Actuaries Institute.

20 August 2026

Department of Health, Disability and Ageing
Submitted via consultation hub

Dear Sir/Madam

Private Health Sector Reform – Consultation Paper 1

The Actuaries Institute ('the Institute') welcomes the opportunity to provide feedback on the Department of Health, Disability and Ageing's *Private Health Sector Reform Consultation Paper 1*.

The Institute is the peak professional body for actuaries in Australia. Our members work in a wide range of fields including insurance, superannuation and retirement incomes, banking, enterprise risk management, data analytics and AI, climate change and sustainability, and government services. Several of our members work in the health sector, including in private health insurance (PHI), and are committed to a financially sustainable health system that improves outcomes for all Australians.

The Institute has a longstanding commitment to contribute to public policy discussions where our members have relevant expertise. The comments made in this submission are guided by the Institute's 'Public Policy Principles' that any policy measures or changes should promote public wellbeing, consider potential impacts on equity, be evidence-based and support effectively regulated systems. This response has been prepared by a volunteer working group of Institute members who work in private health insurance and the broader health sector.

We note this is the first of three planned consultations and that it spans complex, multiple segments of the private health system across levels of government. The Institute's response prioritises those sections of the paper most relevant to actuarial expertise - PHI Product Simplification (Section 2.2) and Risk Equalisation (Section 2.3) - with some upfront observations on system sustainability and reform, and brief comments on selected proposals in Hospital in the Home (Section 1.3) and Regional Hospital Access (Section 2.1).

In prior submissions to Government and Department of Health (the Department) consultations, including the 2026 Pre-Budget submission and the Institute's October 2025 response to the consultation on outlawing PHI product 'phoenixing', the Institute has consistently recommended reform of private health insurance and the broader health system, and has drawn attention to the importance of intergenerational equity, which several of these measures seek to address.

The Institute welcomes the opportunity to discuss these considerations further with the Department as it develops its reform proposals and progresses the remaining consultations. If you would like to discuss any aspect of this submission, please contact the Institute via (02) 9239 6100 or public_policy@actuaries.asn.au.

Yours sincerely,

[Signed]

Elayne Grace
Chief Executive Officer

Actuaries Institute
Level 34, Australia Square,264 George Street,
Sydney NSW 2000, Australia
P +61 (0) 2 9239 6100 | actuaries.asn.au

Attachment

Overarching comments – sustainability and system reform

The challenges facing private health insurance are long-standing and structural. They are not the product of any single regulatory setting and there are no simple, overnight fixes. We commend the Government for grappling with reform of this complexity and encourage it to frame the initiatives in this paper as part of a coordinated, staged program rather than isolated adjustments. Reform should be designed and evaluated with regard to its implications across the broader health system, ensuring that system-wide impacts, trade-offs and potential unintended consequences are understood before changes are implemented. We acknowledge that these decisions will be considered within a constrained budgetary environment, though if well designed and implemented are expected to have an overall net positive impact on the health system. The Institute has not undertaken option-specific modelling for this response.

Be clear about the objectives of the reforms and how trade-offs will be weighed

The initiatives in this consultation paper involve balancing multiple, sometimes competing, considerations - affordability, participation, equity, competition, innovation, consumer choice and prudential soundness. Clear objectives and principles for assessing these trade-offs would provide a consistent basis for evaluating reform options. Without agreed objectives and a framework for resolving these tensions, individual measures risk shifting problems from one part of the system to another rather than resolving them. Clear objectives would help assess whether shorter-term measures are consistent with the intended long-term direction and reduce the risk that reforms need to be unwound or materially revised in future.

Distinguish short-term relief from long-term structural reform

It is helpful that the consultation views the reforms through both a short-to-medium-term and a longer-term lens. Some measures can provide relief to the challenges within the next Premium Round or two; others will take longer for the industry to adapt and absorb. We encourage the Department to be explicit about which reforms fall into which category, so that near-term actions are designed to move the system towards, and not away from, the longer-term destination.

