Private Healthcare Australia

Better Cover. Better Access. Better Care.

Budget Submission 2021-22

Reducing pressure on families and hospitals

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A new context

The future of our mixed public/private health system relies on maintaining the balance between Medicare and a strong private health sector. Steps must be taken immediately to protect the health and well-being of Australia's population.

In recent years and largely as a result of our ageing baby-boom population, pressure has been increasing on the public hospital sector, resulting in longer waiting times and consequently a rise in consumer dissatisfaction. The cost of health care has been increasing across both the public and private sectors, leading to lower rates of private health insurance membership and further pressure on the public sector. At the same time, private health insurers have been paying record benefits on behalf of their members. This is not sustainable.

The Australian Government's ongoing commitment to reform, designed to ensure the sustainability of our mixed public/private system, was well underway in the pre-COVID-19 environment, however understandably a number of measures and reviews aimed at reigning in health care costs were deferred due to competing and new priorities.

We are now in an environment which requires bold policy commitments to address both the existing or long run need for reform, and the immediate or short term consequences of the COVID-19 pandemic.

Many Australians are suffering financially as a result of the pandemic. The Australian Government demonstrated skill and compassion in its response, however financial pressure continues to impact the population and add to the increasing mental health toll we have witnessed over the past year.

The importance of our mixed private and public health system was clearly demonstrated during the COVID-19 pandemic. It showed our capability to provide extra surge capacity while maintaining high quality and delivering a critical safety net for Australian governments as they navigated the response.

The value of private health insurance has never been more evident. Supporting more than half the Australian population to retain their PHI has never been more important. Public hospital waiting times for elective surgery could exceed 1.5 years and some media reports suggest a 10 year wait for some procedures as a consequence of the pandemic. Demand for inpatient mental health services, which is a major part of the PHI value proposition, is also rapidly increasing, and we are yet to witness the full impact of recent events on the mental health of our population.

Australian health funds did all they could to support members during the past year. Health funds responded quickly and effectively from the outset of the COVID-19 pandemic, postponing premiums and supporting customers in financial hardship. Funds have also cut operating costs, reduced margins and increased support for members through innovative and expanded programs such as telehealth and hospital in the home.

Health funds have this year delivered the lowest premium increase in two decades. The average premium increase of 2.74% will come into effect on 1 April 2021. Australian health funds remain committed to looking after their members and firmly believe that with the right policy levers, we can reduce premium rises even further.

Improving regulation will reduce premiums

Premium increases are a direct result of government intervention. Improving the regulatory structure will reduce premium rises, potentially to zero.

If government did everything recommended in this submission - a mixture of regulatory reform to reduce inflated health care costs and increase flexibility and gradually restoring the private health insurance rebate to 30% - the costs of private health insurance for Australian families would be stabilised and upward pressure on premiums would be largely eliminated. Even implementing some of these initiatives would reduce the pressure for premium increases.

The Australian Government spent less money supporting private health care in 2019-20 than they did five years earlier ($6372 million in 2014-15 and $6052 million in 2019-20). While premiums are going up, the government has consistently eroded the value of the rebate. It used to be a 30% rebate, now it is less than 25% for those on low incomes with PHI.

In contrast, funding for public hospitals, for Medicare and the PBS have increased by 34-43% over the last six years, while support for people with private health insurance has fallen. The October 2020 Budget removed $710 million out of the forward estimates for private health insurance.

Supporting private health care is the cheapest and most effective way government can supply health care. Simply put, with a rebate the government can leverage billions of dollars of extra health care services. The alternative is to spend 45c in the dollar, with state governments contributing the balance, to purchase extra public health care services.

Supporting private health is the most effective way for government to provide health care, as it is the most efficient way to fund essential non-emergency surgery, inpatient mental health and other services in high demand. Private health care provides two in three elective surgeries across Australia, in most cases at a lower cost and higher quality than the public sector (despite some obvious examples of low value care). Private health care is providing more mental health care than ever before. Private health care allows for choice of doctor, no waiting lists, and peace of mind.

Historically, when there are fewer people with private health insurance, public waiting lists increase. We have already seen waiting lists expand rapidly in 2019, and now with the pandemic, we are likely to see more and more people waiting years for basic surgery. There is no way the public system will be able to catch up on the shortfall without the support of private health care. The costs of long waiting lists for public outpatient services and elective surgery include significant pain and suffering, more hospital complications, less employment and community participation, and economic loss.

Across the political spectrum the importance of Australia's mixed system of public and private health care is largely understood. The pandemic has shown that our combined system can provide extra surge capacity while maintaining high quality emergency care and urgent surgical care.

The May 2021 Budget can lock in lower average premium increases for 2022, 2023 and 2024. There are two key elements; modernising the regulatory framework to ensure private healthcare can meet the needs of consumers in the 21st Century; and restoring support for Australian families who wish to contribute to their own care needs through restoring the rebate.

