

Is the Gold Private Health Insurance Hospital Tier Sustainable?

What is happening, do they have a problem and
where is the hospital tier heading?



Is the Gold Private Health Insurance Hospital Tier Sustainable?

Presenters and preparers



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Welcome to Country

I'd like to begin by acknowledging the Traditional Owners of the land on which we meet today, the many people of the nations across this wide country of ours, and pay my respects to Elders past and present.



Important notice for all participants

This meeting is being conducted in accordance with Institute's Code of Conduct and attended by members in their professional capacity.

It is acknowledged that professional members in their employed capacity, may be active market participants in their respective industries who may compete with each other as defined by competition law.

Participants are, therefore, reminded that in accordance with their competition law compliance obligations they should not:

- discuss any matter that may be perceived as being cooperation by competitors in a market to influence that market;
- discuss any matters that could be regarded as fixing, maintaining or controlling prices, allocation of customers or territories, coordinating bids and/or restricting output or acquisitions in any circumstances;
- share commercially sensitive information relating to their employer; or
- share information for an anti-competitive purpose.



Agenda

- Background
- What is the data saying?
- Potential issues for gold hospital products
- Discussion
- Next steps



Background

What is the Gold Hospital product, and why might it be ill?



HPC working group

- In January, Health Practice Committee convened a Gold Hospital Working Group to better understand the Gold Products situation
- First meeting of the Working Group in March-24
- Working Group has produced an analysis paper and a potential issues paper
- Seeking input from this group on appropriate next steps



How does Private Health Insurance (PHI) work?

Features of PHI

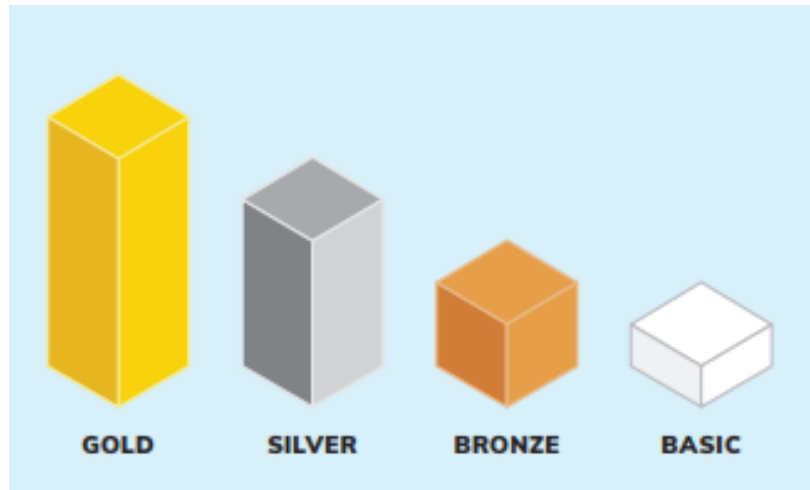
- Community rating – same price for everyone
- Government carrots and sticks: Lifetime health cover loading, tax levy and PHI rebate
- Risk equalisation
- Residential and overseas visitor/student products
- All products registered with Department of Health and Ageing
- Restricted versus open-membership funds
- Open and closed products

Concerns in PHI insurance

- Asymmetric information
- Level of risk pooling
- Optionality of involvement
- Cross-subsidies between groups



What is 'Gold' Insurance?




Features of Gold products

- Hospital products have legislated **minimum** coverage requirements
 - “Plus” versions of each can cover additional items at the PHI Insurers’ discretion
- Gold is the ‘Top tier’ complete cover
- All hospital treatments that can be covered by PHI Insurers must be covered by a gold policy
- Twenty years ago, virtually all hospital products were equivalent of Gold



Recent Media Coverage



 Australian Broadcasting Corporation

Health insurers accused of charging more for top-level hospital cover than price cap set by federal government

Major health insurers are using "sneaky tactics" to charge premiums for their top-tier hospital policies that far exceed the federal government's approved...

14 Feb 2024



hbf

 Yahoo Finance AU

Bupa, Medibank, HCF: Health insurers accused of 'jacking up' prices

Australia's major health insurers are significantly hiking premiums for top-tier hospital cover, consumer group CHOICE says.

14 Feb 2024



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HEALTH 




 CHOICE

Insurers hiding soaring increases to top-level health cover

CHOICE research discovers some Australians are paying more than three times the headline premium increase for top-grade hospital insurance.

14 Feb 2024



 Australian Broadcasting Corporation

'A snake eating its own tail': Some private health insurance policies have increased up to five times the approved average

Multiple private health insurance funds have raised premium prices by as much as five times the approved annual increase for certain policies.

23 May 2024

 westfund
Health Insurance



 nib



Defence
Health 

Industry warnings

Dr David said the price of “Gold” health insurance policies can also be prohibitively expensive for people wanting private maternity care. The product tiering system was introduced by the previous Federal Government over five years ago, despite warnings from the sector it would be highly inflationary for top hospital cover. It’s now well past time for these regulations to be reviewed.

<https://privatehealthcareaustralia.org.au/obstetricians-urged-to-reduce-fees-for-private-maternity-care-in-a-cost-of-living-crisis/>

Key Findings - Department of Health Evaluation of proposed PHI product reforms FINAL REPORT (6 September 2017)*

In particular, eliminating so called “junk” policies comes with a cost. While enhancing the coverage of the Bronze level of cover is a key policy aim, there are challenges around keeping the cost of premiums for this level affordable and segmenting the risk across the three categories in such a way that mitigates the risk of anti-selection.

Key finding # 4 – The risk of anti-selection weakens the viability of many of the Approach 1 design variations

Our modelling assumes that for benefits where there are changes to their categorisation, this will trigger movements by expected claiming members. These members are assumed to move to the new lowest product level containing the benefit they want. This leads to shifts in claims costs between products. In particular, our analyses indicate a risk for Silver drawing rates to overtake Gold arising from this effect.

** The report assumed psychiatric would be a Silver-tier service and there would be no ‘Basic’-tiered products*



General observations and impressions (not strictly data based)

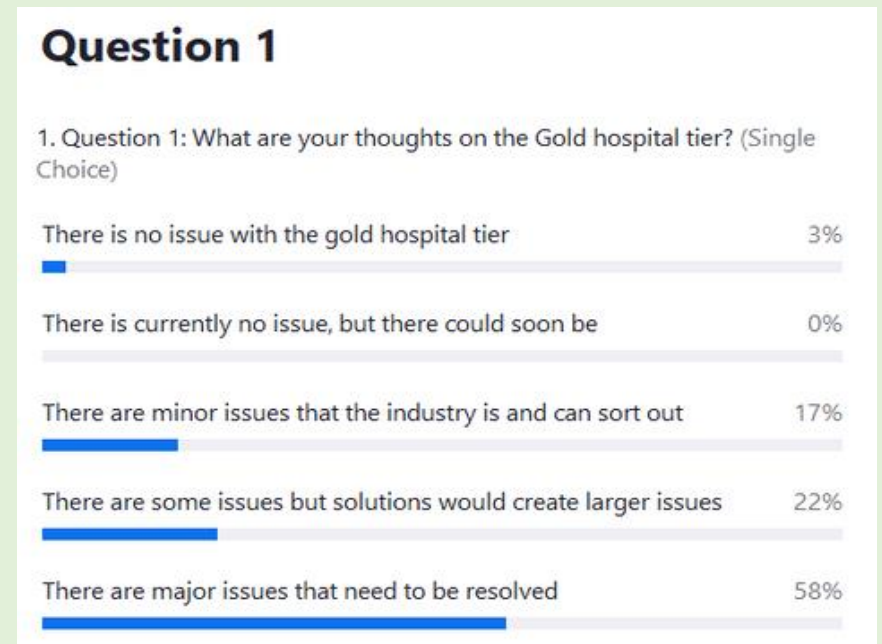
- Open vs. Closed products - major funds recently closing and relaunching Gold products at a higher price point
- Many “good risk” books of gold members are being closed to new members and receiving lower increases
- Higher excesses + out-of-pockets – funds removing lower-excess purchase options
- Masking availability of Gold products (i.e. “under the counter”)
- Declining levels of full-level hospital coverage across Industry
- Open Gold skews younger than closed gold

Are these observations and impressions backed up by data?



- Question 1: What are your thoughts on the Gold hospital tier?
 - A1: There is no issue with the gold hospital tier
 - A2: There is currently no issue, but there could soon be
 - A3: There are minor issues that the industry is and can sort out
 - A4: There are some issues but solutions would create larger issues
 - A5: There are major issues that need to be resolved

There will be 30 seconds to respond to each question



- Question 2: Can community rating and hospital tiers work?
 - A1: Yes
 - A2: Maybe, with some government intervention
 - A4: Maybe, but with significant government intervention
 - A2: No

Question 2

1. Can community rating and hospital tiers work? (Single Choice)



Discussion points

- Is there actually an issue with current trends in ‘Gold’-tier products?
- If not, when does it become an issue?



