Institute of Actuaries of Australia

HEALTH PRACTICE COMMITTEE

Information Note:
Private Health Insurance – Medicare levy surcharge

July 2008

The purpose of this Information Note is to bring to the attention of Institute members providing advice in relation to private health insurance, potential considerations arising from the proposed changes to the Medicare Levy Surcharge, and the potential impacts of those changes when providing their advice.

The Medicare Levy Surcharge imposes an additional 1% Medicare Levy for those without appropriate private patient hospital cover if taxable income exceeds $50,000 per annum for singles and $100,000 per annum (plus $1,500 per annum for the second and subsequent dependent child) for couples and families. The Tax Laws Amendment (Medicare Levy Surcharge Thresholds) Bill 2008 proposes to increase these thresholds to $100,000 per annum for singles and $150,000 for couples and families.

On 18 June 2008 the Senate referred the proposed changes to the thresholds to its Economics Committee, to report on or after 26 August 2008, on the following matters:

(a) the impact of the changes to the thresholds on the number of Australians with private health insurance (PHI), including an examination of how many will abandon their policies as a result and how many will not take up PHI in future;

(b) the modelling underpinning the decision and the veracity of that modelling;

(c) the anticipated impact on PHI premiums and PHI products offered;

(d) the impact of the change on the cost of living and the consumer price index;

(e) including the threshold, PHI rebate and lifetime health cover on increasing PHI membership;

(f) the anticipated impact of changes to the threshold on:

  (i) the public hospital system including waiting lists and the financial requirements of state governments,

  (ii) the ongoing viability of PHI, and

  (iii) private hospitals.

The Institute is considering making a submission to the Senate committee. Individual members may wish to make their own submissions.

In respect of the proposed changes, Institute members should consider the potential impacts of these changes when providing advice in relation to private health insurance. Impacts to consider include:

- initial increase in policyholder lapses and ongoing reduction in policyholder joins, including impacts on both hospital and ancillary coverage and impacts for each product;
- impact of changing policyholder volumes on premium income, claims experience, drawing (claim) rates and risk equalisation;
- consideration of the claims and product profile of those policyholders most likely to be affected by the changes including the likelihood that those lapsing would generally have more favourable claims experience but may also make additional claims immediately prior to lapse;
- whether the insurer's risk equalisation costs ('calculated deficits') per Single Equivalent Unit may increase significantly following a decline in industry coverage, without significant change in the insurers risk equalisation recoveries ('actual deficits'), and whether this will affect the risk equalisation component of Outstanding Claims Provisions;
- allowance for impact of the potential change on forecasts used to assess the Renewal Option Amount and Liability Adequacy Test (constructive obligations);
- any need for increased risk margins in regulatory capital and target capital assessments; and
- whether the proposed changes must be taken into account in the best estimate business projections that will underlie the risk margins and liabilities in the 30 June 2008 company accounts. In this matter the actuary should consider what consultation is appropriate with the insurer's CFO and/or auditor.

It is expected that consideration of the impact of the potential changes, including comments on sensitivities, would be included in the Financial Condition Report for the year ended 30 June 2008.

It is likely passing of the legislation will trigger a 'notifiable circumstance' under Rule 5(3)(j) of the Private Health Insurance (Insurer Obligations) Rules 2007.

If any Actuary is in doubt about the appropriate approach to advising their clients in these matters, they should consider consulting another suitably experienced actuary or a member of the Health Practice Committee.