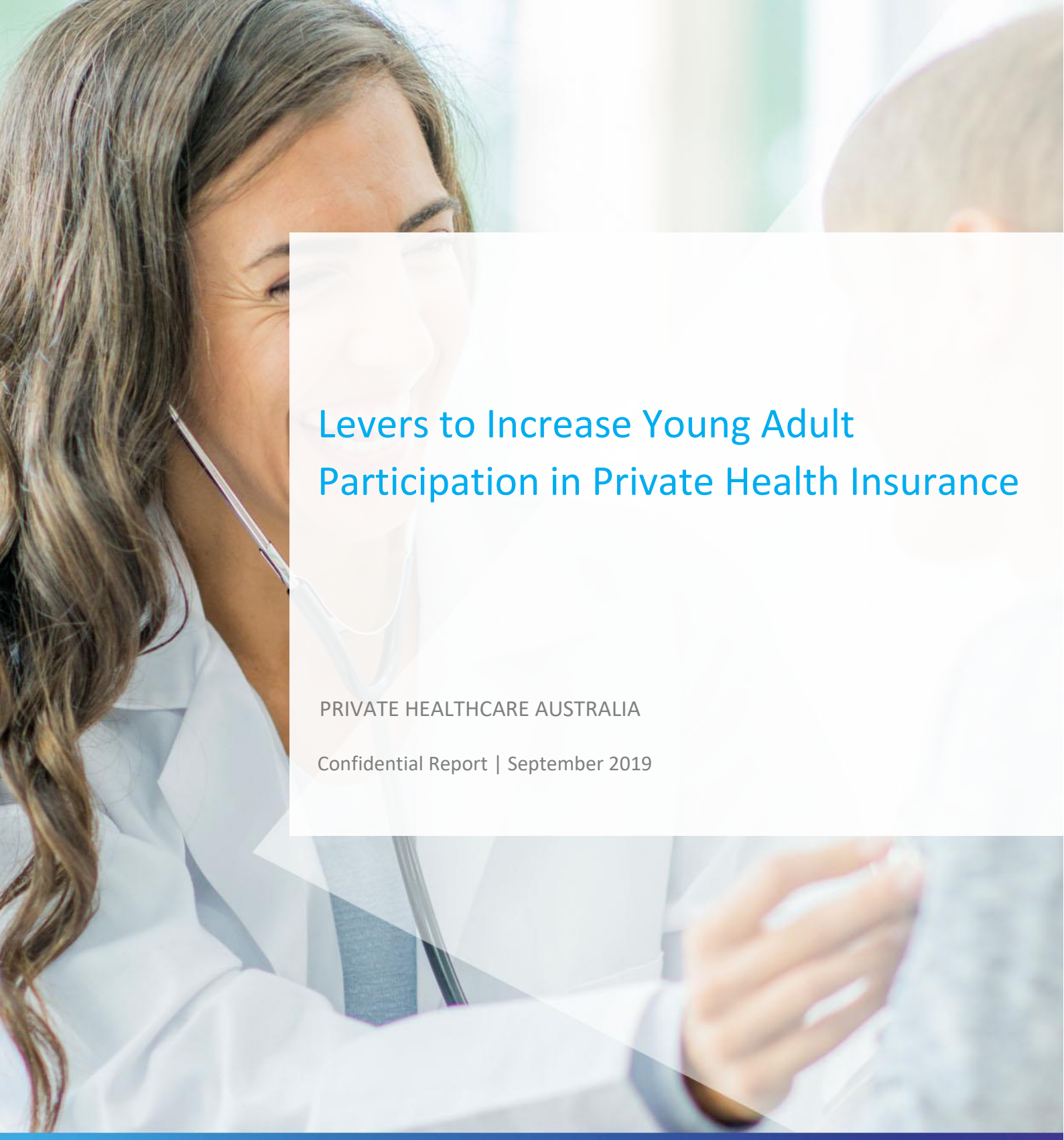


Levers to Increase Young Adult Participation in Private Health Insurance

PRIVATE HEALTHCARE AUSTRALIA

Confidential Report | September 2019

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

Table of Contents

1 Executive Summary

This report summarises key findings from an extensive market survey and focus groups conducted during August 2019. The survey included 4,946 respondents, of whom 2,864 were between the ages of 18-39. The report captures key insights relating to levers which may encourage overall young adult participation in private health insurance (PHI).

Private health insurance participation, specifically hospital treatment cover, among people aged between 20-39 has declined 6 percentage points (from 40% to 34%) over the past five years. A key driver of this decline has been a sustained increase in healthcare costs at a rate that far outpaces wage growth, with benefits paid per member increasing at 5.4% p.a. over the past decade, while disposable income among those under the age of 35 has only risen at 1.5% p.a. These healthcare costs sit largely within the remit of providers with limited influence from insurers, and yet insurers and consumers are bearing the brunt of this trend.

Without intervention this trend is expected to continue, and hence lead to further declines in private health insurance participation particularly among people aged 18-39. This would risk destabilising the foundations of a private health insurance system built upon the principles of community rating and risk equalisation, and have flow-on effects to both the public healthcare system (e.g., by driving increased need for beds and further increasing waiting times for elective surgery in public hospitals) and the privately insured pool (e.g., through increased premiums for remaining participants).

The Commonwealth Government could, working alongside the private health insurance funds, help halt and reverse the trend of declining young adult participation in private health insurance through three actions:

1. Leveraging its position as a trusted voice in the community by expressing confidence in the system and driving awareness of existing initiatives, in collaboration with funds. The Government's campaign could be targeted towards three potentially high opportunity areas:
    a. Increasing awareness and familiarity with the newly introduced age-based discount
    b. Increasing awareness and familiarity with the Lifetime Health Cover policy
    c. Encouraging conversations around private health insurance at the time of major life transitions, particularly the purchase of a first home
2. Introducing a Fringe Benefits Tax exemption applicable to private health insurance premiums for employees under the age of 40
3. Restoring the rebate to 30% of PHI premiums for participants under the age of 40, effectively delivering an additional 5% reduction in PHI premiums for younger members

Preliminary estimates, grounded in evidence from recent primary research, suggest applying these three levers could restore participation in hospital cover in the 18-39 age group to 38% by 2024, compared to a projected 32% participation rate if no action was taken. The estimated steady state annual cost of this package in FY24 is estimated at $1.2bn to the Commonwealth, but is expected to be partially offset by ~$310m of savings, due to the shifting of privately insured members to private funding for their hospital care.

As such, this investment would not only drive increased young adult participation in PHI, but would critically support the public hospital system and stabilise public hospital elective surgery waiting lists. Additionally, it would enable the funds to stabilise premium growth in the industry, and therefore ensure the sustainable coexistence of Australia's publicly funded universal healthcare system, and its vital private healthcare services.

1.1 SUMMARY OF OPTIONS DETAILED

Please note that:

- the impact of the levers detailed below are listed independent of all other levers
- costing estimations are preliminary, and additional technical considerations would need to be incorporated into any final costing

Category	Name of lever	Estimated participation impact (relative to momentum), % points	Estimated net impact[1] to Commonwealth Government, $ millions	Feasibility assessment
Awareness	**Promotion of the age-based discount**	0.3%	~1	High
Awareness	**Promotion of Lifetime Health Cover**	0.4%	~3	High
Awareness	**Targeted campaign for first home owners**	0.3%	~0	High
Pricing reform	**Restoring the base rebate to 30% for under 40s**	3.1%	261	High
Pricing reform	**Introduction of a Fringe Benefits Tax exemption for PHI premiums for under 40s**	1.5%	584	High

[1] 'Net impact' in this instance considers the cost of delivering the initiative, as well as the benefits accrued to the Commonwealth through savings in the public hospital system

2 Opportunities to increase PHI participation rates in the 'under 40' population

This paper seeks to identify the most efficient mechanisms to drive a potential increase in PHI participation, relative to investment from government, payors, providers and consumers. The options presented in this paper reflect those which have the most attractive cost-benefit profile. The discussion focused on each of these options represents a directional view on the relative attractiveness of the potential lever, and would need to be supplemented with further technical exploration when being considered for policy.

The three broad categories of levers that have been explored through extensive customer research are:

- **Driving awareness**, through which the government and the industry would work together to build familiarity with existing products, incentives and disincentives. While this would not be an undertaking that the government would do on its own, its involvement would be a critical in signalling confidence in the system as a whole.
- **Pricing reform**, through which the government can support the industry in reducing effective premiums for younger participants to drive greater PHI participation within this demographic, complemented by the industry then becoming able to better manage premium increases for the broader pool
- **Addition of value-added features**, through which the government and/or providers can collaborate with the PHI industry in providing additional value to participants for similar premium costs, thereby also increasing PHI participation

Note that approaches to address some of the core macro-drivers of increased PHI premiums, including the growth of healthcare costs, are not detailed in this paper. While there is clearly value that would arise from better managing these costs, this value is not specifically associated with younger people and so has not been the central focus of the analysis. It is expected, however, that better managing the cost of hospital stays, specialist gap fees and the cost of prostheses would have a catalytic effect on the options described. These actions would be fundamental to achieving a sustainable solution to the recent trend of declining PHI participation.

2.1 SUMMARY OF PREFERRED OPTIONS

Based on the consumer research outlined above, we believe that the most effective actions the government could take, which would deliver the highest increase in enrolment per dollar spent, are:

1. Leveraging its position as a trusted voice in the community to drive awareness of existing initiatives, in collaboration with the industry. The Government's campaign could be targeted towards three potentially high opportunity areas:

a. Increasing awareness and familiarity with the newly introduced age-based discount

b. Increasing awareness and familiarity with the Lifetime Health Cover policy

c. Encouraging conversations around private health insurance at the time of major life transitions, particularly the purchase of a first home

2. Introducing a Fringe Benefits Tax exemption applicable to private health insurance premiums for employees under the age of 40

3. Restoring the rebate to 30% of PHI premiums for participants under the age of 40, effectively delivering an additional 5% reduction in PHI premiums for younger members.

As previously noted, these interventions would then also enable the funds to reinvest in reducing premium increases for older Australians.

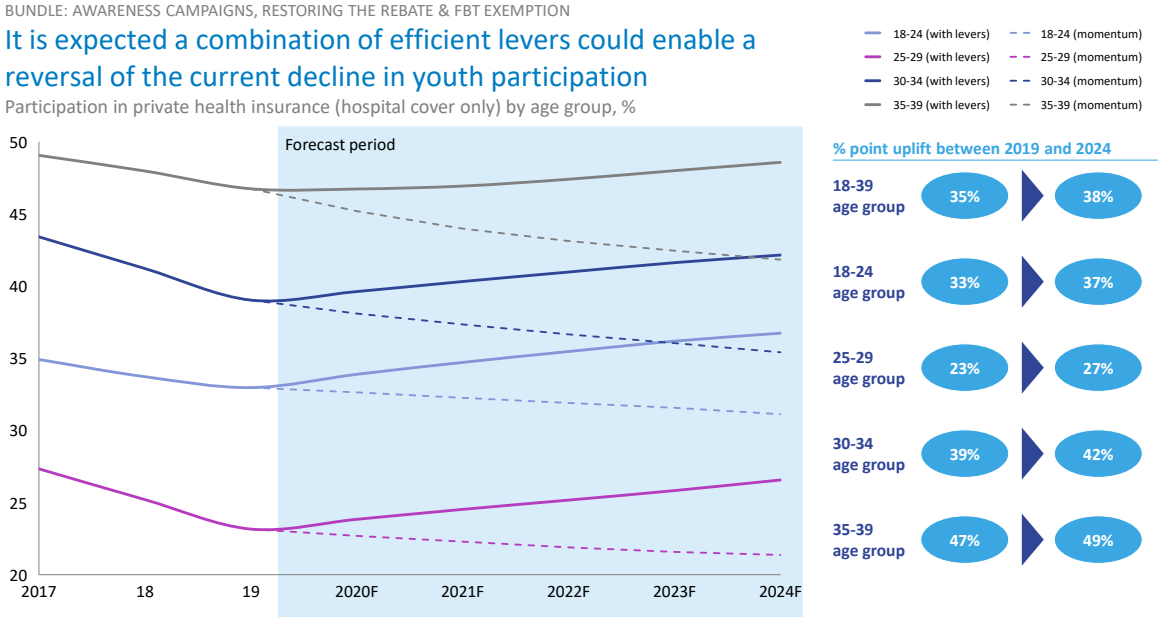
In this setting, the decline in young adult participation could to be halted and reversed, achieving an estimated participation rate in 2024 of ~38% in the 18-39 age group.

EXHIBIT 1

BUNDLE: AWARENESS CAMPAIGNS, RESTORING THE REBATE & FBT EXEMPTION

It is expected a combination of efficient levers could enable a reversal of the current decline in youth participation

Participation in private health insurance (hospital cover only) by age group, %



SOURCE: APRA Statistics - Private Health Insurance Membership Trends (March 2019), Australian Bureau of Statistics

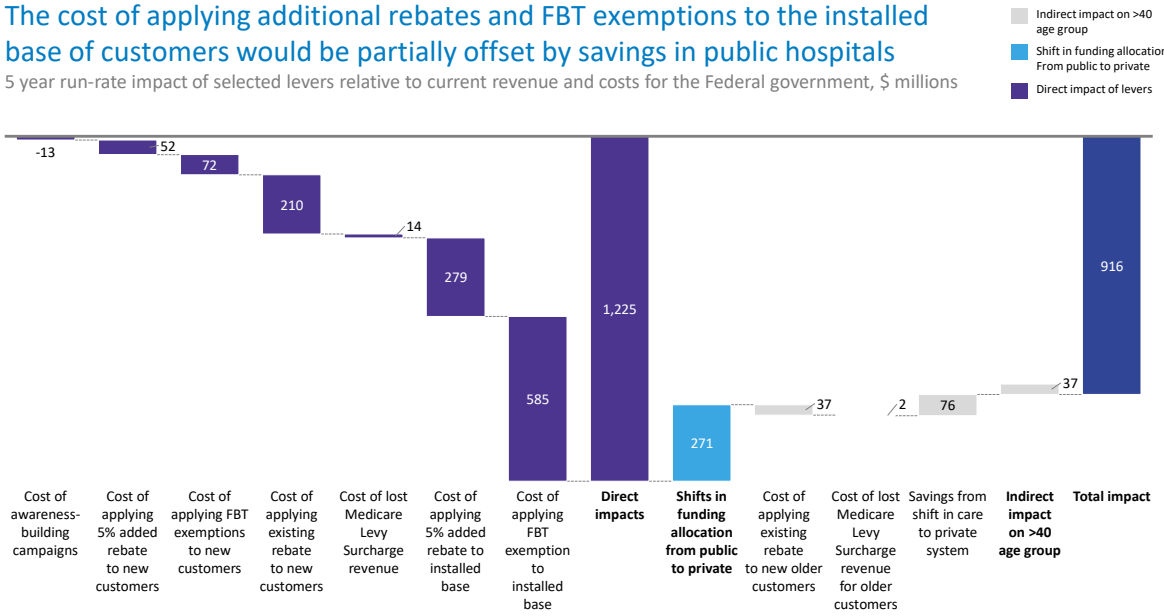
Direct investment of $1.2bn from the Commonwealth government would be partially offset by savings of $308m, driven by shifts from the publicly funded hospital system to private funding. The Exhibit below demonstrates the estimated costs and savings accruing to the Commonwealth in FY24 on a run rate basis.