What is the data saying?

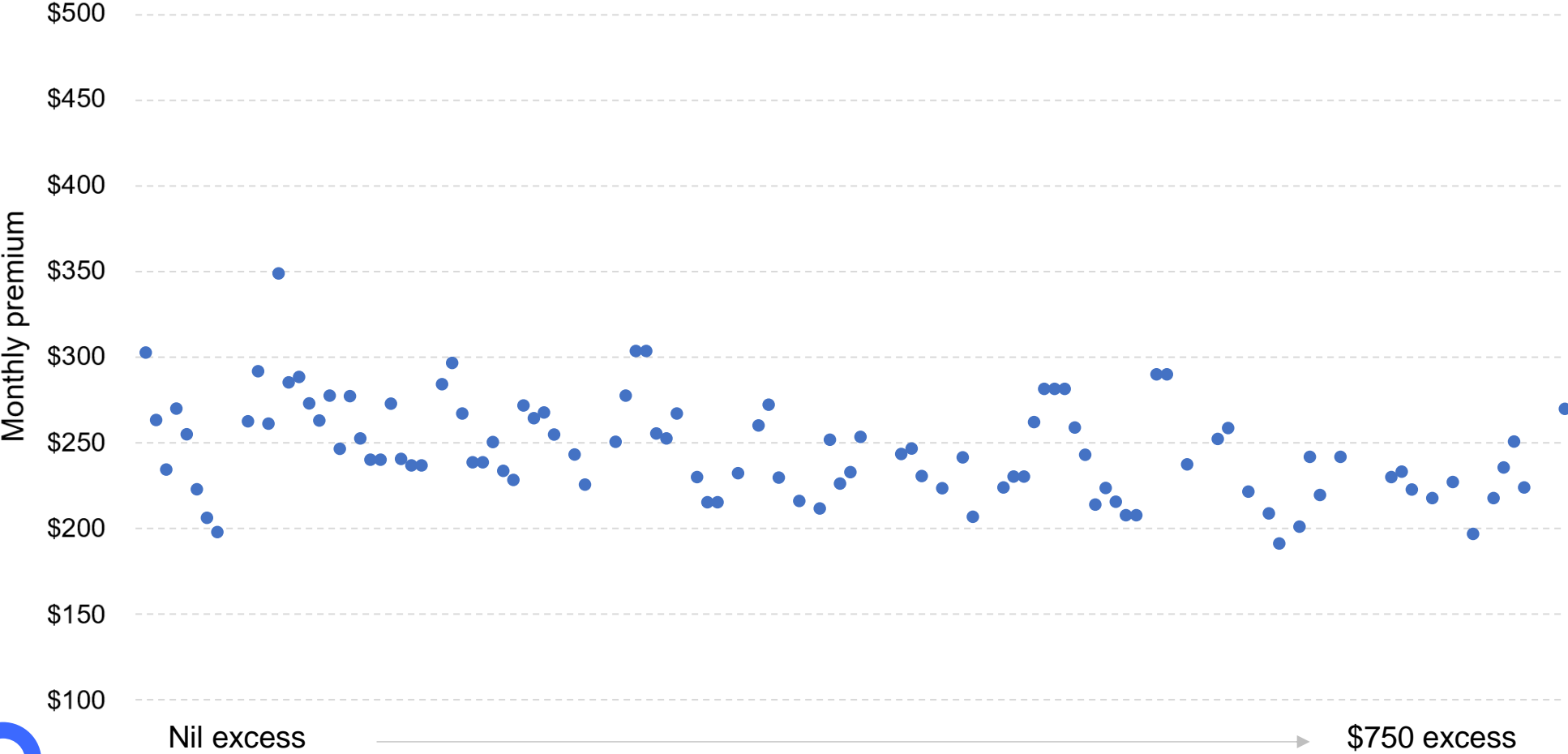
Is there a problem?



