



Submission to Private Health Insurance Review

December 2015

About National Seniors Australia

National Seniors Australia is a not-for-profit organisation that gives voice to issues that affect people aged 50 years and over. It is the largest membership organisation of its type in Australia.

We give our members a voice – we listen and represent our members' views to governments, business and the community on the issues of concern to the over-50s.

We keep our members informed – by providing news and information to our members through our Australia-wide branch network, comprehensive website, forums and meetings, bi-monthly lifestyle magazine and weekly e-newsletter.

We provide a world of opportunity – we offer members the chance to use their expertise, skills and life experience to make a difference by volunteering and making a difference to the lives of others.

We help our members save – we offer member rewards with discounts from thousands of businesses across Australia. We also offer exclusive travel discounts and tours designed for the over-50s and provide our members with affordable, quality insurance to suit their needs.

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Overview

National Seniors welcomes the opportunity to provide a submission to the Private Health Insurance Review.

We wish to highlight from the onset that private health insurance is considered a necessity for many older Australians. While we accept the need for reform, the changes must not undermine the continuity of cover for older consumers or impose financial barriers that would compromise access to timely medical services when it is needed most.

In developing reform options, we urge the Federal Government to recognise the contributions already made into health funds as a legitimate investment by older Australians to support their own health care costs.

Our submission focuses on the following priority areas of concern for older consumers:

- premium increases and affordability of maintaining health cover;
- varied level of benefit across health fund offerings and issues with excess and gap payments;
- changes to Federal Government support initiatives, including speculation of removing the private health insurance rebate;
- community rating, which is necessary to safeguard older patients from unfairly pricing;
- implications of potentially extending private health insurance into primary care; and
- complexity of the system which undermines consumer health literacy and the competitiveness of the private health insurance sector.

As a general observation, we highlight that reform of the private health insurance sector cannot occur in isolation. The objectives of this review must be clearly articulated and framed within the context of the Federation White Paper reforms to shape future Federal-State health funding arrangements, as well as other concurrent work being undertaken by the Medicare Benefits Schedule Review Taskforce and the Primary Health Care Advisory Group.

National Seniors believes the Federal Government should outline its view of the desired future role for private health insurance in the broader health care system and in particular, ensuring the system's sustainability. Changes to the private hospital system will have substantial impacts on the public hospital system that have not yet been thoroughly evaluated.

There are a myriad of factors complicating system wide health care reform including consumer responsiveness to price change, the fragmented delivery of care with multidisciplinary providers focused on fee-for-service payments, changing patterns of disease and conditions, health workforce distribution and shortages, as well as raising expectations of health care. Amongst these and other challenges, reform options will need to carefully consider the public-private interface and improve affordability and equity of access to health services, especially for older consumers with higher care needs.

Premium regulation

The affordability of private health insurance is the single biggest area of concern for older Australians. Health insurance premiums have increased on average by 5.7 per cent since 2010, with the most recent increase (6.18 per cent for 2015) around three times the rate of inflation¹. The increase in premiums has more than offset the cost of health services and growing utilisation rates, resulting in improved profitability for health funds.²

The current system of government approved premium setting lacks transparency and has been ineffective in addressing the issue of affordability for older consumers. This is because the public interest test remains undefined in the legislation and the Ministerial consideration has tended to focus more on ensuring the viability of the health funds. The regulated process provides no incentive for health funds to minimise costs because any savings leads to approval of a lower premium increase. Further, the detailed information required as part of the annual premium setting process adds to health fund administrative costs and these costs are ultimately borne by consumers.

There is merit in exploring the light-handed approach on premium regulation recommended by the National Commission of Audit.³ However, any move to introduce efficiencies through less regulation and a system of price monitoring should be part of a longer-term transition.

Interestingly, feedback from our members suggests older Australians are receptive to less regulation of private health insurance but believe improving the competitiveness of the sector must be the immediate priority. Our members have said:

- “Real competition is the only effective control on price increases. Government regulation is needed until the private health system is forced to operate within the same cost constraints as other businesses operating in an open and competitive market” - GE
- “True competition without excessive government intervention is what will benefit consumers and ensure premiums are affordable. Encourage more ‘not for profit’ organisations to enter the market. These entities work to benefit their members and are normally cheaper than competitors who are corporates” – DC
- The real problem is that there is no limit by way of competition on what the private hospitals can charge. In my view, the Government cannot have it both ways. They cannot allow open slather on private hospital charges and at the same time limit the ability of the private health insurance funds to recover their out-goings by way of premium increases. Something has got to give and it will be the patient/policy holder that suffers in the end” - GS

Current issues impeding effective competition in the health insurance sector include inefficiencies along the supply chain with respect to specialist services and pricing of prostheses, vertical integration amongst providers and health funds, and product complexity that contributes to low switching rates.⁴ The implications for rural and remote areas under a price monitoring system are also not well understood.