Patient care will be improved by reforming a regulatory regime from the last century. Moving to a more market-based approach will:

- Empower patients to receive the care that suits their individual circumstances, as determined in conjunction with their medical practitioner
- Increase options for out of hospital care, either in the home or the community
- Shift incentives to promote evidence-based care in areas such as rehabilitation and mental health
- Reduce wasteful and inefficient health care, and
- Ensure excessive profits are shifted from multinational medical device companies to Australian doctors, Australian hospitals and Australian families.

Restoring the Private Health Insurance Rebate to 30% will:

- Immediately reduce pressure on family budgets
- Rebalance Australia's public/private health system to ensure all Australians have access to health care, and
- Be paid for by partially replacing the $3.4 billion Budget cuts to the rebate over the term of the Coalition Government.

Fully implementing each of these policy prescriptions would ramp up to reduce costs by more than $1 billion per annum, without affecting patient care, which would be passed on to consumers in the form of lower premium increases. Combined with increasing the rebate by one percentage point per annum until it is back to 30%, the average premium increases would be close to zero.

The challenge is for the industry and for government to work together to bring out of control costs down, in effect to offset unwarranted medical inflation and provide affordable options for consumers. The good news is there are a number of ways to do this without affecting patient care – the bad news is that poor quality healthcare providers, multinational device companies and the small percentage of surgeons and hospitals that charge very high out of pocket costs will lose some of their extraordinary profits.

If the policy goal is to meet the needs of the 13.7 million Australians with some form of health insurance, then enacting these reforms is an easy decision.

REDUCING COSTS BY OVER $1 BILLION IS ACHIEVABLE

There are four key areas where savings can be made:

- Reforming prostheses funding (up to $500m pa)
- Reforming second tier default benefits (up to $200m pa)
- Removing unwarranted and outdated regulation (up to $445m), and
- Increasing the Medicare Levy Surcharge ($164m).

More radical options such as reforming community rating are not considered in this submission, as the Commonwealth is currently reviewing the risk equalisation pool and community rating.

Prostheses

The greatest savings providing no patient disadvantage comes in reforming funding for medical devices. The current Prostheses List provides set prices for more than 11,000 items, with prices set by reference to other items on the list with no market mechanisms. Private health funds are required to pay for items on the Prostheses List regardless of quality, efficacy, efficiency or safety.

There are some outrageous examples of high-priced prostheses, and the medical device industry (dominated by multinational companies) makes extraordinary profits for many of their products. The current system not only costs consumers a fortune but incentivises poor quality care.

Private Healthcare Australia has developed a blueprint for reforming prostheses funding in Australia, through changing funding arrangement from a list of items to a bundled approach through diagnostic reference groups managed by the Independent Hospitals Pricing Authority. The detailed blueprint is with the Department of Health for consideration as part of their review into prostheses funding.

Our proposal redistributes excessive profits from multinational medical device companies to Australian doctors, Australian hospitals and Australian families (while still maintaining some of the most expensive medical device prices in the world).

PHA is confident that the reforms proposed would not impact patient care or doctor choice.

Second tier default benefits

Second-tier default benefits require funds to pay non-contracted hospitals 85% of the market price, regardless of quality or need. Those hospitals are then free to set their prices at whatever level they choose, often resulting in high out of pocket costs. (Contracted hospitals have no or, rarely, known out of pocket costs.) Restoring the second-tier default benefit to its original intent, to protect rural and regional hospitals, would save $200 million annually, while consumers can be protected from rising out-of-pockets charged by uncontracted hospitals. The majority of facilities receiving second tier default benefits are day hospitals operating in urban areas already well-serviced with medical facilities.

The detailed proposal is with the Department of Health as part of their consultations on out of hospital care. Our proposal outlines other options, including grandfathering and a proposal to incentivise the provision of services in rural and regional areas. These compromise proposals would protect existing providers but not offer the same consumer benefits.

Deregulation

There are thousands of pages of legislation regulating private health insurance, including limitations on products, minimum pricing, and a host of other rules and red tape. Removing the price controls that require funds to pay hospital rates for a range of procedures that could be performed out of hospital would leave management up to the market, removing distortions and promoting out of hospital care.

PHA estimates that removing price controls would net an efficiency gain of approximately 1%, with an additional 0.5% of savings from removing fraud, inappropriate practice and gaming from the hospital spend. In total, this measure would save approximately $240 million per annum.

In addition, a change in the definition of "rehabilitation patient" in the *Private Health Insurance (Benefit Requirements) Rules 2011* to make it clear that a patient in hospital for rehabilitation must receive a minimum standard of care in line with the Australasian Faculty of Rehabilitation Medicine Standards. If this change resulted in the average length of stay reducing to the same level of the public system, around $205 million would be saved from health insurance premiums.

