The True Value of Private Health Insurance for Customers

Prepared by Adam Stolz & Hadyn Bernau

Presented to the Actuaries Institute
Actuaries Summit
3 – 4 June 2019

Contents

1. Synopsis 2
2. Key Findings 2
3. Methodology 5
4. Perceived Value - PHI Participation 6
5. Perceived Value - Customer Research 9
6. True Value - Hard Factors 12
7. True Value - Soft Factors 14
8. Further Areas of Investigation 18
Acknowledgements 18
References 18

1. Synopsis

The focus on customer and customer value has never been more important for financial services with the recent Royal Commission, and specifically for Private Health Insurance given the record and increasing size of premiums relative to household budgets, and current political pressure on yearly premium increases.

In this context, the paper will promote discussion on what is the true value of private health insurance for customers – focused on hospital cover – and how this compares to perceived value on average, and for different types of customers.

To assess perceived value, we use the hospital cover participation rate – customers' actual purchasing decisions - as well as customer research. We have developed a model of the factors that influence the participation rate, and reviewed the research. We aim to better understand the drivers of customer perceived value, including wealth, income, age, premiums, benefits, peace of mind, health attitudes and Government policy.

We have assessed true value using reported data on PHI premiums, benefits, out-of-pockets, treatment waiting times, and other factors.

We then look at whether there could be any difference between the "true value" for customers and their current perceptions of value. In other words, are customers undervaluing any aspect of their hospital cover?

Value for some customers is low - is it time to act? And what could be some of the potential solutions to create better outcomes?

2. Key Findings

Private Health Insurance (PHI) Participation Rate for Hospital cover is 45% of the Australian population as at June 2018, and has declined by 2% over the past 5 years. Customer research is consistent in also showing a downward trend in the perceived customer value of PHI, however, this value varies significantly for different customers.

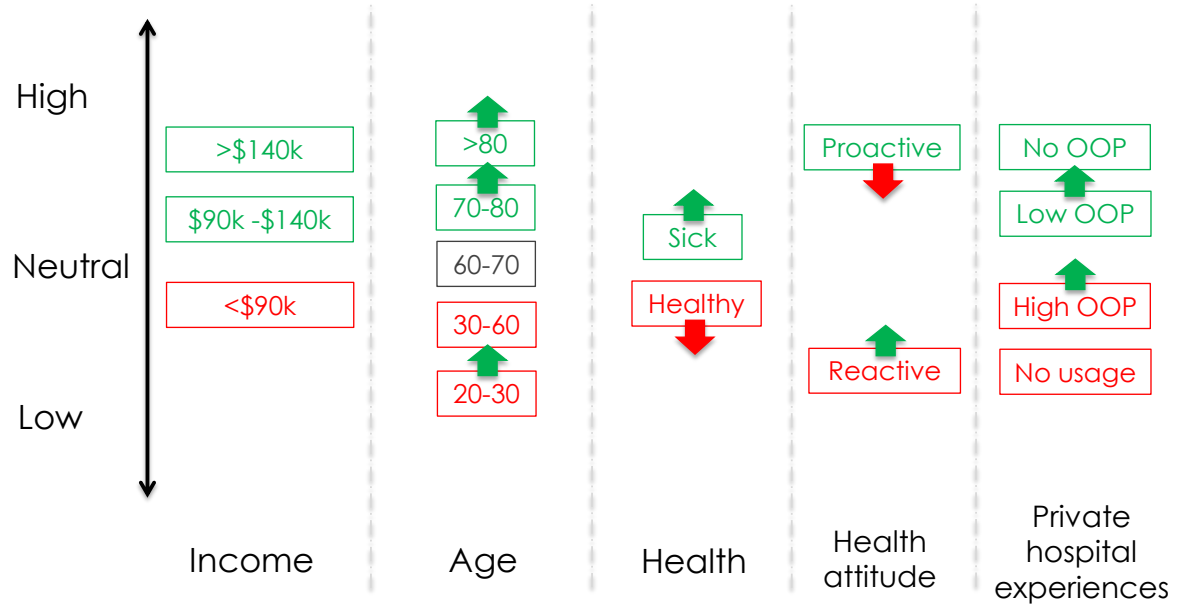
Institute of Actuaries of Australia
ABN 69 000 423 656
Level 2, 50 Carrington Street, Sydney NSW Australia 2000
t +61 (0) 2 9239 6100 **f** +61 (0) 2 9239 6170
e actuaries@actuaries.asn.au **w** www.actuaries.asn.au

Based on our model of the PHI Participation Rate, coupled with customer research, we have identified the following key drivers of perceived value:

1. **Peace of mind** – Based on IPSOS customer research this continues to be the strongest driver of why people stay with PHI, and incorporates a range of factors including being covered for large unexpected medical costs, access to healthcare with shorter waiting times, and community benefit of contributing to health funding for those who need it
2. **Age** – Our model has this as the strongest factor driving PHI participation, linked to older ages claiming much higher PHI benefits, and Community rating of PHI leading to younger ages paying a premium that is much higher on average than the benefits paid
3. **Income and Wealth** – Affordability issues are the main reason people leave PHI according to customer research, and based on ATO data we see that PHI participation increases strongly for higher incomes
4. **Government Policy** – LHC leads to a significant jump in participation at age 31, MLS contributes to significant increase in participation for higher incomes, and the PHI Rebate significantly improves affordability
5. **Health attitudes** – Based on our model, we see materially higher PHI participation for people with more proactive attitudes to managing their health based on responses to Nielsen customer research

We have assessed the true value of PHI using reported data and find some similarities (eg. lower value for younger ages, strong impact of Government policy) as well as some differences (eg. Out-of-pocket costs and Waiting periods). The diagram below illustrates where the value of PHI is higher or lower by type of customer.

The boxes indicate our rough estimate of the perceived value for certain groups of customers, and the arrows indicate those groups where we think true value is likely materially different to the perceived value.



Institute of Actuaries of Australia
ABN 69 000 423 656
Level 2, 50 Carrington Street, Sydney NSW Australia 2000
t +61 (0) 2 9239 6100 **f** +61 (0) 2 9239 6170
e actuaries@actuaries.asn.au **w** www.actuaries.asn.au

The key take-aways are that:

- Low value is delivered to those on lower incomes, who join after age 30, who are less than 60 years old, the healthy, and those with reactive health attitudes.
- Perceptions of value are likely lower than true value for:
    - 20-30 year olds, who are likely undervaluing the youth discount and free mental health upgrade
    - The elderly and the sick, for whom hospital cover pays out significant benefits and provides superior access to treatment
    - Users of private hospitals who have experienced out-of-pocket payments which have disproportionately reduced their perception of PHI value.

