

5 June 2013

Our ref: 240513-CALC-NM

Mr Ian Holland, Secretary  
Community Affairs Legislation Committee  
PO Box 6100  
Parliament House  
Canberra ACT 2600

**Via email: [community.affairs.sen@aph.gov.au](mailto:community.affairs.sen@aph.gov.au)**

Dear Mr Holland

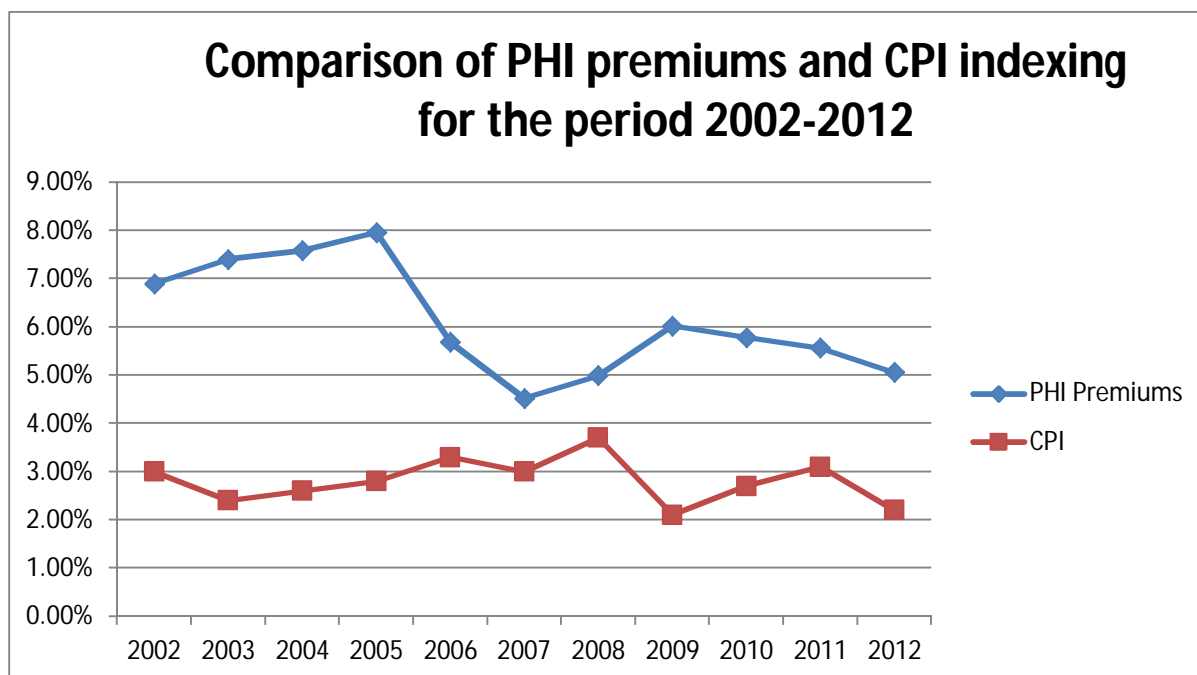
**Re: Inquiry into the Private Health Insurance Legislation Amendment (Base Premium) Bill 2013**

Thank you for the opportunity to comment on the *Inquiry into the Private Health Insurance Legislation Amendment (Base Premium) Bill 2013* ("the Bill").

We understand that under the Bill, government contribution to an individual's private health insurance rebate would be indexed annually by the lesser of the CPI percentage change or the actual increase in the premium charged by insurers. We appreciate that the rebate will be indexed for each product subgroup under individual insurer policies and that eligibility for the rebate will continue to be income-tested.