EXHIBIT 2

BUNDLE: AWARENESS CAMPAIGNS, RESTORING THE REBATE & FBT EXEMPTION

The cost of applying additional rebates and FBT exemptions to the installed base of customers would be partially offset by savings in public hospitals

5 year run-rate impact of selected levers relative to current revenue and costs for the Federal government, $ millions



SOURCE: Financial modelling, key assumptions informed by various sources including ABS, APRA, ATO, AIHW

Exhibit 3 further explores the cost and benefits across a range of actors within the system. Savings in public hospitals would be split across Commonwealth and State governments, enabling direct savings for the latter of ~$460m. Given the impact on increased young adult participation, this reform would also favour the position of funds, enabling them to more carefully manage future premium increases,

EXHIBIT 3

BUNDLE: AWARENESS CAMPAIGNS, RESTORING THE REBATE & FBT EXEMPTION

Government investment in additional incentive for younger people would translate to savings for public hospitals and support for funds

5 year run-rate impact of selected levers relative to current revenue and costs, $ millions

SOURCE: Financial modelling, key assumptions informed by various sources including ABS, APRA, ATO, AIHW

Beyond cost shifting, there would be additional tangible benefits in the public hospital system. For example, median elective surgery waiting times in public hospitals have grown from 36 days to 40 days since 2014. These already lengthening waiting times do not include

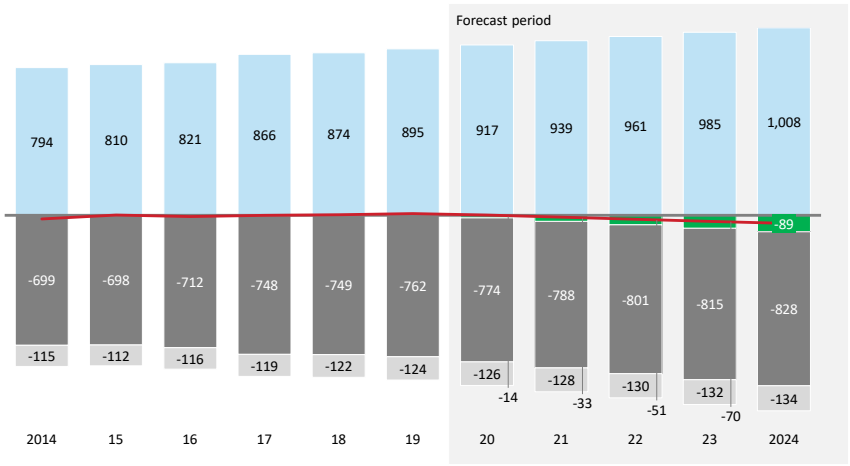
often substantial waits for an initial outpatient appointment within the public system. It is forecast that the above combination of levers could move ~90k potential public hospital elective surgery waiting list additions (relative to current state) into the private system, thereby structurally de-risking a system that is currently reliant upon ~120,000 non-admitted removals from waiting lists every year[2] to balance new additions. Exhibit 4 demonstrates this potential positive impact. Ultimately for Government, supporting PHI participation is an efficient mechanism to reduce pressure on public hospital elective surgery waiting lists while still supporting treatment in the private setting.

EXHIBIT 4

BUNDLE: AWARENESS CAMPAIGNS, RESTORING THE REBATE & FBT EXEMPTION

Public hospital elective surgery waiting lists would likely shorten following investment into PHI participation

Additions and removals from public hospital elective surgery waiting lists by year, thousands of separations



Impact of selected levers
Additions to public hospital waiting lists
Admissions for public hospital procedures
Other removals from waiting list[1]
Net impact

- Since 2014, days waited for surgery in public hospitals at the 50th percentile **has risen from 36 days to 40 days**
- This is in the context of a system **reliant on miscellaneous removals** to balance additions to waiting lists and eventual procedural admissions
- Reducing PHI penetration, thereby redirecting private elective surgery separations to the public hospital system, **risks destabilising public hospital waiting times**
- It is estimated that increasing broader PHI participation through an additional rebate to younger members could **stabilise current waiting times** by removing ~90k separations from the public system. This would further help structurally de-risk the system from future escalation of waiting times.

1 Reasons for removal from a waiting list include patient being uncontactable, surgery being deemed to be no longer required, and transfers

SOURCE: AIHW

The remainder of this paper offers detail on individual prioritised initiatives. Note that the focus is on identifying the cost-benefit profile of these individual initiatives. Technical considerations relevant to the implementation of each reform option are not presented in this paper.

[2] Reasons for non-admitted removal from elective surgery waiting lists include the patient being uncontactable, surgery being deemed to be no longer required, and transfers to other health services

3 Foundational initiatives: driving awareness

The 'no regrets' initiatives in this space address the clear opportunity for the Australian Government, a trusted source of information, to work with the PHI industry to promote private health insurance-related reforms to young people. Amidst the reforms of the late 1990s, the Government was able to deliver highly successful promotions, driving the increased uptake of PHI observed at that time. The current situation calls for a similar approach, wherein Government and funds collaborate on delivering far-reaching and effective awareness-building campaigns.

Description of initiatives

It is suggested that a potentially effective digital marketing campaign would include the following three components:

- **Digital marketing promoting the age-based discount.** The age-based discount is an initiative that has potential to drive increased participation in the under 30 age group, but has not yet had the expected impact, potentially because of low awareness. A targeted campaign focused on increasing the profile of the age-based discount could address this issue of awareness.
- **Digital marketing reinforcing messaging around Lifetime Health Cover.** Awareness of Lifetime Health Cover is low, even among people who are directly being affected by the policy. There is an opportunity to potentially drive even greater participation uptick in the 30-34 age group through a campaign promoting LHC.
- **Targeted campaign focused on promoting PHI products to first home owners.** People considering major life choices like the purchase of a first home appear to be also considering insurance at higher rates than average. A campaign leveraging existing messaging around the first home owners grant to drive awareness of private health insurance products and incentives could increase the rate of purchase in this group of people actively considering PHI.

Expected impact

The expected impact of these three campaigns has been assessed individually, and then aggregated to determine overall impact of the program. In summary

- Promoting the age-based discount is conservatively expected to increase consideration rates by ~3% points in the 18-29 year-old population, if 75% of those currently unfamiliar with the discount are reached through a five-year marketing campaign. This assumption on increased consideration is based on survey findings suggesting those who were familiar with the age-based discount were 25% more likely to be considering PHI.
- Promoting Lifetime Health Cover is expected to increase consideration rates by ~4% points in the 30-39 year-old population. People without private hospital cover, but who are familiar with Lifetime Health Cover in the 30-39 age group, are ~40% more likely to

be considering private health insurance (average consideration rates of 25% versus 36% in the past 12 months). In this setting, if awareness of LHC is increased to similar levels as the Medicare Levy Surcharge in five years, the described impact within the age group should be possible.

- Promoting PHI to people who are considering purchasing their own home could have a 1.6% point impact on consideration rates. ~16% of people between the age of 18-39 reported that they were considering purchasing their first home. This group of people also exhibited above average likelihood of considering private health insurance, with 32% of people considering purchasing their first home also considering purchasing PHI in the past twelve months. If an awareness campaign could increase this rate of consideration to 42% in this group, the total expected impact on participation rates would be meaningful.

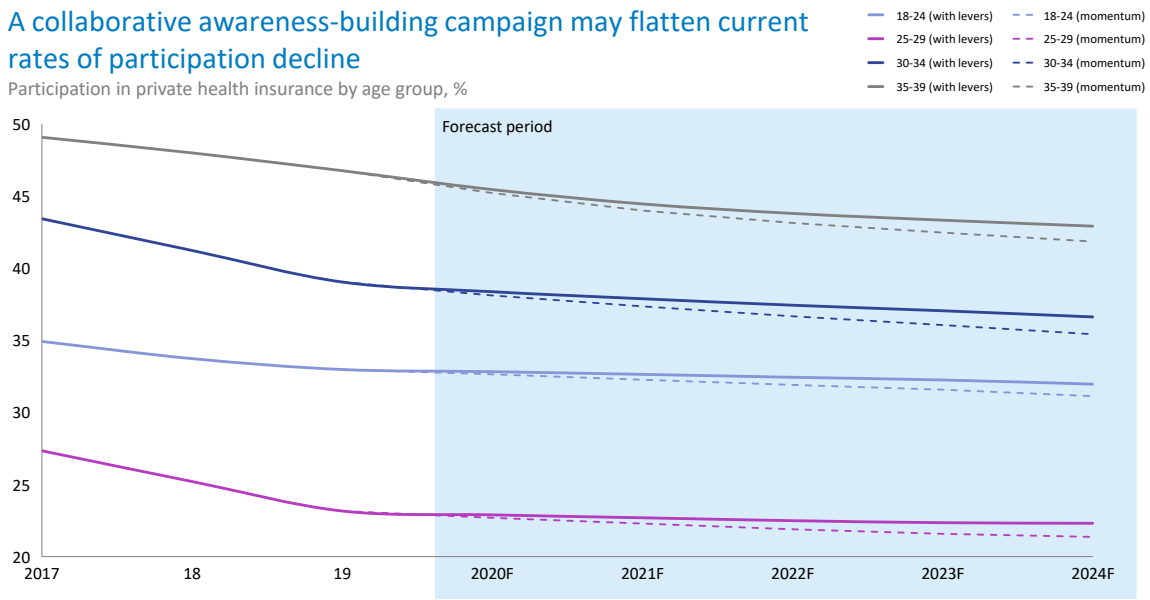
The combined cumulative impact of these three campaigns on expected participation is depicted below

EXHIBIT 5

INCREASING AWARENESS

A collaborative awareness-building campaign may flatten current rates of participation decline

Participation in private health insurance by age group, %



SOURCE: APRA Statistics - Private Health Insurance Membership Trends (March 2019), Australian Bureau of Statistics

Cost-benefits: Based on benchmarking of previous at-scale marketing campaigns, the cost of a five-year-long awareness-building campaign is estimated at ~$5m p.a. (this value is similar to recent health promotion campaigns on tobacco and drugs), while the cost of more targeted campaigns would be smaller at ~$2m. It is estimated that for the above three initiatives, the total campaign cost would therefore be ~$12m p.a.

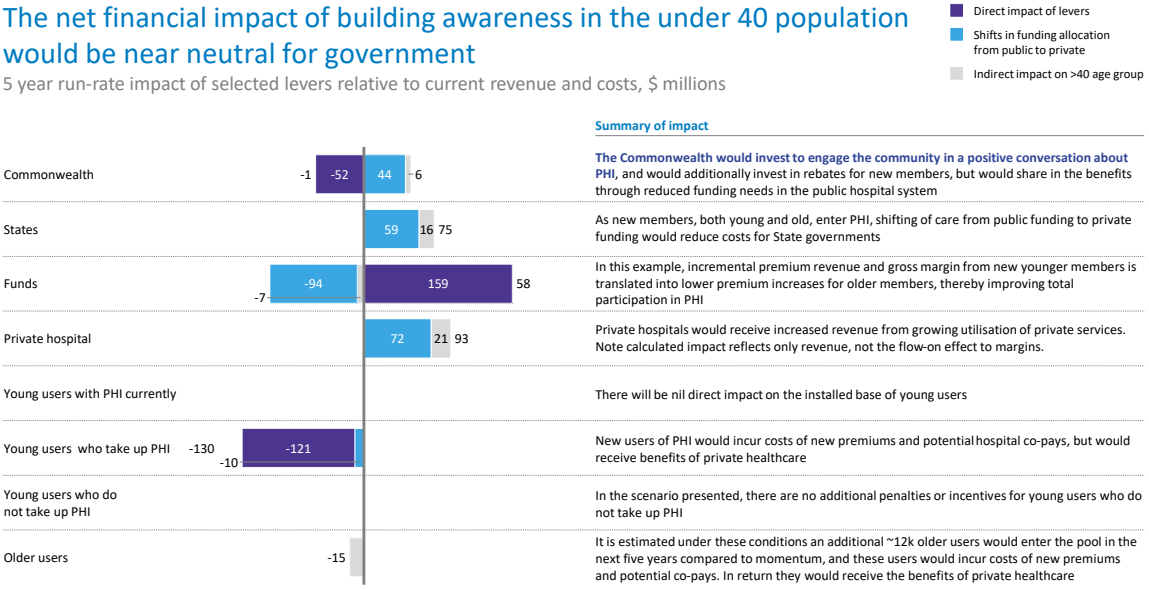
The net impact on the Commonwealth, considering initial investment into marketing campaigns, provision of existing rebates to new members, and cost shifting to the private system, is estimated at near neutral (-$1m). Net impact across other actors in the healthcare system is depicted below.

EXHIBIT 6

INCREASING AWARENESS

The net financial impact of building awareness in the under 40 population would be near neutral for government

5 year run-rate impact of selected levers relative to current revenue and costs, $ millions



Summary of impact
The Commonwealth would invest to engage the community in a positive conversation about PHI, and would additionally invest in rebates for new members, but would share in the benefits through reduced funding needs in the public hospital system
As new members, both young and old, enter PHI, shifting of care from public funding to private funding would reduce costs for State governments
In this example, incremental premium revenue and gross margin from new younger members is translated into lower premium increases for older members, thereby improving total participation in PHI
Private hospitals would receive increased revenue from growing utilisation of private services. Note calculated impact reflects only revenue, not the flow-on effect to margins.
There will be nil direct impact on the installed base of young users
New users of PHI would incur costs of new premiums and potential hospital co-pays, but would receive benefits of private healthcare
In the scenario presented, there are no additional penalties or incentives for young users who do not take up PHI
It is estimated under these conditions an additional ~12k older users would enter the pool in the next five years compared to momentum, and these users would incur costs of new premiums and potential co-pays. In return they would receive the benefits of private healthcare

SOURCE: Financial modelling, key assumptions informed by various sources including ABS, APRA, ATO, AIHW

4 Pricing reform options

One of the key drivers of reduced PHI participation among young people has been increases in premium cost, alongside reduction of the effective rebate as a proportion of premium and increased cost of living pressures. Due to the community rating system, younger participants must pay similar premiums to older participants despite being substantially less likely to require hospital services. 39% of survey respondents without hospital cover self-reported that they would not purchase Bronze tier private hospital cover primarily because of price.