Recognise the distributional impacts of reform

While the package of reforms under consideration is designed to strengthen the overall system, within it there will be some stakeholders who will gain and some who will be detrimentally impacted relative to the status quo. Measures that improve affordability for some members may increase premiums for others, while changes that strengthen risk pooling may reduce consumer choice or product affordability for particular cohorts. We encourage the Government to explicitly assess these trade-offs, including who benefits, who bears the costs, and the implications for premiums, participation and the long-term sustainability of the system.

Recognise transition and implementation realities

Meaningful reform must allow adequate transition time and appropriate sequencing. Many measures require parliamentary approval and material changes affecting insurers, and ultimately consumers, may need transitional arrangements. Rapid or poorly sequenced change increases the risk that an insurer mis-estimates the impact on a product line and, with limited ability to correct course (particularly if new restrictions on product changes apply), this could threaten ongoing prudential soundness. A well-designed transition plan is essential to protect financial system integrity as changes are introduced.

Some important levers sit outside this consultation

Several of the settings relevant to affordability and participation - the Medicare Levy Surcharge (MLS), Lifetime Health Cover (LHC) loadings and the PHI rebate - are outside the scope of this consultation. We note that considerable analysis of these levers already exists. Participation concerns arising from product simplification could, for example, be addressed by revisiting the MLS and rebate settings. We encourage the Government to consider these levers in parallel, and reiterate our long-standing recommendation for a defined, regular process to review and adapt PHI policy settings (for example every five years) so the system can be fine-tuned over time.

1. PHI Product Simplification (Section 2.2)

The Institute supports the objectives of product simplification, sustainability and affordability. Giving consumers greater clarity about what they are covered for and improving their ability to compare and use PHI products are important objectives. The complexity of the trade-offs, however, means implementation must be carefully managed and staged. We frame our comments through both a short-term and a longer-term lens, consistent with the overarching comments above.

Our understanding is that the proposed initiatives seek to support product simplification, sustainability and affordability. However, an initiative may advance one objective while adversely affecting another. Reducing product variation may improve comparability but reduce consumer choice, increase premiums for some members and reduce PHI participation. We recommend that the Department establish clear principles for balancing these objectives and managing the associated trade-offs.

Response to the reform initiatives

Initiative 1 – Simplifying the PHI product structure

The Institute sees merit in further assessment of product simplification options that improve consumer understanding and comparability, while balancing affordability, sustainability, participation, consumer choice and implementation feasibility, particularly over the longer term.

Several important considerations should shape the design and pace of change:

- **Risk selection and Gold sustainability.** A central driver of the Gold sustainability problem is that Australia's tiered structure permits product 'carve-outs' that effectively reintroduce risk rating into a community-rated system - an arrangement not commonly seen in comparable community-rated systems internationally. Removing or consolidating 'plus' variants would somewhat reduce the de facto risk rating and make like-for-like comparison meaningfully easier for consumers. However, as long as multiple tiers remain, we are likely to continue seeing risk segmentation on higher-cost services over the longer term; in this scenario, risk equalisation reform represents an option for improving sustainability.
- **Consumer choice, demand and proportionality.** Growth in lower-cost and intermediate products, including Bronze/Bronze Plus, suggests there is consumer demand for cover below comprehensive Gold. Removing Plus products, consolidating product tiers or removing Basic hospital cover may require some members to pay more to retain their current cover, accept reduced benefits, or lapse. The Department should identify the specific source of consumer confusion and assess whether less disruptive measures, such as clearer naming or standardised disclosure requirements, could sufficiently address that confusion. Any simplification benefits should be weighed against the impact on consumer choice.
- **Participation and affordability.** PHI participation could fall materially if product simplification reduces the availability, value proposition, or affordability of hospital cover that currently meet the needs of particular segments (for example if a Basic product available to those seeking to avoid the MLS becomes more expensive than the surcharge). Simplification should therefore be considered alongside the MLS, LHC and rebate settings (noting these are outside this consultation's scope), though changes to these settings may be complex, have fiscal implications and may not affect all consumers equally. The Department should assess affordability and participation impacts before reforms are finalised.
- **Innovation and product design.** Standardisation can improve comparability, but may also limit the development of product designs that respond to different consumer needs. The benefits of standardisation should therefore be weighed against any reduction in meaningful innovation and flexibility.
- **Transition and back-book effects.** The impact of any change to product structure should be considered for both closed and open products, to ensure material price and benefit changes are managed over a transition period and negative consequences for consumers from destabilisation of the industry are avoided. Interactions with the new product-change ('phoenixing') restrictions also mean insurers may find it harder to correct mispricing quickly. These effects warrant attention, including appropriate transitional arrangements and adequate notice for insurers to adapt their pricing and business planning.

