

6: Private health insurance

All Australians have health insurance. It's called Medicare, it's run by the Australian Government and it provides care in public hospitals and subsidies to those seeing doctors in the community, as well as a range of other health services.

Private health insurance is available outside the Medicare system. It covers part of the cost of medical expenses and accommodation in hospital for people who want to be treated as private patients. In some cases, and to varying degrees, private health insurance also covers part of the cost of seeing other health practitioners such as optometrists, dentists, physiotherapists and chiropractors.

The Australian Government has made a number of changes to private health insurance over the past decade. The government said these changes would improve the financial viability of the private health insurance funds, increase the number of people with private health insurance, support the private health sector and take the pressure off public hospitals.

As a result, the private sector now plays an important role in the Australian health system. Private hospitals undertake a large and increasing share of all surgical procedures in hospitals, although public hospitals still treat the majority of emergency and complex cases.

The Australian Government's first significant change to private health insurance was the introduction of a 30% rebate on premiums paid to health insurance funds. That was introduced in January 1999. In 2005 the Australian Government increased private health insurance rebates to 35% for people aged between 65 and 69 years, and 40% for people over 70.

In July 2000 Lifetime Health Cover was introduced. Lifetime Health Cover penalises people who join a private health insurance fund after the age of 30. It does this by adding 2% to the premium for each year of age over the age of 30. So a person joining a health fund at age 55 will pay 50% more than a person joining at age 30 (25 years extra x 2% equals 50% extra). Further adjustments have been made since – the most recent relaxing these penalties for people who have had 10 years of continuous cover.

These changes have had the effect of enticing people to join a health insurance fund while younger, and deterring people in their 50s or older.

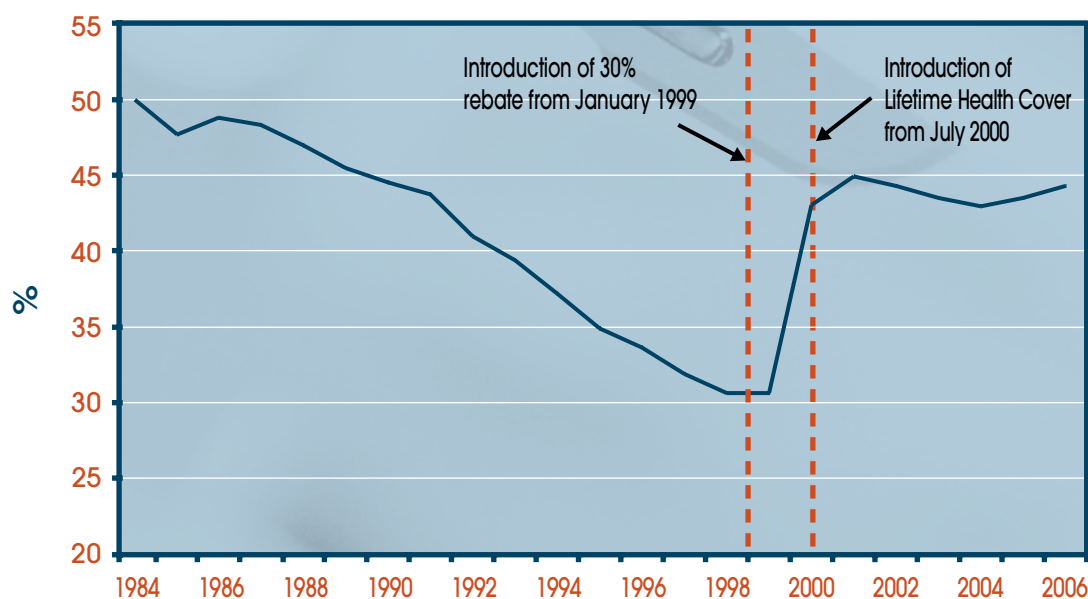
This year the Australian Government introduced another series of changes to private health insurance, called Broader Health Cover. As a result of these changes, private health funds are now able to cover the cost of out-of-hospital medical services as well as services designed to avoid the need for people to go into hospital in the first place. No similar changes have been made to the Australian Government's approach to Medicare for people without private health insurance.

The Australian Government also penalises people through the taxation system. People who earn more than \$50,000 a year, or couples earning more than \$100,000 a year, must join a health insurance fund or they will be forced to pay an extra 1% tax, called the Medicare Levy Surcharge. These thresholds have not been indexed since they were introduced 10 years ago, meaning people on average incomes (now around \$54,000 per year) are forced to take out private health insurance or pay the surcharge, even though it was originally designed to encourage high income earners to take out private health insurance.

Has private health insurance coverage increased?

Yes, private health insurance coverage has increased, as seen in figure 19. It had been in a steady decline for some time, then jumped with the introduction of Lifetime Health Cover. After that, private health insurance coverage dipped again before levelling off.