Market observation 1: Accessibility

Number of open for sale, retail, Gold tier hospital products

July 2020



112
Products

\$246
Average monthly premium

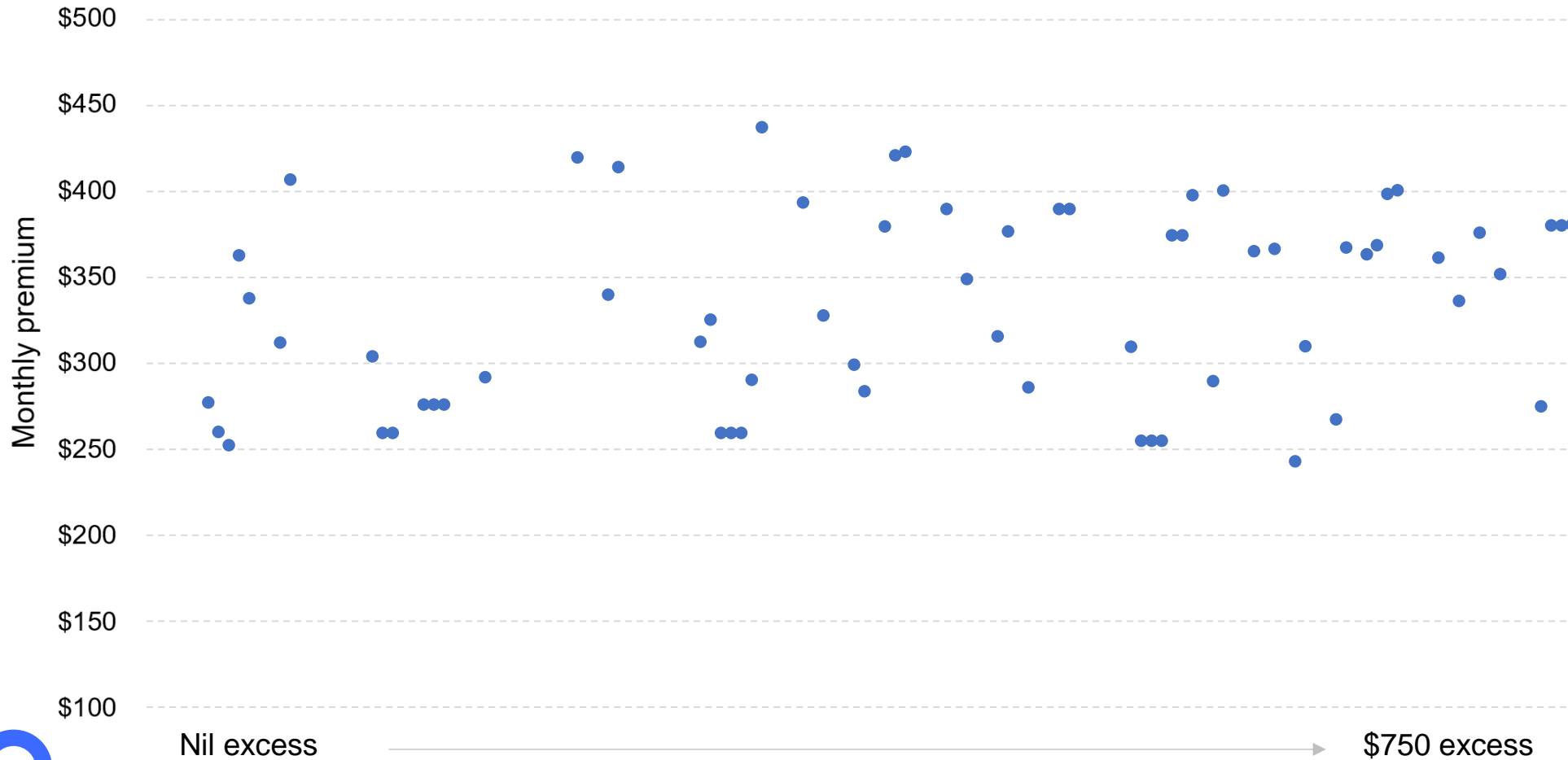
\$389
Average excess



Market observation 1: Accessibility

Number of open for sale, retail, Gold tier hospital products

July 2024



73

Products

\$336

Average monthly premium

\$473

Average excess



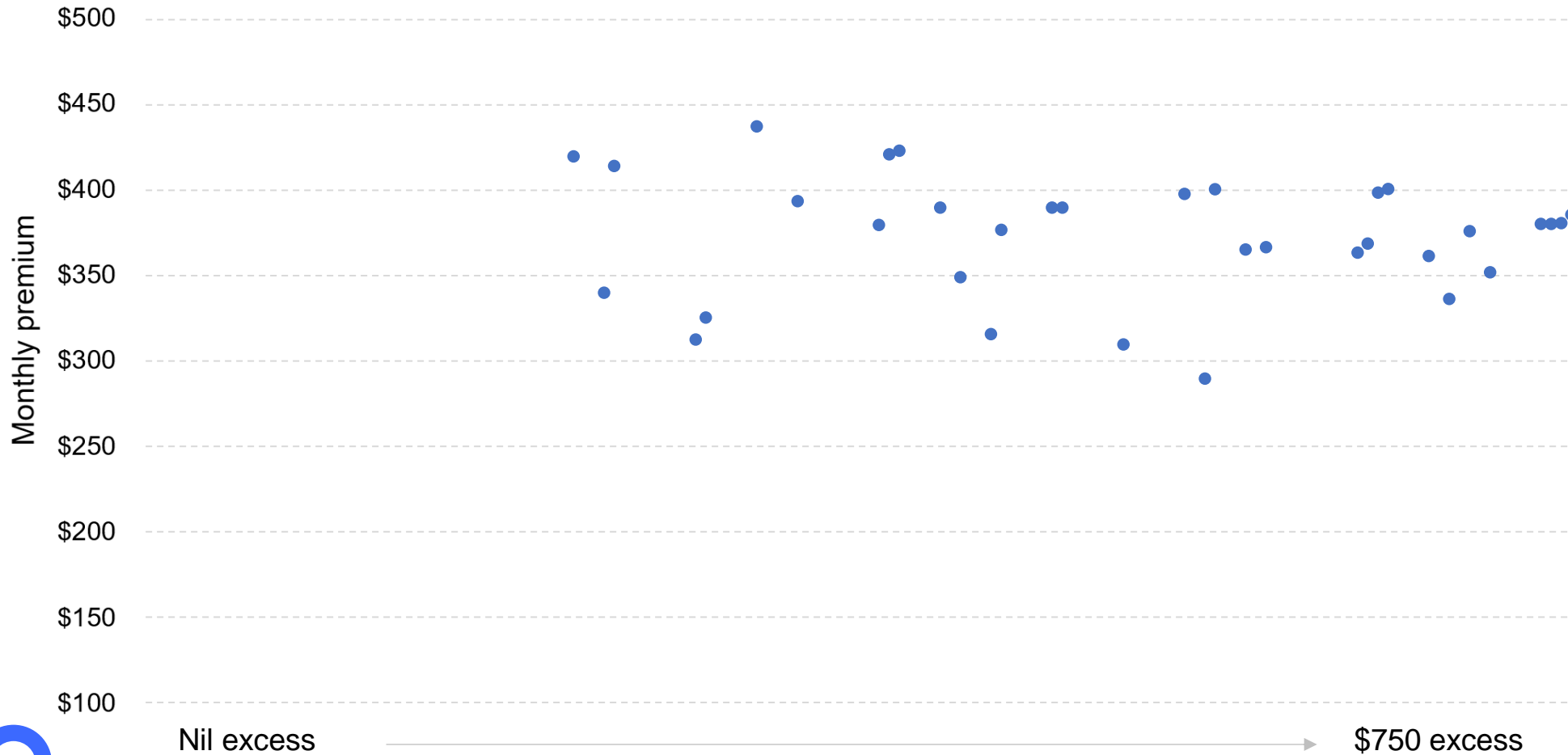
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Source: PHIS Data, product status and premiums based on single policies in Victoria, premiums shown monthly with no rebate or discounts

Market observation 1: Accessibility

Number of open for sale, retail, Gold tier hospital products

July 2024 – open membership funds



41
Products

\$369
Average monthly premium

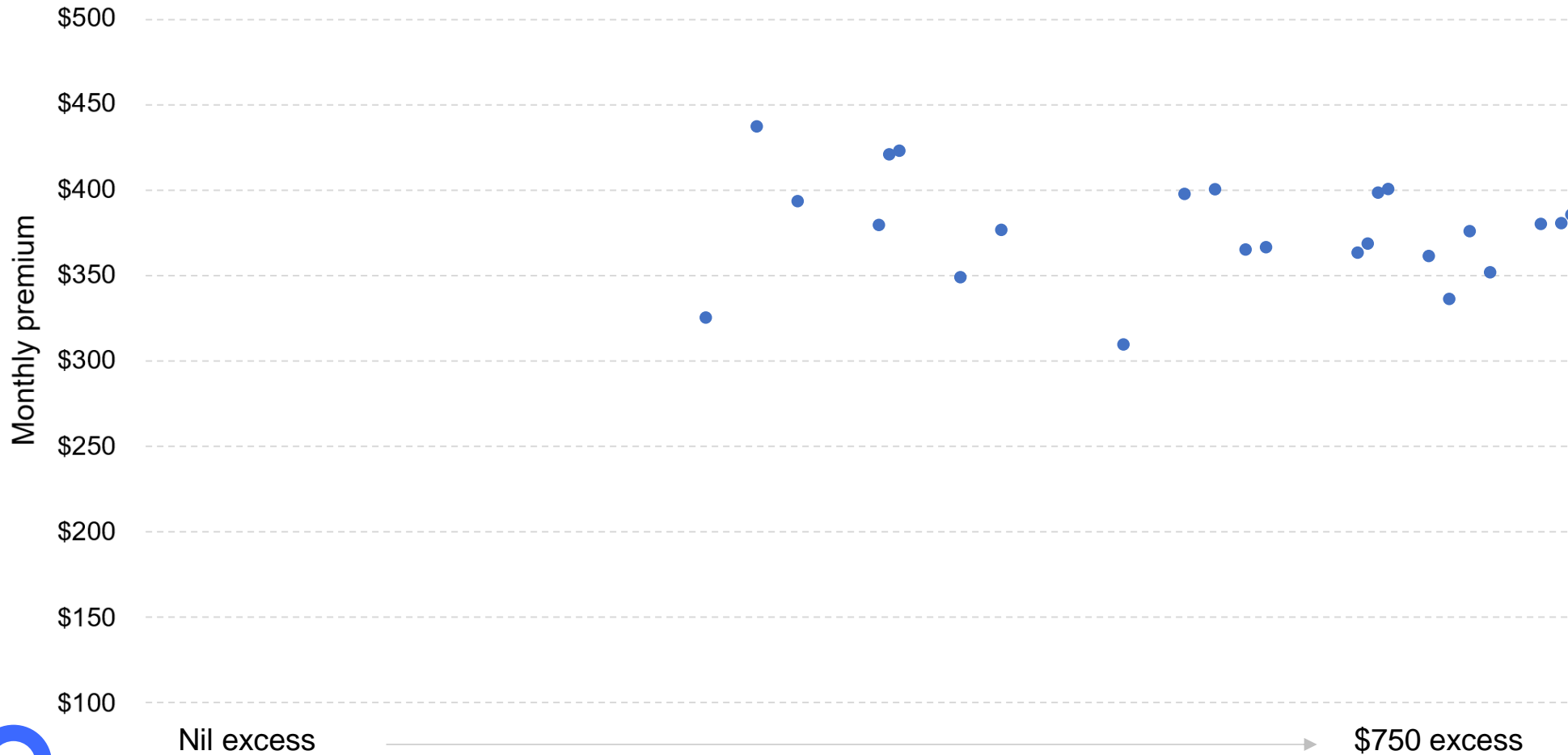
\$605
Average excess



Market observation 1: Accessibility

Number of open for sale, retail, Gold tier hospital products

July 2024 – open membership funds, product available online (at 23 Sep 2024)