Based on our research, we have identified the following opportunities to improve the perceived customer value of PHI, in particular where it is lower than the true value:

1. **Out-of-Pocket (OOP) costs**: Greater transparency upfront for customers, and real progress to reduce / cap these costs
    - As well as implementing recommendations from Department OOP committee, insurers could develop innovative solutions with contracting and/or pooling to cover excessive OOPs costs as part of their cover
    - For example, Uber tells customers upfront if there is 'surge' pricing during busy periods – could PHI insurers implement this for OOP costs?
    - Would customers pay 1-2% higher premiums to cap OOPs costs to an upper limit of $500?

- **Pricing**: Greater publicity of Youth discounts, and review of other Government policy to improve the value for younger customers
    - Currently there is low awareness of PHI reforms including Youth Discounts – customer research shows that there is strong appeal if known
    - Potential to review Community Rating, and Government Sticks & Carrots if Youth Discounts do not have sufficient impact
    - Examples could include no-claims bonus, partial risk-rating, PHI rebate recalibration by age
    - PHI benefits paid to customers are overall higher than the premiums paid (net of PHI rebate) – potential to publicise to customers more about the benefits being paid by PHI funds – however, this is potentially less relevant to younger, healthier customers
    - Trimming annual price increases by say 1% pa will have only a small positive impact in the short to medium term – the other factors above would seem to be more effective

- **Product Value for Younger people**: Publicise the Mental Health waiver, and use GSBB reform as an opportunity to develop a tailored product proposition for younger people
    - Young people have different health needs and so it makes sense that their PHI cover reflects this and is tailored to their needs
    - Could the industry develop a new "Youth" product classification, to complement Basic/Bronze/Silver/Gold? Ie. GSBBY system

Institute of Actuaries of Australia
ABN 69 000 423 656
Level 2, 50 Carrington Street, Sydney NSW Australia 2000
t +61 (0) 2 9239 6100 **f** +61 (0) 2 9239 6170
e actuaries@actuaries.asn.au **w** www.actuaries.asn.au

- Younger people value mental, sexual and preventative health which should all be covered, and a Youth discount apply
- Mental Health waiver is available on all Hospital cover, and is a very valuable customer option to give access to In-Hospital Psychiatric services with no waiting period
- What innovative services could PHI funds provide to better meet customer needs?

- **Treatment Waiting Times**: Greater publicity of Private waiting times, based on more robust and independent reporting
  - There is currently no independent reporting on Private waiting times to compare to the Public system – why does this industry not implement this to credibly highlight this important benefit of better access?
  - Uber innovated to provide transparency on wait times through an app – could PHI funds develop an app to show customers their place in the hospital journey?

- **Health Attitudes and Promotion**: Better cater to those with proactive health attitudes, and build value for them. In so doing, positively reinforce their healthy attitudes, and positively influence those with more reactive health attitudes.
  - Enhance products with benefits and incentives to reward those with healthy attitudes and behaviours
  - Help this cohort to track, build and protect their health – eg by pioneering and recording their "health score"
  - If done effectively, this could have the double benefit of (1) making PHI more relevant to customers, and (2) improving healthy behaviours to provide real benefits to those accessing the private system

Given the importance of customer value in our health system, coupled with recent declines in perceived value and PHI participation rate, we believe now is the time to act. Some of the opportunities above rely on Government or System change, but there are many opportunities for the PHI industry to pursue themselves.

3. Methodology

We have developed an understanding of the perceived customer value of PHI hospital coverage and its elements, for both an average customer, and for different types of customers (by age, income and health status). This understanding is underpinned by the development of a model of PHI participation rate, as well as a study of customer research. We have then compared this to our assessment of true customer value by accessing and analyzing industry and other available data.

We have developed a robust model of PHI participation rate based on population data from various sources. This model and dataset were developed by Finity Consulting. We have calibrated the model and the value drivers to try and fit to (predict) PHI hospital participation data, also by age, income and health status. The model is based on GBM (Gradient Boost model using machine-learning techniques) and has statistical explanatory power of approximately 80%.

Customer research data is based on IPSOS comprehensive PHI customer research from 2017. IPSOS prepare a detailed assessment of customer attitudes from both a population and PHI member perspective to understand perceptions of all components of customer value.

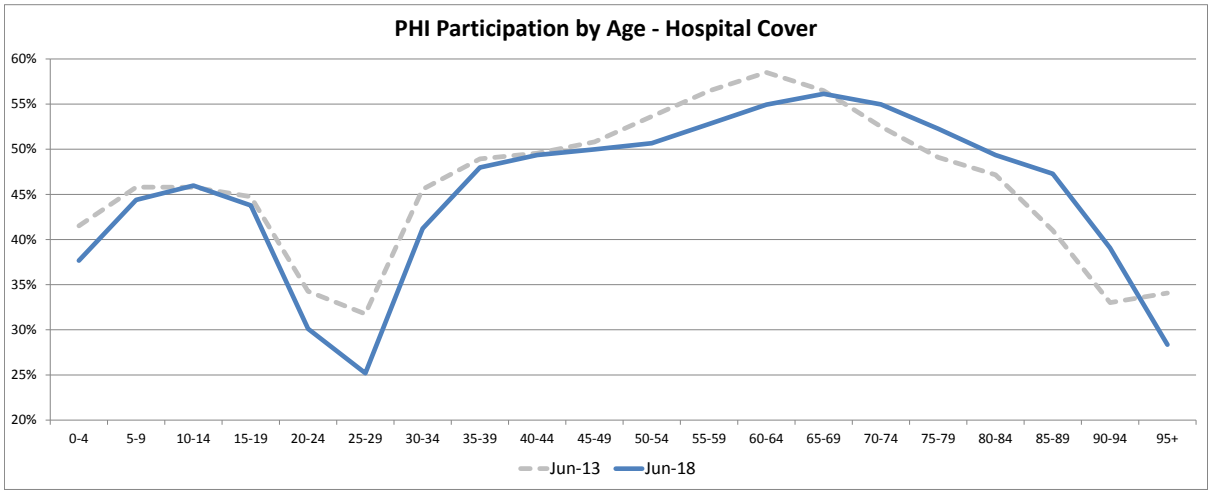
Further, we have accessed and analysed other data to help assess the true value of PHI. This included both 'hard' and 'soft' factors impacting customer value. Our analysis included APRA industry data on PHI premiums paid and benefits received, Out-of-pocket data in both private and public system from HCP and AIHW, and Waiting times data and analysis from AIHW, HBF and Grattan Institute.

Based on our assessment of perceived and true value of PHI using the above approach, we are then able to compare and contrast to identify key differences and opportunity to improve customer value for PHI members.