Medicare Levy surcharge

Despite the existing Medicare Levy Surcharge, almost 200,000 high income Australians are not covered by private health insurance.[1] The large number of people with high incomes who choose to rely wholly on Medicare places an unfair burden on all Australians, particularly the most vulnerable. With waiting lists for elective surgery in the public system blowing out due to COVID-19, this burden is even greater.

It is important in this to recognise that the Medicare Levy Surcharge is not a tax event, though, as a penalty, it is expressed as incremental taxation. The purpose of the surcharge is to encourage private health insurance membership, rather than to raise taxation, so the preferred Treasury income from this measure is zero.

An increase in the Medicare Levy Surcharge of 100 basis points would result in increased private health insurance revenue of $435 million; a rebate cost increase of $41 million, and an increased Medicare Levy Surcharge penalty of $206 million. The nett revenue to government would be approximately $164 million per annum.

[1] Australian Taxation Office supplied figures for 2016-17.

TAKING IMMEDIATE PRESSURE OFF FAMILY BUDGETS

The October 2020 Budget removed $710 million from the forward estimates for the Private Health Insurance Rebate, with the last six Budgets removing a total of $3.4 million. Replacing this $710 million could reduce premiums by about three per cent. It could fund 60,000 additional operations. It could divert tens of thousands of people from public waiting lists to the private system. It could expand out of hospital care and mental health care.

There are many calls on the public purse but pulling money out of the pockets of millions of Australian families with private health insurance is not only bad for those families, but poor public policy that will increase pressure on our health system – both public and private.

If the government was willing to put back the $3.4 billion that they have pulled out of private health insurance support, then we could have no premium increases for the next five years.

It is a big ask, but we cannot continue to put pressure on our public health systems by neglecting private health care. Private Healthcare Australia has put a four-step plan to government to take pressure of families and public health:

- **Stop eroding the Private Health Insurance Rebate**. Use the additional capacity in the forward estimates to halt the erosion of the Private Health Insurance Rebate for 2021.
- **Increase the Rebate in the 2021 Federal Budget**. By replacing a proportion of the $710 million removed from this year's Budget, the next Budget due in May should increase the rebate by one percentage point to 26%.
- **Over the next four Budgets, increase the rebate to 30%**. The rebate should be increased by one percentage point each year until it is back to 30%.

Combined with initiatives already put to government to reduce regulation, cut the cost of medical devices, and reduce low value care, this program would ensure that the average premium increase over the next five years would be about one per cent per annum.

While this would not make up for the $3.4 billion that has been cut from family budgets for Australians with private health insurance, it would stop the rot and begin the process of rebalancing Australia's health system.

There are alternative options, canvassed in the attachment, to support families through various changes to the rebates and allowing private health insurance to be covered by a Fringe Benefits Tax exemption.

EFFECTS ON PHI PARTICIPATION

Each of the measures outlined above would marginally increase participation in private health insurance, in some cases by tens of thousands of Australians (see attachments). Importantly, addressing costs and increasing the rebate would reduce the decline in private health insurance membership.

Shoring up or increasing private health insurance membership is vital to keep pressure off public hospitals.

SUMMARY OF EFFECTS ON AUSTRALIAN GOVERNMENT BUDGET

Reducing the waste in private health not only reduces the pressure on premiums for Australian families but provides the significant Budget savings to the Commonwealth.

Full implementation of the savings measures would improve the Commonwealth Budget position by approximately $1.8 billion over the forward estimates. This would provide around three-quarters of the funding needed over the forward estimates to begin to restore the Private Health Insurance Rebate. With a combination of these measures, Australian families would have an average of zero increase in their premiums over the next three years.

The figures below are the effects on the Commonwealth Budget – saving to consumers are considerably higher.

	2021-22	2022-23	2023-24	2024-25
Prostheses reform[2]	0	(75)	(158)	(185)
Second tier default benefits[3]	(78)	(81)	(84)	(87)
Deregulation[4]	(58)	(90)	(124)	(129)
Medicare Levy Surcharge[5]	(164)	(164)	(164)	(164)
Increasing the PHI Rebate[6]	240	480	720	960

[2] Key assumptions include full implementation of prostheses funding reform in the attachment, with the Budget effect being 26-27-28-29% due to the PHI rebate

[3] Key assumptions include: all second-tier default benefits in urban areas abolished as at 1 July 2021 ($300m) with the Budget effect being 26-27-28-29% due to the PHI rebate

[4] Key assumptions include: Changes to rehabilitation ($205m) and intravitreal injections ($20m) come into effect as at 1 July 2021. Other savings would accrue over the next two years.

[5] Key assumptions include: an increase in the MLS of 100 basis points on 1 July 2021

[6] Key assumptions include: a one percentage point increase per annum starting on 1 July each year from 1 July 2021