¹ Department of Health. 2015 Premium Round Individual private health insurer average premium increases and Biggs, Amanda 2009. Private health insurance premium increases—an overview.

<https://www.aph.gov.au/binaries/library/pubs/bn/sp/healthinsurancepremiums.pdf>

² Private Health Insurance Administration Council 2015. Private Health Insurance Australia, Quarterly Statistics, March 2015.

³ National Commission of Audit 2014. Appendix Volume 1.

⁴ Private Health Insurance Administration Council 2015. Competition in the Australian Private Health Insurance Market: Research Paper 1. http://www.apra.gov.au/PHI/PHIAC-Archive/Documents/Competition-in-the-Australian-PHI-market_June-2015.pdf

National Seniors suggests incremental reform of the annual premium setting process in the short-term. For example, premium regulation should consider prior year performance and capital position to achieve below-inflation premium increases. Gradually lowering excess capital and reducing the return on equity to 12.5 per cent could reduce premium rate increases to just 2.5 per cent over the next three years.⁵

Premium regulation must also address the underlying cost factors in the private health insurance sector and improve pricing transparency.

Given health insurance premiums largely reflect benefit payments, the Federal Government should consider policy interventions focused specifically on the contractual arrangements between health funds and service providers. There is potential to apply the efficiency benchmarks established by the Independent Hospital Pricing Authority (IHPA) for public hospital services to assess the reasonableness of private hospital costs. This would improve the cost-effectiveness of patient care and help curb unsustainable premium increases.

Recommendations:

- clarify the public interest test in legislation so the annual premium setting process better balances considerations of health fund viability against consumer affordability and sustaining participation in the private health insurance sector;
- incentivise health funds to reduce administrative costs as part of the premium regulation process;
- explore all options to improve affordability of premiums, including through regulatory oversight of pricing arrangements between health funds and providers; and
- improve the competitiveness of the private health insurance sector as part of longer term reform.

Coverage, excess and gap payments

National Seniors believes the review should develop responses to address the proliferation of product exclusions, which is diminishing the benefit of health cover for older Australians.

Feedback from our members highlights common areas where health cover benefits are being reduced. These include:

- restricting cover to treatment in public hospitals only;
- removal of certain treatments from cover (e.g. hip replacements);
- accommodation restricted to a shared room in a public ward, with individual rooms no longer covered;
- conditions for using certain providers depending on agreement with health fund;
- increasing patient co-payments for elective treatment in private hospital; and
- variations to ambulance cover that excludes transport between hospitals.

The number of policies that are truly comprehensive and leave patients with no out-of-pocket expenses has been steadily declining. Around one in eight policies provide full coverage without

⁵ The Australian, 28 November 2015. Private health insurance sector runs for cover. <http://www.theaustralian.com.au/business/financial-services/private-health-insurance-sector-runs-for-cover/story-fn91wd6x-1227626156528>

exclusions compared to ten years ago when 40 per cent of policies had no exclusions.⁶ As a by-product of rising premiums, many older Australians have to downgrade their policy to avoid lapses in health cover.

Health funds have responded to consumer concerns about affordability with a growing number of policies that offer lower premiums with higher exclusions. Consumer satisfaction is often based on the overall cost of the policy and understanding of exclusions is only tested when the time comes to make a claim. This is worrying given health funds can unilaterally vary the rules of their fund and do not always communicate changes effectively to consumers.⁷

The average out-of-pocket payment for hospital treatment was \$289 per episode in the September 2015 quarter and included out-of-pocket payment for medical services in addition to any excess or co-payment amounts relating to hospital accommodation.⁸ The actual out-of-pocket expenses can vary substantially depending on the level of hospital cover, the choice of doctor and hospital and whether there is an agreement with the health fund. Our members have said:

- “After a recent prostate procedure I am approximately \$20,000 out of pocket. The GAP is getting wider and from what my specialists tell me it is not going to improve anytime soon” – RB
- “A month after day surgery at a private hospital I received the reconciliation of the account from my private health insurer and I had to pay a further \$1,500 to the hospital in addition to the \$250 I had already paid” – VA
- “I was \$10,000 out of pocket from recent radical prostatectomy. There was no cover for \$500 MRI, no cover for \$ 2,700 robot assisted surgery (safest and best method) and gap between doctor’s fees and rebates around \$6,800” – MS
- “In 2013 I had a knee replacement in a private hospital totalling over \$25,000 that included \$16,898 for theatre charges, \$8,434 for the prosthesis, \$304 for rehab costs and \$228 for hospital accommodation” - DA