4. Perceived Value - PHI Participation

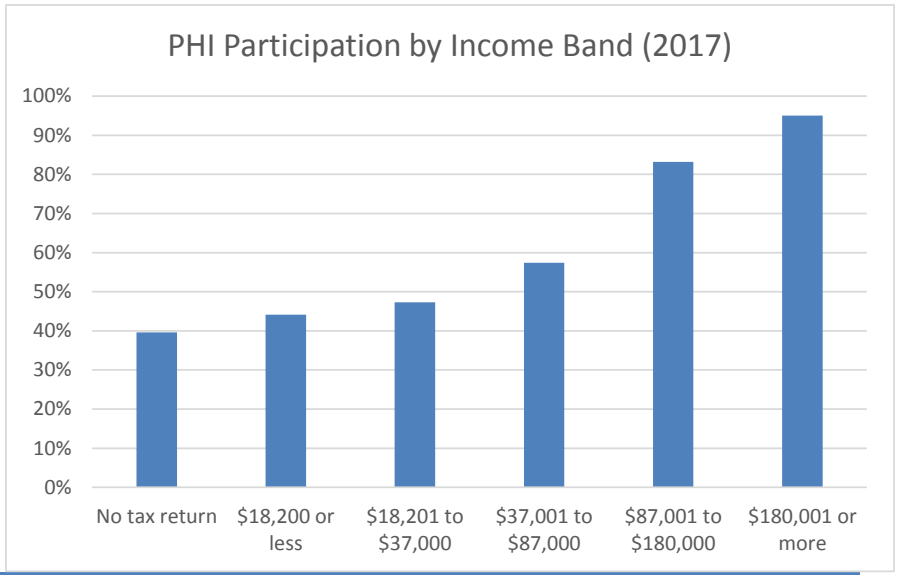
4.1 Overview

PHI Hospital Participation was 45% as at June 2018 based on APRA industry statistics, and varies significantly by a range of factors, in particular by age and income. The PHI participation rate has decreased by 2% (from 47%) in the past 5 years, and on current trends this decline will continue without intervention.



PHI participation varies significantly by age:

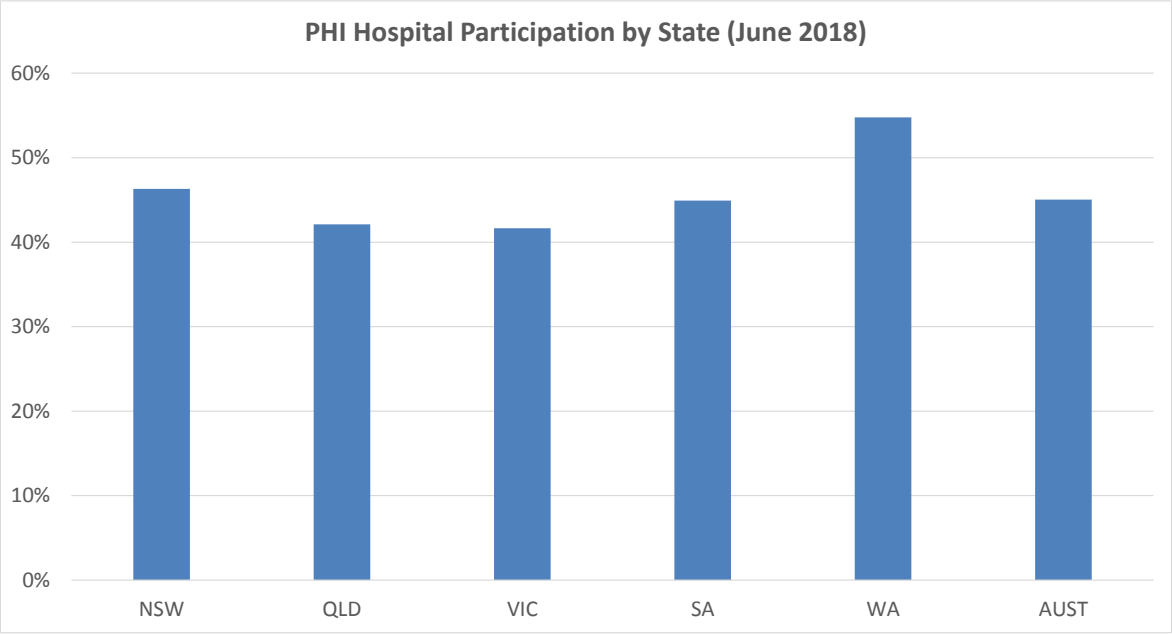
- Lowest participation is for 25-29 age group (25%) and highest for 65-69 age group (56%)
- All age bands decreased in the past 5 years except 70+ which increased by +3% (and age 10-14)
- Biggest decrease is for age bands 20-34 with average decrease of -5% (to 32%)



% of Australian population	42%	11%	13%	23%	9%	2%

PHI participation varies significantly by Income:

- Clear trend for higher PHI Participation by Income band: 95% participation for income >$180k
- MLS surcharge threshold at $90k for singles ($180k for families) likely a key driver
- PHI participation 58% for those submitting tax returns v 46% PHI Participation for general population



PHI participation varies by State:

- WA has the highest PHI participation of 55% compared to 42-46% for other major states

Institute of Actuaries of Australia
ABN 69 000 423 656
Level 2, 50 Carrington Street, Sydney NSW Australia 2000
t +61 (0) 2 9239 6100 **f** +61 (0) 2 9239 6170
e actuaries@actuaries.asn.au **w** www.actuaries.asn.au

- WA customers benefit from lowest RE cost ($636 WA v $786 AUS) and therefore lowest premium cost
- Victoria and Queensland (42%) have lowest participation out of major states, compared to 45% average
- NSW has higher than average participation across most ages, and SA is higher for ages 60+

4.2 Model Results

A model of PHI Hospital Participation drivers was developed by Finity based on a proprietary dataset encompassing population data from ABS, Nielsen, APRA and other sources.

