do?



Restore the Private Health Insurance rebate to 30% for people under 40.

Young people and those on low and middle incomes are dropping their PHI cover and moving into the public system. With more and more claims being paid for people over 55, they can feel they are paying more and getting less.

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, costs the Commonwealth Budget 45 cents in the dollar.

Restoring the rebate which is now less than 25% will help maintain the sustainability of our world-class public/private system. Young people will be able to maintain their cover and access vital services.



Reform Prostheses pricing.

The cost of prostheses in Australia make up over 10% of hospital costs – growing at 7% per year while surgery is increasing at 1% per year.

On average Australia pays approximately 35% above international benchmarks for the same prosthesis. For example, a common heart stent costs five times more in Australia than it does in New Zealand.

We need to establish a national procurement system for medical devices used in both private and public hospitals, which includes a dynamic pricing model referencing international prices, and rigorous health technology assessment. This can be modelled on the successful Pharmaceutical Benefits Scheme.

A procurement system with international reference pricing, and controls around prostheses volumes would increase quality and safety of implantable prostheses and save up to \$500 million on premiums annually.



Remove legislative restrictions to insuring community-based care.

Health funds are legally unable to cover out-of-hospital care. This was set in stone in the 1970s when the diseases we suffered from were different.

The Private Health Insurance Act 2007 restricts funding outside hospital where a Medicare benefit is payable.

As 35% of the Australian population has a chronic disease, funding out-of-hospital care makes sense.

In some cases, clinical evidence shows in-hospital care is no longer necessary and we can substitute lower cost out-of-hospital care, where the same or better outcomes are available. Rehabilitation at home and same day admissions for psychiatric care are examples where the co-payments could be covered.

Community-care means more choice and improved outcomes at less cost. There is the potential to improve patient outcomes and reduce costs associated with hospitalisation by \$1 billion across the public and private systems.



Amend second-tier default benefit to balance the negotiation power between insurers and private hospitals to increase affordability for consumers.

Originally set up to protect smaller regional hospitals, the safety net is now used by large hospital groups to negotiate higher prices, on top of their efficiencies of scale, and day hospitals in cities, some of whom are also increasing out of pocket costs.

Restoring the second-tier default benefit to its original purpose (rural hospitals with less than a 3 percent market share) would save more than \$150m annually and help promote quality and innovation.

There should also be more consumer protection with the second-tier default benefit – if a hospital receives the benefit (currently 85% of the average), they should sign a common form of undertaking not to charge more than the average fee. This will help reduce out of pocket costs.



Establish clear and appropriate rules for assigning public hospital costs associated with private patients to health funds.

Public hospitals in some states are pressuring patients who present to a public hospital emergency department to use their private health insurance rather than the Medicare system.

PHI members are now subsidising the costs of public hospitals, despite having already contributed to these through their taxes. This practice adds \$1 billion to the cost of premiums.

Cost-shifting also disadvantages people without private health insurance as they risk getting bumped down public hospital waiting lists if they need treatment. There are also reports from members that private patients are treated faster in emergency departments.

Clearer rules preventing public hospitals from harassing patients when they are vulnerable will reduce this cost.



The value of private health insurance

Private health supports millions of Australians

**13.6
million**

Australians have private health insurance

**11.2
million**

Australians have hospital cover

In 2019, health funds paid:

**\$21.6
billion**

in benefits on behalf of members

**100
million**

subsidised hospital and ancillary services

Private health insurance funds:



≈ 2/3

of elective surgery



64%

of all joint replacements



53%

of all mental health admissions



1/2

of all Australians claim for dental services through a health fund

Young people receive value from private health insurance:



Mental health care

1 in 10 claims for people under 30 are for mental health treatment



Dental care

Access to affordable dental care at a critical life stage



Sport injuries

Timely elective surgery & rehab and physio coverage



Elective surgery

PHI funds 57% of endometriosis hospitalisations



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