Public Health Association of Australia submission on the value and affordability of private health insurance and out-of-pocket medical costs

Contact for recipient:
Committee Secretary
Senate Standing Committee on Community Affairs
A: PO Box 6100, Parliament House, Canberra ACT 2600
E: community.affairs.sen@aph.gov.au
T: (02) 6277 3515

Contact for PHAA:
Michael Moore – Chief Executive Officer
A: 20 Napier Close, Deakin ACT 2600
E: phaa@phaa.net.au T: (02) 6285 2373

28 July 2017
PHAA submission on value and affordability of private health insurance

Contents

Introduction........................................................................................................................................... 3

The Public Health Association of Australia..........................................................................................3

Vision for a healthy population ..........................................................................................................3

Mission for the Public Health Association of Australia .................................................................3

Preamble .............................................................................................................................................3

PHAA Response to the Inquiry Terms of Reference .................................................................4

i. The current government incentives for private health ..............................................................4

Private health insurance and health inequities ............................................................................4

Private health insurance as a value-for-money public investment ............................................4

Conclusion .......................................................................................................................................5

References ..........................................................................................................................................6
Introduction

The Public Health Association of Australia

The Public Health Association of Australia (PHAA) is recognised as the principal non-government organisation for public health in Australia working to promote the health and well-being of all Australians. It is the pre-eminent voice for the public’s health in Australia. The PHAA works to ensure that the public’s health is improved through sustained and determined efforts of the Board, the National Office, the State and Territory Branches, the Special Interest Groups and members.

The efforts of the PHAA are enhanced by our vision for a healthy Australia and by engaging with like-minded stakeholders in order to build coalitions of interest that influence public opinion, the media, political parties and governments.

Health is a human right, a vital resource for everyday life, and key factor in sustainability. Health equity and inequity do not exist in isolation from the conditions that underpin people’s health. The health status of all people is impacted by the social, cultural, political, environmental and economic determinants of health. Specific focus on these determinants is necessary to reduce the unfair and unjust effects of conditions of living that cause poor health and disease. These determinants underpin the strategic direction of the Association.

All members of the Association are committed to better health outcomes based on these principles.

Vision for a healthy population

A healthy region, a healthy nation, healthy people: living in an equitable society underpinned by a well-functioning ecosystem and a healthy environment, improving and promoting health for all.

Mission for the Public Health Association of Australia

As the leading national peak body for public health representation and advocacy, to drive better health outcomes through increased knowledge, better access and equity, evidence informed policy and effective population-based practice in public health.

Preamble

PHAA welcomes the opportunity to provide input to the inquiry into the value and affordability of private health insurance and out-of-pocket medical expenses. The reduction of social and health inequities should be an over-arching goal of national policy and recognised as a key measure of our progress as a society. The Australian Government, in collaboration with the States/Territories, should outline a comprehensive national cross-government framework on promoting a healthy ecosystem and reducing social and health inequities. All public health activities and related government policy should be directed towards reducing social and health inequity nationally and, where possible, internationally.
PHAA Response to the Inquiry Terms of Reference

i. The current government incentives for private health

Private health insurance and health inequities

One of the primary objectives of the PHAA is the reduction in health inequalities - a principle which is not supported by public funding of private health insurance. Good quality health care should be universally available, promptly provided on the basis of need regardless of the ability to pay, with no cost barrier at the point of delivery, and funded by progressive general taxation.

The increased use of private health insurance is associated with higher health care costs and greater inequity of access as those with private insurance are given greater choice of and access to a range of health services than those relying on Medicare alone. The tendency for privately funded health 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. Health care resources are scarce, and private health insurance is an inequitable mechanism for the distribution of those scarce resources, contributing to health inequity.

Private health insurance exacerbates the fragmentation of health care through the types of services provided in private hospitals. The core role of private hospitals is providing nursing and accommodation infrastructure for procedural medical specialists with the majority of their patients being private health insurance policy holders. Private hospitals tend to deal with profitable acute procedural matters rather than costly chronic conditions which largely remain within the public sector. Given the focus in private hospitals on elective surgery and the limited number of medical specialists, private health insurance provides an alternative to public hospital waiting lists. Access is enabled through having private insurance rather than according to patient need. Equity of access suffers. Redirecting the rebate funding towards the public system may help to reduce the public hospital waiting lists and increase equity through enabling access based on need.

The combination of the private health insurance rebate and the Medicare surcharge levy means that compared to the rest of the population, those with private health insurance in Australia are richer, better educated, more health conscious, healthier and more likely to use certain discretionary health services. Private health insurance use is highest among those who have the least need for health care, but are given the best access to it.

Health inequities in Australia may be increasing, and private health insurance may be one of the causes. Australia’s health system has recently been found to be one of the best in the world in terms of health outcomes, but ranked poorly on equity. Removing the private health insurance rebate may assist in improving this rank.

Private health insurance as a value-for-money public investment

This inequitable system is not good value for money for the Government either, being an inefficient mechanism for funding health care services compared to universal public health insurance. The rebate cost over $6 billion in 2014-15, and rises with private health insurance premium rises, which have averaged 5.6% annually over the past 8 years - well above inflation. Two examples of ways in which this substantial funding is being wasted are provided below.

Firstly, private health insurers are an inefficient means of providing health care to a whole community, with costs such as advertising, promotion and profits, and lacking the economies of scale available to a universal system. The additional administrative costs above that of Medicare is borne by policy holders through their
PHAA submission on value and affordability of private health insurance

premiums, averaging around 10% of premium costs or $1.6 billion per annum\(^8\). These costs do not exist in the public health system, and are a clear example of the inefficiencies of the private health insurance system.

Secondly, the inability of private insurers to control the costs imposed by providers represents the greatest risk to the efficient use of funds. Providers have a market advantage compared to a setting where a single public insurer is the sole purchaser and price-setter. Statistics show that the greater the proportion of health care costs met by private health insurers, the greater the overall costs of health care to the economy as providers use their stronger market position to extract greater yields\(^8\). Fragmentation and weakening of the demand side, as embodied in the dominance and proliferation of multiple private health insurance purchases competing in the health care services market has been identified as an explanation for the United States of America spending so much more per capita than other countries \(^5,\)\(^9\). This competition, in turn, puts cost pressure on the public sector as medical salaries in public hospitals attempt to compete with the private sector to retain staff.

PHAA recommends that the private health insurance premium rebate is abolished with the funds redirected towards the provision of universal public health care services.

Conclusion

PHAA supports a review of the value and affordability of private health insurance in Australia. However, we are keen to highlight that:

- Private health insurance contributes to health inequities
- The private health insurance rebate is inefficient and represents poor investment of public money
- Health care should be universal and publically funded with the private health insurance rebate abolished

The PHAA appreciates the opportunity to make this submission and the opportunity to contribute to the debate about private health insurance in Australia.

Please do not hesitate to contact us should you require additional information or have any queries in relation to this submission.

Michael Moore BA, Dip Ed, MPH
Chief Executive Officer
Public Health Association of Australia

Dr David Legge
Co-Convenor
PHAA Political Economy of Health Special Interest Group

28 July 2017
References


