



AUSTRALIAN UNITY'S SUBMISSION TO THE SENATE INQUIRY 9 July 2009

Introduction

I am Amanda Hagan and I am the Group Executive of Healthcare for Australian Unity and the statutory CEO of both our health funds. On behalf of Australian Unity Limited, I wish to formally thank the Senate Community Affairs Committee for the invitation to make a submission to the Inquiry into the Private Health Insurance Incentives Bill 2009. We are pleased to have the opportunity to present our views on behalf of our health fund members.

I will start by giving you a bit of background about us. We operate Victoria's third largest health fund, as well as a corporate health fund, a preventative health business and dental clinics. The broader Australian Unity Group also operates in aged care, retirement living and funds management. Our organisation is a mutual organisation, which means it is owned by our members, most of whom are health insurance policy holders. Our organisation's history dates back almost 170 years.

We do not make profits to benefit shareholders. We want to keep Private Health Insurance affordable, particularly for those people for whom it is not a luxury, but necessity – often low income earners with chronic disease. It is estimated that 1 million Australians with PHI live in households with an annual income of less than \$26,000.

It must be remembered here that we are not in control of the vast majority of our costs – the benefits we pay out to members. This is because the Australian Private Health Insurance system is based on the principle of community rating. This principle protects the integrity of the clinician-patient relationship, and is one of the great attributes of the system. Clinicians can prescribe treatments for patients without any reference to us, and we must pay for those treatments regardless of the cost. It is an uncapped liability.

Community rating also means that no one is turned away from health insurance on the basis of their age or health status. Nor are the chronically ill

charged higher premiums. Community rating ensures equity of access to private healthcare.

Community rating requires that we negotiate a fine balance over long periods of time. We must ensure that our health insurance funds have a strong cohort of young, healthy members to keep the fund healthy and costs down for all, and proposed changes to legislation must be assessed against this long term requirement. Australian Unity has invested considerable time and effort into becoming a health partner, not just a bill payer, to our members and in supporting and encouraging them to be as healthy as they can be. For example, we have programs for the management of chronic diseases and benefits that include quitting smoking and losing weight.

We are opposed to this proposed change. We are opposed to it because it tinkers with one of the fundamental fairness premises of this system – that access to Private Health Insurance is equal. No one pays more for the same access.

The policy settings that have been in place for most of this decade have attempted to support this principle of equal access, and to encourage people to take up Private Health Insurance because it is quite clear that the private health sector reduces the burden on the public system.

In the 12 months to March 2009, the industry's independent regulator, PHIAC, reported that the total benefits paid by private health funds to the 11 million Australians who hold some form of private health cover was \$10.9 billion.

If it weren't for Private Health Insurance, this \$10.9 billion (less the Government's premium rebate component) would need to be found in the public purse.

The biggest concern we have is that by taking a series of policy decisions which individually may appear on the surface to be unlikely to have much impact, and by not modelling any 'second round effects' such as the impact on the ageing of the Private Health Insurance population, the downgrading of policies that is likely to happen, the likely withdrawal of corporate funded plans and so on, we could be setting ourselves up for a downward spiral in participation rates, similar to that which occurred during the 1990s.

For every person that drops Private Health Insurance there are less people left to bear the burden of the overall claims pool. Generally, it is the healthier people who drop out which compounds the effect of those left in the system. So Private Health Insurance becomes progressively more unaffordable.

Ageing of the population places a relentless pressure on costs. We did however have a policy measure (the fixed MLS thresholds) in the private system that maintained the average age of the Private Health Insurance hospital population steady at about 39.8 years for the 27 months to 30 September 2008. This resulted in lower average premium increases for Private Health Insurance policyholders through this period. However, by 31 December 2008, less than 3 months after the change to the MLS threshold being in effect, the average age had increased to 39.9 years.

Sustained future increases in this average age over time are reasonably expected to drive increases in claims costs, and therefore in the premiums paid by all Private Health Insurance policyholders. It is estimated that every increase of just one year across the Private Health Insurance population requires an increase in premiums of around 5%, before taking into account any growth in hospital or medical costs.

Australian Unity notes with interest that the Department of Health & Ageing's submission on the proposed changes to the rebate covers the issue of premium increases in just 4 lines on page 3, and states "The Government does not anticipate that this measure will flow on to increased premiums". The Department's submission does not mention any possible ageing effect. This has not been modelled but must be considered. What is the Department's opinion on the age profile of the Private Health Insurance hospital policyholder base over the period to 30 June 2012?

Because the Private Health Insurance system operates as a whole under community rating, any actions which Governments propose on Private Health Insurance need to be analysed closely to estimate their effect over the next 5 to 10 years on the community rating principle, which itself depends on having a strong cohort of young, healthy policyholders to control average claims costs, and therefore premiums. We submit that this long term detailed analysis must be undertaken by the Government with appropriate review of the results, prior to the proposed changes to the rebate being debated in detail.

Otherwise, those who are most likely to be negatively impacted by the subtle but ultimately profound affects of these policy changes will be those who rely on private care to maintain their health. Often these people are pensioners, working families or even young people with chronic diseases and injuries.

We also submit that the Government looks at other issues that impact on the private healthcare sector—safety and quality, and informed financial consent, among others. Opposing this legislation and taking a more considered approach will help all Australians.