



What are the **proposed reforms** to private health insurance,
and what will they mean
for **you?**

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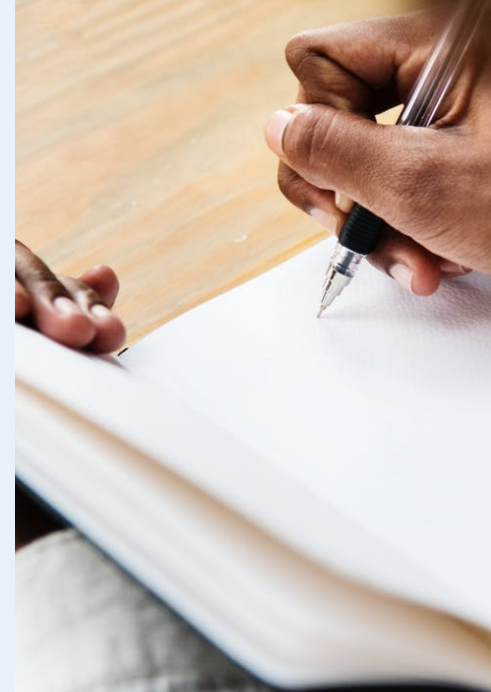
In October 2017, the Federal Government announced a set of extensive reforms to private health insurance in Australia. Some of these reforms have already been put into effect, whilst others are still in the planning phase. With over half of the total population, or **13 million Australians holding some form of private health insurance**, according to government's statistics, it's important that you are aware of how these changes will affect you now, and in the future.

This white paper will address the most significant aspects of the private health insurance reforms, the intentions behind them, and what the likely impacts will be for those involved.

Mental Health Reforms

The mental health reform came into effect on 1st April 2018 to make it easier for those with coverage to access mental health services, eliminating waiting periods for policyholders who want to upgrade their cover to access higher benefits for associated treatments.

As mental health treatments are highly valued by young people in particular, this aims to add to the incentives of reduced premiums in attracting this demographic to private health insurance.



Aged-based discounts

From April 1st 2019, insurers will have the option to offer premium **discounts of 2 percent for every year that someone under 30 first buys hospital cover.**

For example, a 29 year-old could expect a discount of 2 per cent, a 28-year old a discount of 4 per cent and so on, with the maximum discount of 10 per cent available for consumers aged between 18-25. Consumers will be able to keep this discount, provided they remain on the same policy or transfer to a similar policy allowing discounts with another insurer, until they turn 41. At this point the discount will gradually be phased out, at a rate of 27 per cent per year and ultimately ceasing at the age of 45.

The aim of introducing age-based discounts is to make private health insurance more affordable for young people. This sector of the population has far lower rates of private health insurance than most others, and, of course, there's a lot to be gained in a community rated system from this sector being insured.

But, as HICA CEO Suzanne Still points out, unless the discounting actually works in

attracting a larger cohort of younger people to PHI it may not achieve its objectives. As a matter of concern, reducing the payment contributions from the young could result in increased premiums for older Australians to compensate for the loss of premium income if the recruitment of younger Australians doesn't work. It's important, therefore, that the government ensures that this well-meaning initiative doesn't end up achieving the opposite effect at the other end of the population.

The other possible complication from this reform is that insurers are unlikely to carry these discounts across for young people who transfer to corporate plans providing more comprehensive benefits that are supported by their employers. This could cause confusion and dissatisfaction if younger employees move on from their corporate plans and have lost their discount entitlements.

The need for objective broker services such as HICA will, therefore, continue to be important to clarify the pros and cons for young people transferring to more full benefit products when the opportunities arise.

Increased customer protections

A recurring theme within the reform package is the idea of **making information more readily available for consumers**. The reforms will see the Standard Information Statement (SIS) replaced by a Private Health Information Statement (PHIS) as the regulated way in which insurers provide information to consumers. This information will be delivered in a tailored format, with the aim of greater public understanding of the products offered.

The powers of the Private Health Insurance Ombudsman will also be strengthened in these reforms, with six extra investigatory staff employed, and the body gaining the ability to inspect and audit insurers to tackle consumer complaints. Health insurers have already shown high levels of responsibility in producing records to the Ombudsman, but these added protections will mean that consumers should feel safer than ever when purchasing health insurance.

Categorisation of health insurance products

The government has scheduled the introduction of four categories of private hospital insurance: basic, bronze, silver and gold from April 1st 2019. This is another initiative aimed at **making health insurance more readily understandable for consumers** by clarifying what is and what isn't covered by different policies.

As well as allowing for greater ease of comparison between products, these changes will have particular benefits for women. Breast cancer care, and medically necessary breast surgery, will be included in all Bronze tier and higher hospital products, as will in-hospital gynaecological procedures.

For those involved in corporate health schemes, having a clearer breakdown of what's

included will allow employers to confirm the high standards of cover provided to their employees.

As a broker, HICA welcomes moves to make health insurance products more easily comparable. There is, however, a word of warning that comes with this initiative. Health funds still have the option to offer products that overlap between categories. For example, insurers could opt to offer 'bronze plus' or 'silver plus' products that provide benefits covered in higher categories, but not other benefits as a result.

This could blur the lines between categories, leading to confusion among consumers as to what benefits are actually included even though minimum requirements are set.



The removal of some natural therapies from extras covers

The reforms will see the exclusion of a range of natural therapies including homeopathy, kinesiology and Pilates from General Treatment (extras) policies. The government stated that a review of these treatments found that there was no clear evidence of their efficacy.

This initiative aims to **reduce public spending** (through the application for rebates paid on premiums) **on treatments which have little to no evidence of being effective.** Whilst this clearly is a well intentioned move, it should be remembered that these excluded natural therapies only make up a portion of 4.2 per cent of all extras benefits expended on natural therapies. This means that removing these treatments will only have a limited impact on the cost of premiums.

It remains to be seen whether insurers will react to this reform by replacing these therapies with other benefits/therapies, or increasing the benefits in different areas of consumer's policies.



Changes to maximum excesses, and reduced costs for implanted prostheses

The premium increases of recent years have been of obvious concern to consumers. The government is seeking to offset this problem by allowing consumers to choose higher excess levels than before, in return for a reduction in premiums.

The changes will see the highest permitted excesses increase from \$500 to \$750 for single consumers, and from \$1,000 to \$1,500 for couples and families. These products will first be available to customers from April 1st 2019.

Another measure to lessen the costs of premiums are the reductions to the minimum benefits for prostheses. This was put into effect in February 2018, and government figures show that this measure has already saved insurers \$188 million this premium year. This will continue to deliver savings through 2019 and 2020.

When insurers save money, so do consumers — **meaning this initiative will also put downward pressure on premiums.** In the long term this will be seen as a one-off saving embedded in the premium cost.

However, as with the premium reductions for young Australians, these reforms could have unintended consequences for older or less healthy patients. The option of reduced premiums balanced by increased excesses is likely to be popular for younger, healthier people who think it unlikely that they will frequently require medical treatment. For those who do see medical professionals more regularly, and therefore seek policies with lower excesses, the knock-on effect could be an increase in premiums.

Going forward

The private health insurance reforms aim to give Australians a wider choice, better protections and cheaper access to private health insurance. While the initiatives go a long way to achieving these goals, there is the potential for the unintended consequences that have been discussed. There is no doubt that the changes around discounting are going to add another level of complexity for consumers and associated administrative costs for insurers.

HICA are experts in providing objective advice and comparisons on health insurance for singles, couples and corporations. If you have any further questions about the reforms to private health insurance in Australia, get in touch with the HICA team.

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