Several options were therefore explored to address this. While delivering an additional effective discount to younger members through government intervention would require investment, it would be a worthwhile investment, given it would result in savings across the public hospital system and lessen the load on stretched public hospital services. Additional benefits that accrue to the funds in this context could also be re-invested in reducing premium increases for older members, thereby supporting the system across all age groups.

Respondents to recent primary research regarding PHI uptake showed clear price elasticity when deciding to purchase private health insurance, with increased willingness to purchase at lower price points. The 18-24 age group was the most responsive to price. Sensitivity of survey respondents to price is depicted in Exhibit 7 below.

EXHIBIT 7

As expected, higher discounts increase willingness to purchase PHI in under 40s, with the 18-24 group appearing most sensitive to discounts

SOURCE: Ipsos Consumer Survey August 2019

These findings regarding price sensitivity formed the foundation for preliminary assessments of the impact of effective premium discounts and cash rebates on PHI participation. Note that a conservative assumption was introduced based on an assumed gap between stated purchasing behaviour in the survey and actual behaviour. Further detail on key assumptions are included in *Section 5.1.*

4.1 FRINGE BENEFITS TAX EXEMPTION FOR YOUNGER PARTICIPATING EMPLOYEES

Description of option: implementation of a Fringe Benefits Tax exemption for participating employees under the age of 40.

Inclusion of private health insurance premiums as an exemption from fringe benefit taxes, allowing employers to provide PHI as a fringe benefit and thereby reduce the taxable income of the employee, effectively delivers a discount on PHI for the employee. It is assumed employees will be able to opt in or opt out from this option. One of the challenges with this initiative is that its impact will be reliant on employer involvement. It will therefore be critical in implementation that the Government and funds rapidly raise awareness of the new policy and encourage uptake.

Expected impact: A Fringe Benefits Tax exemption would deliver a reduction in effective premium costs for employees, and so price sensitivity analyses based on recent primary research were utilised to estimate the likely impact. Impact was estimated based on responses to a 20% and 25% discount, given these were the highest discount levels tested in primary research. It should be noted however that this will necessarily understate the potential benefit. A significant proportion of the population has a marginal tax rate higher than 30%, and it is likely that had a discount level of 30-40% been tested in the survey the rates of uptake would have been higher. Nevertheless, to ensure validity of projections, the more conservative outcomes of a 25% discount were applied.

Two important additional factors were considered when estimating the impact:

- Firstly, as previously noted the impact of an FBT exemption would be directly related to the proportion of employers who elect to participate in the program. Based on previous analyses in this space[3], involvement of ~30% of employers was assumed.
- Secondly, the magnitude of benefit would differentially affect age groups based on average employment levels and marginal tax rate. As depicted in Exhibit 8, marginal tax rates tend to be higher in the 30+ age groups due to higher income levels.

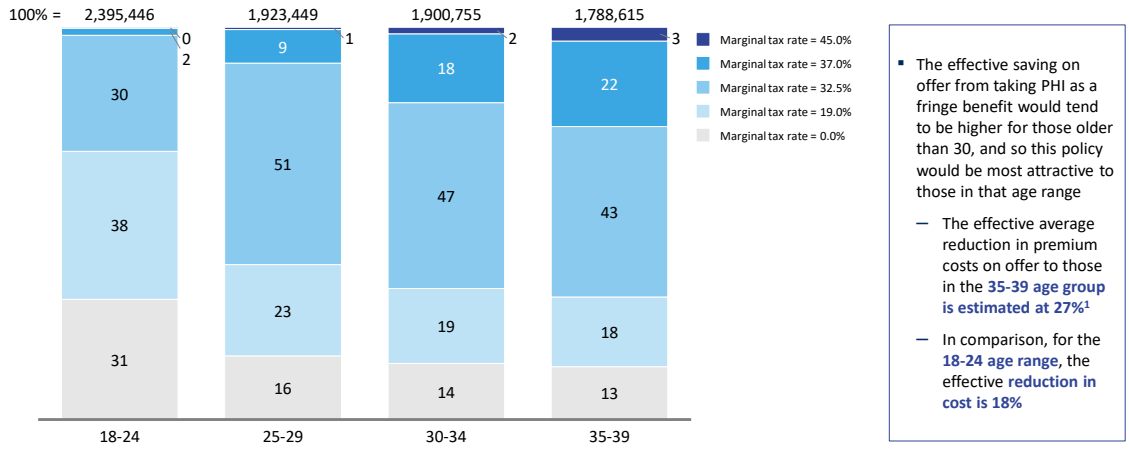
[3] National Automotive Leasing & Salary Packaging Association (2019), Economic analysis of extending salary packaging arrangements

EXHIBIT 8

ALLOWING PHI PREMIUMS TO BE FBT EXEMPT

The ability of an FBT exemption to attract new members will likely be highest in the 30+ age group

% of general population reporting to the ATO that fall within each tax bracket, by age



- The effective saving on offer from taking PHI as a fringe benefit would tend to be higher for those older than 30, and so this policy would be most attractive to those in that age range
  - The effective average reduction in premium costs on offer to those in the **35-39 age group is estimated at 27%**[1]
  - In comparison, for the **18-24 age range**, the effective **reduction in cost is 18%**

1 Please note that price sensitivity in primary research was only tested to the 25% discount price point. Conservatively, it has been estimated that people offered an FBT exemption with potential savings >30% of premium costs would react similarly to if they had been offered a 25% discount. This would likely lead to an under-reporting of projected participation uptick.

SOURCE: ATO Taxation Statistics 2016-17

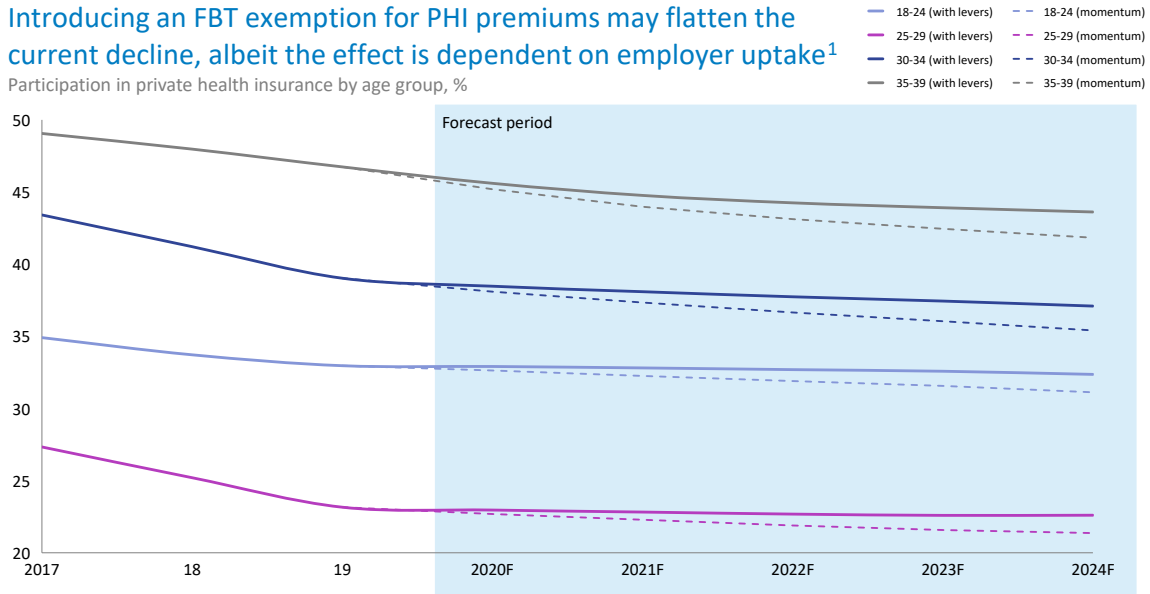
Given these assumptions, it is expected that a participation increase of 1.5% points could be expected by 2024 among young people from implementation of this policy, relative to the momentum case.

EXHIBIT 9

ALLOWING PHI PREMIUMS TO BE FBT EXEMPT

Introducing an FBT exemption for PHI premiums may flatten the current decline, albeit the effect is dependent on employer uptake[1]

Participation in private health insurance by age group, %



1 It is currently assumed 30% of employers engage in offering PHI as a fringe benefit by 2024. Any changes to this uptake would directly affect the impact on participation.

SOURCE: APRA Statistics - Private Health Insurance Membership Trends (March 2019), Australian Bureau of Statistics

Cost-benefits:

Statistics published by the ATO allow an estimation of the impact of applying an FBT exemption to the installed base of younger members. As shown in Exhibit 10, if 100% of young PHI participants were offered an FBT exemption, the total cost to the Commonwealth

would be approximately $1.7bn, with most benefits delivered to the middle income $37k-$87k tax bracket.

EXHIBIT 10

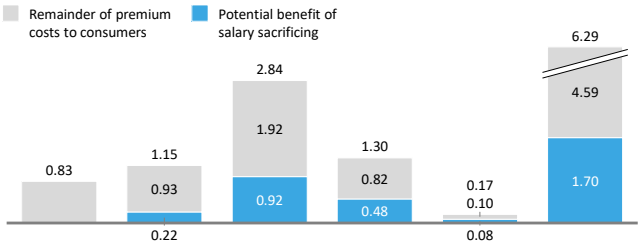
ALLOWING PHI PREMIUMS TO BE FBT EXEMPT

It is estimated that introduction of an FBT exemption for under 40s would result in $1.7bn of benefits to the installed base of PHI members if fully adopted

Description of proposed initiative

- A possible approach to encouraging increased PHI participation among young people is to enable PHI premiums to be 'salary sacrificed', or become a **Fringe Benefits Tax exempt benefit** provided by employers
- The benefit for an employee would be a reduction in their taxable income, effectively **delivering a saving that reflects their marginal tax rate and the cost of their PHI premium**
- Note the calculations presented on this page represent the maximal potential impact on the installed base if 100% of members were claiming an FBT Exemption for their PHI premium. In reality, this is unlikely to happen. **The modelled base case assumes 30% uptake by employers of the new measure.**

Impact on installed base if initiative was applied to all PHI members



	0% $18,200 or less	19% $18,201 to $37,000	32.5% $37,001 to $87,000	37% $87,001 to $180,000	45% >$180,001	Total All tax brackets
Marginal tax rate Income tax bracket						
Number of PHI members in tax bracket per ATO[1]	384,367	531,016	1,314,602	601,571	80,145	2,911,701
Average saving per member[2], $	0	410	702	799	972	583

1 Note ATO reporting on number of PHI members by age does not exactly match APRA statistics, however does reflect the number of people who had their PHI status reflected on their tax return, and so is an appropriate measure to use in this instance.
2 Only considers savings to hospital treatment policies, under the assumption that the policy will be applied to the cost of hospital cover premiums

SOURCE: ATO Taxation Statistics 2016-17

Based on an assumption that 30% of employers are participating in the program and that the FBT exemption is only applicable to taxpayers between the ages of 18-39, implementation of a Fringe Benefits Tax exemption would have a net impact to the Commonwealth of -$584m on an annual basis in 2024[4]. The below Exhibits detail the areas of Commonwealth investment and the impact across all stakeholders.

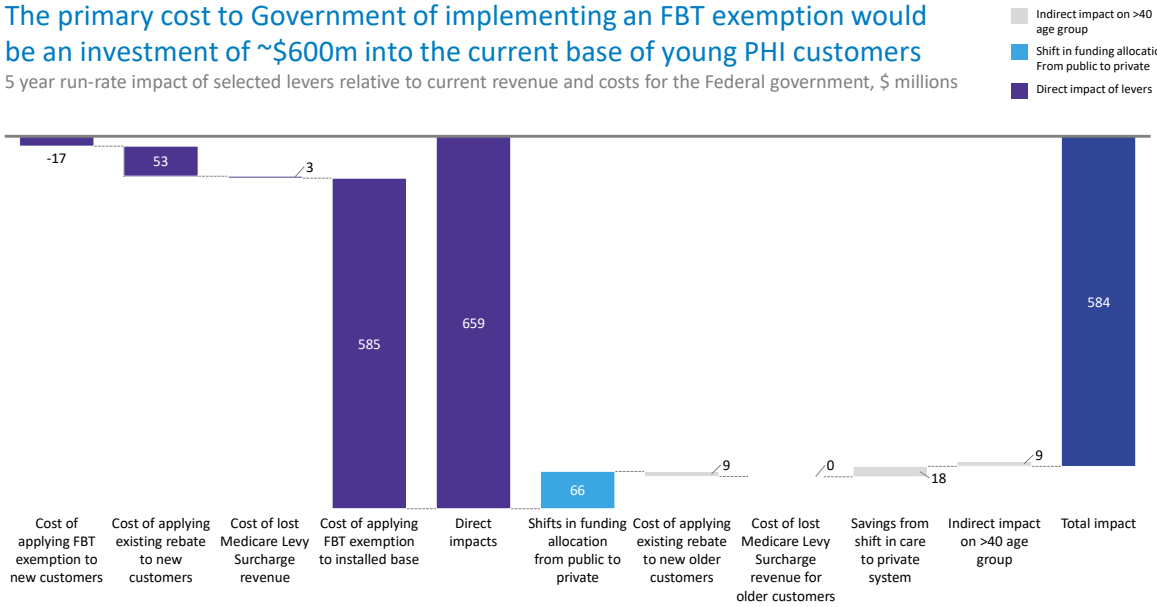
[4] Note this assumes the total impact on the current 18-39 year-old installed base of PHI members is multiplied by 30% for employer participation to reach a cost of ~$510m in FY20 and ~$585m in FY24. If the same calculation, assuming 30% employer participation, was completed for the entire tax-paying privately insured base, rather than just 18-39 year-olds, the equivalent cost to Government and impact on the consumer would be ~$1.4bn in FY20.