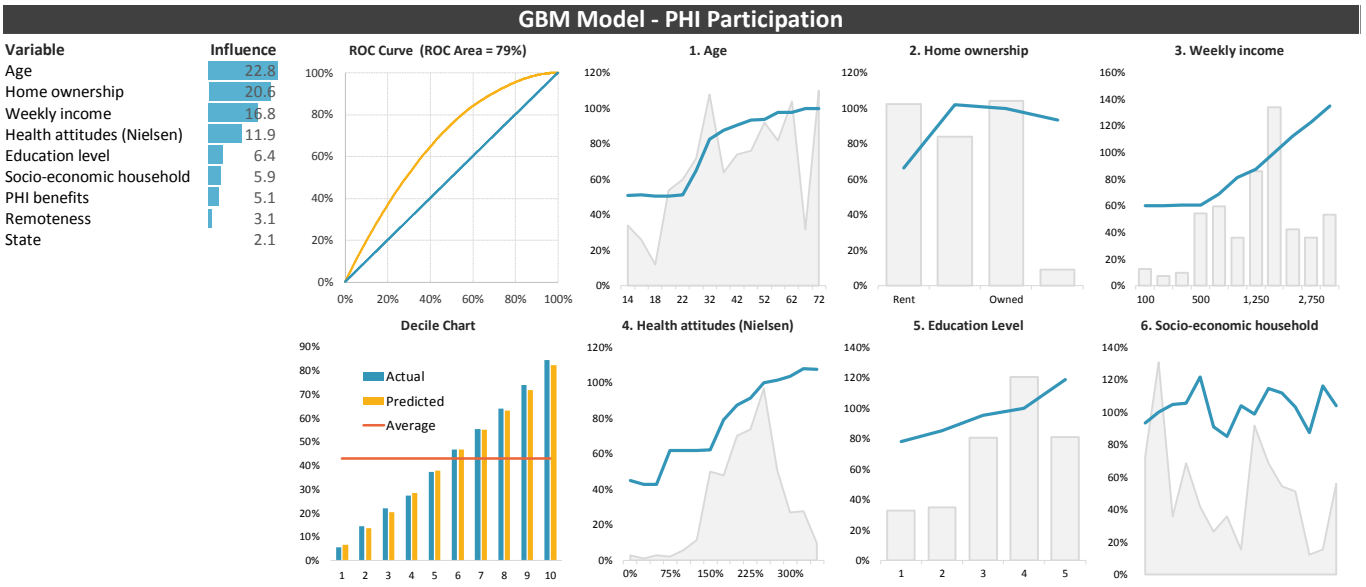
Based on the Finity model, the key drivers identified of the PHI Participation rate were as set out in the following table. The top 5 variables are highlighted in red for both the full model, and if age is removed as a factor.

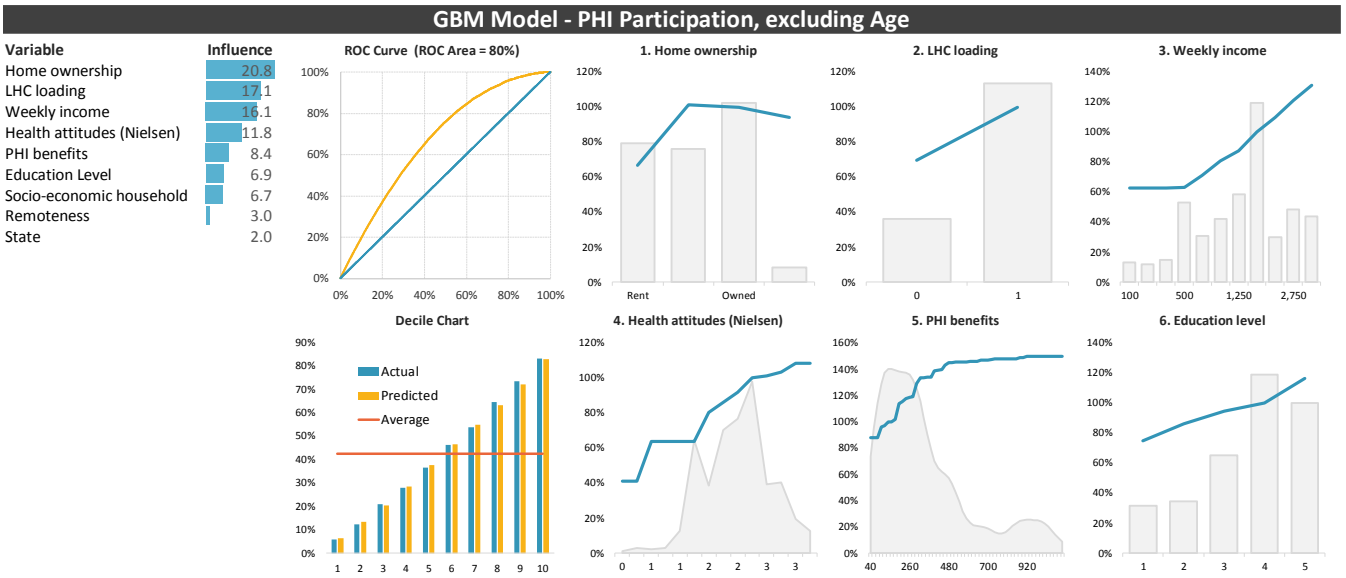
Model Variable	Influence	Influence (ex-age)
Age	22.8	-
Wealth (home ownership)	20.6	20.8
Income (household)	16.8	16.1
Health attitudes (four Nielsen qs)	11.9	11.8
Education Level	6.4	6.9
Household socio-economic	5.9	6.7
PHI benefits paid (average by age)	5.1	8.4
Location - remoteness	3.1	3.0
Location - state	2.1	2.0
Lifetime Healthcover Loading (LHC)	-	17.1

The key insights from the table above are:

- Age is the most important factor, but if removed LHC loading and PHI benefits emerge as the key underlying drivers of this factor
- Wealth (using home ownership as a proxy) and Income are significant factors, boosted by the MLS surcharge, leading to improved affordability of PHI
- Health attitudes (using Nielsen customer survey responses as a proxy) is a significant factor, indicating a more proactive health attitude leads to higher PHI participation
- Education level is also a material factor, likely a predictor of future income potential

Charts below illustrate more detailed results from the full model and if age is excluded. Both models have a strong fit to the data (79-80% explanatory power) and the graphs show a clear relationship between each significant variable with the participation rate, as well as the exposure level in the background.





5. Perceived Value - Customer Research

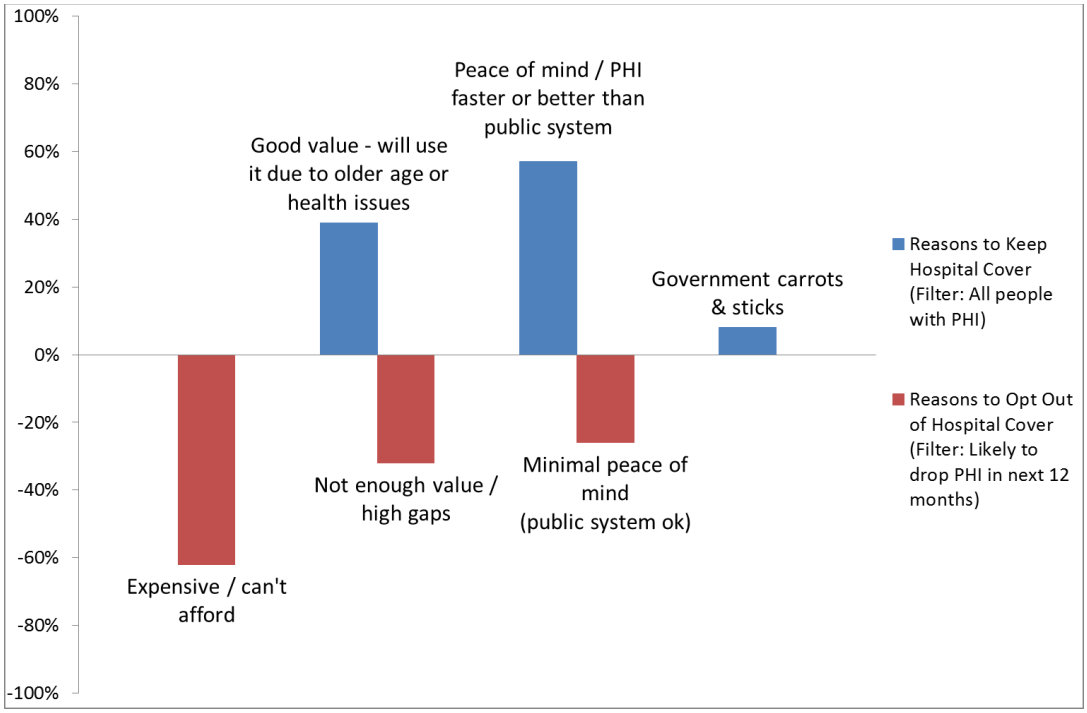
Customer research indicates a declining trend in customer perception of value in PHI. This is in the context of cost of living pressures (including housing), low wage growth, as well as rising PHI premium rates.