***Insurer premiums vs CPI percentage increase***

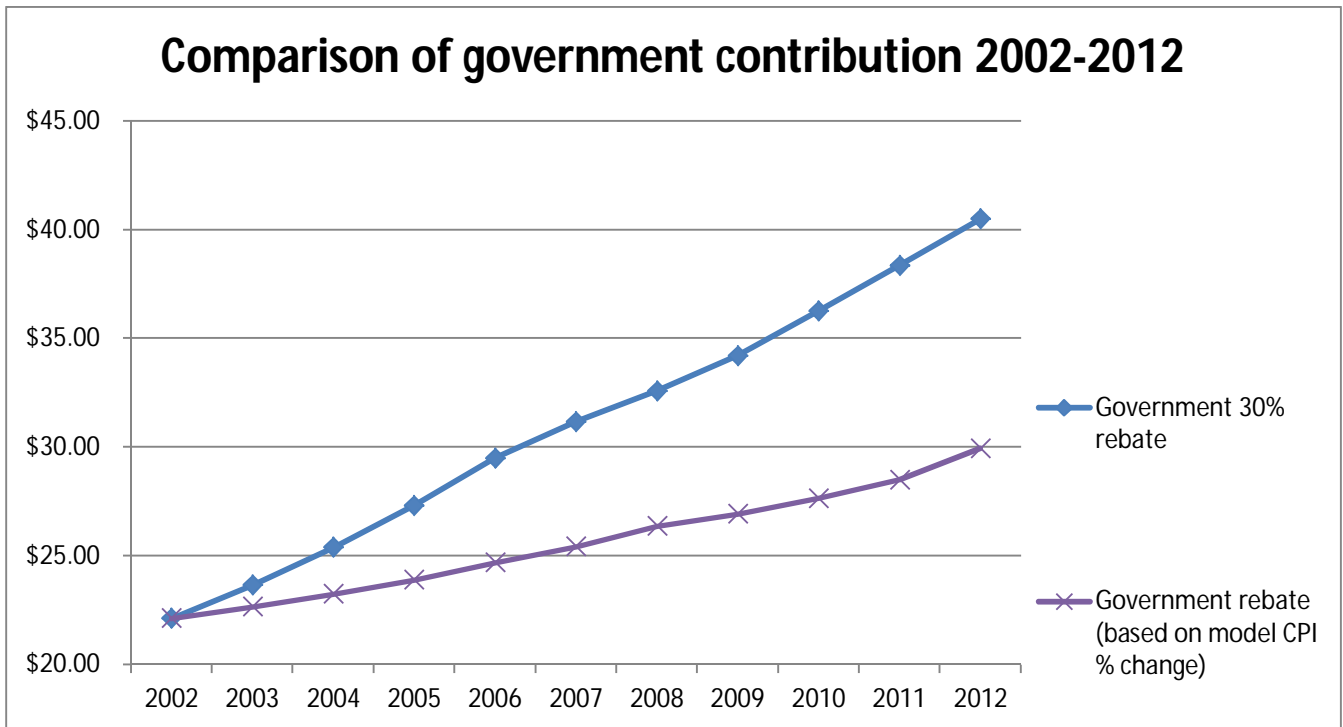
The graph below demonstrates a comparison of insurer premiums and CPI indexing for the period 2002-2012 and clearly demonstrates that over the last decade, private health insurer premiums have always been higher than CPI indexing for the period.



**Graph 1:** Comparison of PHI premiums and CPI indexing for the period 2002-2012

## Government and consumer contribution to the cost of premiums

The graph below compares the Australian Government's 30% rebate contributions for the period 2002 – 2012 with the estimated government contribution if they had indexed their rebate on the consumer price index percentage change.



**Graph 2:** Comparison of current government rebate of 30% and projected government rebate (based on CPI% change)

It is clear that the current government rebate, at a set 30% offers a much greater contribution overall to an individual's private health insurance rebate, than if the government indexed their rebate by the lesser figure of the CPI percentage increase.

As the graph above demonstrates, the government's contribution to the rebate will continue to decrease over time. If this trend continued for over a decade or more, the APA submits that the government contribution to the rebate would effectively disappear. The APA is concerned that this proposed measure would further reduce the affordability of private health insurance.

To save money, consumers might choose to take out only hospital cover and downgrade or drop their ancillary cover, which pays rebates for attendance to physiotherapists and other general providers such as dentists and podiatrists. The APA's research shows that approximately half of all private physiotherapy patients make a claim on their private health insurance policy.