EXHIBIT 11

ALLOWING PHI PREMIUMS TO BE FBT EXEMPT

The primary cost to Government of implementing an FBT exemption would be an investment of ~$600m into the current base of young PHI customers

5 year run-rate impact of selected levers relative to current revenue and costs for the Federal government, $ millions



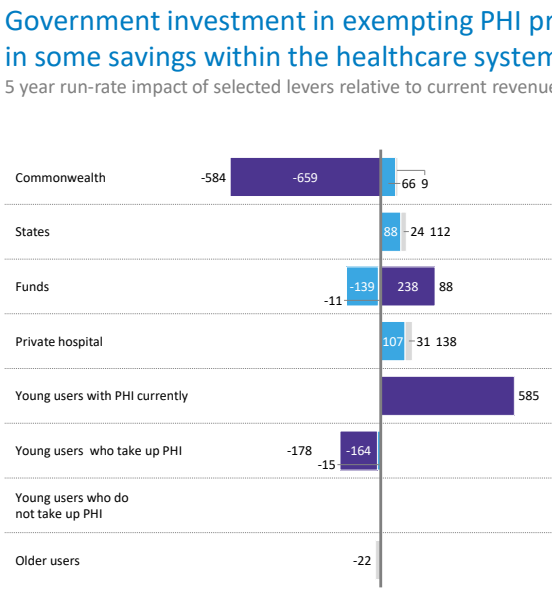
SOURCE: Financial modelling, key assumptions informed by various sources including ABS, APRA, ATO, AIHW

EXHIBIT 12

ALLOWING PHI PREMIUMS TO BE FBT EXEMPT

Government investment in exempting PHI premiums from FBT would result in some savings within the healthcare system

5 year run-rate impact of selected levers relative to current revenue and costs, $ millions



Summary of impact

Commonwealth	**The Commonwealth would invest through reduced income tax revenue from both existing and new PHI customers in the 18-39 age range**, but would share in the benefits through reduced funding needs in the public hospital system
States	As new members, both young and old, enter PHI, shifting of care from public funding to private funding would reduce costs for State governments
Funds	In this example, incremental premium revenue and gross margin from new younger members is translated into lower premium increases for older members, thereby improving total participation in PHI
Private hospital	Private hospitals would receive increased revenue from growing utilisation of private services. Note calculated impact reflects only revenue, not the flow-on effect to margins.
Young users with PHI currently	The installed base of young users who already have PHI would benefit financially from being able to claim PHI as a pre-tax fringe benefit, while being exempt from Fringe Benefits Tax
Young users who take up PHI	New users of PHI would incur costs of new premiums and potential co-pays, but would incur less cost than if they did not receive government incentives, and would receive benefits of private healthcare
Young users who do not take up PHI	In the scenario presented, there are no additional penalties or incentives for young users who do not take up PHI
Older users	It is estimated under these conditions ~17k additional older users would enter the pool in the next five years, relative to the momentum case, and these users would incur costs of new premiums and potential co-pays. In return they would receive the benefits of private healthcare

SOURCE: Financial modelling, key assumptions informed by various sources including ABS, APRA, ATO, AIHW

Additional technical considerations regarding the implementation of an FBT exemption in this space would need to be considered if the Government were to choose this reform option.

4.2 RESTORING THE 30% REBATE FOR YOUNGER PARTICIPANTS

Description of option: implementation of an additional 5% cash rebate on premiums for participants under the age of 40, in addition to the current private health insurance rebate, to effectively restore the 30% base rebate for under 40s.

One of the key drivers of the decline in PHI participation among younger people has been the growing cost of premiums, as a reflection of the escalating costs of healthcare. In parallel to premium growth, the Government's rebate contribution as a percentage of premiums has been decreasing, therefore increasing the net impact on the consumer beyond the baseline premium growth. While the rebate was initially conceived to be 30% of premiums, for under 65s the base level has declined to ~25%.

This proposal seeks to restore the rebate to 30%, which to a consumer would appear as an additional 5% reduction in premium costs. The notion of a 5% further reduction in premium costs was directly assessed in recent primary research, and found to increase purchasing behaviour. It seems likely then that simply restoring the rebate would drive an uptick in PHI participation.

Expected impact: it was assumed, based on evidence from primary research, that a 5% discount to PHI premiums could increase purchase behaviour among those considering PHI by 1.7% points and reduce churn by 1.0-1.5% points. This is following the application of conservative assumptions on the following survey data:

- 7% of participants without hospital cover who would not purchase at the standard Bronze tier price, indicated they would purchase at a 5% discount to current premiums
- 52% of participants with hospital cover who were considering letting their PHI lapse, elected to retain their PHI at a 5% discount to current premiums

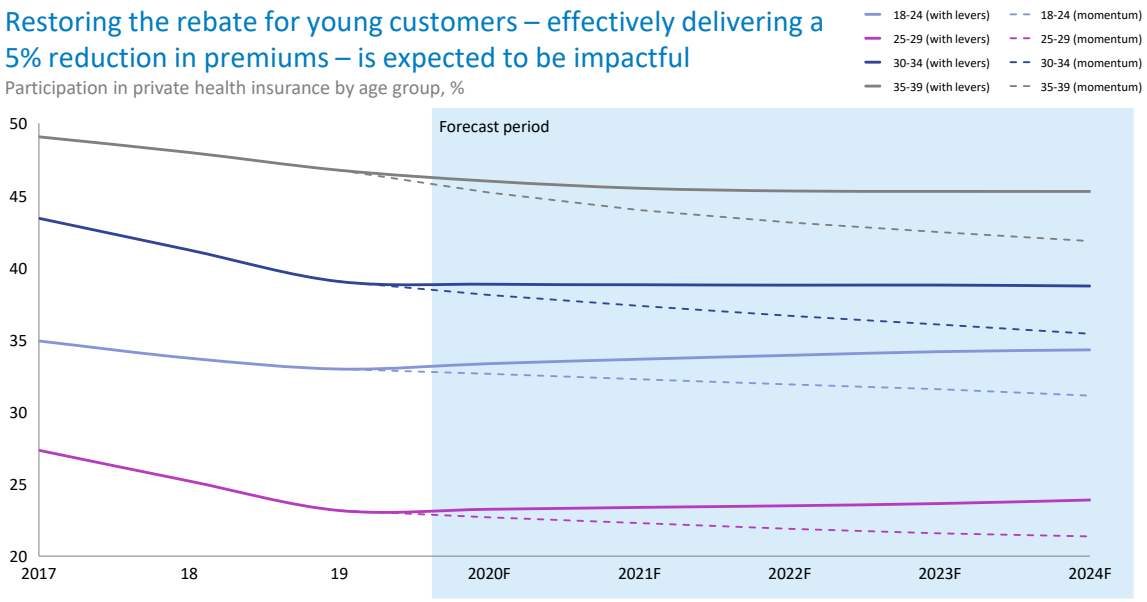
The expected impact on participation is demonstrated below.

EXHIBIT 13

RESTORING THE REBATE

Restoring the rebate for young customers – effectively delivering a 5% reduction in premiums – is expected to be impactful

Participation in private health insurance by age group, %



SOURCE: APRA Statistics - Private Health Insurance Membership Trends (March 2019), Australian Bureau of Statistics

Cost-benefits:

Restoring the 30% rebate for 18-39 year-old participants is estimated to potentially incur a direct cost to the Commonwealth of approximately $418m per annum in 2024[5], but after savings from reduced need for public hospital funding is considered the net impact would be -$261m. The below Exhibits detail the areas of Commonwealth investment and the impact across all stakeholders.

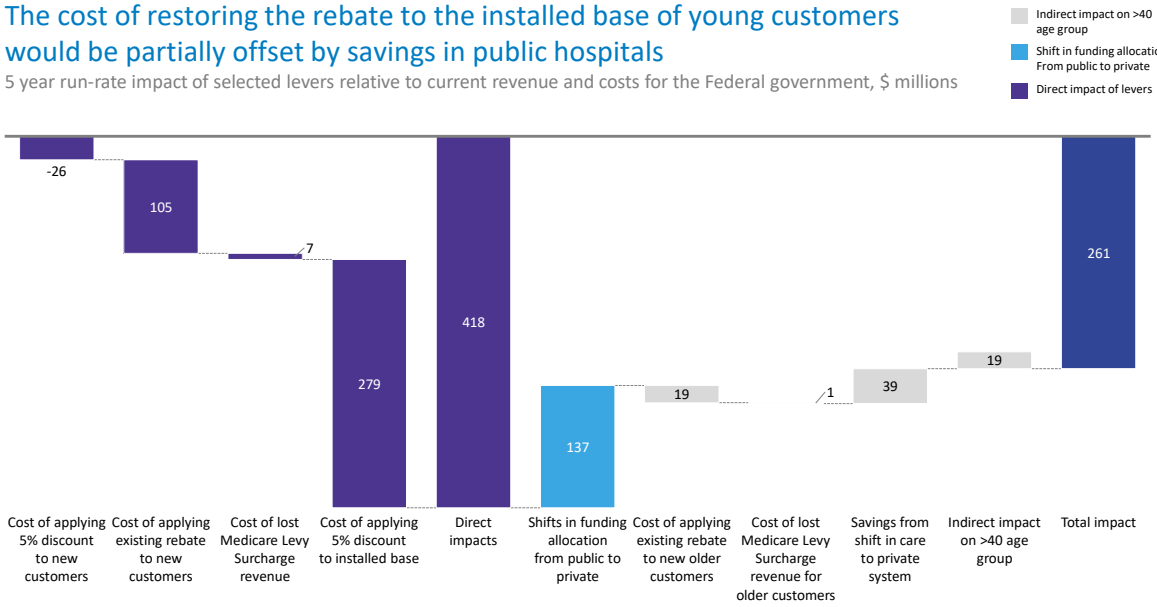
[5] Note this assumes the rebate is restored for hospital cover premiums, applicable to 18-39 year old participants only. A broader policy to restore the rebate across all age groups and for all private health insurance premiums would be expected to cost in the range of $1.1-$1.2bn if applied to the installed base in FY20

EXHIBIT 14

RESTORING THE REBATE

The cost of restoring the rebate to the installed base of young customers would be partially offset by savings in public hospitals

5 year run-rate impact of selected levers relative to current revenue and costs for the Federal government, $ millions



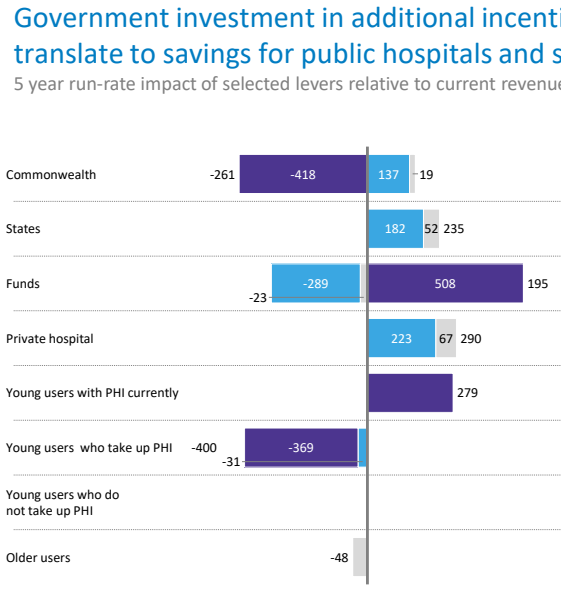
SOURCE: Financial modelling, key assumptions informed by various sources including ABS, APRA, ATO, AIHW

EXHIBIT 15

RESTORING THE REBATE

Government investment in additional incentive for younger people would translate to savings for public hospitals and support for funds

5 year run-rate impact of selected levers relative to current revenue and costs, $ millions



Summary of impact

The Commonwealth would invest to encourage PHI participation by restoring the rebate (effectively delivering a 5% discount), but would share in the benefits through reduced funding needs in the public hospital system

As new members, both young and old, enter PHI, shifting of care from public funding to private funding would reduce costs for State governments

In this example, incremental premium revenue and gross margin from new younger members is translated into lower premium increases for older members, thereby improving total participation in PHI

Private hospitals would receive increased revenue from growing utilisation of private services. Note calculated impact reflects only revenue, not the flow-on effect to margins.

The installed base of young users who already have PHI would benefit financially from the government-implemented incremental 5% discount.

New users of PHI would incur costs of new premiums and potential co-pays, but would incur less cost than if they did not receive government incentives, and would receive benefits of private healthcare

In the scenario presented, there are no additional penalties or incentives for young users who do not take up PHI

It is estimated under these conditions ~37k additional older users would enter the pool in the next five years, relative to the momentum case, and these users would incur costs of new premiums and potential co-pays. In return they would receive the benefits of private healthcare

SOURCE: Financial modelling, key assumptions informed by various sources including ABS, APRA, ATO, AIHW

4.3 INCREASING THE BASE REBATE TO 40% FOR YOUNGER PARTICIPANTS

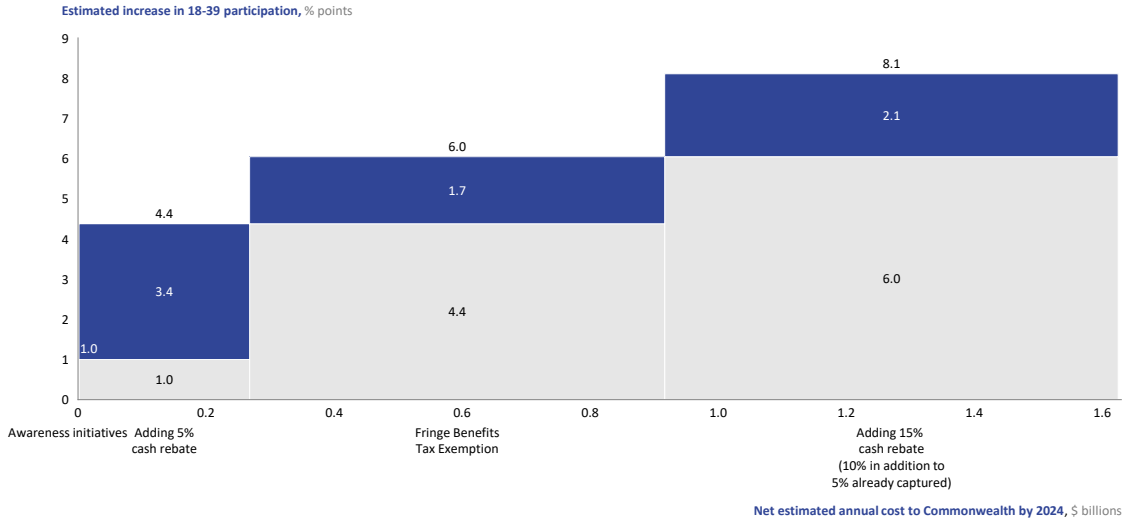
Description of option: implementation of an additional 15% cash rebate on premiums for participants under the age of 40, in addition to the current private health insurance rebate.

The option of increasing the base rebate to 40% for younger participants should be considered as an opportunity to clearly signal the importance of young adult participation in the private health insurance system. While restoring the rebate would help return PHI

participation among young people to its previous levels, increasing the rebate would increase the likelihood of generating a significant step-change in uptake of PHI in this age group. While this lever has not been profiled as part of the 'preferred' reform option, if Government is willing to invest it could deliver an incremental increase in participation, as demonstrated in the below Exhibit.

EXHIBIT 16

A series of reform options could be considered, depending on the desired range of investment and impact



Primary research suggests a 15% discount is nearly twice as effective as a 5% discount in encouraging purchase of private health insurance, and so this initiative, while requiring significant direct investment, would be efficient in driving a substantial increase in PHI participation.