There are substantial levels of financial burden for those who suffer from complex and chronic illness, requiring ongoing care and more frequent admissions. This burden falls disproportionately on older people, with 93 per cent of those aged over 75 having at least one chronic condition, while for those aged 50-64 there are 77 per cent with at least one chronic condition.⁹

Furthermore, older patients cannot simply avoid out-of-pocket expenses by using the public system because waiting periods for elective surgery can be a determining factor for their wellbeing. Older patients requiring total knee replacement experience pain and restricted mobility, yet the median public hospital wait time for the procedure is 191 days (as at 2014-15)¹⁰.

Regulatory responses are needed so health funds extend the scope of eligible coverage and limit use of ‘no gap’ and ‘known gap’ schemes that can be misleading and fail to protect consumers against large expenses.

Estimates of likely gap payments are needed before consumers receive initial treatment. This can be difficult in cases where the treatment is complex and involves estimating service fees from multiple

⁶ Duckett, Stephen 2015. Aged and confused: why the private health insurance industry is ripe for reform <http://grattan.edu.au/news/aged-and-confused-why-the-private-health-insurance-industry-is-ripe-for-reform/>

⁷ ACCC 2015. Private Health Insurance Report 2013-14.

⁸ APRA 2015. Private Health Insurance Quarterly Statistics September 2015.

⁹ National Seniors Productive Ageing Centre 2012. The Health of Senior Australians and the Out-of-Pocket Healthcare Costs They Face.

¹⁰ AIHW 2015. Elective surgery waiting times 2014-15: Australian hospital statistics.

providers over and extend period. However, we believe there can be protocols in place to establish informed financial consent at key intervals.

The review must also seek to address the over-utilisation of costly medical services. There appears to be unwarranted variation in healthcare use across Australia, which means people with the same health conditions may not be receiving the same care as others, elsewhere, with the same problems. Evidence suggests some people are receiving inappropriate or unnecessary care. For example, more than 314,000 MBS-funded CT scans of the lumbar spine were performed in 2013–14, with marked variation around Australia, suggesting overuse of this investigation.¹¹

Recommendations:

- consider amending regulatory requirements for minimum policy coverage to address the escalation of exclusions and restrictions;
- assess the reasonableness of charges for services in private hospital;
- examine the feasibility of introducing a maximum limit on out-of-pocket costs based on efficiency benchmarks for categories of procedures;
- ensure the Medicare Benefits Schedule covers only those procedures where there is clinical evidence of patient benefit;
- introduce greater pricing transparency so consumers are more informed about hospital accommodation and treatment costs and how these are determined.

Government rebate for private health insurance

Feedback from our membership points overwhelmingly to continuing the private health insurance rebate. Currently, the Federal Government provides a 30 per cent premium rebate, which rises to 35 per cent for those aged 65–69 and to 40 per cent for people aged 70 years and over.

National Seniors is concerned that reducing or abolishing the rebate would result in a spike in premiums and force many older Australians, with limited fixed income, to abandon private health insurance. Proponents calling for removal of the rebate¹² overlook the immediate and adverse impact such action would have on existing health fund members.

The lapsing of health cover means older consumers would forgo any benefit despite making contributions via premiums over many years. This would be a devastating outcome for older people when their health care needs are the greatest and timely access to health care may not be possible given the prevalence of extended waiting periods in the public system.

Government has taken action to reduce the total cost of the private health insurance rebate with the introduction of means testing. The rebate reduces to zero at income levels above \$140 000 per year for individuals and \$280 000 for families for 2014–15. Further, the value of the rebate is already eroding because as of April 2014, it has been indexed to the rate of inflation, as opposed to the higher rate of premium inflation. As a result of this measure, the standard rebate on health

¹¹ Australian Commission on Safety and Quality in Health Care and National Health Performance Authority 2015. Australian Atlas of Healthcare Variation.