29
Products

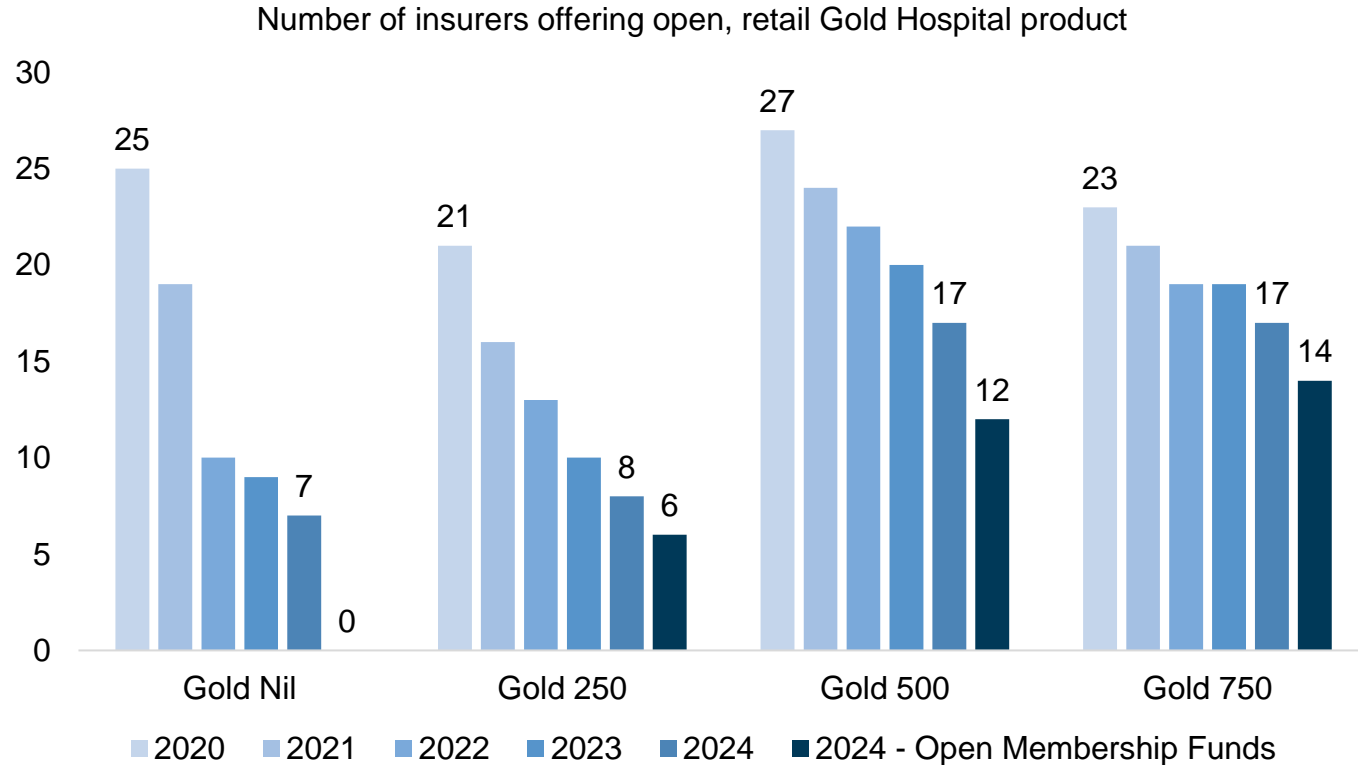
\$374
Average monthly premium

\$657
Average excess



Market observation 1: Accessibility

Number of insurers offering Gold tier products



The number of funds offering Gold tier has reduced significantly over the past five years.

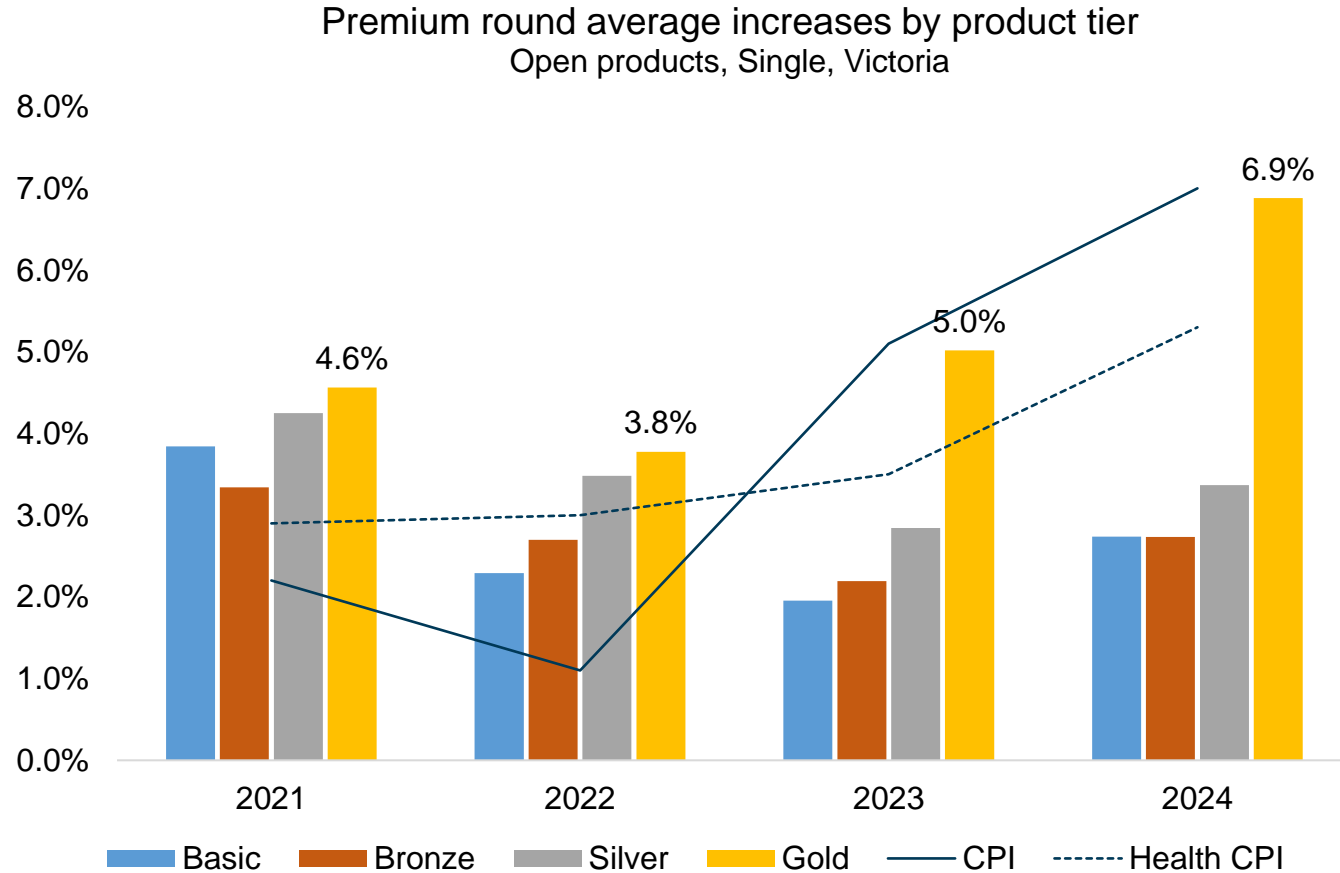
No open membership funds offer a nil excess product. There remains availability in all other excess markets, however, the number of funds playing in the \$250 and \$500 excess markets has reduced.

14 of the 25 open membership funds / brands listed in PHIS data are currently offering an open for sale \$750 excess level at July 2024.



Market observation 2: Affordability

Average premium change of open retail Gold products – annual premium round



Since 2020 open Gold tier products have received higher premium increases compared to other product tiers.

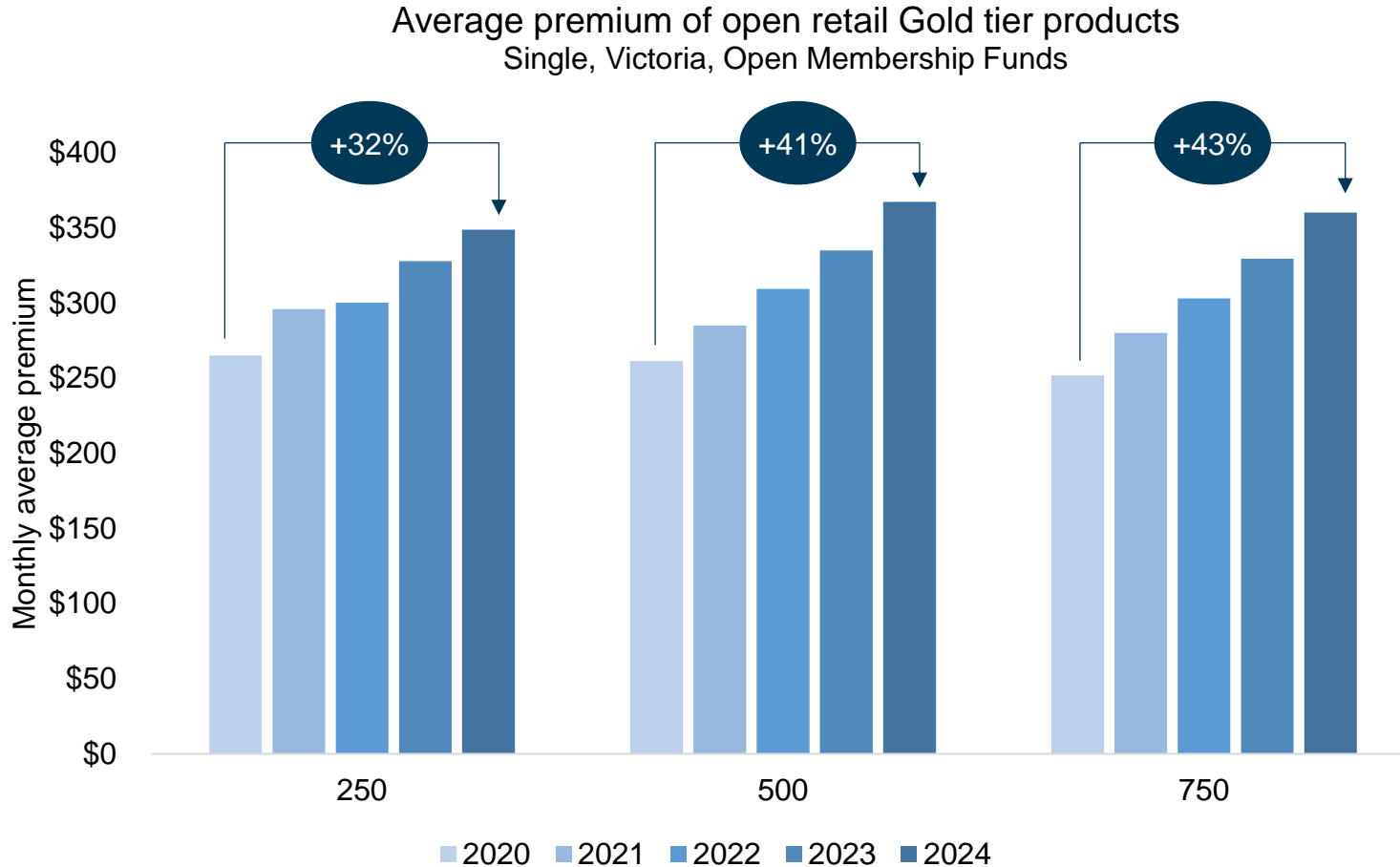
A notable shift in premium increase is evident in 2023 and 2024 with open Gold tier products receiving significantly higher than average increases.

