



COMMONWEALTH OF AUSTRALIA

PARLIAMENTARY DEBATES



THE SENATE

**PRIVATE HEALTH INSURANCE
INCENTIVES AMENDMENT BILL 2004**

Second Reading

SPEECH

Thursday, 10 February 2005

BY AUTHORITY OF THE SENATE

SPEECH

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Speaker McLucas, Sen Jan

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Senator McLUCAS (Queensland) (10.29 am)—Before us today we have the Private Health Insurance Incentives Amendment Bill 2004, which amends the Private Health Insurance Incentives Act 1998 and the Income Tax Assessment Act 1997 to increase the private health insurance rebate from 30 per cent to 35 per cent for people aged 65 to 69 years and to 40 per cent for people aged 70 years and over. This was a coalition election commitment, announced by the Prime Minister on 22 August last year, that the government claims they have a mandate to implement.

With respect to the specifics of this bill, the rebate will be available on all forms of cover—ancillary and hospital. The higher rebates will apply to those single people who meet the age thresholds as well as to couples and families where one or more individuals meet those age thresholds. Where an individual is entitled to an increased rebate on account of someone else in the policy being 65 or older they will continue to be entitled to the higher rebate if the older person leaves the policy for reasons such as their passing away, divorce or separation. The one exception to this is if the person then takes out another policy with a person aged under 65, other than a dependent child.

As with the existing 30 per cent rebate, the higher rebates will be able to be claimed as premium reductions through the private health insurance funds, direct payouts from Medicare offices or a tax offset in annual income tax returns. The premium discount option is exercised by 95 per cent of premium payers and the cash payment option is available to those retirees who no longer pay income tax. The Howard government claims that this provision will mean that premiums will be reduced by \$100 to \$200 a year over the existing cost for a couple or a family meeting that age threshold. The bill also contains an amendment that will ensure that people with a veterans gold card are not affected by the application of Lifetime Health Cover. The provisions of the legislation will take effect from 1 April this year, which is when the annual premium increases are implemented.

Those are the specifics of the legislation. Now I want to briefly address the substantive issues surrounding the bill. Over the last four years, the Howard government has made numerous claims to justify the increases in private health insurance and the mushrooming cost of the 30 per cent rebate. In the last three years alone, private health insurance premiums have risen by an average of 22 per cent and too many Australian families and pensioners have faced price increases much higher than that. Some funds have increased their prices by as much as 19 per cent. The Minister for Health and Ageing, Tony Abbott, did not even have the gumption to announce these price increases himself. Given that the government is in the business of simply rubber-stamping every premium increase, you would think that the least he could have done was take responsibility himself for the bad news and not hide behind the Private Health Insurance Administration Council. I can only presume that the minister did not want to face the many families who have budgeted and paid for private health cover and now face escalating costs. Still, we should not be surprised given that this is the same minister who previously told Australian families to prepare themselves for these price increases by telling them, 'That's just the way the world works.' Minister Abbott went on to say:

... in the real world, as opposed to a perfect world, where all sorts of other costs are going up, it's not unreasonable for the private health insurers to consider whether their prices need to go up as well.

Let us not forget that before the 2001 election the Prime Minister was out there telling families and pensioners that there would be 'downward pressure' on premiums and that private health insurance would be 'more affordable and attractive' to consumers. It was back then that the Prime Minister's election promise was that his government's private health policies would 'lead to reduced premiums'. Tell that to the families who are facing increased premiums. It is no surprise that he did not repeat this promise during the last election. No doubt he did not want to tell too many struggling Australian families and those on low incomes that private health insurance is becoming increasingly unaffordable.

The private health insurance rebate, which was first introduced in 1998 and reworked in 2000, has seen an average annual cost blowout of 179 per cent. In the context of spiralling costs, it is imperative that we know

precisely what the impact of this legislation will be on the costs of private health insurance to the public as well on the costs of the private health insurance rebate for the government. In the first place, will it impact on the current situation which sees an increase in the proportion of older people having private health insurance and a decrease in younger people, who seem to be dropping out of the system despite the penalties accrued under Lifetime Health Cover? What we do know is that, over the past four years, increasing numbers of young people have opted out of private health insurance. There are a number of possible factors accounting for this, such as the types of services younger people access, which are primarily emergency services provided by public hospitals. Nevertheless, the result is that younger Australians who were in the private health system effectively subsidised the costs of older members. If this trend continues, it begs the question that this legislation may serve to skew the situation even further and we could well end up with higher premiums across the board. Despite this worrying trend, I understand that the government has declined Labor's requests for the underlying modelling and data about this situation. That is not the way good public policy is formulated and managed.