¹² Grattan Institute 2013. Balancing budgets: tough choices we need. *Suggests removal of the rebate would provide estimated savings of around \$3.5 billion per annum even after taking into account increased demand on the public hospital system.*

insurance premiums had fallen to 27.82 per cent as at 1 April 2015 (from 30.0 per cent prior to 1 April 2014).¹³

We recognise there is opportunity to improve the effectiveness of the rebate. Federal Government expenditure on the rebate is expected to grow 7 per cent in real terms over the period 2015-16 to 2018-19 to reach \$7.3 billion.¹⁴

Rather than abolishing the rebate altogether, National Seniors suggests as a first step exploring ways to improve its value to consumers by for example:

- restricting the rebate to hospital cover only for new members, so any policies relating to general treatment or extras cover would not receive the subsidy; and
- tightening eligibility for new members so the rebate only applies to those private health policies that cover private hospital treatments.

The impacts and potential savings from such options would need to be carefully assessed as well as transitional arrangements for those with existing policies.

Prior to considering reform options for the rebate, National Seniors suggests the Federal Government examine how the rebate interacts with other existing incentives, including the lifetime health cover loading and medicare levy surcharge.

Recommendations:

- retain the private health insurance rebate;
- develop options to better target and improve the value of the rebate to consumers; and
- analyse the interaction between the rebate and other government initiatives at supporting the private health insurance sector before making any changes.

Community rating

National Seniors believes community rating should be preserved so that everyone pays the same premium for the same health insurance policy.

The alternative approach of using health risk factors (e.g. age, lifestyle choices such as smoking) to determine premiums is administratively costly because of the data needed to differentiate premiums. We are concerned that many older Australians would fall into the higher risk category, yet have paid premiums for many years prior to becoming seniors with health funds benefiting during that time from lower claims.

Differentiating premiums on the basis of risk would price seniors out of the market and is inequitable. Under a risk rated model, people aged over 60 would pay three times as much for premiums and there would be a 43 per cent drop in participation.¹⁵

¹³ Private Health Insurance Administration Council (2015), Competition in the Australian Private Health Insurance Market: Research Paper 1.

¹⁴ Budget 2015-16. Budget Paper No. 1

¹⁵ Finity Consulting Pty Ltd. 2013. Community rating – more trouble than its worth? Presented to the Actuaries Institute for the 2013 Actuaries Summit.

National Seniors notes the recent innovative developments between health funds and corporations (e.g. NIB and Qantas to reward members for healthy lifestyles¹⁶) and believes such approaches warrant further consideration.

There may be positive aspects to introducing lifestyle-related factors but this would need to focus on varying the level of benefit paid by health funds rather than differentiated premiums. Such initiatives would need to be strictly regulated with health funds only allowed to vary benefit payments for lifestyle related treatments to those newly acquiring health insurance without imposing additional costs on existing members. Existing private health insurance policy holders must not be impacted and their existing level of benefit preserved.

Further, any move to introduce incentives or adjust benefits on the basis of lifestyle-related factors must explicitly recognise that ageing is a natural occurrence and not a choice.

Recommendation:

- continue to apply community rating in determining private health insurance premiums; and
- investigate the feasibility and likely impacts of allowing health funds to vary benefits based on healthy lifestyle choices to reward new members of private health insurance.

Role of private health insurance in primary care

National Seniors supports the current regulatory framework that prevents health funds from offering benefits for primary care, including general practitioner (GP) and specialist consultations, diagnostic imaging and pathology services provided out of hospital.

Cost escalation is already an issue in health care arrangements involving private health funds. There is a risk that extending private health insurance into primary care would drive up fee for service arrangements and ultimately premiums, which would compromise equity of access to medical care.

There are however, fundamental issues with the primary care system in addressing the needs of people with complex and chronic illness. In this context, National Seniors believes it is worthwhile for government to explore partnership arrangements with private health funds that would improve the efficiency and integration of primary care, encourage greater use of preventative initiatives and facilitate better data collection on clinical outcomes.

Following the introduction of Broader Health Cover provisions in 2007, health insurers have been able to extend their products to cover chronic disease management and health and wellness programs and there is increasing utilisation of these services.¹⁷

Medibank started a CareFirst pilot for enhanced chronic disease management in September 2014 that runs out of six GP clinics in Queensland as well as similar CarePoint pilots in Victoria and Western Australia.¹⁸ BUPA has sought to acquire and vertically integrate primary care by launching BUPA-owned GP clinics that offer bulk billing to members and the general public.

¹⁶ Qantas Newsroom 2015. Qantas and NIB to create a more rewarding health insurance experience, 23 November 2015

¹⁷ Biggs, A. 2013. Chronic disease management: the role of private health insurance, Department of Parliamentary Services Research Paper, 2013-14

¹⁸ Medibank Media Centre 2015. Medibank targets primary care involvement to help tackle chronic disease. May 22, 2015 <https://www.medibank.com.au/content/about/media-centre/2015/05/medibank-targetspri.html>

The effectiveness of these trials as well as health fund involvement in the Primary Health Networks should be independently evaluated. The Primary Health Care Advisory Group should consider the appropriateness of a limited role for health insurers as part of the reform options for primary health care to better support patients with complex and chronic illness.