Cumulative gold change across the four years is 22%.



Market observation 2: Affordability

Average premiums of open retail Gold products over time



Whilst Gold premiums have increased by 22% through annual premium round over the past four years, this do not show the full picture.

Following product closures and relaunches, the average cost of a \$750 excess Gold product in the market has increased by 43% over 4 years.

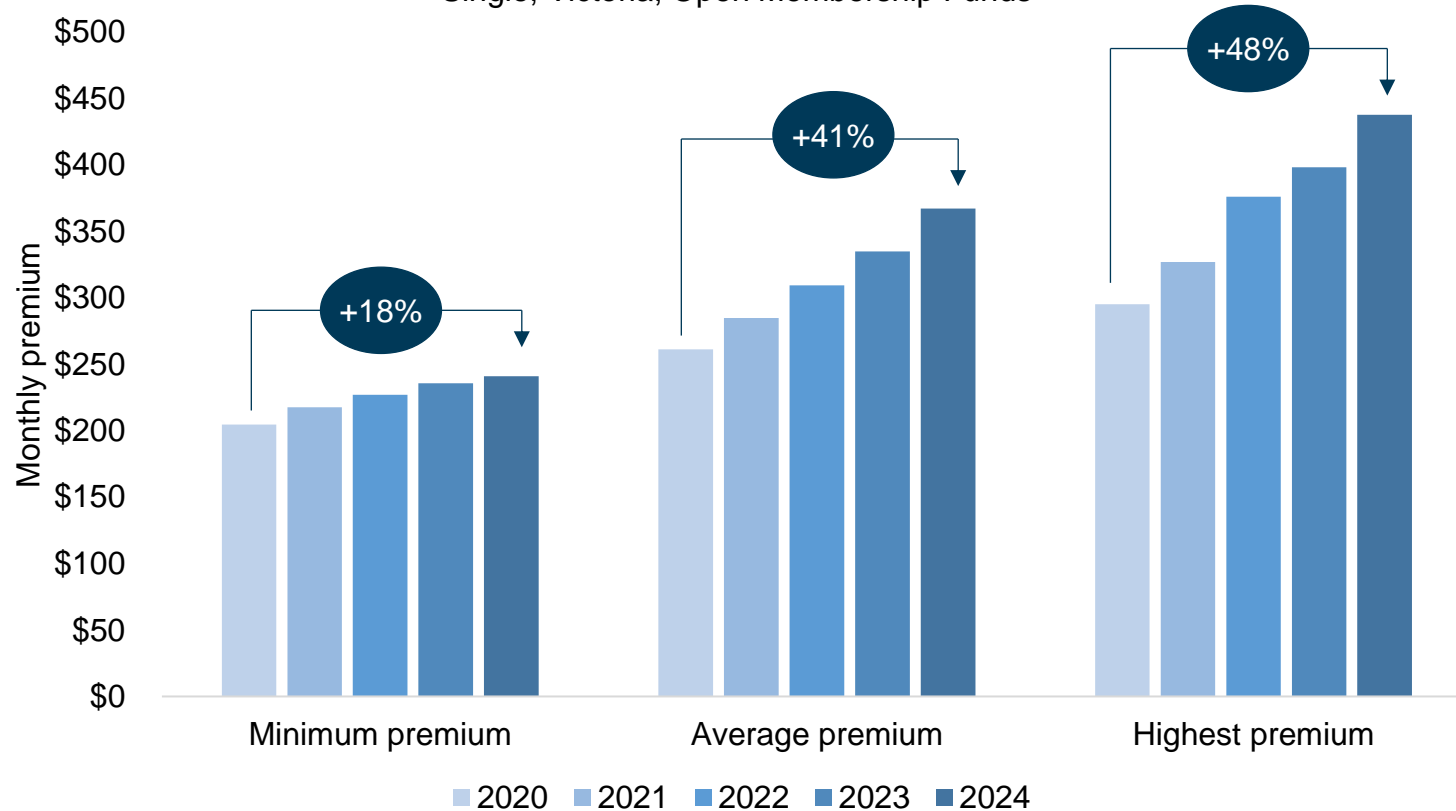
Furthermore, the average cost of the \$500 excess level is higher than the \$250 excess – noting the limited availability of \$250 excess the market with many not for sale on funds websites.



Market observation 2: Affordability

Spread of premiums of open retail Gold products over time

Premium spread of open retail Gold tier \$500 excess products
Single, Victoria, Open Membership Funds



While it's evident that the average premiums of open for sale Gold tier products have increases significantly, the spread of increases tells a slightly different story.

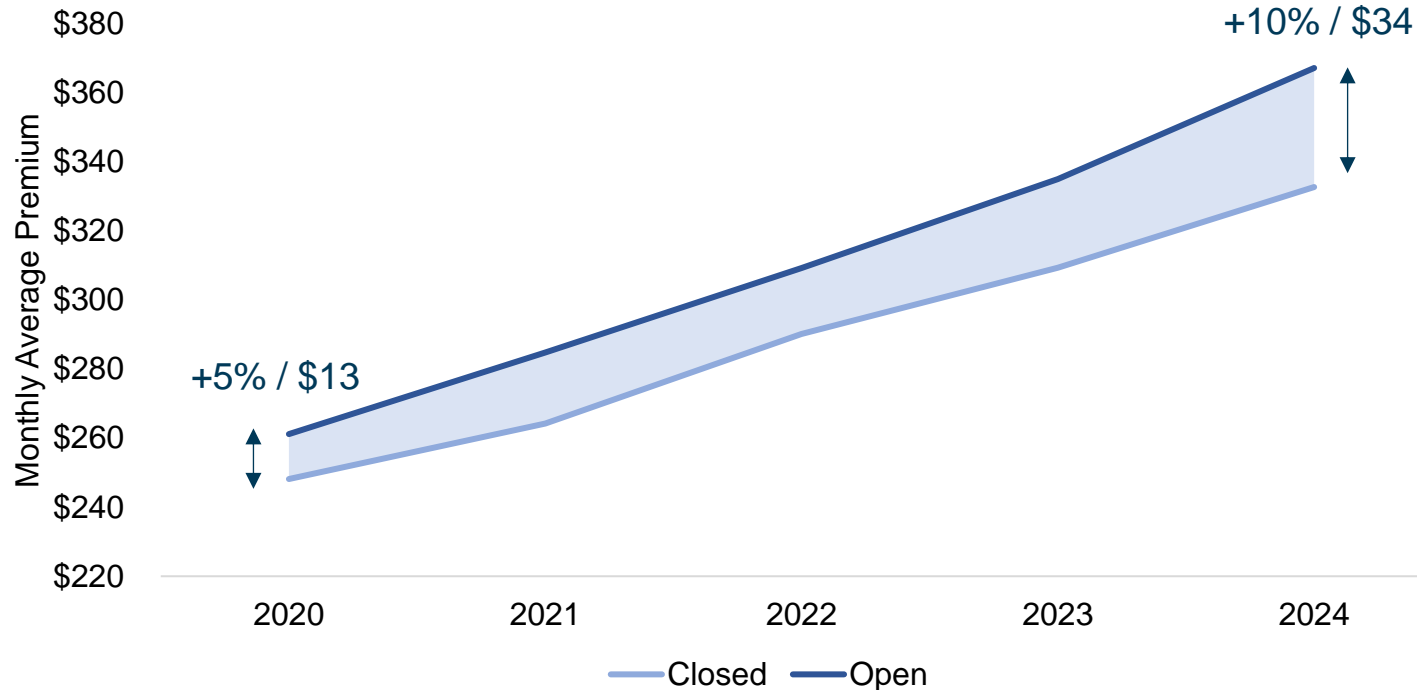
The average and maximum Gold prices in the market have increased significantly, however the lowest available premium has only increased by 18% since 2020.