Expected impact: it was assumed, based on evidence from primary research, that an additional 15% discount to PHI premiums could increase purchase behaviour among those considering PHI by 3.2% points and reduce churn by 1.4-2.1% points. This is following the application of conservative assumptions on the following survey data:

- 14% of participants without hospital cover who would not purchase at the standard Bronze tier price, indicated they would purchase at a 15% discount
- 72% of participants with hospital cover who were considering letting their PHI lapse, elected to retain their PHI at a 15% discount

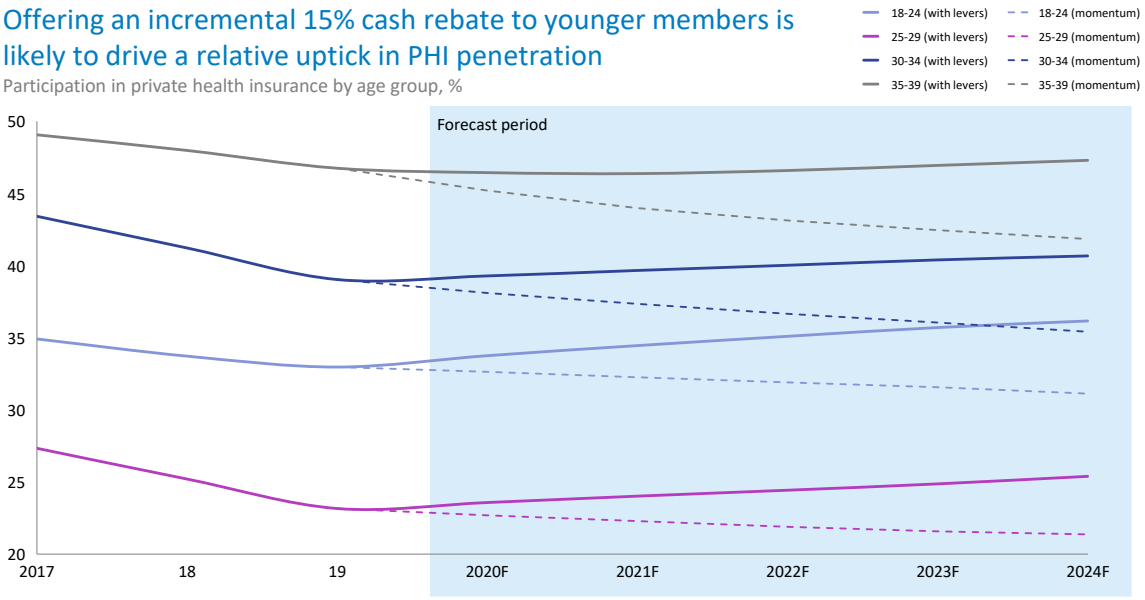
The expected impact on participation is demonstrated below.

EXHIBIT 17

INCREASING THE REBATE TO 40%

Offering an incremental 15% cash rebate to younger members is likely to drive a relative uptick in PHI penetration

Participation in private health insurance by age group, %



SOURCE: APRA Statistics - Private Health Insurance Membership Trends (March 2019), Australian Bureau of Statistics

Cost-benefits:

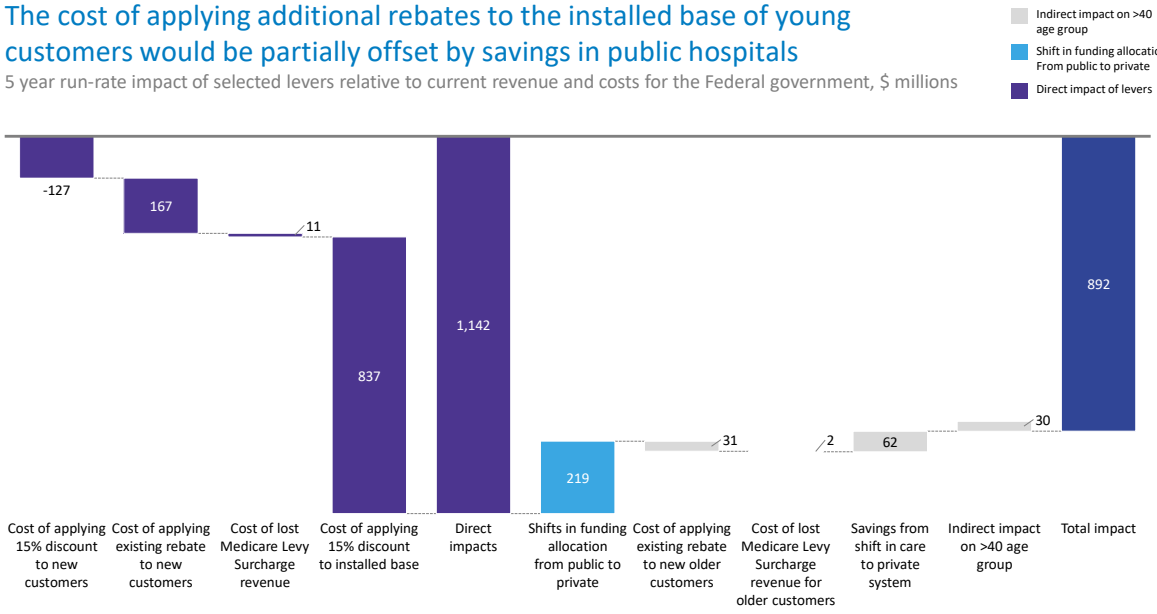
Increasing the total base rebate amount for younger participants to 40% is estimated to incur a direct cost to the Commonwealth of approximately $1.1bn in 2024, but the net impact is -$0.9bn once cost shifting from the public hospital system is accounted for. The below Exhibits detail the areas of Commonwealth investment and the impact across all stakeholders.

EXHIBIT 18

INCREASING THE REBATE TO 40%

The cost of applying additional rebates to the installed base of young customers would be partially offset by savings in public hospitals

5 year run-rate impact of selected levers relative to current revenue and costs for the Federal government, $ millions



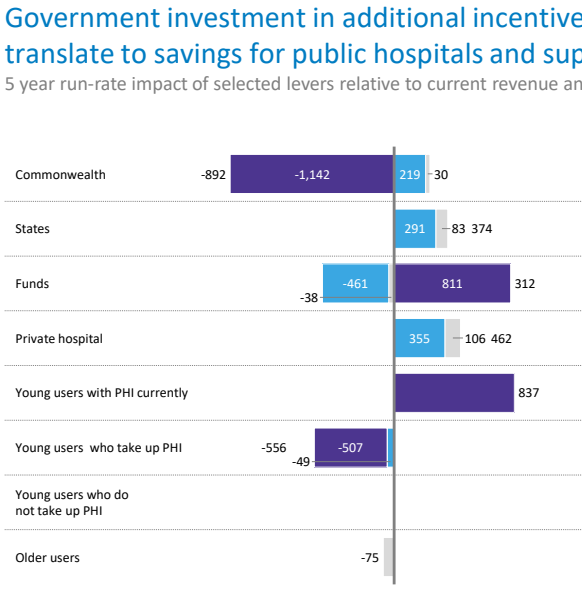
SOURCE: Financial modelling, key assumptions informed by various sources including ABS, APRA, ATO, AIHW

EXHIBIT 19

INCREASING THE REBATE TO 40%

Government investment in additional incentive for younger people would translate to savings for public hospitals and support for funds

5 year run-rate impact of selected levers relative to current revenue and costs, $ millions



Summary of impact

Commonwealth	**The Commonwealth would invest to encourage PHI participation through an additional rebate delivering an effective 15% discount**, but would share in the benefits through reduced funding needs in the public hospital system
States	As new members, both young and old, enter PHI, shifting of care from public funding to private funding would reduce costs for State governments
Funds	In this example, incremental premium revenue and gross margin from new younger members is translated into lower premium increases for older members, thereby improving total participation in PHI
Private hospital	Private hospitals would receive increased revenue from growing utilisation of private services. Note calculated impact reflects only revenue, not the flow-on effect to margins.
Young users with PHI currently	The installed base of young users who already have PHI would benefit financially from the government-implemented incremental 15% discount.
Young users who take up PHI	New users of PHI would incur costs of new premiums and potential co-pays, but would incur less cost than if they did not receive government incentives, and would receive benefits of private healthcare
Young users who do not take up PHI	In the scenario presented, there are no additional penalties or incentives for young users who do not take up PHI
Older users	It is estimated under these conditions ~59k additional older users would enter the pool in the next five years, relative to the momentum case, and these users would incur costs of new premiums and potential co-pays. In return they would receive the benefits of private healthcare

SOURCE: Financial modelling, key assumptions informed by various sources including ABS, APRA, ATO, AIHW

5 Appendix

5.1 CONTEXT ON DECLINING YOUNG ADULT PARTICIPATION IN PRIVATE HEALTH INSURANCE

Private Health Insurance (PHI) enables millions of Australians to access timely, high-quality healthcare through the private health system, while reducing a substantial load from the publicly funded healthcare system. PHI operates on a 'community rating' principle, wherein the price of premiums is not based on one's pre-existing health conditions, risk factors or age. The system incentivises the inclusion of older, high-risk participants in PHI through the redistribution of revenue between funds through a risk equalisation pool.

One necessary condition for such a system to be sustainable is the participation of younger people (18-39 year-olds), who are less likely to claim for hospital services but still contribute to the broader risk pool. Concerningly, this has been declining over the past five years and is likely to continue to decline without intervention.

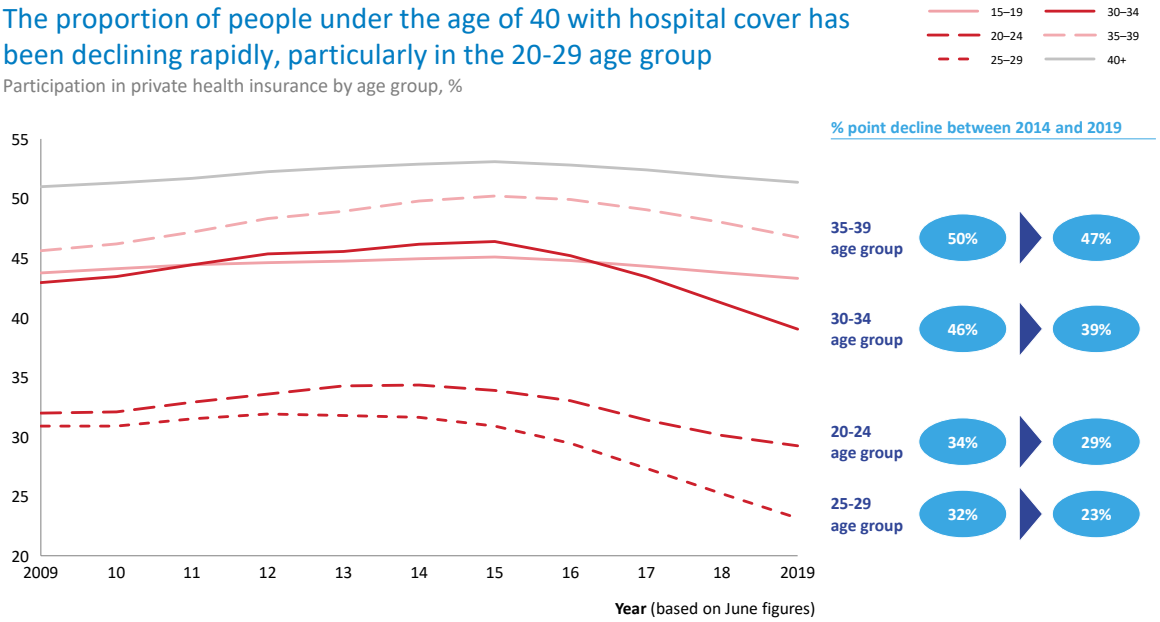
5.1.1 Trend for declining participation among the under 40 population

Young adult participation in hospital treatment cover, as a percentage of total population, has declined across all age groups between 20-39 by 6 percentage points (from 40% in 2014 to 34% in 2019) over the past five years. This decline has been particularly marked among those under 30, with participation within the 25-29 age group having declined to as low as 23% as of 2019.

EXHIBIT 20

The proportion of people under the age of 40 with hospital cover has been declining rapidly, particularly in the 20-29 age group

Participation in private health insurance by age group, %



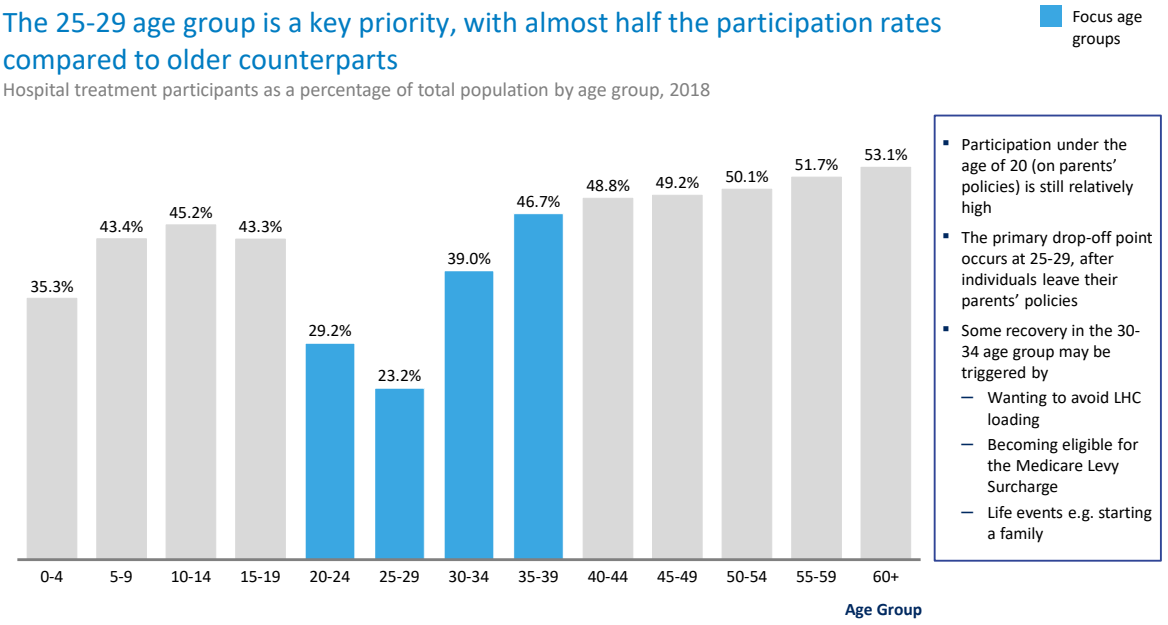
SOURCE: APRA Statistics - Private Health Insurance Membership Trends (March 2019), Australian Bureau of Statistics

The variation in participation rates by individual age groups reveals that the key life stage when young people drop from the privately insured pool is once they reach the age when they are not covered through their parents' policy. In the current policy context, a substantial proportion of these young people do not then take out private hospital cover in their 20s. This marked drop-off is somewhat compensated by an uptick among those turning 30, likely at least partially driven by the Lifetime Health Cover policy designed to disincentivise delayed participation in PHI after the age of 31. Nevertheless, the loss of participants in their 20s reflects a significant missed opportunity to diversify the risk pool, and in part contributes to the rapid growth in benefits paid by funds per member, which then translates into greater required premium increases for the remaining privately insured base.