Recommendations:

- continue to exclude private health insurers from primary care to safeguard universal accessibility;
- conduct independent evaluation of current health fund trials involving primary care to determine if these trials improve patient outcomes relative to the status quo; and
- identify innovative approaches that would allow a limited and well-defined role for health funds to support primary care for those with chronic illness.

Improving information and reducing complexity

Older Australians require substantial improvement in information to better understand what is covered under their private health insurance policy and compare different health funds in a meaningful way.

The current Standard Information Statements (SIS) are of little use because there is insufficient information about policy exclusions, waiting periods and actual benefit limits. Consumers have to read the SIS together with other disclosure documents relating to fund rules and policies to attain a complete picture.

While portability rules protect consumers that switch health funds from having to re-serve waiting periods for hospital cover, switching remains low at 3.7 per cent of total policies in March 2015.¹⁹ Older consumers are overwhelmed by too much choice (currently 20,000 different policies sold by the 34 registered health insurance providers²⁰) and inconsistent naming of top, medium and basic products, varied rates of benefit and premium prices undermines health literacy.

Our members have said:

- “Policies are confusing and are difficult to compare. As older people we are not interested in IVF treatment or paediatrics but these are included along with joint replacements and cataract surgery which are applicable to us. When we were looking for a new insurer it seemed that all insurers went out of their way to muddy the waters when we were trying to compare them. It was very difficult to find 2 ‘apples’ to compare in the ‘fruit salad’ that was on offer” – CW
- “My main concern about health fund comparisons is that they mainly focus on price rather than benefits. This is resulting in people making decisions to change based on a lower cost and then finding that something they used to be covered for is no longer covered. I believe it should be a requirement placed on comparators and health funds that they provide ‘like for like’ quotes and then require clients to sign off on each benefit they decide to give up individually to ensure the clients are fully informed when they make a change” – DW

¹⁹ Private Health Insurance Administration Council 2015. Portability, switching and competition in the Australian private health insurance market. Research Paper 2.

²⁰ ACCC (2015), Private Health Insurance Report 2013-14.

Third party intermediaries offering comparison platforms have not addressed the information barriers for older consumers. There is also a lack of transparency around the commission arrangements with health funds and whether operators of such comparison platforms are bias toward particular products.

National Seniors acknowledges recent efforts by the Private Health Insurance Ombudsman (PHIO) to assist consumers through its online comparison tool, fact sheets and general information. We consider there is scope to further develop the PHIO to provide more advanced comparisons of health policies using price and non-price factors, as well as enabling searches for policies based on specific health conditions.

Older consumers need more than online options and prefer to seek oral advice. Yet, advice provided by health fund staff appears to be inadequate in helping consumers select and understand the extent of their cover.

The PHIO continues to report oral advice as a leading cause of complaint and this relates to instances where a consumer has misunderstood benefits or relied on advice and chose a level of cover that was not suited their needs. Oral advice complaints have nearly doubled in two years, with the PHIO receiving 522 complaints in 2014-15 compared to 289 complaints in 2012-13.²¹ The PHIO has highlighted this is a long-term issue for health funds to meet consumer expectations for providing quick and simple answers to basic questions.²²

National Seniors believes the quality of advice provided by health funds staff must be improved so older consumers obtain cover that is appropriate to their needs. Government needs to incentivise health funds to improve training of their telephone and shop front staff to provide accurate and timely advice to consumers.

The current rules relating to notification of policy changes is ambiguous and does not safeguard consumers from unexpected costs. The method and timing of notification about rule changes must give consumers opportunity to maintain continuity of cover and consider any gap cover arrangements.

Recommendations:

- encourage consolidation of policy offerings across the private health insurance sector;
- simplify and improve the SIS so critical information about the cover and exclusions is obvious to consumers and definition of terms are consistent across health funds;
- further develop the PHIO comparison tool to include factors in addition to price;
- clarify in legislation the notification requirements for policy rule changes, including preferred provider arrangements that could lead to higher out-of-pocket costs for patients; and
- facilitate consumer transfers between health funds by streamlining the transfer process.

²¹ Commonwealth Ombudsman (2015), Private Health Insurance Ombudsman Annual Report 2014-2015

²² Private Health Insurance Ombudsman (2015), State of the Health Funds Report 2014.