Table – "Is PHI Good Value?" (IPSOS, 2017)

	Population		PHI Members	
	2013	2017	2013	2017
Hospital	44%	40%	85%	79%
Extras	51%	46%	81%	75%

Institute of Actuaries of Australia
ABN 69 000 423 656
Level 2, 50 Carrington Street, Sydney NSW Australia 2000
t +61 (0) 2 9239 6100 **f** +61 (0) 2 9239 6170
e actuaries@actuaries.asn.au **w** www.actuaries.asn.au

Based on IPSOS research, the reasons that Customers keep, drop or take-up their PHI cover varies. The diagram below summarises the key drivers based on this research.



Comparing this customer research to model results and actual PHI participation, key comments are:

- Peace of mind is an important factor for customers that is not picked up directly by our model
- Age and Income/Affordability are consistently key factors
- Government sticks and carrots are reducing in influence
- Public system is a strong alternative, but need to take into account treatment waiting times and lower medical gap payments

More details of the customer research are shown in the tables below. Customers who keep their PHI do so because of the following reasons:

Institute of Actuaries of Australia
ABN 69 000 423 656
Level 2, 50 Carrington Street, Sydney NSW Australia 2000
t +61 (0) 2 9239 6100 **f** +61 (0) 2 9239 6170
e actuaries@actuaries.asn.au **w** www.actuaries.asn.au

Factors Influencing You to Keep Private Hospital Insurance When Otherwise Might Let it Drop							
Factor	% Mentioning						
	Average 2001-2005	2007	2009	2011	2013	2015	2017
Peace of mind / Feel better with cover / Never know when needed	20%	23%	29%	26%	49%	33%	27%
Age / Getting older / More likely to need it	16%	21%	18%	23%	27%	20%	23%
Waiting lists for public hospitals / No wait if private	10%	12%	17%	15%	29%	13%	20%
Poor health / Pre-existing illness / Chronic illness	7%	7%	12%	11%	9%	10%	16%
Net mentioning Government policy / Factors	12%	12%	9%	7%	18%	11%	8%
▪ *Medicare Levy Surcharge / Tax incentive*	7%	8%	6%	6%	13%	5%	5%
▪ *Lifetime Health Cover / Price higher later*	*2%*	3%	2%	1%	4%	5%	3%
▪ *30% rebate /Government rebate*	*3%*	1%	2%	1%	3%	2%	1%
▪ *Forced into it / Blackmailed by Government*	*1%*	0%	0%	-	1%	0%	-
▪ *Government ruling / Policy (nfi)*	*2%*	1%	-	-	0%	1%	-
Choice of doctor / Can use own doctor	4%	5%	6%	7%	12%	5%	6%
Cost of treatment a concern	3%	8%	3%	5%	12%	6%	5%
Have young children / Mainly for young children	9%	6%	7%	6%	8%	6%	5%
No faith in public system / Overloaded / Overcrowded	5%	5%	7%	5%	9%	8%	4%
Always had it / Carried on from parents, etc.	3%	4%	4%	5%	12%	6%	4%

Source: Ipsos Healthcare & Insurance Australia 2017, B12a(iii). Filter: All people with PHI

Customers who are likely to drop their PHI consider doing so for the following reasons:

Reasons Likely to Opt Out of Hospital Cover	% Respondents Likely to Opt Out Mentioning:		
	2013	2015	2017
Too expensive / Can't afford	82	70	62
Not enough value for money / 'gap' still too high / Benefits not enough	10	22	32
Don't really need due to Medicare /Medicare sufficient / Not worth it when Medicare / Public system available	25	36	26
No tax incentives to have cover/no incentives	1	0	11
Need to shop around/compare/weigh up options/benefits	–	7	6
Job related change or shift to Veterans' Affairs card	4	15	1
Service from fund poor / Dissatisfied	4	0	1
Don't know / Unsure / Just a feeling	–	0	1
Offer no claim bonus rewards	4	–	–
Only need extras / Ancillary	–	–	–

Source: Ipsos Healthcare & Insurance Australia 2017, B11d. Filter: Likely to drop PHI in next 12 months

Customers who are likely to take-out PHI hospital cover consider doing so for the following reasons:

Trend Analysis

Influencing Factors in Taking Out Private Hospital Cover

(Prompted – Joined in Last Three Years – New-to-Markets)

Reason (can be more than one)	2005	2007	2009	2011	2013	2015	2017
When your annual tax return was being reviewed	24%	25%	31%	21%	26%	27%	22%
Advice from an accountant or financial advisor	26%	21%	28%	22%	14%	12%	12%
Net mentioning tax reasons/accountant	**33%**	**28%**	**42%**	**32%**	**30%**	**30%**	**22%**
Being near your 30th birthday or in early thirties	30%	28%	24%	19%	22%	31%	18%
Removal of LHC age premium surcharge after ten years[2]	NIL	12%	4%	8%	-	-	-
Seeing or hearing advertisements from comparator services reminding you about reasons to take out PHI, or do it now	N.A	N.A	N.A	N.A	19%	23%	11%
Seeing or hearing advertisements from health insurance funds reminding you about reasons to take out PHI, or do it now	N.A	N.A	N.A	N.A	17%	27%	11%
A negative experience as an inpatient in a public hospital	N.A	N.A	N.A	6%	12%	5%	7%
A negative experience at a public hospital emergency department	N.A	N.A	N.A	5%	14%	8%	5%
None of the above/ don't know[3]	50%	53%	43%	47%	36%	39%	61%

