Public Health Association AUSTRALIA

Public Funding of Private Health Insurance

Policy Position Statement

Key messages:

Private health insurance (PHI) is an inefficient mechanism for funding health care services compared with universal public health insurance. PHI is an inequitable mechanism for the distribution of scarce health care resources and it contributes to health inequity.

In its current form, the private health insurance industry is financially unsustainable. The increased use of PHI is associated with higher health care costs and greater inequity of access. Government funding for PHI via the premium rebate is a poor use of substantial public monies which could produce better and more equitable health outcomes by directly funding health care and implementing healthy public policy.

The tendency for PHI funded private providers to be promoted as the health care pathway of choice for those who can afford it implicitly casts the universal public services as second class, eroding social justice and equity and contributing adversely to the social determinants of health.

Key policy positions:

1. PHAA's mission is to improve public health in Australia, and our objective is to advocate for the reduction in health inequality
2. The public funding of private health insurance should be transferred to universal health care services.
3. Public awareness is needed of the inefficiency and inequity of government funding for the PHI industry, and of the potential for improving Australia's population health and health equity through the abolition of the PHI rebate and the reallocation of those public funds.
4. The fundamental conditions underpinning the viability of the private health insurance industry are placing the industry into a 'death spiral' from which it cannot escape without major changes. An ageing population, escalating health care costs, payouts, and user premiums mean younger, healthier people drop out, the insurance risk pool gets worse, premiums rise etc. The model is unsustainable in its current form.
5. Consistent with PHAA's Unhealthy Political Influence policy position statement (2021), donations from the private health insurance sector to political parties should be prohibited.

Audience: Federal, State and Territory Governments, political parties and candidates, health consumer groups, other NGOs, policy makers and program managers.

Responsibility: PHAA Political Economy of Health Special Interest Group

Date adopted: 23 September 2021

Public Funding of Private Health Insurance

Policy position statement

This position statement should be read in conjunction with the background paper *Private Health Insurance or Public Health?*, which provides evidence and justifications for the public health policy positions in this position statement.

PHAA affirms the following principles:

1. Health is a fundamental human right. Its prerequisites include social justice and equity.
2. Health inequity occurs as a result of unfair, unjust social treatment – by governments, organisations and people.[1]
3. Free market economic approaches to health care provision have been shown to widen socio-economic and health inequities.[1]
4. Good quality health care should be universally available, promptly provided on the basis of need, regardless of ability to pay, with no cost barrier at the point of delivery, and funded by progressive general taxation.
5. Public funding of health care should be managed to optimise both allocative and technical efficiency so as to deliver the maximum population health benefit per dollar spent.
6. Health care services should be organised so as to contribute to building levels of social justice, equity and cohesion, all which have been proven to be beneficial to population health, rather than to eroding them.

PHAA notes the following evidence:

7. Private health insurance (PHI) covers 44.2% of Australians.[2] PHI consumers gain reimbursement of out-of-pocket costs for services covered under their PHI plan.
8. PHI is subsidised by public funds including a means-tested rebate currently paid at an average of 27.8% of the cost of the premium.[2] The public cost of the rebate rises with PHI premium rises, and is expected to reach $6.493 billion in 2021-22.[3]
9. PHI entities incur costs of competing in advertising and promotion. PHI entities operate with an average after tax gross margin (premium income over benefits paid) of 9.3%. Management expenses average 11.9%. Average net margins (profit) are -4% .[4] The 38 PHI entities do not have the economies of scale available to Medicare. The additional cost (borne by policy holders via premiums) above that of Medicare is around 10% or about $1.6 billion pa.[5]
10. The inability of private insurers to control the costs imposed by providers represents the greatest risk to efficient use of funds and hence to survival of private health insurance. Providers have a market

advantage compared to a monopsony setting where a single public insurer is sole purchaser (and price-setter) and closely associated with the regulator.

11. OECD statistics comparing similar countries show that the greater the proportion of health care costs met by PHI, the greater the overall costs of health care are to the economy as providers use their stronger market position to extract greater yields.[5]

12. Fragmentation and weakening of the demand side, as embodied in the dominance and proliferation of multiple PHI purchasers competing in the health care services market has been identified as an explanation for the USA spending so much more per capita than other countries.[6]

13. Competition between PHI entities purchasing health care services also puts cost pressure on the public sector. Medical salaries in public hospitals need to compete with the private sector to retain staff.

14. PHI exacerbates fragmentation of health care. The core role of private hospitals is providing nursing and accommodation infrastructure for procedural medical specialists. PHI policy holders comprise the majority of private hospital patients. Private hospitals tend to deal with (profitable) acute procedural matters rather than costly chronic conditions which largely remain within the public sector.

15. Given the focus in private hospitals on elective surgery and the limited number of medical specialists, PHI provides a queue-jumping facility. Access is enabled via having PHI (which is strongly correlated with wealth) rather than according to patient need. Equity of access suffers.

16. PHI distorts the provision of health care away from population health care needs by encouraging the supply of, and demand for, rebated procedures of no or little benefit.

17. Equity is further eroded by the PHI rebate. Compared with the rest of the population, those with PHI are richer, better educated, more health conscious, healthier and more likely to use certain discretionary health services. PHI use is highest among those with the least need for health care.[7]

18. Health inequities may be increasing in Australia and PHI may have some role in this as Katterl,[8] and Whitehead[9] have noted. Menadue and McAuley have referred to "an implicit message of social division: PHI and therefore private hospitals are for those who have the means; public hospitals are for the poor".

19. The private health insurance industry faces a bleak future with many analysts arguing it cannot remain viable in its current form.[10] Duckett and Moran argue that radical reform is needed to make private hospitals as efficient as public hospitals, to reduce out of pocket costs for patients, stop egregious billing by some doctors, cut prices for prostheses and to reduce premiums. [11] Duckett Cowgill and Nemet have previously [10] called for risk-based premiums and abolition of the rebate for people under 55, while those over 55 would all pay the same premium and would continue to get the rebate for hospital insurance. Such moves require an unlikely bi-partisan political commitment and a government capable of taking politically difficult, courageous and far-sighted decisions. However they could provide a transition pathway for the private hospital sector towards a self-sufficient model, with the released public resources then dedicated to the universal access public hospital system.

20. Implementing this policy would contribute towards achievement of UN Sustainable Development Goals 3: Good Health and Well-being and Goal 10: Reduced Inequalities.

PHAA seeks the following actions:

21. The Government of Australia should:
    i. Abolish the publicly funded PHI premium rebate.
    ii. Redirect the funds saved from abolition of the rebate to public health care services.
22. Consistent with PHAA's Unhealthy Political Influence policy position statement (2021), donations from the private health insurance sector to political parties should be prohibited.

PHAA resolves to:

Advocate for the above steps to be taken based on the principles in this position statement.

(First adopted 2015; revised 2018 and 2021)

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