

PRIVATE HEALTH INSURANCE REFORMS ANNOUNCED AT 2012-13 MID-YEAR ECONOMIC AND FISCAL OUTLOOK (MYEFO)

Current Issue:

- On 2 February 2013, the *Weekend West (Perth)* reported that older workers and retirees will be hit hardest by the Government's plan to stop paying the rebate on the Lifetime Health Cover loading.
- On the 22nd October 2012 as part of the 2012-13 MYEFO, the Australian Government announced two measures relating to private health insurance:
 - Private Health Insurance Rebate – removal of the rebate on lifetime health cover loading; and
 - Private Health Insurance Rebate – indexing the Government's contribution.

Brief talking points:

Private Health Insurance Rebate – removal of the rebate on lifetime health cover loading

- The *Private Health Insurance Amendment (Lifetime Health Cover Loading and Other Measures) Bill 2012* was passed by the Senate on 27 June 2013 and received Royal Assent on 29 June 2013.
- From 1 July the Rebate on Private Health Insurance will no longer apply to the Lifetime Health Cover loading that applies to some people's hospital cover premiums.
- The Government recognises that some insurers are not ready to implement the system changes and is providing a three month grace period up until 1 October 2013 for those insurers to make the transition.
- This change will only affect those paying a LHC loading, with around 9 out of 10 policy holders unaffected.
- This measure will result in savings of \$386.3 million over four years. Savings from this measure will be re-directed to partially offset the cost of the Dental Health Reform package announced on 29 August 2012.
- The Rebate is one of the fastest growing elements of the Health Budget. The changes will save taxpayers \$386.3M over 4 years.

Private Health Insurance Rebate – indexing the Government's contribution

- The *Private Health Insurance Amendment (Base Premium) Bill 2013* was passed by the Senate on 27 June 2013 and received Royal Assent on 29 July 2013.
- The changes to the calculation of the private health insurance rebate will mean that the rebate will be calculated using base premiums which will then be indexed annually.
- This measure will take effect from 1 April 2014, as announced by the Treasurer on 22 October 2012, as part of the 2012-13 Mid-Year Economic and Fiscal Outlook.
- The changes mean that while the rebate percentage remains the same, the rebate rate will be calculated on a 'base premium'.
- A policy holder's percentage rebate entitlement will still be dependent on their age

and income.

- Indexing a base premium will ensure that the Government contribution through the Australian Government Rebate on Private Health Insurance continues to create an incentive for people to purchase private health insurance.
- The changes will save taxpayers \$699.7M over 4 years.

If asked about the variation to the PHI published estimates:

- There has been no change to the estimated savings related to the 2012-13 MYEFO measures.
- As noted in table 8.1 of Budget Paper 1, estimates for private health insurance have increased as a result of the financial impact of premium growth being removed from the contingency reserve and included in published estimates. Also contributing to the increase are projected increases in both participation and population growth, taking into account historic growth patterns and actual expenditure in 2011-12.

Key Facts:

Private Health Insurance Rebate – removal of the rebate on lifetime health cover loading

- Under the grace period the Department of Human Services will continue to pay rebates to insurers, and for those payments that do not take account of the LHC loading, these will be reconciled by the Australian Taxation Office as part of the annual tax assessment process.
- Lifetime Health Cover (LHC) is designed to recognise the additional cost of providing hospital coverage to people aged over 31, and subsequently requires people who delay taking out hospital coverage to contribute to this cost.
- The LHC loading is removed once an individual has held hospital cover and paid the loading for 10 continuous years.
- LHC improves the risk profile of health fund members while maintaining the basic principles of community rating, thus helping to contain the cost of private health insurance for all consumers without discriminating against people who may be more likely to have a higher rate of claiming against their private health insurance.
- LHC loadings are much lower than the actual increase in health expenditure associated with advancing age. According to the Productivity Commission, health expenditure on people aged over 65 amounts to around four times (400%) more per person than for those aged under 65.
- The PHIAC March 2013 Quarterly Statistics Report shows that 1,091,145 individuals are paying a LHC loading on top of their private health insurance premium. 3.3% of total adults incurring a LHC loading pay the maximum loading of 70% (35,995 people).
- Approximately 86% of all privately insured adults will not be affected.
- The average financial impact of this proposal on consumers is estimated to be approximately \$116 per year, based on the current average LHC loading of 24 per cent.

- The Incentives Payment Scheme represents 0.01% of total claims (6,339 claims in 2012).

Private Health Insurance Rebate – indexing the Government’s contribution

- This measure was announced by the Treasurer on 22 October 2012, as part of the 2012-13 Mid-Year Economic and Fiscal Outlook.
- The Treasurer stated that during his MYEFO announcement on 22 October 2012, that the ‘Rebate currently costs around \$5 billion a year and its growth rate of 6.3 per cent over the forwards is unsustainable’.
- The changes resulting from this Bill will mean that while the Rebate percentage remains the same, the Rebate rate will be calculated on the ‘base premium’.
- Base Premiums will be indexed on 1 April each year to align with the existing premium process when insurers change their annual premium prices.
- The indexation factor for base premiums will be the lesser of the CPI percentage change or the change of the premium charged by a private health insurer that is approved by the Minister under section 66-10 of the *Private Health Insurance Act 2007*.
- If people choose to change policies, their rebate will be calculated on the base premium of the new policy.
- Base premiums will be calculated as the premium made available as at 1 April 2013. For policies made available by an insurer after 1 April 2013, the base premium will be calculated based on a weighted average ratio.
- The weighted average ratio will be set out within the Private Health Insurance (Incentives Benefit) Rules.
- The Department will be consulting with industry on the weighted average ratio prior to the Bills commencement date, being 1 April 2014.

Drop Outs:

- These changes are unlikely to result in a significant number of people dropping their cover.
- Prior to the introduction of income-testing on 1 July 2012, there was an increase in hospital treatment coverage of 132,366 insured people in the June 2012 quarter.
- As at 31 March 2013, 46.9% of the population was covered by hospital treatment policies.

Consultations relating to both Bills:

- On the 17th and 23rd of April 2013, the Department held meetings with the private health insurance industry in Canberra relating to the implementation of both MYEFO measures.
- These consultations were part of an ongoing process focused on promoting a more efficient private health insurance environment that enables policyholders to share in the benefits of greater efficiency, competition and innovation.

Question Time Brief

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