Shading denotes significant change in latest survey

Source: Ipsos Healthcare & Insurance Australia 2017

6. True Value - Hard Factors

6.1 Customer P&L: PHI Premiums and Benefits

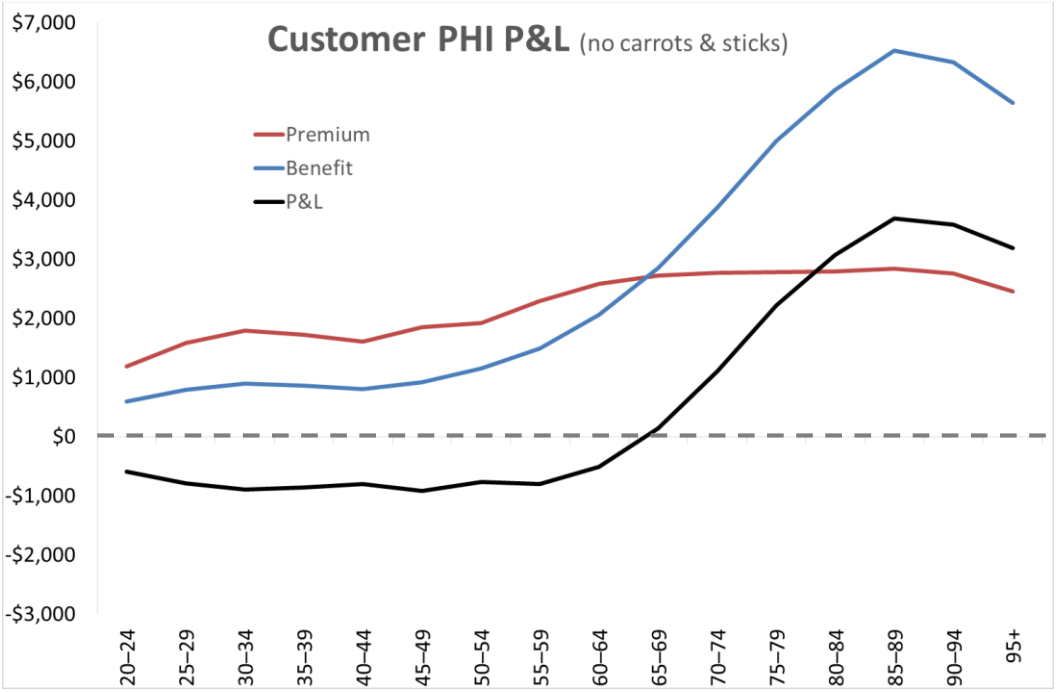
PHI premiums have increased significantly over the past decade impacting affordability of PHI, but PHI benefits have increased at a similar rate. So, on average, customer value as measured by PHI benefits less premiums has not materially shifted, however, the variation by age and customer type has changed materially. It is therefore important to understand these changes based on what we are calling the "Customer P&L".

Based on APRA industry statistics, the average PHI Hospital premium per policy has increased over the 10 years to 2017-18 by 61% (=4.8% CAGR) to $3,128. However, Hospital benefits per policy increased by a similar amount (63% = 5.0% CAGR) over this period. This has led to PHI Hospital gross margin reducing over this period from 11.8% to 10.6%, equivalent to $332 per policy in 2017-18.

Although on average the benefits paid to customers has increased, there is a significant variation by age. Young customers are paid on average much lower benefits than older customers compared to the premium they pay. This outcome is due to the Community Rating principle for PHI to charge the same premium to all

customers for a given level of cover, irrespective of age, health status or other factors.

The diagram below shows the average Customer P&L by age before impact of PHI Rebate, Youth discounts and other Government sticks and carrots. Average Hospital member pays $1662 premium, receives $1476 benefits, for net "Customer P&L" loss of -$186. Customer P&L varies significantly by age: -$800 to -$900 for ages 20-59, up to +$2000 to +$3000 for ages 75+.

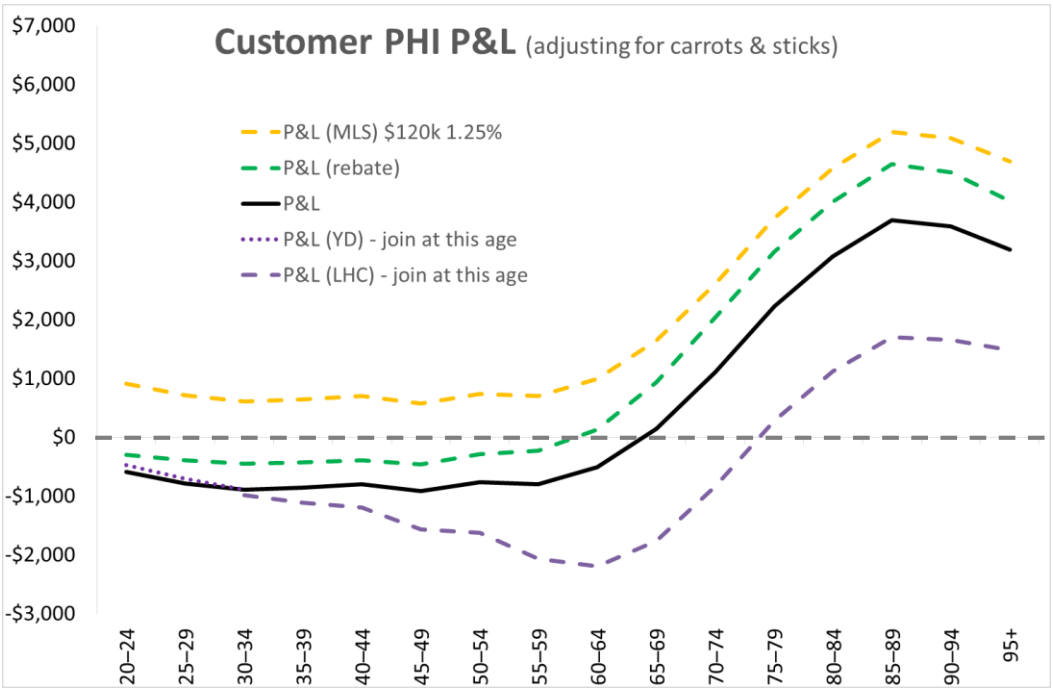


Source: APRA 2018 industry data, Actuarial estimates

The average industry price increase reduced to 3.25% for 2019 through a combination of Government reform and reduced Claims inflation – even if there is no 2% price cap, PHI industry should continue efforts with Providers to maintain the lowest increase possible for customers. However, the positive impact of say a 1% lower premium increase in the short term is limited, compared to the size of the negative Customer P&L on younger customers. To have a more significant impact on true value for younger a customers a review of Government policy may be needed.

6.2 Government Policy

The impact of current Government "carrots and sticks" on the Customer P&L is illustrated in the diagram below. This shows the baseline P&L as explained above, and updates this to show the customer impact of the PHI Rebate (base level), MLS surcharge (for an annual income in the middle MLS tier of $120k), Lifetime Health Cover (LHC) loading, and Youth Discounts.