Market observation 2: Affordability

Average premiums of Gold tier products – open vs closed products

Open vs Closed premiums open retail Gold tier \$500 excess products
Single, Victoria, Open Membership Funds



The gap between open and closed Gold premiums is widening.

This is the opposite of the dynamic we typically see in the market (evident on all other product tiers) where open for sale products tend to be cheaper than closed products.

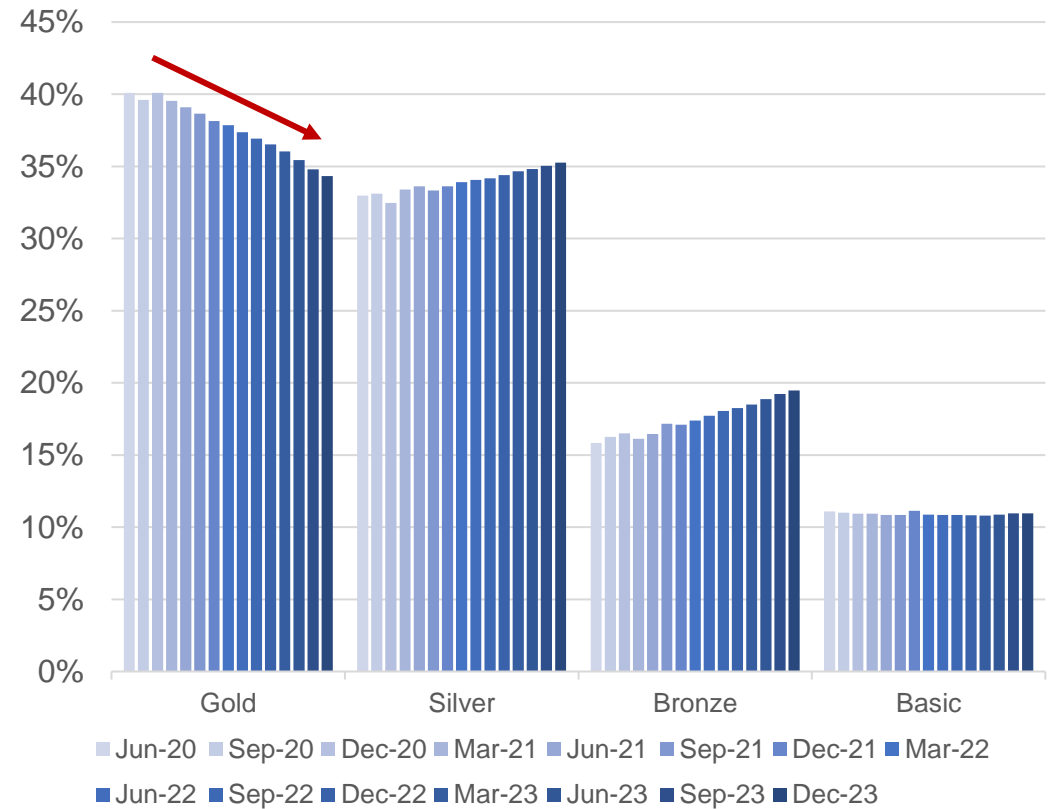


Market observation 3: Membership

A steep decline of Gold policies

- Gold policies accounted for 40.1% of all hospital policies in Jun 20, reducing to 34.3% in Dec 23. Gold policies have experienced consistent decline since Dec 20.
- In contrast, the proportion of Silver and Bronze policies has increased, while the proportion of Basic policies has remained relatively stable.

Hospital Treatment Policies by Tier

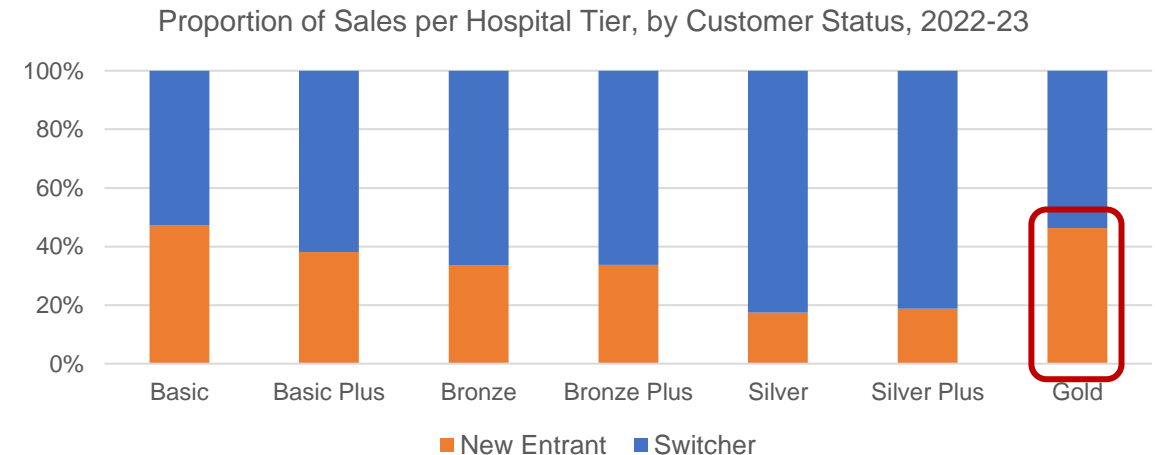
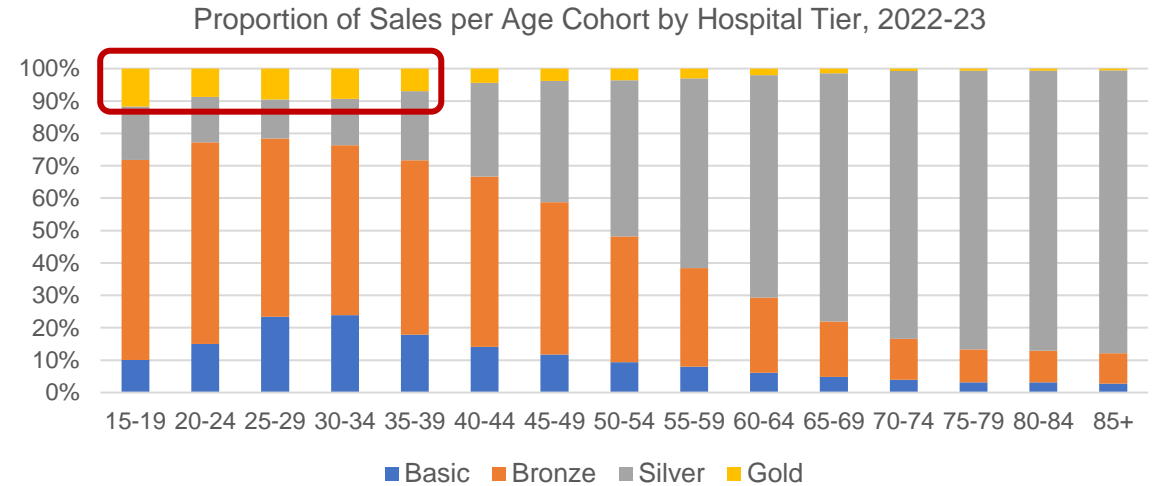


Source: Department of Health and Aged Care Private Health Insurance Reform Data released 15 April 2024

Market observation 3: Membership

Demographics of Gold sales (intermediaries)

- The Private Health Insurance Intermediaries Association (PHIIA) State of the Sector Survey 2023 shows that:
 - the majority of Gold tier products were sold to people under the age of 39.
 - the proportion of sales to new entrants is much higher for Gold products compared to all other tiers except Basic.
- However, the survey data only accounts for around a quarter of total industry sales. Also, many funds do not offer Gold tier products through major intermediaries. Hence, the data may not be reflective of overall industry trends.