EXHIBIT 21

The 25-29 age group is a key priority, with almost half the participation rates compared to older counterparts

Hospital treatment participants as a percentage of total population by age group, 2018



SOURCE: APRA Statistics - Private Health Insurance Membership Trends (March 2019)

5.1.2 Key macro-drivers for this trend

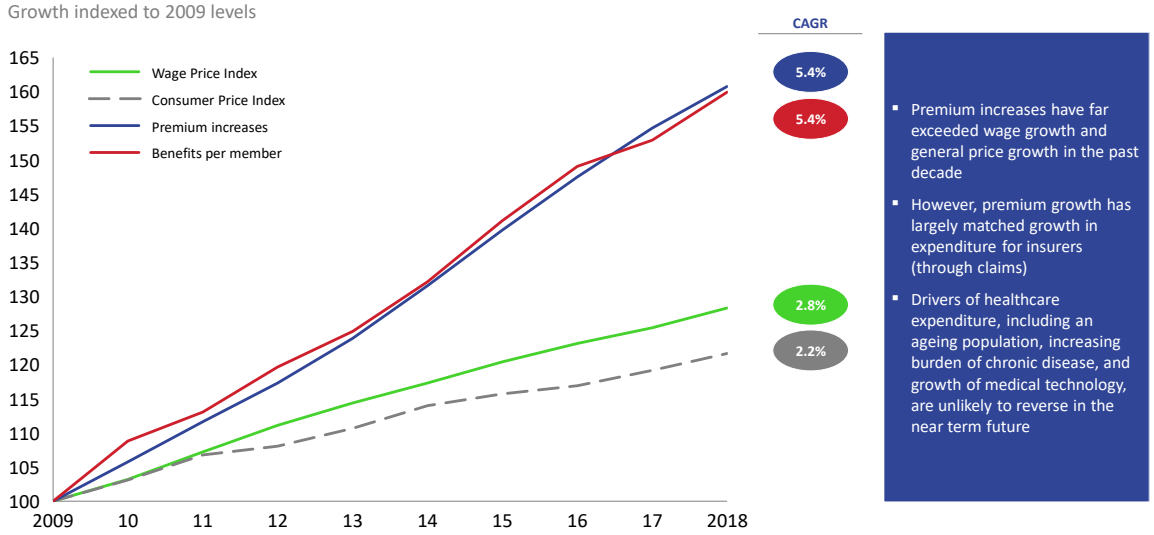
While participation among young people in private health insurance can be expected to be lower than their older counterparts, there are some key factors driving young adult participation to decline below historic levels:

- **The cost of healthcare:** healthcare expenditure has grown rapidly over the past decade, resulting in the growth of benefits paid per member at roughly a rate of ~5.4% per annum since 2009 (see Exhibit 22). Insurers have limited control over these costs as they are managed directly by providers. In the context of growing healthcare expenditure, PHI premiums have needed to maintain pace to ensure the viability of the private health insurance industry, increasing the cost of PHI membership

EXHIBIT 22

Premium increases have tracked against hospital benefit increases for the past decade, but healthcare expenditure is exceeding wage growth

Growth indexed to 2009 levels



SOURCE: APRA, ABS. Note WPI calculated based on ABS reporting of total hourly rates of pay including bonuses across all industries

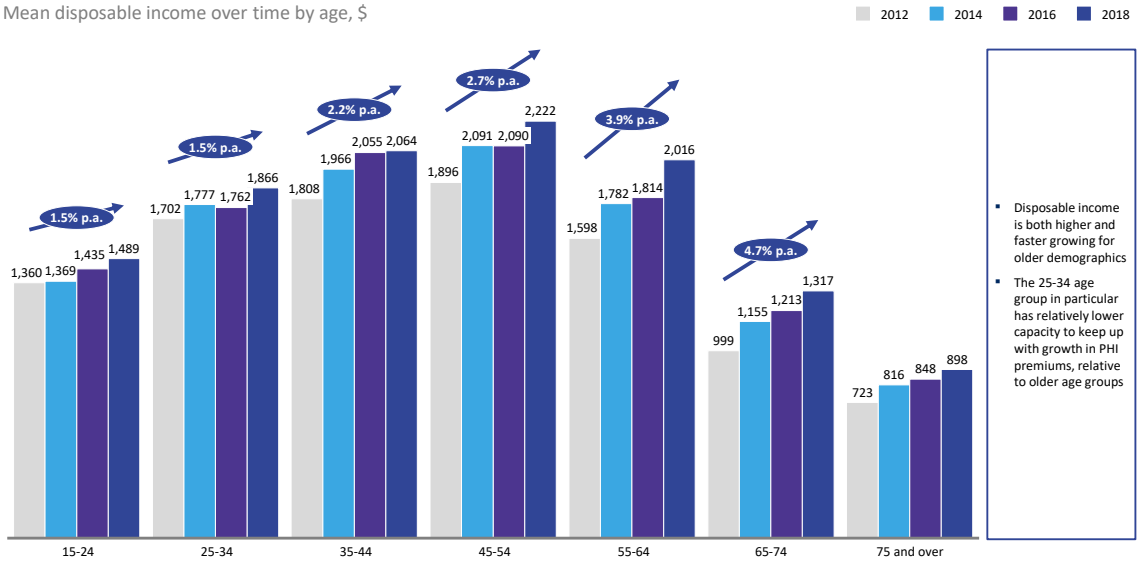
- **The ability of young people to pay for private health insurance premiums:** Wage growth has not caught up with the growth in premiums across the whole population, with the younger demographics suffering from particularly lower growth in disposable income (1.5% p.a. increase in disposable income for the 15-34 year-olds since 2012 vs. 3.9% p.a. increase for the 55-64 year-olds). Focus group discussions with young people who do not have private health insurance revealed both cost of living and job security as key concerns – and as barriers towards purchasing private health insurance.

> *"I insure my car, I insure my house. I know it sounds silly to not insure myself as a person, but when I think about it that's a lot of money and I'm already paying a premium for my house, car and everything else." – focus group participant*

EXHIBIT 23

Growth in disposable income in this decade has favoured older demographics

Mean disposable income over time by age, $



SOURCE: ABS Household Income and Wealth by Age of Reference person

- **The perceived value of health insurance in the context of gap fees:** while the average gap payment across privately insured separations has grown at a stable rate of 3.1% p.a., the presence of medical gap payments has come under media scrutiny in recent years. Focus groups have revealed the possibility of incurring a large gap due to medical specialist fees as a key deterrent for young people considering taking out private health insurance.

> *"When my wife had her first pregnancy, the out of pocket costs were still about two grand. Really left me with a bad taste in my mouth." – focus group participant who used to have PHI*

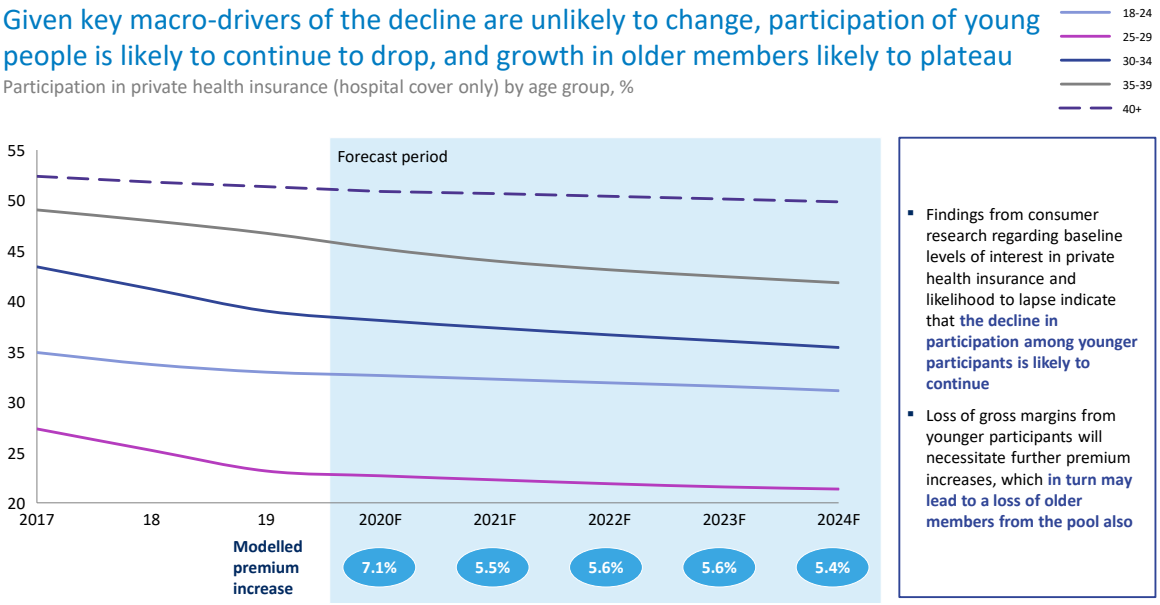
5.1.3 Implications on sustainability of the healthcare system

The macro-drivers of the decline in young adult participation in private health insurance are unlikely to substantially change in the next 3-5 years in the absence of an intervention, driving further likely declines in PHI adoption among the younger population. A survey of 4,946 people conducted by Ipsos in August 2019 revealed that 10% of current participants under the age of 40 were not likely to renew their current policy, and only 27% of non-PHI participants within this demographic had considered PHI in the past 12 months. Of this group of people considering PHI, 28% were likely to purchase at the current price based on the current features. Without any intervention, PHI participation rates are expected to continue to decline in line with recent historical trends:

EXHIBIT 24

Given key macro-drivers of the decline are unlikely to change, participation of young people is likely to continue to drop, and growth in older members likely to plateau

Participation in private health insurance (hospital cover only) by age group, %



- Findings from consumer research regarding baseline levels of interest in private health insurance and likelihood to lapse indicate that **the decline in participation among younger participants is likely to continue**
- Loss of gross margins from younger participants will necessitate further premium increases, which **in turn may lead to a loss of older members from the pool also**

SOURCE: APRA Statistics - Private Health Insurance Membership Trends (March 2019), Australian Bureau of Statistics, Ipsos Consumer Survey August 2019

This systemic decline in PHI participation, if allowed to continue unchecked, would have significant implications for both the private health insurance market and the public healthcare system.

For the PHI market, the main implication would be a further reduction in contributions to the risk equalisation pool by the younger demographics, driving the need of funds to increase premium costs for remaining members more rapidly in order to remain viable. This, in turn, could lead to a 'downward spiral' with sharper declines in membership even among the older population.

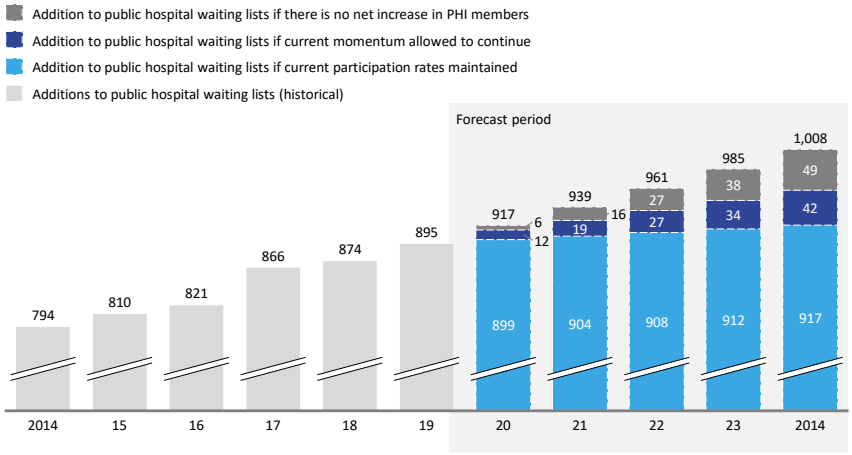
From the public healthcare system's perspective, this would further exacerbate the challenges that the system is currently facing; with two key areas being affected most directly:

- **Public hospital beds:** if participation across age groups continued declining at the recent rates, this could drive a need for an additional ~380,000 hospital bed days in the public hospital system by 2024, compared to if participation rates stayed at current levels.
- **Elective surgery weighting lists:** Growing demands on the public system have already led to the median wait time for elective surgery in public hospitals to escalate from 36 days in 2013/14 to 40 days in 2017/18. These figures are already grossly understated, given they do not include the time waited for an additional outpatient appointment, which can be significant in the public system. Nevertheless, it is estimated that even the median wait *following* an outpatient appointment could extend up to 43 days by 2024 if the decline in PHI participation continues at historic rates (see Exhibit 25).

EXHIBIT 25

Public hospital elective surgery waiting lists would lengthen if PHI participation continues to decline at the same rate

Additions to public hospital elective surgery waiting lists by year, thousands of separations



- Since 2014, days waited for surgery in public hospitals at the 50th percentile **has risen from 36 days to 40 days**, despite fairly balanced additions and removals from the system
- Reducing PHI penetration, thereby redirecting these elective surgery separations to the public hospital system, **risks destabilising surgery waiting times**
- It is estimated that the projected growth in elective admissions could drive an increase in median waiting times to 43 days.

1 Reasons for removal from a waiting list include patient being uncontactable, surgery being deemed to be no longer required, and transfers

SOURCE: AIHW

5.2 ASSESSING CURRENT POLICY LEVERS BEING APPLIED TO ENCOURAGE PHI PARTICIPATION

The Commonwealth Government currently incentivises PHI participation through four primary measures:

- The private health insurance rebate
- The Medicare Levy Surcharge
- Lifetime Health Cover
- The age-based discount option

While these current policies have merit, and evidence of success, there is more that can be done to specifically encourage younger people to take up private health insurance.