Source: APRA 2018 industry data, 2019 PHI base rebate, Actuarial estimates

Key comments on above:

- Overall, Government "carrots and sticks" have a significant impact on Customer P&L ie. True customer value
- LHC loading (to incentivize to join PHI in ages 30-34) and MLC surcharge (for higher incomes) are the most significant policy levers impacting customer value
- Most customers benefit from the PHI rebate, and all members under 30 with participating PHI funds benefit from the Youth Discount. The impact of these factors is to improve the average Customer P&L to a gain of +$283, but the strong variation by age remains.
- Youth discount impact is lower than other levers, however, the customer value is higher than illustrated above if the customer keeps their PHI cover until age 40-45, as the discount applies for each year throughout this duration

Based on customer research, there is low awareness of recent PHI reforms (Mental health waiver, Youth discounts, $750 excess, Product classification). As these reforms all improve customer value and transparency, there is a potential opportunity to increase awareness through publicity and marketing.

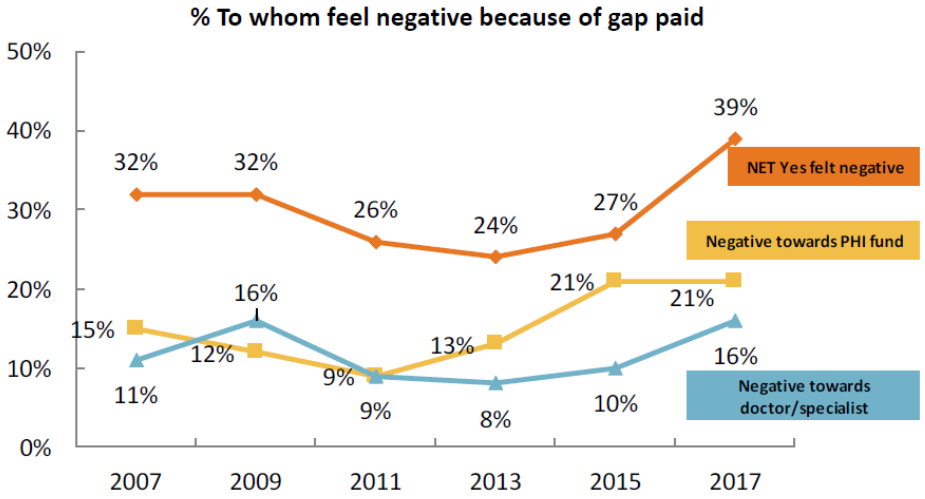
7. True Value - Soft Factors

6.1 Medical Out of Pocket costs

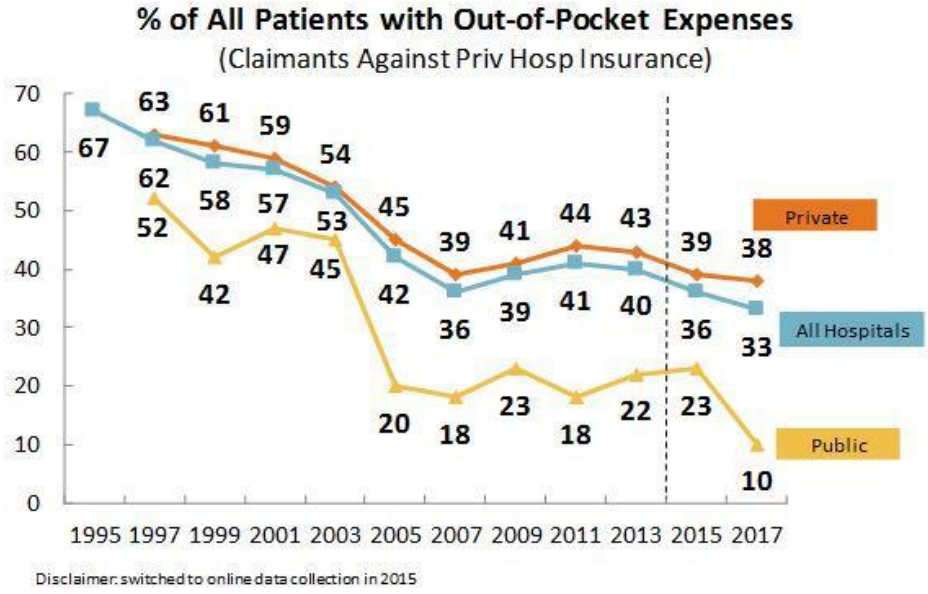
Medical out of pocket expenses are a significant driver of discontent with the private system, particularly in the context of rising cost of living and increasing private health insurance premiums.

IPSOS Customer Research

- Customers negative perception is increasing to 39% of private patients experiencing a gap, with majority negative perception to PHI funds moreso than the Doctor or Specialist
- However, the proportion of payments with out-of-pocket expenses is reducing, albeit public system has seen stronger declines than private



Source: Ipsos Healthcare & Insurance Australia 2017, A17d(ii)/A17d(iii). Filter: Admitted to hospital in last 2 years and had a gap



Source: Ipsos Healthcare & Insurance Australia 2017, A17c. Filter: Admitted to hospital in last 2 years and claimed against PHI

Private Industry Data (HCP)

- For 2016-17, proportion of privately-insured hospital separations with no gap was 49%
- Out of 3.3m hospital separations with a medical component, 51% had a gap payment with average amount of $574, with total gap cost of $627m

- The gap payments can vary significantly by procedure, with average gap payments of up to $4,000-$5,000 for some procedures.
- The figures are similar to 3 years' previous: for 2013-14, 49% of separations had a gap payment with average amount of $561
- APRA data in table below is on a per service basis, and shows that total gap payments for calendar year 2018 were $762m which represented 3.2% of PHI premium revenue.

Table – Hospital Treatment Medical Services Gap Payments (APRA, 2018)

12 months to December 2018	Amount charged $m	Medicare benefit $m	Fund benefit $m	Gap $m	Number of services '000	% of services	Amount charged % of MBS
Grand total	6,070	2,924	2,384	762	38,722	100%	156%
Total services with no gap	4,318	2,356	1,961	0	34,020	88%	137%
Total services with gap	1,752	567	423	762	4,702	12%	232%

Public Industry Data (AIHW, Medicare)

- Medicare does not always cover the full cost of medical services. Doctors and other health care providers are free to set their own fees for consultations and procedures and the patient may need to contribute to the cost of those services.
- Nationally, it is estimated that Australians spent $29.4 billion out-of-pocket on all their health-related expenses in 2015–16—or about $1,195 per person. This compares with $141 billion spent on health by governments, private health insurers and accident compensation schemes (AIHW 2017).
- Out-of-pocket costs in 2015–16 were from many sources including Prescription and non-prescription medicines ($10.8 billion), Dental services ($5.7 billion), Hospital services ($3.3 billion) and Non-hospital Medicare-subsidised services ($2.9 billion).
- Based on Medicare data, for 2017-18, the scheduled fee was charged for 82.1% of services, with other cases costing the average patient $108 per hospital service and $63 per out-of-hospital service. This cost increases to $778 for obstetrics service.
- Based on AIHW, in 2016-17, half of all patients—10.9 million people—incurred out-of-pocket costs for non-hospital Medicare services. For these patients with costs, the median amount spent in the year was $142 per patient. The 10% of patients with the highest costs spent at least $601 or more in the year. Patients were more likely to pay for specialist and obstetric services. These services also attracted the highest out-of-pocket costs per service.