A small proportion of the population choosing to drop ancillary cover could have a dramatic impact on thousands of physiotherapy private practices around the country, where profit margins are currently extremely tight.

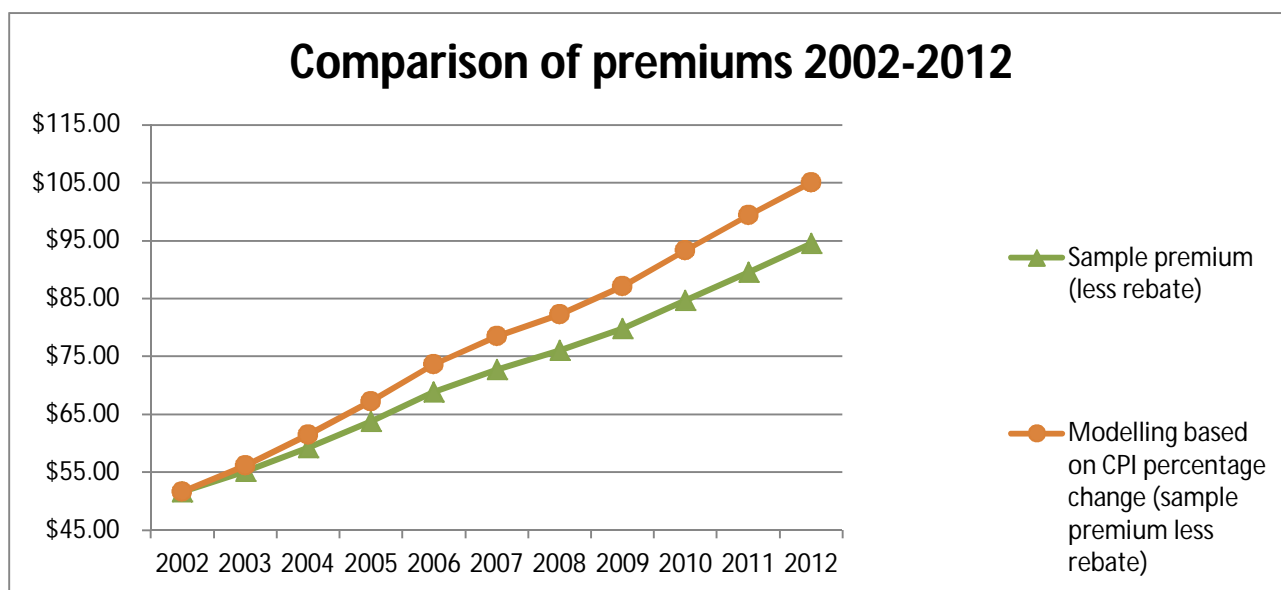
In January this year, the Consumers Health Forum (CHF) provided pre-emptive comment on this Bill to the Senate Standing Committee on Community Affairs, in their Submission dated 25 January 2013 commenting on the earlier *PHI (Lifetime Health Cover Loading and Other Measures) Bill 2012*. In that Submission, CHF relayed their concern that this Bill might encourage consumers to discontinue or not take up private health insurance. Further, CHF argued that insurers may make the decision to keep premiums low by offering products with exclusions and restrictions, which could result in consumers purchasing products that will not meet all their needs. The APA endorses CHF's earlier concerns and submits that many consumers may drop ancillary or extras cover from their policy, even if they genuinely need access to physiotherapy services or dental services, just to save money on their policy.

The APA contends that a strong private health sector decreases the burden on hospital services in both the short and long term. Being primary contact professionals with excellent communication skills, physiotherapists focus on early intervention to flag preliminary signs of chronicity and to prevent acute and

sub-acute conditions from developing into chronic pain<sup>1</sup>. As such, physiotherapists encourage patients to self-manage their pain and recovery at the early stages of injury to prevent a condition deteriorating to chronicity, which by that stage, may require surgery or admittance to hospital for treatment. For instance, a physiotherapist would effectively manage the condition of knee osteoarthritis to maximise function and productivity and save a Commonwealth-funded knee replacement. The APA considers that to reduce hospitalisations for otherwise preventable conditions, a strong and innovative primary care sector needs to be encouraged.