Turning to the issue of who benefits from this bill, Mr Howard and Mr Abbott have said different things about who will be beneficiaries. The Prime Minister said that he sees this legislation as a reward for older Australians who already have private health cover. This is what Mr Howard said on 22 August last year:

It's an additional reward for older Australians who really value their private health insurance to keep that health insurance, and it will be a valuable additional incentive for them to do so.

But the very next day, Minister Abbott said on radio that this bill will ensure that more older Australians will take out private health insurance. He said:

... we think there will be a modest increase in the total number of people with private health insurance as a result of this.

The government is now asserting that this bill will result in a one per cent increase in private health insurance uptake—that is, around 10,000 people or families. The truth is that this legislation will first and foremost reward those Australians who can afford to pay for private insurance. It offers nothing to those who cannot. We know that households on low incomes have a comparatively low take-up of private health insurance. We also know from ACOSS analysis that 54 per cent of all people who hold private health insurance and reported a total household income below \$20,000 are over 65. Most of this group are likely to be age pensioners.

I cannot see how this legislation is going to encourage people aged 65 to 70 who currently do not have private health insurance to suddenly rush out and sign up, as they would still be subject to the maximum lifetime health cover penalty of 70 per cent. It may encourage people older than 70 to take out that cover, but there are a number of inequalities, which the shadow minister for health, Ms Gillard, has highlighted in the other chamber. For example, a person aged 68 who wanted to take out comprehensive hospital cover for the first time would pay \$1,436.50 a year, even after the 35 per cent rebate. A person who bought insurance before July 2000 would pay only \$845 a year for the same policy. A person aged 71 next year, who is exempt from the lifetime health cover surcharge, will pay \$780 to take out a new policy after the new rebates apply, but someone aged 70 next year will pay \$1,326 for the same policy.

One of my biggest concerns is that premium increases will wipe out any benefits within a couple of years. Already we have seen in a little over three years private health insurance premiums rise by 22 per cent. In fact, premiums have risen by about 33 per cent over the last five years. If the current rates of premium increases continue, the benefit of the five per cent rebate in dollar terms will be wiped out in one year and the benefit of the 10 per cent rebate increase will be wiped out in two years. Many health funds have already indicated that they do not see premiums decreasing and that there is every likelihood that they will increase in the foreseeable future.

I mentioned earlier that Labor requested modelling to help us understand the impact that this legislation will have on the affordability of private health insurance now and in the future. The reason we wanted to see this modelling is that it might answer the question of how many older Australians would be induced to join a private health fund based on the real or perceived decrease in price. This is because the greater the number of older Australians in the system, the greater the pressure for premium increases, as older Australians are what are called 'net takers' from the system.

Modelling would enable us to make the case that the Howard government's policies contribute to higher private health insurance premiums for all Australians. However, as I said earlier, that modelling has not been provided nor has the underlying data. In the meantime, there has been some modelling undertaken by a health economist

which indicates that the government's costs include predictions of annual premium increases of 15 per cent or higher over the next four years.

Labor is very concerned about how this legislation will impact on the health system. We are concerned because people aged 65 and over account for seven times the hospital day beds of the rest of the population. We are concerned because people aged 75 and older comprise over 19 per cent of all private hospital admissions compared with 18 per cent in public hospitals. We are concerned because the Australian Private Hospital Association claims that, since the 30 per cent rebate was introduced, private hospitals have taken on the majority of the extra case load compared to public hospitals by a ratio of 2.5 to one. However, the data indicates that, for patients over 75, hospital admissions to private facilities as a percentage of overall admissions have actually declined since the 30 per cent rebate was introduced.

We are concerned because Mr Howard and Mr Abbott continually obscure the lines between Medicare and private health insurance. And we are most concerned that the Howard government is creating a two-tiered system, where those who can afford private health cover will get one level of care and Medicare will pick up the rest. The Howard government operates under the false assumption that private health insurance provides choice—when, in reality, what is happening is a very steady move towards US-style managed care. The Howard government likes to talk up the burden that older Australians will place on our health system but it does nothing to address this issue.

When we addressed this in the committee, a great concern was that less than a week was allowed for submissions to be received on this legislation. In my view, that is why so few submissions were received by the committee. Although Labor will allow this legislation to pass in the House and the Senate, I want to place on record our concerns that the equity, longer term costs to the budget and the implications for private health insurance viability remain unanswered. I acknowledge that the government claim that they took this policy to the people during the election and they now claim support for their legislation. That is why Labor is inclined to allow this legislation to pass in the Senate, despite our concerns about the government's poor policy and economic management in this area, the government's failure to ensure that private health funds deliver real value for money and the government's failure to adequately address the health care needs of all older Australians.