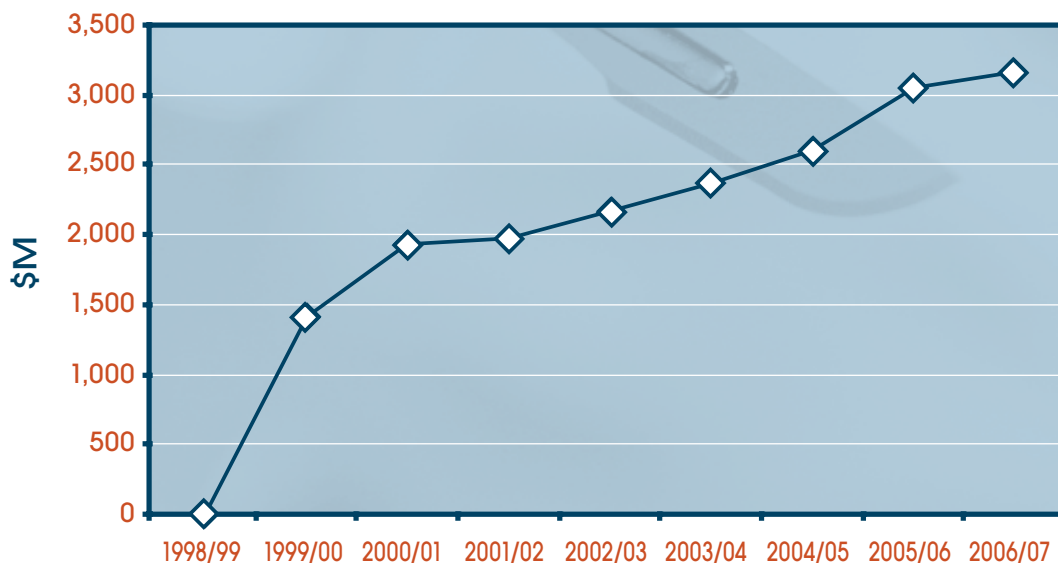
Figure 19: The percentage of the population with private health insurance (%)



How much does the rebate scheme cost taxpayers?

The rebate scheme costs taxpayers about \$3 billion in 2006/07. This amount has grown rapidly each year since the scheme was introduced, and much faster than the Australian Government predicted (see figure 20). The rapid growth has been mainly due to increases in private health insurance premiums, which have risen by 47 percentage points since 2000.

Figure 20: Australian Government spending on the private health insurance rebate (\$M)



One of the aims of the rebate is to increase the number of people with private health insurance. But while the cost is increasing rapidly, the number of people in private health insurance funds is not.

In fact, between 2000/01, when the rebate scheme settled in, and 2005/06, which are the latest figures available, the amount the Australian Government spent on the rebate rose by 58% (from \$1.93 billion to \$3.05 billion). But the number of people in private health insurance funds rose by only 1.5% (from 8.7 million people to 8.8 million people). The major increase in the number of people with private health insurance was prompted by the introduction of Lifetime Health Cover, and all the rebate did was arrest the slide in membership.

Have health insurance premiums stayed stable?

No. Health insurance premiums have continued to rise at roughly twice the rate of inflation.

In the last five years, health insurance premiums have risen by an average of 6.6% per year. The average inflation rate during this period was less than 3% (see table 1).

Table 1: Health fund premium increase versus inflation

Year	Inflation rate (%)	Premium increase (%)
2003	3.1	7.40
2004	2.4	7.58
2005	2.4	7.96
2006	3.2	5.68
2007	N/A	4.39

* N/A: Not applicable

It is interesting to note that these premium increases are approved each year by the Australian Government. The government justifies these higher premium increases by saying that prices in health care rise faster than prices in other areas. It seems unfair that the Australian Government does not apply the same reasoning to its share of the costs of public hospitals (see table 2).

Table 2: Public hospital cost-related funding increases versus private health insurance fund premium increases

Year	Cost-related increase in Australian Government funding for public hospitals (%)	Year	Cost-related increase in private health insurance fund premiums (%)
2002/03	4.33	2003	7.40
2003/04	3.40	2004	7.58
2004/05	3.40	2005	7.96
2005/06	3.20	2006	5.68
2006/07	3.30	2007	4.39

The \$3 billion a year spent on private health insurance premiums subsidises the costs of patients who seek medical care in the private system, particularly patients admitted to private hospitals for surgery.

Figure 14 shows it has not helped take the pressure off emergency admissions to public hospitals. Public hospitals still admit 61% of all patients, and care for most of the seriously ill people. Public hospitals still care for 95% of all emergency admissions.

Australian Government funding increases for some areas of health care have not been matched with similar increases in funding for public hospitals.

This is a clear double standard which needs to be addressed through restoring appropriate levels of funding to public hospitals when such funding is next negotiated with the Australian Government.

Summary

The private health insurance premium rebates cost more than \$3 billion last year.

Recent changes to the private health system have made it more attractive to younger, healthier people.

The private sector now plays an important role in the provision of hospital care in Australia. The problem is not with the Australian Government's support for the private system, but that support for public hospitals is not provided on an equal footing.