Australian Government

Department of Health and Ageing

ACTING SECRETARY

Committee Secretary
Senate Standing Committees on Community Affairs
PO Box 6100
Parliament House
Canberra ACT 2600

Dear Secretary

Inquiry into the *Private Health Insurance Amendment (Lifetime Health Cover Loading and Other Measures) Bill 2012*

Thank you for the opportunity to provide a written submission to the Community Affairs Senate Committee's inquiry into the *Private Health Insurance Amendment (Lifetime Health Cover Loading and Other Measures) Bill 2012.*

Please find attached the Department of Health and Ageing submission to this inquiry.

Yours sincerely

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COMMUNITY AFFAIRS SENATE COMMITTEE

INQUIRY INTO:

PRIVATE HEALTH INSURANCE AMENDMENT (LIFETIME HEALTH COVER LOADING AND OTHER MEASURES) BILL 2012

SUBMISSION BY THE AUSTRALIAN GOVERNMENT DEPARTMENT OF HEALTH AND AGEING

24 JANUARY 2013

The purpose of the Bill

As announced as part of the 2012-13 Mid-Year Economic and Fiscal Outlook (MYEFO), the Government is seeking to further reform the Australian Government Rebate on Private Health Insurance (the rebate) to make it fairer and ensure the sustainability of the rebate into the future, noting that this is a significant component of health expenditure. In 2011-12, the Australian Government Rebate on private health insurance cost around $5 billion.

The purpose of the Bill is to restrict the rebate from being payable on the component of private health insurance premiums that have been increased because of Division 34 of the *Private Health Insurance Act 2007* (the Act) (the Lifetime Health Cover loading).

The intention of this Bill is to ensure that all recipients of the income tested rebate receive a comparable benefit relative to their premium cost, disregarding any Lifetime Health Cover (LHC) loading that applies. This Bill also improves the effectiveness of LHC as an incentive for a person to take out private health insurance earlier in their life and to maintain cover to avoid the LHC loading. Improving the effectiveness of the LHC loading provides greater support to the principle of community rating in private health insurance, keeping health insurance policies affordable for all Australians.

The Bill would also discontinue the Incentive Payments Scheme (IPS) rebate claiming channel as of 1 July 2013.

LIFETIME HEALTH COVER

The current arrangements

LHC was introduced under the *National Health Amendment (Lifetime Health Cover) Act 1999* and came into effect on 1 July 2000.

LHC is designed to encourage people to purchase hospital cover earlier in life and to maintain their cover, thereby boosting and improving the risk profile of health insurance membership and supporting the principles of community rating.

Statistics from the Private Health Insurance Administrative Council indicate that LHC has had a positive effect in supporting private hospital membership, with an 18.7% increase in the number of 30 to 34 year olds taking out private hospital cover since its commencement in July 2007.

LHC is a financial loading applied on top of an individual's premium at a rate of 2% for every year that an individual is over the age of 30 when they take out hospital cover, up to a maximum of 70%. The LHC loading is removed once an individual has held hospital cover and paid the loading for a continuous period of ten years, not including any permitted days without hospital cover.

Currently, the Australian Government pays a rebate on private health insurance premiums as an incentive for people to take out hospital cover. The rebate is currently payable on the entire cost of a person's policy, including any LHC loading payable.

For many people, their LHC base day is 1 July following their 31st birthday, but this can change depending on personal circumstances. For example, because LHC was introduced on 1 July 2000, anybody who was already over the age of 31 was required to have commenced hospital cover by that date, in order to avoid incurring a LHC loading. However, if a person is overseas on 1 July following their 31st birthday, they have 12 months, starting from the day they arrive back in Australia, to purchase hospital cover without incurring a LHC loading.

New migrants to Australia can avoid incurring LHC loadings by commencing appropriate private hospital cover within 12 months of being registered as eligible for full Medicare benefits.

A mailout to inform individuals about LHC is conducted by the Department annually. The mailout targets people approaching their LHC deadline (i.e. 31 year olds and new migrants) to assist them to make an informed choice about whether or not to take out hospital insurance to avoid incurring a LHC loading. This is particularly important for older migrants who may incur a sizable loading if they take out private health insurance after the initial 12 months from the day they register as eligible for Medicare.

Health insurers are legally required to charge LHC loadings to any new policy holders who were not privately insured under an appropriate hospital cover policy by their LHC base day.

It is noted that for the purposes of LHC, individuals are deemed to have held hospital cover for the duration of the time that they are a member of the Australian Defence Forces or hold a Department of Veteran's Affairs Gold Card.

Individuals born before 1 July 1934 are exempt from LHC altogether.

The magnitude of a person's loading is determined by the number of years they are aged over 30 at the time they take out hospital cover. Each year will attract an extra 2% to their hospital cover premium. For instance, a person who waits until age 40 could pay an extra 20% on the cost of their hospital cover. If they wait until age 50, they could pay 40% more. The maximum LHC loading that can be applied is 70%.

Any LHC loading that a person is required to pay will be removed from their premium after 10 years of continuous paid hospital cover, not including any permitted days without hospital cover. However, if that individual subsequently cancels their hospital cover, they may become liable to pay a LHC loading again in the future.