We suggest that the following options be modelled against the considerations noted above, noting both are material changes to the current system:

- **Remove 'Plus' product options**: this option would support simplification and may provide some relief to the challenges on Gold profitability and pricing, however we expect modelling to indicate limited improvement, for two reasons. First, shifting high cost hip and knee replacement surgeries - which are often planned events - onto the Gold product may prompt consumers to either downgrade to Silver at a materially more palatable price (pushing these surgeries into the public system), or upgrade only when intending to claim, a form of anti-selection that already challenges the current Gold products. Risk equalisation reform represents an option for improving sustainability in this scenario.
- **Allow only two products, Gold and either Basic or Bronze**: this option is the best fit to upholding community rating principles by pooling a greater number of consumers onto the one full coverage product within an insurer. Those incentivised to be in the system could purchase a lower level of cover until ready to upgrade to private hospital coverage. The impacts on affordability and participation will need to be carefully considered for different customer segments in this option.

The Institute is also supportive of additional simplification measures that provide consumers with further clarity on whether their products are hospital-only cover or combined cover, although we note this distinction is currently made on PHI Statements. We are also supportive of additional clarity on the requirements to include ambulance, emergency department and hospital substitute treatments in hospital or general treatment policies, helping to ensure that this requirement is applied consistently across the industry to improve comparability of product offerings and reduce confusion for consumers.

Initiative 2 – Standardising the age threshold and eligibility for dependants

- **Standardising the age threshold for dependants**. The Institute sees merit in investigating standardising the dependant age threshold. Given many insurers already offer cover to the maximum age, mandating a consistent maximum would avoid taking existing benefits away from consumers. Before standardisation, investigations should occur to weigh the cost of implementation against the benefits and to consider impacts on prices in other cohorts. The Department should also consider interactions with Lifetime Health Cover so that members who remain on a parent's policy until age 31 do not face unintended consequences when they later take out their own cover. We also note this issue interacts with product simplification - for example, dependants may remain on a parent's comprehensive cover for longer under a simplified structure.
- **Dependants with disability.** Before mandating broader eligibility, the Institute recommends the Department assess current market coverage, reasons for inconsistent implementation, cost impacts and interactions with broader disability support arrangements.

Initiative 3 – Excess and co-payment standardisation

The Institute sees merit in investigating standardisation in principle, including consistent treatment of excess waivers (for example for dependants or for accidents) and of co-payments across insurers. Some insurers currently apply both excesses and co-payments, which can leave consumers exposed to out-of-pocket costs well beyond the maximum excess; greater consistency would improve transparency and comparability. If the community-rating rationale supports waiving an excess (for example, for children requiring hospital treatment or in an emergency), that treatment should apply consistently across all insurers.

Two considerations should be weighed in the design:

- **Preserve legitimate cost-containment and efficiency levers.** Some excess or co-payment arrangements are used to steer members towards more efficient providers or settings, which can lower system costs. Standardisation should be designed so it does not inadvertently remove these efficiency and cost-containment mechanisms or dampen beneficial innovation.
- **Guard against re-introducing risk rating.** Differential excesses and co-payments can themselves act as a mild form of risk rating by concentrating higher-risk members on lower-excess products. Consideration could be given to reasonable parameters around the relationship between excess levels and premium differentials, while being mindful of not adding unnecessary complexity.