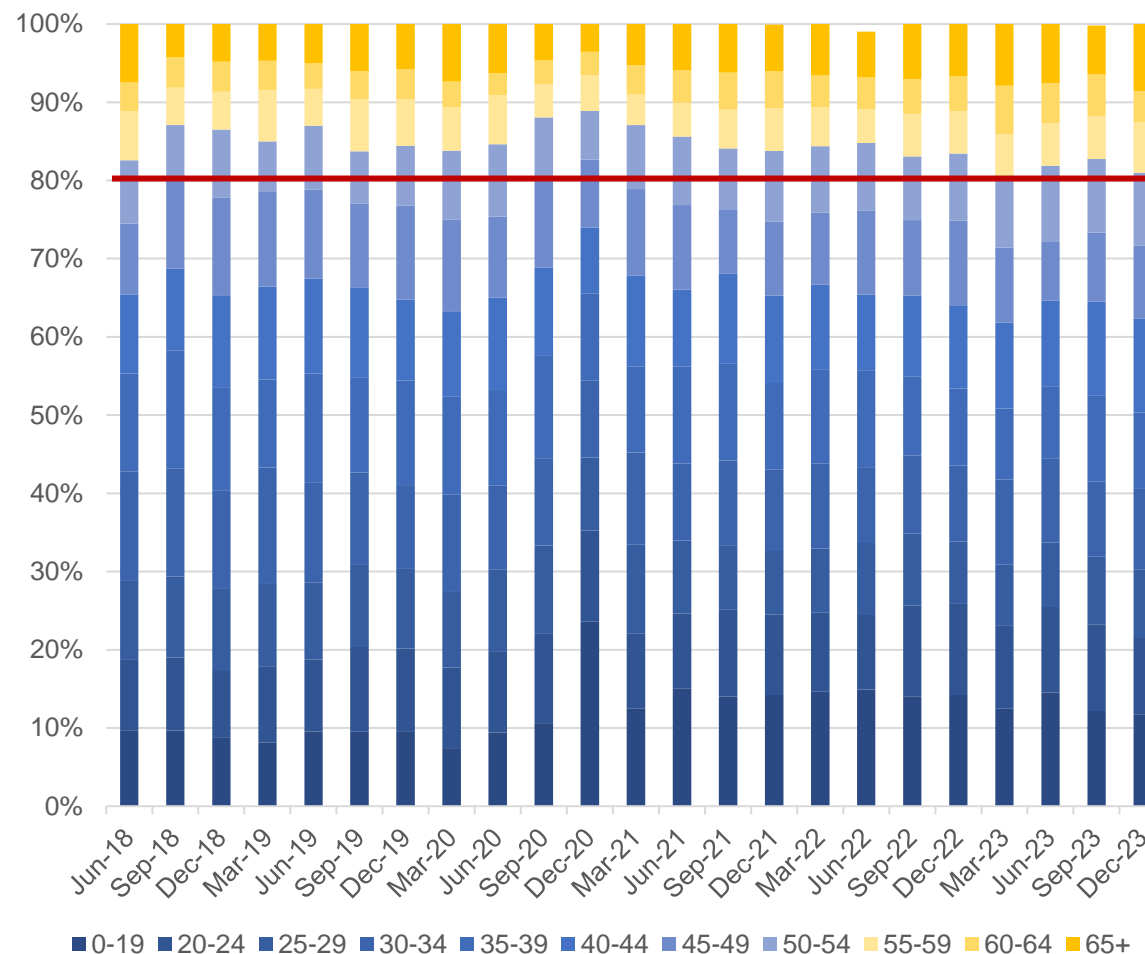


Source: PHIIA State of the Sector Survey 2023

Market observation 4: Psychiatric waiting period waiver

Around 80% of people who utilised the psychiatric waiting period waiver are under the age of 55, which means their costs will not be shared under risk equalisation.

Psychiatric Waiver Usage by Age Band

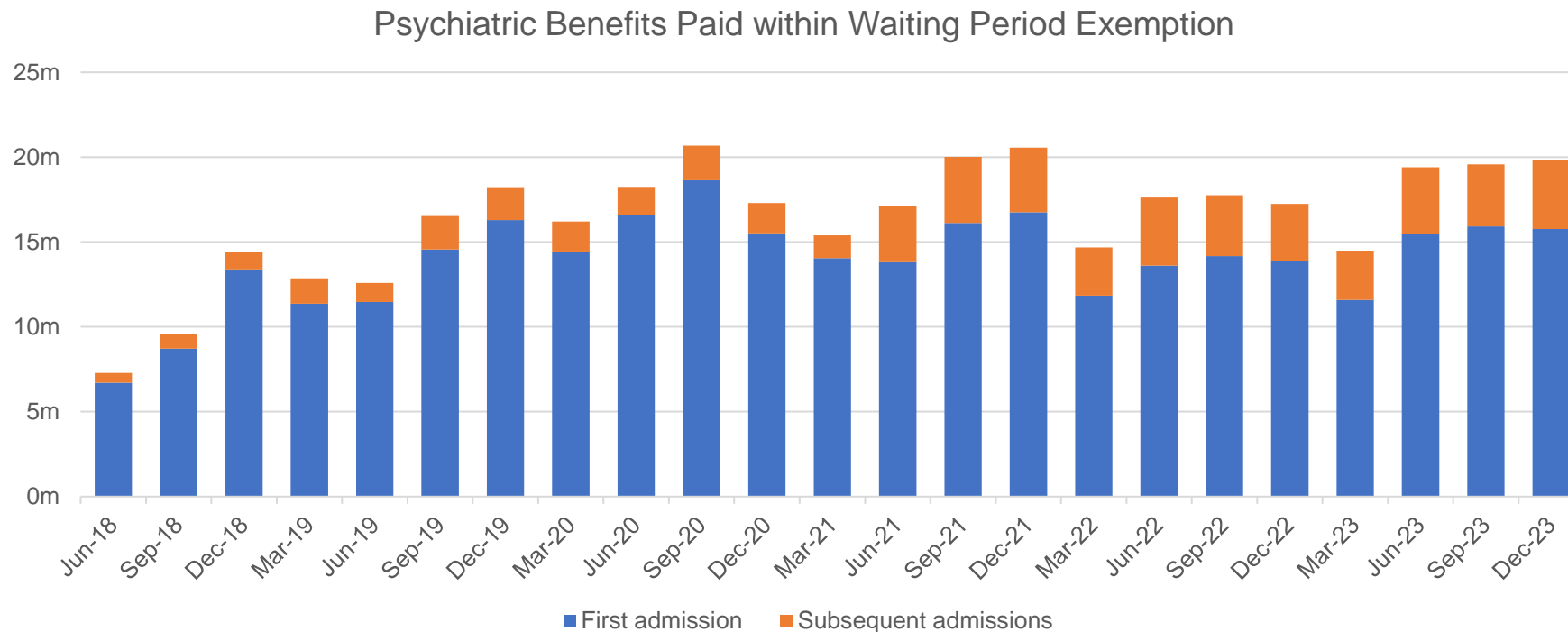


Source: Department of Health and Aged Care Private Health Insurance Reform Data released 15 April 2024



Market observation 4: Psychiatric benefits paid

The average psychiatric benefit paid within waiting period exemption per person is around \$12k and has remained relatively stable over time.

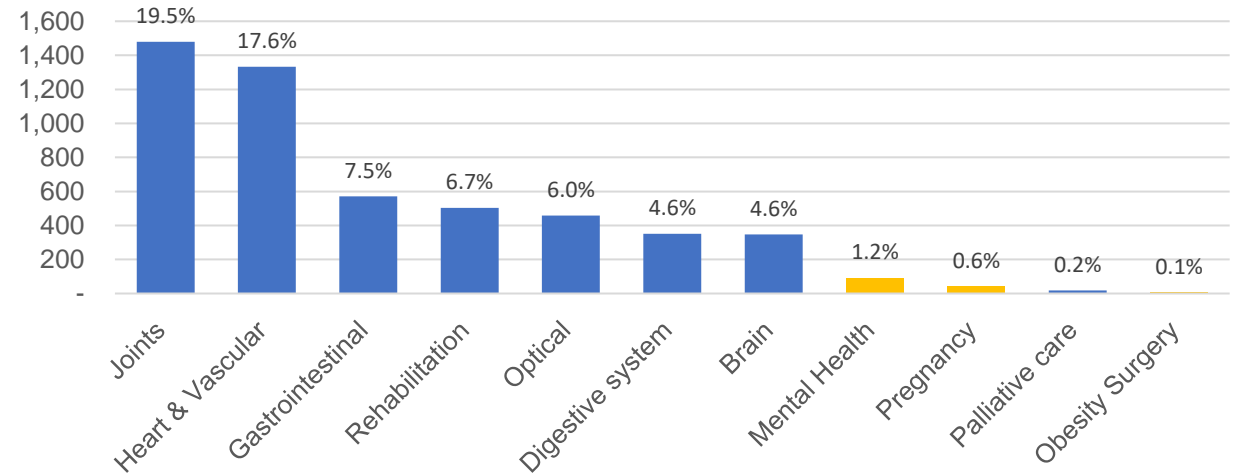


Source: Department of Health and Aged Care Private Health Insurance Reform Data released 15 April 2024