5.2.1 The current policy environment

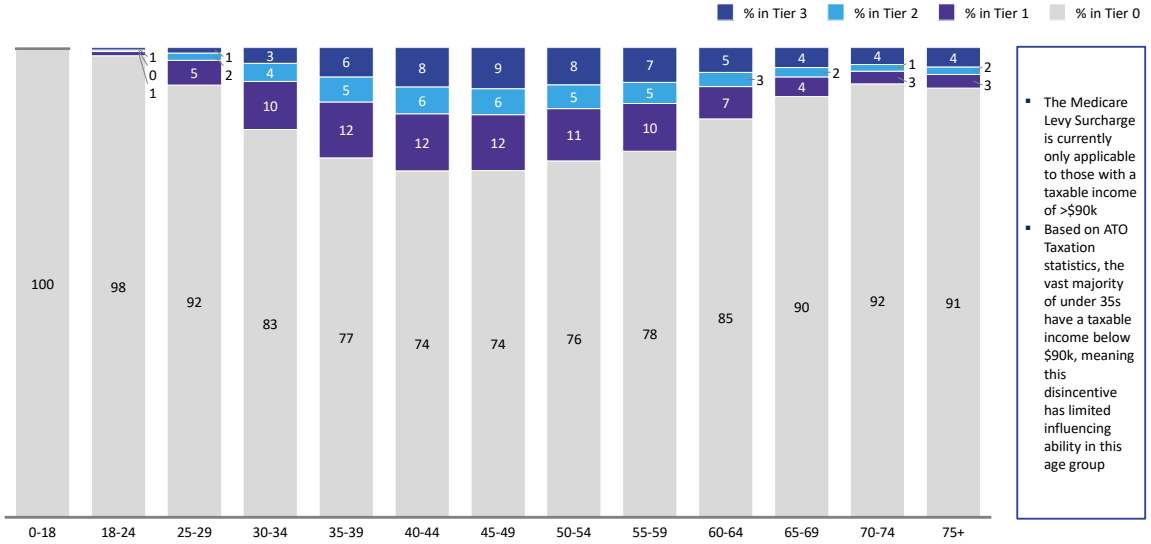
The Commonwealth Government currently incentivises PHI participation in the population through four measures:

- **The private health insurance rebate:** the private health insurance rebate enables a means-tested reduction in effective premiums for all participants. The rebate is specifically designed to accrue towards older participants. Currently, approximately ~$4bn (~76%) of PHI rebate spend is delivered to Australians over the age of 40.
- **Medicare Levy Surcharge:** the Medicare Levy Surcharge provides a financial disincentive for not taking out PHI among individuals and couples who have the means to purchase PHI. It only begins to apply at an income level of >$90,000 per annum for singles and >$180,000 per annum for couples. As shown in Exhibit 26, however, over 90% of people in the 18-29 age range are below the income threshold for the MLS and therefore not impacted by this disincentive.

EXHIBIT 26

The Medicare Levy Surcharge is infrequently applicable to people under the age of 35

Estimation of proportion of people, by age, whose taxable income would make them eligible for the Medicare Levy Surcharge, %



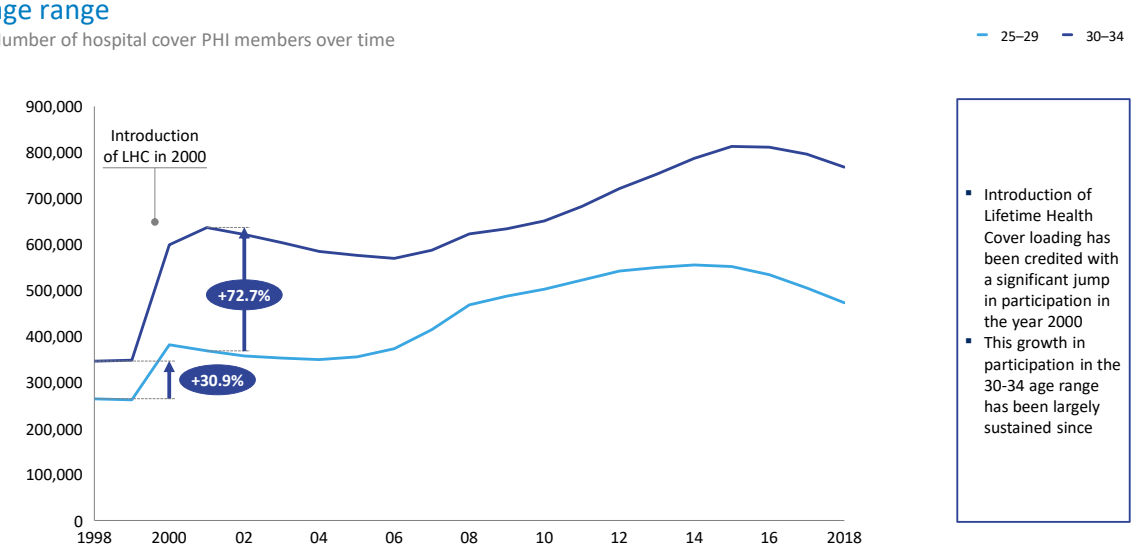
SOURCE: ATO Taxation Statistics 2016-17

- **Lifetime Health Cover:** Lifetime Health Cover incentivises the taking out of PHI soon after turning 31 by adding a loading rate to premiums for each year not covered after this age. LHC appears to have been effective in increasing the rate of acquisition of new PHI policies in the 30-34 age group, relative to the 25-29 age group. This impact was seen most clearly in the early 2000s, and has remained stable since.

EXHIBIT 27

Lifetime Health Cover appears to have been effective in driving participation in the 30-34 age range

Number of hospital cover PHI members over time



SOURCE: APRA memberships trends (March 2019)

- **Age-based discount:** the option of offering an age-based discount to people between the ages of 18-29 was introduced in April 2019. While the impact of this policy will need to be assessed more closely over the coming months, the initial view from funds has been

mixed. APRA membership statistics do not show any increase in Hospital Treatment of members between the ages of 18-29 in the last quarter (following the introduction of this policy).

5.2.2 Perspective of young people towards current policy

Three important findings were apparent from our recent consumer research regarding current policy:

- **Familiarity with Lifetime Health Cover and the age-based discount is low**, with only 35% of people between the ages of 30-34 reporting familiarity with Lifetime Health Cover, and only 13% of people between the ages of 18-29 reporting familiarity with the age-based discount. Familiarity with LHC correlated with both PHI membership and with income more generally. When discussed in focus groups, the importance of a neutral trusted source providing information regarding initiatives like Lifetime Health Cover was raised.

> *"I didn't know about Lifetime Health Cover. I probably should have known about it" – focus group participant*

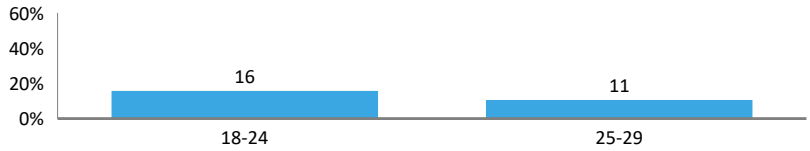
- **Increasing familiarity with these initiatives could drive some further uptake:** those who were 30-39 and familiar with LHC were 1.75x more likely to have private health insurance. Focus groups further indicated that some young people feel they "should have" been familiar with LHC but were not at the time of turning 31. In the case of the age-based discount, 24% of respondents without PHI between the ages of 18-29 stated they would purchase PHI if offered the appropriate age-based discount based on current policy (see Exhibit 28), although there was some hesitation around the magnitude of the discount in focus groups.

> *"What good is a 2% discount if costs are going up 4% every year anyway?" – focus group participant*

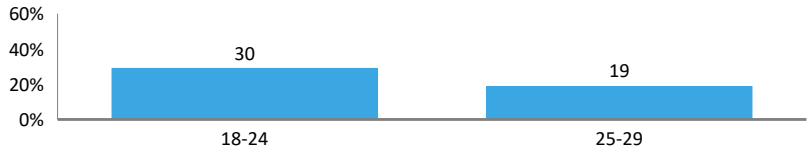
EXHIBIT 28

Awareness of the age-based discount reform is low, but increasing awareness could drive increased uptake

Are you familiar with the private hospital cover discount for 18 to 29 year olds?, % familiar among those without PHI, n=516



Would you purchase Bronze tier private hospital cover if you could participate in this program and receive a discounted annual price of [presented with appropriate price], % who would purchase among those without PHI, n=516



Key takeaways

- There is currently limited awareness of the age-based discount option
- Groups that are aware of the discount appear to demonstrate higher willingness to purchase Bronze tier hospital cover at an appropriately discounted price

SOURCE: Ipsos Consumer Survey August 2019

- **Increasing penalties is unlikely to be the solution:** only 5% of respondents indicated that increasing LHC loading by any amount would drive them to purchase private health insurance. Furthermore, this purchase rate did not substantially increase at significantly higher levels of the loading, indicating the response is mostly in relation to the existence of a penalty rather than the magnitude of one. Similar results were seen when assessing respondents on their purchase behaviour if facing increased levels of the Medicare Levy Surcharge.

5.3 CONSIDERATION OF PHI WITHIN THE 'UNDER 40' POPULATION

5.3.1 Awareness and consideration of private health insurance

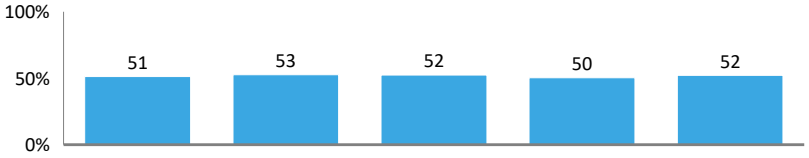
There is an opportunity to drive increased awareness of private health insurance products and their benefits, particularly in the context of new reforms designed to make hospital cover products easier to understand. The Government, as a trusted source of information, has a key role to play in drawing the attention of younger people towards PHI and increasing understanding of the current system. The Government also needs to express confidence in the system and its sustainability, both now and into the future, to counter an undercurrent of negative speculation that could hamper further reform. While funds have, and will continue to, also drive awareness of products and reform, evidence from focus groups suggest a clear preference for guidance from a perceived 'neutral' source.

While 99% of people surveyed listed some familiarity with at least one health fund, only 20% reported being familiar with their specific health insurance products. Furthermore, only 22% of survey respondents reported familiarity with the new tier ratings, and the majority of focus group could not explain the changes. People without insurance policies were also unable to correctly identify the clinical categories covered by a Bronze tier policy.

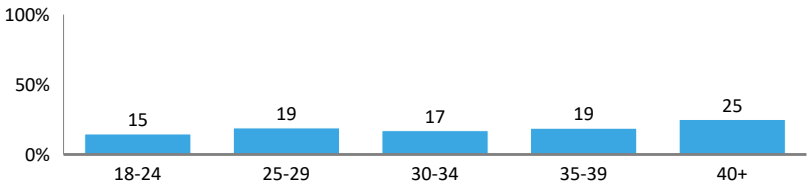
EXHIBIT 29

Knowledge of insurance tiers is low across age groups, with <20% in the under 39 segment reporting familiarity with tier offerings

Which of the following clinical categories do you believe are covered by Bronze-level private hospital cover?[1]
% of clinical categories correctly recognised as part of Bronze cover for those without PHI, n=2,099



How familiar are you with the differences between Basic, Bronze, Silver and Gold tier hospital cover? % of respondents who report being familiar with insurance tiers. N=4,946



Key takeaways

- Respondents across age groups were roughly as likely as chance at identifying clinical categories that were covered by Bronze-tier insurance
- The 18-24 demographic reports the least familiarity with the different tiers of hospital cover (15%)

1 Categories tested: Joint reconstructions; diabetes; gynaecology; chemotherapy, radiotherapy, and immunotherapy for cancer; dialysis for chronic kidney disease; pregnancy, birth, and neonates; weight loss surgery, insulin pumps

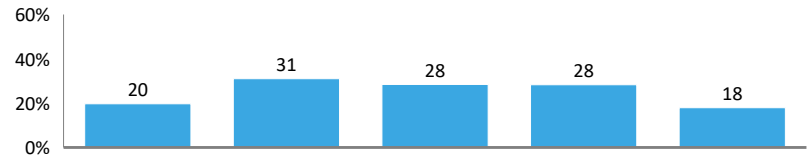
SOURCE: Ipsos Consumer Survey August 2019

Across the 18-39 age group, 27% of people without PHI reported considering purchasing PHI in the past 12 months, with highest rates in the 25-29 and 30-34 age groups. Of these people, 28% were likely to purchase PHI (at the current price point and with the same set of features) in the next 12 months (see Exhibit 30). This reveals a significant opportunity for the Government and funds to collaborate on a campaign to drive increased awareness and consideration of PHI.

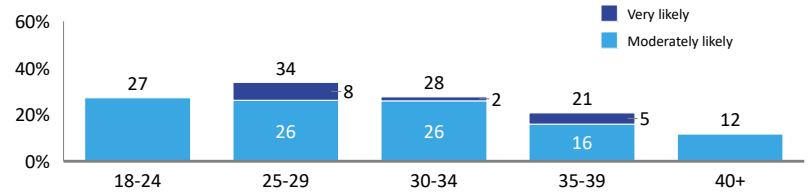
EXHIBIT 30

Among those without PHI, the 25-29 year old group reports the highest rate of consideration and likeliness to purchase PHI

Have you considered any of the following activities in the past 12 months?
% of those without PHI who have considered purchasing hospital cover in the past 12 months, n=2,628



How likely are you to purchase Bronze-level private hospital cover at [market price]?
% responding likely or very likely, amongst those without PHI but considering to purchase, n= 215



Key takeaways

- Across the 18-39 age group, 27% of people without PHI report considering purchasing PHI in the past 12 months
- 28% of respondents in the 18-39 age group who have considered PHI in the past 12 months are likely or very likely to purchase PHI

SOURCE: Ipsos Consumer Survey August 2019

"I appreciate they're trying to reform it and anything they can do to try to make it clearer or easier is a step in the right direction, but I think there's a lot more that needs to be done" – focus group participant

5.3.2 Key segments within the age group

There are several factors which correlate with higher consideration and/or purchase rates with private health insurance. For example, people who grew up in a household with PHI are 1.7x more likely to have PHI, and 1.3x more likely to be considering PHI if they have not purchased it.

Two key segments which may be targeted more proactively are individuals about to take out their first mortgage and people about to have their first child.

- **People taking out their first mortgage:** among 176 survey respondents who did not currently own a home, did not have hospital cover, but were planning to take out a mortgage in the next 12 months, 31% were considering private health insurance versus the background rate of 19% among those who were not planning to take out a mortgage.
- **People planning to have their first child:** among 293 survey respondents who did not have hospital cover and were planning to have their first child in the next 12 months, consideration rates were not markedly different compared to background rates. Nevertheless, overall PHI penetration was higher among people planning to have their first child at 58%, versus 40% in the remainder of the survey sample. This suggests there

is an opportunity to drive greater penetration of PHI by increasing awareness and consideration at this key life moment.

The notion that major life transitions correspond to consideration or purchase of PHI was corroborated in focus groups, where individuals reported thinking about PHI in the context of taking out other insurance products (e.g. home and contents), or considering PHI as a means to protect their growing family.

