

## Private Healthcare Australia 2022-23 Pre-Budget Submission

Private health insurance is essential for many Australian families and is a vital component of Australia's health system. It has been designed as a part of the Medicare ecosystem to secure its long-term sustainability.

The COVID-19 pandemic has demonstrated the value of Australia's flexible, varied health system which is a strong protection for the community in times of crisis, with private health care proving to be the best way to receive timely, supported health care for a range of conditions. Over the past two years, private health care has provided surge capacity for hospitals, ensured that many more Australians receive much-needed surgery, and provided information and support for families.

Health care is not cheap, particularly when managed by government. Commonwealth funded programs such as public hospital contributions (up 6.5%), the Medicare Benefits Schedule (up 11.3%) and the Pharmaceutical Benefits Schedule (up 9.5%) have increased spending rapidly over the past year. Many state hospital systems are increasing spending while decreasing throughput as capacity issues and new protocols limit patient numbers. Waiting lists are growing, and fewer people can access specialist care.

The cost of private health care is growing at a much lower rate. Premium increases have averaged roughly half the rate of increases for public hospital spending for several years now. Private health insurance is a strong investment, and from a public policy perspective, the most efficient means to provide health care to the community. More people with private health insurance (where the Commonwealth contributes 25% of the cost) means fewer people needing to rely on the public system (where the Commonwealth contributes 45% of the cost).

There are several threats to private health insurance that must be addressed to ensure the sustainability of Australia's mixed health care system. Cost and demand pressures are common across Australia's health system, with the COVID-19 pandemic exacerbating these pressures. In addition, the regulatory stranglehold on the private system means that Australians are paying more than is necessary for their health insurance. In addition, some of the care being provided is stuck in an old model built around acute illness that needs to be brought into the 21<sup>st</sup> Century.

The most important issue facing private health insurance from consumers' point of view is simply the cost. Research repeatedly shows that affordability is top of mind among consumers when discussing health care. Comparisons with costs in the public system, and the relative efficiencies, do not figure into families' calculations about affording insurance. Cost of living pressures are significant for many Australians, and likely to get worse over coming years as economic recovery across the globe puts pressure on interest rates, supply chains, and labour supply. Wages are likely to lag behind cost-of-living pressures for many years, as the economic recovery will be uneven and bumpy.

The 2022 Federal Budget should address cost of living pressures and improve health care through:

- Restoring the Private Health Insurance Rebate to 30 percent for low- and middle-income earners to provide immediate cost relief for consumers (it is currently less than 25 percent)
- Improve continuity of care and out of hospital options through removing unnecessary red tape

- Reduce the cost of medical devices, which remain well above international benchmarks
- Improve Commonwealth procurement processes where there is evidence of market failure in access to medical technology, as demonstrated by price gouging by intermediaries in the supply of rapid antigen tests (RATs) and personal protective equipment (PPE) throughout the pandemic
- Implement the measures flagged from previous budgets on default benefits, risk equalisation and community rating
- Provide immediate cost relief for younger Australians with private health insurance through Fringe Benefits Tax changes, and
- Review the model for consumer input to policy-making in private health to better ensure consistency and alignment with community values.

## **Rebate**

Since the election of the Coalition Government in 2013, more than \$3 billion has been ripped from consumer subsidies for private health insurance. By reducing the private health insurance rebate, the Morrison Government had added over \$100 to the cost of an average premium for Australian families.

The 2022-23 Budget should restore the rebate to 30 per cent for lower income earners, providing immediately relief to millions of Australian families earning less than \$180,000 pa. Following years should see the rebate restored for higher income earners when the Budget permits.

## **Cutting red tape**

Australia is currently undergoing a consumer revolution. Rapidly changing consumer values – accelerated by the pandemic – are leading to rapid adoption of new technology in financial services, retail and health services. Consumers now (rightly) expect that health systems will be flexible enough to provide care in people’s homes, with a mix of health professionals based on the needs of the patient.

The regulatory regime for private health care is complex and outdated. The regulatory regime promotes an old-fashioned system of fragmented care, delivered in institutions, and promoting episodic care rather than continuing care. For consumers, the system is both expensive and confusing, and produces poorer outcomes.

Gold cover – the highest level of health cover – is bearing the brunt of this outdated regulation. Being required to fund low value care means that more innovative, consumer-focused solutions become unaffordable. This has a disproportionate effect on the cost of gold cover.

Priorities for cutting red tape include:

- Removing barriers to allowing more practitioners to be involved in Chronic Disease Management Programs,
- Reform default benefits to ensure that patients can get care out of hospital where clinically appropriate, particularly with mental health care.

## **Cut the cost of medical devices**

The 2021-22 Budget included modest proposals to gradually reduce the cost of generic medical devices, which are among the most expensive in the world. The existing program of reform will still leave Australians paying the highest prices for medical devices in the world in four years' time.

Further savings for consumers are available through reducing prices faster and/or further. Accelerating the rollout of the existing program (over two years instead of four years) would save around \$200 million over the next two years. Benchmarking the prices of medical devices to the amounts paid in comparable countries such as New Zealand, South Africa, France or the United Kingdom would at least double these savings.

There is no reason Australian consumers should be paying so much for generic medical devices.

The COVID-19 pandemic has shown a desperate need for a coherent national procurement system for medical technologies which can be activated in cases of market failure. The Department of Health needed a mechanism to procure items like RATs and PPE direct from the manufacturers through a transparent process where value for money based on quality and volumes purchased could be demonstrated. This would have avoided the situation we found ourselves in, where multiple small businesses attempted to source scarce items from intermediaries in a crisis. A situation guaranteed to result in price gouging and fraud.

## **Fringe benefits tax**

Despite tinkering at the edges of health policy, younger Australians are still not taking up private health insurance in sufficient numbers to maintain the integrity and quality of the health system. Research demonstrates that allowing fringe benefits tax exemptions would make a material difference to the number of younger Australians taking out private health insurance.

## **Consumer input**

The government's current model for seeking consumer input to health policy decisions does not accord with community values. Professional consumer advocates generally focus on the public health system, having come from a history of welfare-based organisations. Furthermore, reliance on disease-based consumer organisations to provide policy input biases the outcomes in favour of interventions for the very sick, where the majority of health consumers do not identify as sick, but are investing in maintaining their health through different life stages such as childbirth and ageing. Several of these groups are funded by big pharma and big medtech companies which can have the effect of further distorting the outcomes. The unique demographics and economics of the ACT means it is inappropriate to seek consumer input purely from within its boundaries which happens far too often. The result has been consumer input into policy making which has differed wildly from the results of independently conducted market research.

This welfare-based approach is incredibly important, but most Australians would prefer a more balanced approach to health policy. A citizens' jury – including people not generally involved in health policy – should be established to provide another avenue of advice to government, industry and community on private health care policy. In critical situations of national significance such as the vaccine rollout, independently conducted market research and polling will still be required.



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

## **Conclusion**

Waiting lists for surgery in the public health system are already at record highs and will take years to get back to pre-COVID levels. Further, tens of thousands of Australians have had their entry to the public health system delayed, either through delaying in screening programs or lack of access to public outpatient clinics. The shocking stories of people waiting for urgent care will continue, along with almost a quarter a million Australians waiting for surgeries to manage pain, improve function and address disability.

Australia's health system relies on a mixture of public and private health care, and this Budget must address access for the private health system by improving incentives and reducing costs. Relying on the public health system to pick up the additional demand is an unreasonable burden on a system that has been strained to breaking point.