Key points based on research above are:

- Medical OOPs are a key PHI customer concern
- Private OOPs have not significantly increased in recent years, but customer perception of this issue has increased especially when it is a surprise communicated late in the process
- Total cost of Private OOPs is around 3% of PHI premium revenue – the perceived cost and PHI reputational damage is likely much higher than this, so there is a potential opportunity to improve customer value

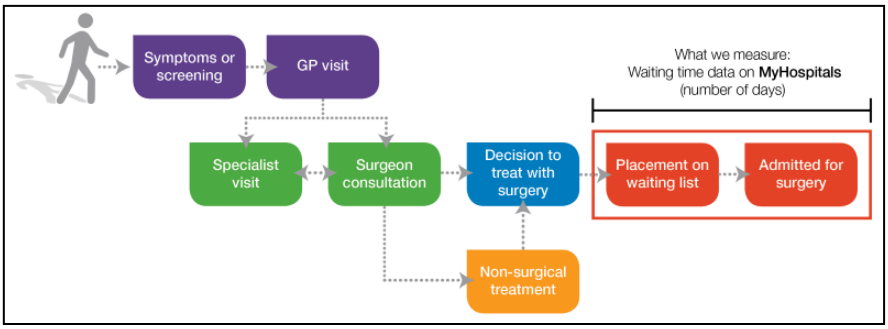
Institute of Actuaries of Australia
ABN 69 000 423 656
Level 2, 50 Carrington Street, Sydney NSW Australia 2000
t +61 (0) 2 9239 6100 **f** +61 (0) 2 9239 6170
e actuaries@actuaries.asn.au **w** www.actuaries.asn.au

- Public OOPs for Medicare are overall significant (with Private Medical OOPs representing around 4% of the total), but the average OOP costs for elective surgery are higher for Private than the Public system.

6.2 Treatment Waiting Times

Access to Hospital and medical services with reduced waiting periods is an important benefit to customers choosing the Private Health system.

Data on waiting periods is available for Public hospitals (AIHW), with waiting period defined as per diagram below. Data from 2017-18 shows median waiting time of 40 days for elective surgery in Public Hospitals, but wide variation depending on location, procedure and other factors. The 90th percentile waiting period was 268 days in 2017-18 as an indicator of this variation.



Another important part of the waiting period is the time from the initial GP visit to the initial specialist appointment. The Grattan Institute and an HBF study both highlight that this 'hidden' waitlist can be significant. Victoria Health Services has published data showing median wait to first specialist appointment of 56 days for a routine case, with 90th percentile wait of 252 days.

From a comparison perspective, private hospital waiting lists are not reported. Based on Grattan Institute and HBF they are typically not long, with a wait of around 2-4 weeks more to do with the surgeon's schedule than anything else. Also, the initial specialist appointment is also generally within 2-3 weeks of GP referral. So the comparison is that private allows patients to have surgery when you want and the surgeon is ready, whereas the public wait time will more depend on clinical need, capacity, length of wait list, etc. which can be much longer depending on the case.

IPSOS research from 2017, based on customer responses, indicates that the average waiting time for non-emergency admissions was 25 days for Private and 89 days for Public. Further, the trend for Public was an improving since 2013, however, AIHW data does not indicate an improvement over this period. AIHW data for median waiting time is 36 days in 2013-14 compared to 40 days in 2017-18; and 90th percentile has moved from 262 days to 268 days over the same period.

Key points based on research above are:

- Waiting times are shorter for the Private system compared to Public based on the evidence available

- Public hospital waiting times can have a much bigger variance, and so Private provides greater peace of mind for hospital access when you most need it
- Customer perception of improvement in Public hospital waiting times, is not consistent with reported data

8. Further Areas of Investigation

Potential further areas of investigation not pursued in this paper, include:

- International case studies, identifying examples of high customer value (perceived and/or true) and what were the underlying structures, innovations, conditions for this to occur? Eg. Kaiser Permanente in US, Discovery Health in South Africa
- Perceived and True Value by Health status (using new health status data sources), and underlying drivers of why Health attitudes materially impact PHI participation rate
- Review of PHI marketing and publicity to identify the extent to which the key messages match the sources of true value that are least well understood
- Assessment of changes in perceived and true value historically, and projecting forwards. Attempt to quantify the impact of potential opportunities compared to a do-nothing scenario

Acknowledgements

The authors greatly appreciate the input and review from the following people:

- Antony Claughton, Calise Liu, Luke Cassar (Finity)
- Nicholas Stolk (DBN)
- Judy Wang (Australian Unity)
- Mark Solonsch, Nick Bailey, Peter Coon, Andrew Matthews (Medibank)
- Rosanne Gordon (IPSOS)

References

- APRA Private Health Insurance Industry Data, for example https://www.apra.gov.au/sites/default/files/private_health_insurance_membership_and_benefits_statistics_december_2018.xlsx
- ATO data
- IPSOS, Healthcare & Insurance Australia 2017
- Defin'd: Finity Consulting's proprietary data asset containing modelled demographic and psychographic information for each individual in Australia, including Nielsen Consumer and Media View surveys from 2014 to 2017, and Australia's Health Tracker Atlas for health risk factors
- AIHW data and reports, for example https://www.aihw.gov.au/reports/hospitals/elective-surgery-waiting-times-2017-18/contents/table-of-contents

- HCP data, https://www.health.gov.au/internet/main/publishing.nsf/Content/health-casemix-data-collections-publications-HCPAnnualReports
- Grattan Institute, https://grattan.edu.au/news/getting-an-initial-specialists-appointment-is-the-hidden-waitlist/
- HBF waiting list report, https://www.hbf.com.au/media-releases/waiting-lists-report
- Medicare statistics, https://www.health.gov.au/internet/main/publishing.nsf/Content/Annual-Medicare-Statistics
- Victoria Health Services performance statistics, http://performance.health.vic.gov.au/Home.aspx

Institute of Actuaries of Australia
ABN 69 000 423 656
Level 2, 50 Carrington Street, Sydney NSW Australia 2000
t +61 (0) 2 9239 6100 **f** +61 (0) 2 9239 6170
e actuaries@actuaries.asn.au **w** www.actuaries.asn.au