

15 August 2023

Department of Health and Aged Care
GPO Box 9848
CANBERRA ACT 2601

Email: PHIconsultation@health.gov.au

Dear Sir/Madam,

**Response to Department of Health and Aged Care - Consultation on Private Health Insurance (PHI)
Incentives and Hospital Default Benefits Studies**

The Actuaries Institute ('the Institute') is the peak professional body for actuaries in Australia and we welcome the opportunity to respond to the Department of Health and Aged Care consultation on Private Health Insurance (PHI) and Incentives and Hospital Default Benefits Studies. Some of our members work in the health sector, including in private health insurance. Those members are committed to achieving a financially sustainable health system whilst improving health outcomes.

The Australian health system is a mixed public and private system that is considered one of the best healthcare performing systems in the world. However, for a sustained period, PHI premiums have generally been increasing faster than wages and inflation, driven by a longer-term trend of declining participation and an ageing membership.

Private Health Insurance is becoming increasingly unaffordable for many Australians, and we recommend changes to policy settings that can help reverse this trend within the context of our current mixed public and private health system, and lead to better customer outcomes. The Institute believes that based on the current system, private health insurance would benefit from policy settings ('the objectives') that:

- Encourage greater participation by younger and healthy people so the membership of PHI is more reflective of the whole population which is important in the context of a system with community rating.
- Incentivise insurers to improve the health of their members and the Australian population in general; and
- Targets cost inefficiencies of the system including that of providers.

Actuaries in Health

Actuaries, working closely with other professionals in the health system including economists and clinicians, help analyse and understand the effectiveness of policy settings in PHI using their expertise of insurance to understand the complex funding and health provider landscape.

We note that significant analysis has been performed by actuarial consultants (our members) in the preparation of content that has been released in the Department's consultation reports. Our response to this consultation is not to provide detailed feedback on those papers as different members of our profession will form their own views on that, given its complexity.

However, we would like to encourage the Department to:

- Continue to investigate further the recommendations made in the report;
- Consider developing these recommendations with additional detail for implementation; and
- Work closely with actuaries and other professionals to develop effective transitional arrangements for any implementation.

In encouraging the Department to further the recommendations from the report, we highlight these examples to address the financial sustainability of private health insurance:

- We note that the first recommendation for the “Review of MLS, PHI Rebate and LHC” is to establish a “process to regularly review and adapt PHI policy settings” in order to “become more optimal over time”. We strongly endorse this recommendation and encourage the Department to further consider what is required for this to occur. This could include setting a defined frequency of review (for example every five years) and assessing the monitoring data it collects to support an ongoing review and fine-tuning of PHI policy settings. It could also include defining the scope of this regular review (for example to include risk equalisation settings) and additional analysis that has not been possible due to data and time limitations.
- We strongly endorse Recommendation 16 “that government continue to regularly explore changes that better integrate the Australian health system, and in particular consider PHI policy levers in addition to the PHI Rebate, MLS and LHC”. We encourage the Department to consider what additional policy settings are out of scope of these two studies and may warrant additional exploration. A number of considerations are listed in the paper, and we observe that they all have direct implications for the Objectives to benefit private health insurance.
- We note that one of the recommendations for the “Study of private health insurance minimum and second-tier default benefit arrangements” is to “develop market guidelines for insurers, hospitals and regulators” in order to “support contracting efficiency”. Although we do not have a specific view on this recommendation, we support the objective to improve contracting efficiency, especially if this can lead to better outcomes for consumers.

In particular, we support specific objectives mentioned in the report such as:

- Greater adoption of Patient-Reported Outcome Measures and Patient-Report Experience Measures; and;
- Driving greater innovation of services such as *Hospital in the Home*.

Further Feedback and Discussion

We would welcome any further opportunity to discuss the consultation or to work with the Department to implement the recommendations in the report. If you would like to do so, please contact Elayne Grace, Chief Executive Officer of the Actuaries Institute, on (02) 9239 6100 or executive@actuaries.asn.au.

Yours sincerely

(Signed) Naomi Edwards

President