> *"I would just feel so guilty [letting insurance lapse] if something happened to the kids or the two of us and we couldn't pay for it, I just can't do it because of them" – focus group participant*

5.4 NOTES ON PRIMARY RESEARCH

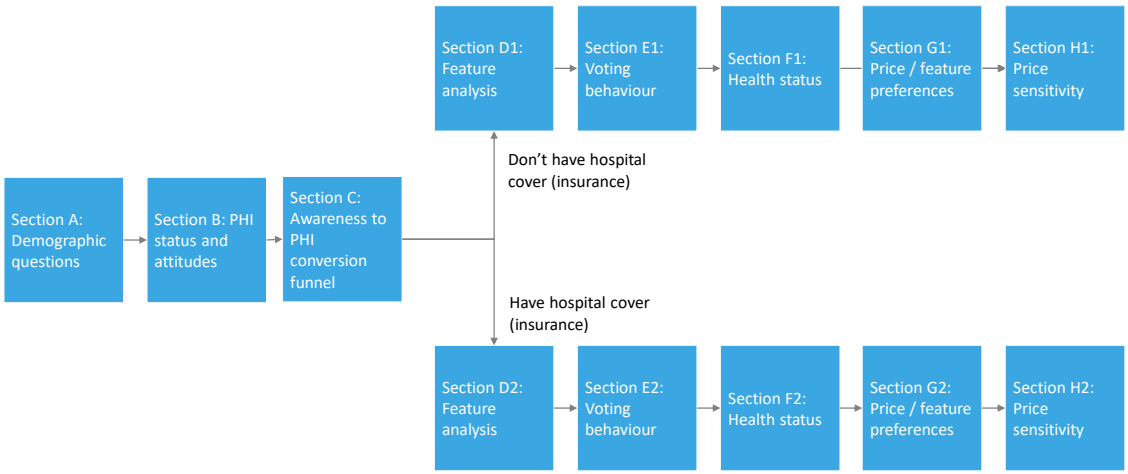
5.4.1 Survey details

Structure

The survey consisted of 8 sections: demographic questions, PHI status and attitudes, awareness to PHI conversion funnel, feature analysis, voting behavior, health status, price / feature preferences, and price sensitivity. As shown in Exhibit 31 all respondents answered demographic, PHI status and attitudes, and awareness to PHI conversion funnel questions before being routed to a specific survey journey based on their hospital cover status.

EXHIBIT 31

The survey flow splits respondents based on their hospital cover status



The entire survey comprised of 96 questions, with each respondent shown a subset based on the journey they are assigned to.

Administration

The survey was administered through a website accessible on phones, tablets, and computers and was available from the 10th of August, 2019 and closed on the 19th of August, 2019. During this period, 5,184 respondents participated in the survey with 4,946 responses qualified based on age criteria.

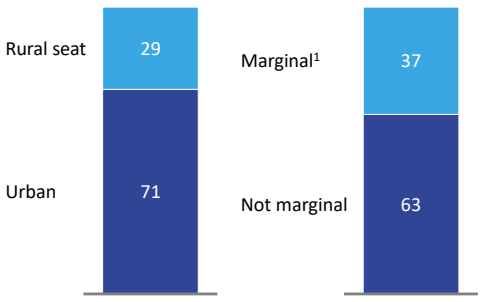
Responses were limited to Australia with representation in all states and territories. New South Wales had the most respondents at 1,599 followed by Victoria with 1,219. The geographic distribution of respondents is summarised below.

EXHIBIT 32

The survey ran for 1 week and received ~5000 responses from across the country

Breakdown of respondents by location

%



Total responses = 4946
Margin of error = 1.39%

1 Marginal defined as electorate won or lost by the Coalition by a margin of < 5% in the 2019 Federal election

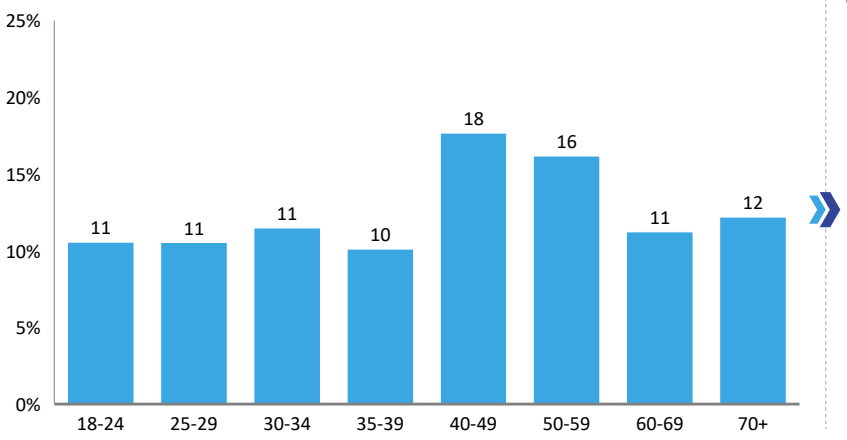
Respondents spanned the full target age range from 18 to 70+ with a slight over-representation of the under 40 group. This was by design to increase explanatory power in the under 40 target demographic. The full distribution of responses can be seen in Exhibit 33.

EXHIBIT 33

Initial responses span the entire 18+ age range, with younger Australians slightly over-represented by design

"What is your age?"

% of total responses by age group, n= 4,946



Key takeaways

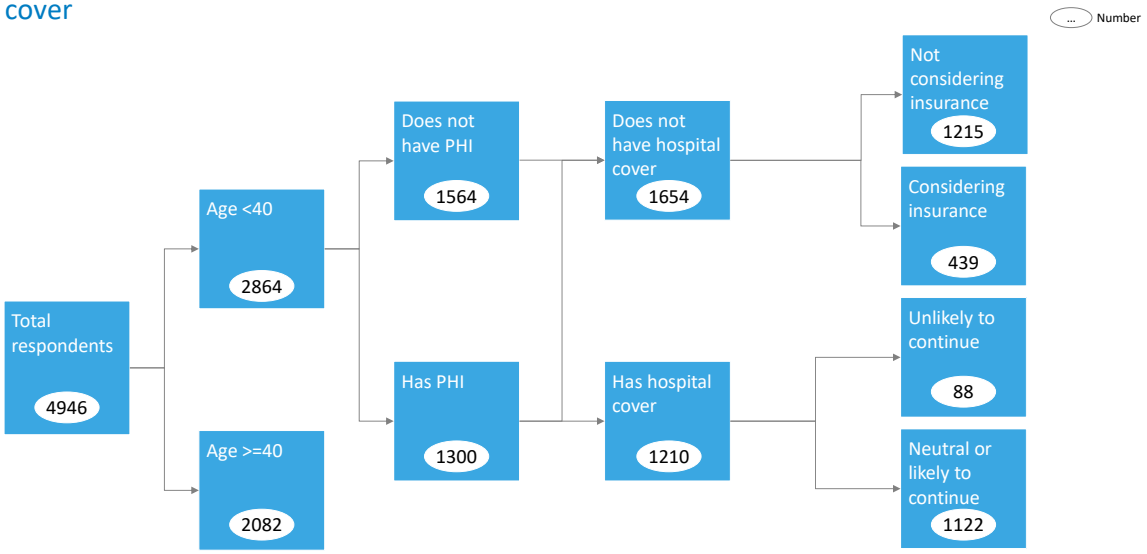
- Younger Australians are slightly over-represented with 42% of respondents are under the age of 40, compared to an expected ~38-40% based on population statistics

SOURCE: Ipsos Consumer Survey August 2019

Among the 2,864 respondents under the age of 40, 1,300 had private health insurance and 1,210 reported they had private hospital cover, as summarised below in Exhibit 34.

EXHIBIT 34

We had 2,864 respondents in the <40 target range, of whom 1,654 do not have hospital cover



Analysis

Weighting adjustment of survey results was conducted in SPSS across 6 auxiliary variables: gender, age, marital status, region, income, and age and private health insurance status. Analysis was conducted with a combination of SPSS and Microsoft Excel.

5.4.2 Focus group details

Four focus groups were conducted as part of this study. Groups were divided across Sydney and Melbourne, with two focus groups conducted in Sydney on the evening of August 21st, 2019 and two focus groups conducted in Melbourne on the evening of August 22nd, 2019. 3 focus groups were drawn from the under 40 target demographic, split by those with or without private health insurance. 1 focus group was drawn from a 55+ demographic without private health insurance. Details of the groups can be seen below:

Group make-up	Location
55+ mixed PHI / non-holders	Sydney, Paramatta
Under 40, non-PHI holders	
Under 40, non-PHI holders	Melbourne, Richmond
Under 40, PHI holders	

Each focus group lasted 1.5-2 hours and consisted of 8 participants and 1 facilitator, with remote observers viewing through close-circuit television. Focus group topics were organised into five broad categories:

- **General** – An opportunity for participants to discuss the issues they feel are important and for the moderator to explore how healthcare fits in the mix
- **Healthcare** – Exploration of the perceived quality of healthcare, pain points in receiving care, perceptions of the role of public and private hospitals in delivering care, and changes needed to improve the healthcare system
- **Private health insurance** – Perceptions of the role of private health insurance in the Australian healthcare system, identification of issues with private health cover, and attitudes towards private health insurance
- **Recent reforms** – Exploration of perceptions and understanding of insurance product tiering (gold, silver, bronze), youth discounts, waiting periods for mental health treatment, and increases in allowable plan excesses
- **Potential reforms** – Exploration of possible new reforms identified as part of the survey process

5.5 NOTES ON METHODOLOGY

5.5.1 Introduction to methodology

The modelling of financial impacts of increased PHI participation across actors occurred over two steps:

1. Participation levels within each age group were calculated on a year-on-year basis, based on consideration rates, acquisition rates and churn rates
2. For each new member, the impact was assessed across the first order (direct) impacts, second order (cost shifting) impacts, and third order impacts on older users

Direct impacts incorporated all outcomes that were occurring directly due to the initiative, including the growth of rebate expenditure for government, the growth of premium revenue for funds, the cost of lost Medicare Levy Surcharge revenue, etc.

Second order impacts were based primarily on the estimated number of separations per member in each age bracket, and the cost for each of those separations. Based on these estimates, the average cost per member that is shifted from public funder to private funder following the acquisition of PHI was determined.

Third order impacts were based on sharing of fund gross margin across the wider age cohorts, and the necessary flow-on effects to yearly premium increases. For example, if funds (following first and second order impacts) were successfully able to improve gross margin significantly, it was assumed this would translate into lower premium increases for older members, which therefore would attract older members in turn.

5.5.2 Process to test feasibility

Feasibility of each of the initiatives was additionally assessed based on a composite scoring involving the following factors:

- Likely speed of implementation
- Degree of legislative change
- Likely support from younger citizens
- Likely support from older citizens
- Differential impact upon funds
- Likely support from provider groups (including private hospital groups, medical peak bodies, and other industry stakeholders)

The method for rating across these six factors is summarised below

EXHIBIT 35

Six factors were considered in determining the feasibility of each option

Dimension[1]	Question(s) asked	L	M	H
Likely speed of implementation	▪ How quickly can the initiative be implemented and begin to have impact?	It is likely the initiative could take >2 years before it has impact	It is likely the initiative will take 1-2 years before having an impact	The initiative could have an impact within the next year
Degree of legislative change	▪ How complex would any required legislative or other regulatory change be for government?	Significant new legislation is required	Moderately significant changes to existing legislation is required	Minor legislative or regulatory amendments are required
Likely support from younger consumers	▪ How easily can the new system be communicated to consumers in order to encourage buy-in and uptake? ▪ Are any pockets of younger consumers negatively affected and/or likely to react poorly?	The concepts are somewhat difficult to communicate, may negatively affect consumers or may attract backlash	The concepts are easy to communicate but may negatively affect some consumers and/or earn mixed support	The concepts are easy to communicate, broadly positive for all consumers and likely to be widely supported
Likely support from older consumers	▪ How easily can the new system be communicated to consumers in order to encourage buy-in and uptake? ▪ Are any pockets of older consumers negatively affected and/or likely to react poorly?	The concepts are somewhat difficult to communicate, may negatively affect consumers or may attract backlash	The concepts are easy to communicate but may negatively affect some consumers and/or earn mixed support	The concepts are easy to communicate, broadly positive for all consumers and likely to be widely supported
Differential impact upon funds	▪ How easily can the required changes be implemented by the funds? ▪ Are any funds potentially negatively affected and/or likely to react poorly?	The initiative is difficult to implement and may have significantly different impacts to different funds	The initiative is easily implementable within current structures but may differentially impact upon certain funds	The initiative is easily implementable within current structures and does not differentially impact upon certain funds
Likely support from provider groups (private hospitals, peak bodies)	▪ Are any industry stakeholders negatively affected and/or likely to react poorly?	The initiatives may negatively impact upon or encourage backlash from some stakeholders	The initiatives may differentially impact upon some stakeholders, which may result in mixed support	The initiatives will positively impact upon industry stakeholders and are likely to be widely supported

1 Note each dimension is equally weighted

5.5.3 Assumptions applied to test participation impact

The process to determine impact on participation involved adjustments to consideration, purchase and churn rates based on the findings from primary research. A conservative assumption was introduced based on an assumed gap between stated purchasing behaviour in the survey and actual behaviour:

- It was assumed 60% of people 'very likely' to purchase would actually purchase
- 15% of people 'moderately likely' to purchase would actually purchase
- Where a question was asked in binary terms, 25% of those who said they would purchase the product would actually purchase the product

Please note that for most levers, assumptions were applied for the 18-39 age group broadly, rather than disaggregated into individual 5-year age blocks. Exceptions have been individually identified in Table 1 below.

Table 1: List of all key assumptions

	Consideration rates	Purchase rates	Churn rates
Momentum case	27%, adjusted for current participation rates per age group (to avoid causing normalisation across all age groups)	6.0%	3.2%, adjusted for current non-participation rate per age group (to avoid causing

			normalisation across all age groups)
Promotion of the age-based discount	+3.0% points, for 18-29 only	Nil	Nil
Promotion of Lifetime Health Cover	+5.8% points, for 30-39 only	Nil	Nil
Targeted campaign for first home owners	+1.6% points	Nil	Nil
Restoring the base rebate to 30%	Nil	+1.7% points	Varied from -1.0% points to -1.5% points based on age group
Fringe Benefits Tax exemption	Nil	Varied from +2.9% to +3.9% based on age group, and then adjusted for employer participation (base set to 30%)	Varied from -1.4% to -1.9% points based on age group, and then adjusted for employer participation (base set to 30%)
Increasing the base rebate to 40%	Nil	+3.2% points	Varied from -1.4% points to -2.1% points based on age group