Initiative 4 – Consistency across premium structures and waiting periods

The Institute sees merit in investigating greater consistency across premium structures and waiting periods. In particular, the way 'contribution group' arrangements are drafted and interpreted permits some corporate products to be discounted more than 12% below their retail equivalents. Because corporate cohorts are typically younger and healthier, these products are effectively priced on a healthier cohort and attract materially lower Gold

premiums than equivalent retail products. This may create tension with community-rating principles by concentrating lower-cost members in a separate group, and may have contributed to the concentration of risk in retail Gold. However, lower corporate premiums, particularly where supported by employer contributions, may have supported participation and contributions to the risk equalisation pool. We suggest reviewing the contribution-group provisions and the discounting beyond 12% that they enable. As with the other initiatives, any change would need to be modelled and managed to avoid unintended consequences, with the potential community-rating benefits weighed against impacts on affordability, participation, competition and implementation complexity.

We also understand there is a wide variety of interpretations of the discounting legislation across insurers, including variation in approaches to age-based discounts. Simplifying or clarifying the legislative framework governing discounts would help reduce consumer confusion, promote consistency across insurers and improve alignment with community rating principles.

Requiring the age-based discount to be consistent across all insurers would reduce inconsistencies.

On single-parent policies specifically, it is worth considering whether current premium structures for this segment are consistent with the intent of community rating, and this is best examined alongside the product simplification reforms. In the current system, requiring single-parent policies to be priced at the same level as single-person policies could significantly redistribute costs to other policy categories. Under a simplified product system, however, the pricing discrepancy between single-parent and single-person policies may be materially reduced. Any changes should be supported by analysis of their impact on affordability, participation and purchasing decisions, to ensure they improve consumer outcomes without creating unintended premium or affordability pressures elsewhere in the system.

As with all proposed reforms, any reforms to ‘contribution groups,’ discounting arrangements, single-parent pricing structures, age-based discounts and waiting periods should be carefully assessed weighing up the cost of implementation and reduced differentiation vs benefits and to consider whether some consumer groups are inadvertently adversely impacted.

c) Other options and consumer-facing considerations

The interaction between product simplification and risk equalisation reform should be considered explicitly, particularly where product changes affect risk pooling and Gold sustainability. The appropriate combination and sequencing of reforms should be informed by modelling before a preferred pathway is identified.

2. Risk Equalisation (Section 2.3)

Much of this section responds to the consultation's framing of Risk Equalisation (RE) reform as refinements to the existing retrospective pool, and our comments on the proposed principles and near-term recalibration options are set out below. We also draw the Department's attention to the 2022 Finity review and international practice, which point to more fundamental options for the design of RE, including a move towards prospective risk equalisation; we return to this longer-term option in section (e) below.

Risk equalisation is central to supporting community rating, but has remained unchanged since 2007, when there was a different product landscape. The current arrangements - the Age-Based Pool (ABP), which shares a proportion of outlays for claimants aged 55 and over, and the High-Cost Claimants Pool (HCCP) - provide limited support for the high-cost services concentrated in Gold products that are typically claimed by younger members, namely pregnancy, in-hospital psychiatric treatment and weight-loss surgery. These claims seldom reach the HCCP threshold and fall outside the ABP because claimants are under 55. Individual insurers therefore fund these claims in full, creating strong incentives for risk selection through product design and contributing directly to the affordability and availability pressures now evident in the Gold tier. These pressures are reflected in the reduced number of open Gold products and the limited promotion of comprehensive cover by some insurers. The Institute considers that RE reform is warranted and is an essential part of any package of reforms.

a) Proposed reform principles for Risk Equalisation

The Institute sees merit in the proposed reform principles. However, we suggest removing the principle that specifically requires the size of the Risk Equalisation Pool per SEU be maintained and instead suggest the addition of the following principles to enable more flexibility in reform options while keeping the intent of the removed principle:

- Changes to Risk Equalisation to address maternity and mental health claims should not introduce additional disincentives towards efficiency in the system; and
- Impacts on participation arising from changes to Risk Equalisation should be considered before reforms are finalised, including impacts on lower-tier products which are popular with new entrants.