The proposed changes

If the Bill is passed, from 1 July 2013, the Australian Government will no longer pay the rebate on the LHC component of hospital cover premiums. This will mean that all recipients of the income tested rebate will receive a benefit relative to their premium, excluding any LHC loading.

The aim of the proposed changes

The changes are being made with an aim to improve the effectiveness of the LHC loading as an incentive to purchase private health insurance earlier and maintain private health insurance. This is important in providing greater support for the principle of community rating in private health insurance which is a key component in keeping private health insurance affordable for all Australians, regardless of age or illness. It also contributes to ensuring the sustainability of the rebate.

The principle of community rating requires insurers not to differentiate the premiums they charge according to individual health risk characteristics. Under community rating, people with poor health, or higher health risks, pay premiums that are lower than they would be if adjustments were made because of their health status.

It is incongruous for the Australian Government to pay a proportion of the LHC loading. The LHC loading is for the public policy purpose of creating an incentive to purchase private health insurance earlier in life and maintain it. If the Australian Government continued to subsidise a proportion of the LHC loading the incentive to take out hospital cover is diminished.

People affected by the changes

All consumers with a LHC loading payable on top of their hospital cover premium and who currently receive a rebate contribution from the Government will be affected by the changes.

According to data released by the Private Health Insurance Administration Council, as at 30 September 2012 there were 1,077,372 people paying Lifetime Health Cover loadings; this represents 14.0% per cent of adults with hospital cover, or 4.7 per cent of the total Australian population. Only those consumers currently receiving the rebate will be impacted by this measure. The average financial impact of this measure on consumers is estimated to be approximately $116 per year, based on the current average LHC loading of 24%.

Exemptions

There will be no exemptions from the changes. The changes will apply to all people who currently, or may incur, a LHC loading who receive a rebate.

Calculation of Rebate for people with LHC loadings

Following the changes, the rebate will be calculated on the premium payable excluding any LHC loading.

For example, if an individual delays the purchase of hospital cover until they are age 40 they will incur a 20% LHC loading on top of their hospital premium. If the premium is $1,000 per annum and the individual is eligible for a rebate of 30% under existing income testing arrangements then;

- the 20% LHC loading will mean that the premium payable is $1,200;
- the 30% rebate will apply to the premium excluding the loading ($1,000 x 30% = $300); and

- the individual will receive a $300 rebate and will pay the remaining $900.

Prior to these changes the rebate would be applied to the premium including the LHC loading resulting in a higher rebate i.e. $360.

These changes will not affect premiums paid prior to 1 July 2013, or premiums paid after 1 July 2013, in respect of hospital cover prior to 1 July 2013 (e.g. late premiums paid in 2013-14 for 2012-13 hospital cover). Therefore, these changes do not have any retrospective effect whatsoever.

Informing people of the changes

The responsibility to inform members of the changes to LHC loadings and calculate the correct loading will remain with private health insurers.

Under the *Private Health Insurance (Lifetime Health Cover) Rules 2007*, private health insurers will continue to be required to provide LHC information, setting out the amount their premium for hospital cover will be increased as a result of any LHC loading, in an annual written statement to policyholders. This statement is required to be sent to policyholders on or before 15 July each year. Every policyholder who incurs a LHC loading will be informed of their applicable loading at this time.

Private health insurers will also continue to be required to provide information on the effect of any LHC loading to a premium to any person who applies for, or inquires about, taking out hospital cover within 14 days of receipt of the request.

People will also be informed of the changes through the Department of Health and Ageing website, the Private Health Insurance Ombudsman website and through the annual Lifetime Health Cover mailout.

INCENTIVE PAYMENTS SCHEME (IPS)

The current arrangements

Currently, the IPS allows an insured person to claim their rebate as a direct payment from a Medicare Service Centre. The IPS option is seldom used. Over 99.9% of rebate claims are made via the Premium Reduction Scheme (PRS) and tax offset claiming options. The PRS is the most popular method, providing the immediate benefit of an upfront premium discount to policyholders.

The proposed changes

This Bill aims to cease the IPS from 1 July 2013. Given that the IPS only accounts for around 0.01% of total claims, the Bill will reduce unnecessary administrative burden for the Department of Human Services (DHS).

The IPS is the least used claiming option and requires claimants to pay the full rebate amount to their health insurer before it can be claimed back from DHS.

In 2011-12 there were a total of 6,339 IPS claims, predominately from people under the age of 65 years in NSW and a total of $2,306,911.22 paid for the rebate.

Age Groups:

Under 65 - 5340 claims paid
65 and over - 480 claims paid
70 and over - 519 claims paid

Claims by State:
NSW - 2238
VIC - 1246
QLD - 1418
SA/NT - 543
WA - 816
TAS - 75
Central – 3

Claiming the Rebate after the IPS has ceased

Once the IPS has ceased, the rebate will still be claimed via the Premium Reduction Scheme (PRS) and tax offset claiming options.

The Bill includes transitional arrangements in item 28 so that claims for payments under the IPS lodged before 1 July 2013 can still be received through the IPS after 1 July 2013.

Informing people of the change

The Government will inform people of these changes through its existing information channels - the Department of Health and Ageing website, the Private Health Insurance Ombudsman website and the Department of Human Services website.

Medicare Service Centres will inform IPS users of the intended closure of the IPS service when claims are submitted prior to 1 July 2013.