CHF also raised the concern that there could be potential for 'gaming' practices, including the possibility that insurers could close existing products and move consumers to new products eligible for the full rebate, which is likely to further increase consumer confusion. The APA shares the CHF's concern that consumers may have no other choice but to either drop some portion of their cover and move to a cheaper policy, or in the alternative pay more for cover and opt for a more expensive policy but which is eligible for the full rebate (or close to the full rebate).

Accordingly, the graph below shows that consumer contribution to the cost of private health insurance premiums (out-of-pocket costs) would increase as a percentage of overall contribution.



**Graph 3:** Comparison of sample premiums (using current health premium data) and model premiums based on CPI% change

Given that the government proposes to contribute the lesser of either the CPI percentage change or the actual increase in the premium charged by insurers, the graphs above clearly demonstrate that consumer costs of policy premiums increase if government contribution is indexed by the lesser CPI percentage. Over time, such a measure clearly dilutes government contribution to premium rebates, in effect making government contributions to rebates much less than the standard 30%.

The APA strongly opposes legislative measures which increase consumer out-of-pocket expenses and increase the costs of insurance policies. The APA contends that insurance policies should be affordable to all consumers and supports measures that keep premiums low and offer consumers a variety of cost-effective health policies.

Yours faithfully,

Marcus Dripps  
President

Encl. 1 Tabular data (used for graphs)

<sup>1</sup> Australian Physiotherapy Association. (2012). Position Statement on Pain Management. APA, Victoria. Available at [http://www.physiotherapy.asn.au/images/Document\\_Library/Position\\_Statements/2016%20-%20pain%20management.pdf](http://www.physiotherapy.asn.au/images/Document_Library/Position_Statements/2016%20-%20pain%20management.pdf)

**Appendix 1: Table data (used for graphs)**

						<b>Modelling of government rebates if government contribution indexed by CPI percentage change</b> (the lesser figure compared with the actual increase in the premium charged)	
	<b>PHI Premiums</b>	<b>CPI Index</b>	<b>Sample premium basic cover</b>	<b>Government 30% rebate</b>	<b>Sample premium (less rebate)</b>		
						<b>Government rebate (based on model CPI % change)</b>	
						<b>Modelling based on CPI % change (sample premium less rebate)</b>	
2002	6.90%	3.00%	\$ 73.74	\$ 22.12	\$ 51.62	\$ 22.12	\$ 51.62
2003	7.40%	2.40%	\$ 78.83	\$ 23.65	\$ 55.18	\$ 22.65	\$ 56.18
2004	7.58%	2.60%	\$ 84.67	\$ 25.40	\$ 59.27	\$ 23.24	\$ 61.42
2005	7.96%	2.80%	\$ 91.08	\$ 27.33	\$ 63.76	\$ 23.89	\$ 67.19
2006	5.68%	3.30%	\$ 98.33	\$ 29.50	\$ 68.83	\$ 24.68	\$ 73.65
2007	4.52%	3.00%	\$ 103.92	\$ 31.18	\$ 72.74	\$ 25.42	\$ 78.50
2008	4.99%	3.70%	\$ 108.62	\$ 32.58	\$ 76.03	\$ 26.36	\$ 82.25
2009	6.02%	2.10%	\$ 114.04	\$ 34.21	\$ 79.83	\$ 26.92	\$ 87.12
2010	5.78%	2.70%	\$ 120.90	\$ 36.27	\$ 84.63	\$ 27.64	\$ 93.26
2011	5.56%	3.10%	\$ 127.89	\$ 38.37	\$ 89.52	\$ 28.50	\$ 99.39
2012	5.06%	2.20%	\$ 135.00	\$ 40.50	\$ 94.50	\$ 29.94	\$ 105.06