Risk equalisation settings should be subject to periodic review to ensure they remain appropriate as the operating environment changes.

We also encourage the Department to ensure the principles do not entrench a purely retrospective, claims-reimbursement design that provides fewer incentives for efficiency, wellness and preventative care.

b) Reform initiatives

Initiative 1 – New dedicated pools for maternity and mental health

The Institute sees merit in better sharing the cost of maternity and mental health claims, which are a major driver of the claims cost on open Gold products and may be contributing to the closure of private maternity and psychiatric wards. Bringing these services into risk sharing would broaden the effective risk pool for comprehensive cover and reduce the incentive for consumers to select against Gold.

On balance this could be achieved through recalibration of existing mechanisms (see Initiative 2) and, over time, a move towards prospective risk adjustment, rather than by creating stand-alone service-based pools. Adding more claims into a retrospective pool can dull incentives for insurers to manage costs and drive efficiency. A design that shares risk without simply reimbursing claims is preferable.

Caution on pairing reforms. If maternity costs were shared across insurers and, at the same time, waiting periods for maternity claims were shortened, this may result in more consumers joining only when expecting to use maternity services. That would likely increase anti-selection and may exacerbate cost and premium pressures.

Initiative 2 – Recalibrating the ABP and SEU definitions for younger Gold members

The Institute sees merit in modelling recalibration of existing settings as a potential near-term step towards a prospective approach. Two mechanisms are considered below:

- **Extending ABP-style eligibility to younger Gold members** (for example, sharing a proportion of eligible Gold outlays regardless of age) is a more targeted version of Initiative 1 and the level of support could be calibrated through the eligible claims-sharing percentage. However, it remains a retrospective, claims-based mechanism and may weaken efficiency incentives if the sharing percentage is set too high.
- **Redefining Single Equivalent Units for younger Gold members** could provide a more prospective adjustment rather than being linked to individual claims by redistributing the existing pool rather than adding claims to it. Under the current design these members not only receive no RE support but also contribute towards the cost of claims of those aged over 55, which exacerbates the price differential between Gold and Silver Plus. The precise adjustment factor (reduced or negative) would need to be determined through modelling and could be varied over time to progressively rebalance incentives, until more comprehensive reform such as prospective risk equalisation was introduced. Modelling could consider simple adjustments for all Gold members under a certain age or be more targeted such as varying by age and/or gender. Other options that move towards prospective risk equalisation could also be considered and modelled.

Corporate products could be explicitly included in the modelling, including consideration of whether differentiated treatment or exclusion from favourable SEU reweighting is warranted. Applying the same reweighting to these products may further reduce outlays for cohorts that already have favourable claims experience, potentially compounding existing risk-selection effects. However, any differentiated treatment should be assessed against the trade-offs.

The impact of implementing either of the above two **Initiative 2** options in isolation will be to increase support for community rating through risk equalisation, and the impacts should be assessed across all cohorts including participation impacts for younger customers on lower tier products, and consideration of other impacts in the absence of reforms to improve system efficiencies. We note that recalibration which simply reduces the percentages flowing to older claimants, without any prospective adjustment, risks pushing the problem to another part of the system by reducing support for older members. The design should therefore be tested carefully,

including its distributional impact at the individual insurer level (funds that are net recipients versus net contributors will be affected very differently).

c) Specific comments – lead times, information and ease of calculation

- **Lead time.** Any RE change of substance will require significant modelling. We encourage early scoping of data and modelling requirements so that reform is not further delayed. We also support staged implementation, with iterative improvements introduced over time, allowing insurers to adapt while further developments are being considered.
- **Modelling before implementation.** The Institute sees merit in offline ('shadow') modelling of options against real claims data, with results published to build transparency and confidence, before any change is implemented.
- **Ease of calculation and transparency.** Recalibrating SEUs or extending existing pools is likely to be simpler to implement and administer than establishing new service-based pools and can be accommodated more readily within existing reporting.
- **Pricing round interaction.** We note the expectation that insurers reflect anticipated changes in their pricing applications for the next Premium Round. Given the lead times above, clarity on timing and on what insurers should assume is important to support prudentially sound pricing.

d) Other options the Department should consider

- **Address root causes, not just RE.** Durable solutions to Gold sustainability require RE reform to be complemented by product simplification (Section 1), PHI incentives, and measures addressing provider availability, models of care and medical out of pocket costs. Success should be assessed against patient access and total out of pocket costs, not only gold affordability and coverage.
- **A mechanism for ongoing refinement.** A key limitation of the current system is the absence of a mechanism for regular, evidence-based review. Historically, the need for industry consensus has favoured no change over any change. We recommend establishing clear goals, measurement and a coordination mechanism so that RE settings (including attachment points, sharing proportions and risk-adjuster values) can be reviewed and updated regularly without requiring a full overhaul each time. This may require legislative change to create the authorising environment, while empowering periodic adjustment by an appropriate mix of system stewards.

e) Interaction with a future hybrid Risk Equalisation system

On balance, the Institute considers it would be in the public interest to move towards prospective risk adjustment, over the longer term, broadly consistent with the direction of the 2022 Finity review commissioned on RE reform. Such a model would improve alignment of incentives - rewarding efficiency and reducing waste - while continuing to protect against genuine outlier risk.

We recognise the practical concern that a full prospective system is complex and may take considerable time to build; the question is whether a smaller, imperfect change now is better than no change for another extended period. Our position is that near-term recalibration (Initiative 2) should be designed as a deliberate step towards a prospective system. A structured 'test-and-learn' pathway - shadow simulation, phased introduction of well-established risk adjusters (initially age, sex and state, later health-based adjusters as data quality improves), and gradual rollout of prospective components - would allow the sector to progress while managing implementation risk. Whatever near-term step is taken should not prejudice this longer-term goal and should not be presented as sufficient on its own to restore Gold sustainability.

3. Comments on selected proposals in Sections 1.3 and 2.1

While the Institute's response concentrates on risk equalisation and product simplification, the working group offers the following brief actuarial observations on two further proposals.

Hospital in the Home (Section 1.3)

If a minimum hospital benefit for Hospital in the Home is introduced, the Institute recommends that any dollar amount (such as the proposed $360 per day) be indexed on a defined basis. Fixed benefit amounts that are not indexed tend to erode in real terms and can become ineffective over time - for example if the benefit remains at

$360 while average charges rise well above it - leaving a 'hangover' setting that no longer meets its purpose. Differentiated benefits may be warranted for higher-acuity services (such as palliative care), and the interaction with MBS billing arrangements should be considered to avoid cost-shifting.

Regional private hospital access – second-tier default benefits (Section 2.1)

The Institute understands the access rationale for increasing second-tier default benefits for established regional hospitals. However, we have reservations about moving the second-tier default to 100%. Setting the default at 100% would remove insurers' ability to negotiate on price, quality and patient-care standards, since there would be little incentive for a hospital to enter into a contract at all. We consider this proposal is likely to be inflationary and to weaken a mechanism through which insurers currently support quality standards. A level below 100% (for example in the order of 90–95%) would better preserve the incentive to contract while still improving access. If the change proceeds, we suggest it be implemented initially on a temporary basis with a defined post-implementation review, and that the volume-weighting methodology and publication of second-tier rates be examined as part of that review.