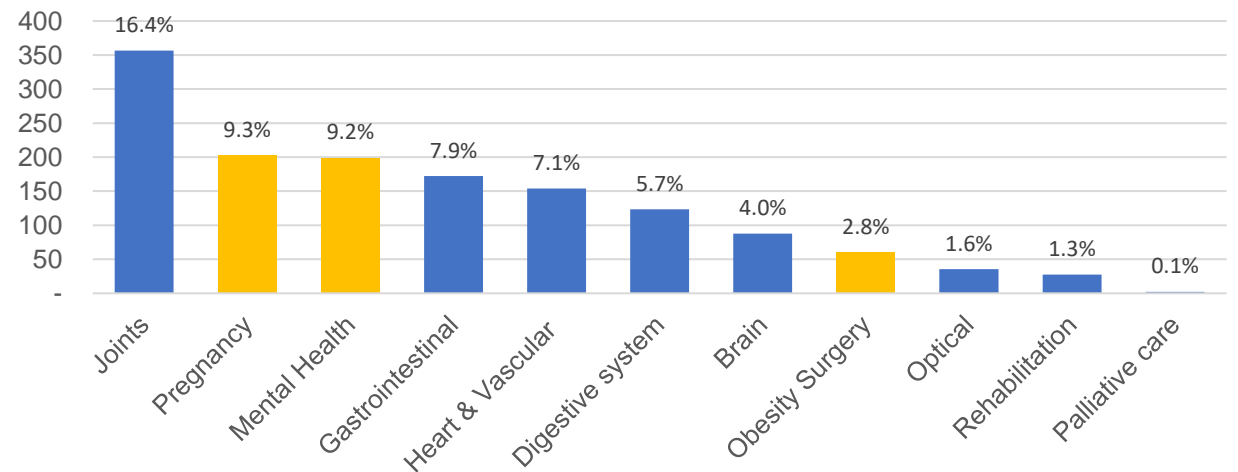
Market observation 5: Drawing rates by clinical category

- APRA DCL Data Collection shows that the ranking of clinical categories that were claimed by policyholders above 65 were quite different from those below 65.
- Using the 2022 experience as an example, those below 65 showed significant increases in the categories of:
 - Mental Health (Hospital Psychiatric services),
 - Pregnancy Related Services (Pregnancy and Birth), and
 - Obesity Surgery (Weight Loss Surgery)
- These clinical categories are typically only offered by Gold.

Drawing Rate – Age 65+, 2022



Drawing Rate – Age <65, 2022



Source: APRA DCL Data Collection

Market observation 6:

A limited share of high claimants under risk equalisation

The Australian risk equalisation system comprises of

- Age-based pool: share the cost of policyholders who are aged 55 or above; and
- High-cost claims pool: share the cost of claims reaching a threshold of \$50,000.

Finity's Risk Equalisation consultation paper reports that:

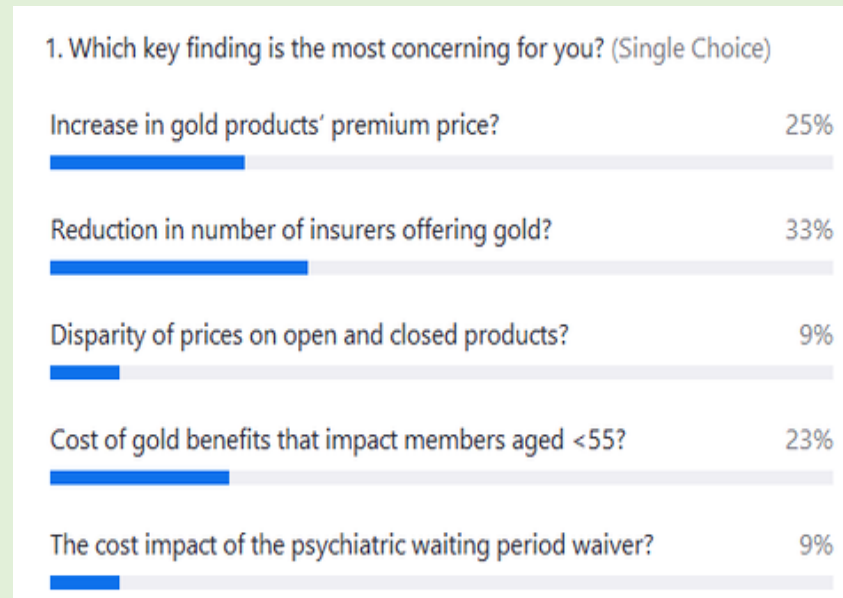
- 67% of persons who claimed for in-hospital psychiatric care were completely excluded from the risk equalisation pool; and
- Pregnancy claim costs typically average \$7,000 to \$10,000 per person, which is below the High-cost claims threshold.

This aligns with our membership and claim analysis, whereby the new joins are young policyholders who are more likely to claim for Mental Health and Pregnancy. Accordingly, limited benefit is gained from risk equalisation.

Key Findings

- There has been a noticeable trend where Private Health insurers are offering fewer Gold products and higher excess options.
- Retail Gold premiums have been increasing continuously, significantly higher than those of other tiers, and the disparity between open and closed Gold offering is growing.
- The Gold membership has been declining. For the sales that do occur, more are made to younger policyholders. The share of new entrants purchasing Gold surpasses other tiers, except for Basic.
- Most of the policyholders who utilised psychiatric wavier were younger than 55, so their costs were not likely to be supported by risk equalisation. Overall, the total benefits paid utilising the psychiatric wavier was between \$15m and \$20m per quarter.
- Open Gold products tend to be purchased by younger people who are more likely to claim Mental Health, Pregnancy and Obesity Surgery.

- Question 3: Which key finding is the most concerning for you?
 - A1: Increase in gold products' premium price?
 - A2: Reduction in number of insurers offering gold?
 - A3: Disparity of prices on open and closed products?
 - A4: Cost of gold benefits that impact members aged <55?
 - A5: The cost impact of the psychiatric waiting period waiver?



Discussion points

- Is there additional data the working party hasn't looked at that you think we should?
- Is there some additional analysis you would like to see?
- Was there a piece of data/analysis that particularly surprised you?
- What do you find most concerning?



Potential issues for gold hospital products

What are the issues arising from the data and from the structure of the gold product?



Issues identified

- **Open vs Closed Products**
- **Selection**
- **Waiting Periods**
- **Consumer Activity**
- **High Out-of-Pockets**
- **Public Perception of Gold Hospital**



Many influences on the price of Gold cover

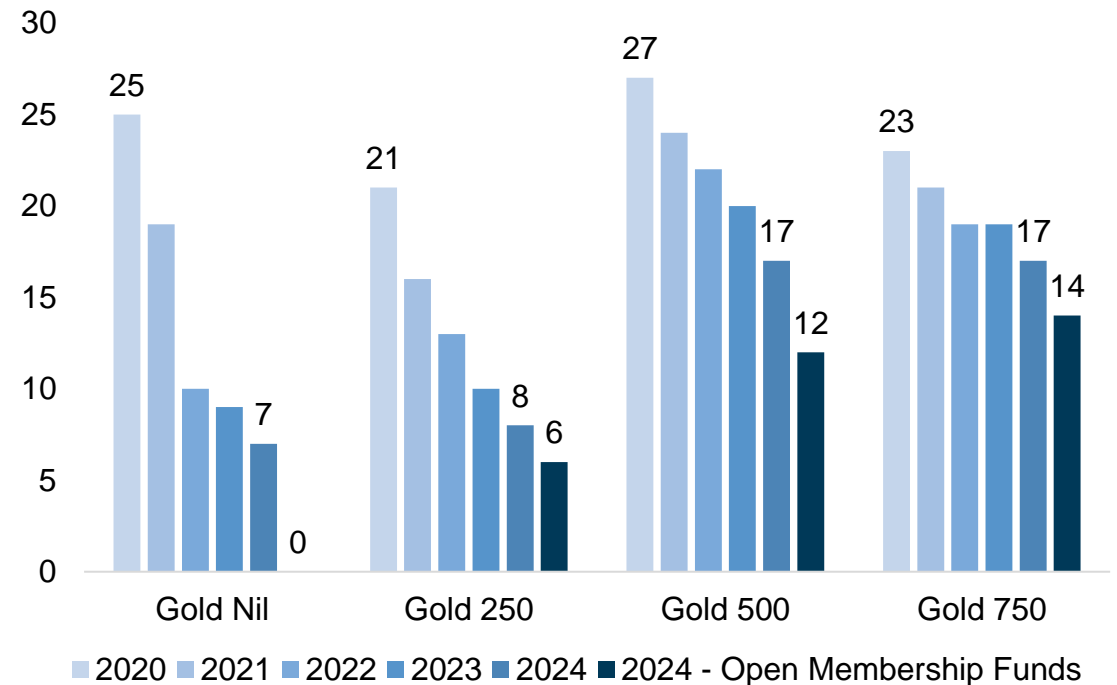
- Product Design and Benefit Coverage
- Health Costs and Utilisation
- Demographics
- Community Rating
- Anti-Selection
- Cross Subsidisation
- Product Price Relativity
- Risk Equalisation



Open v Closed Products

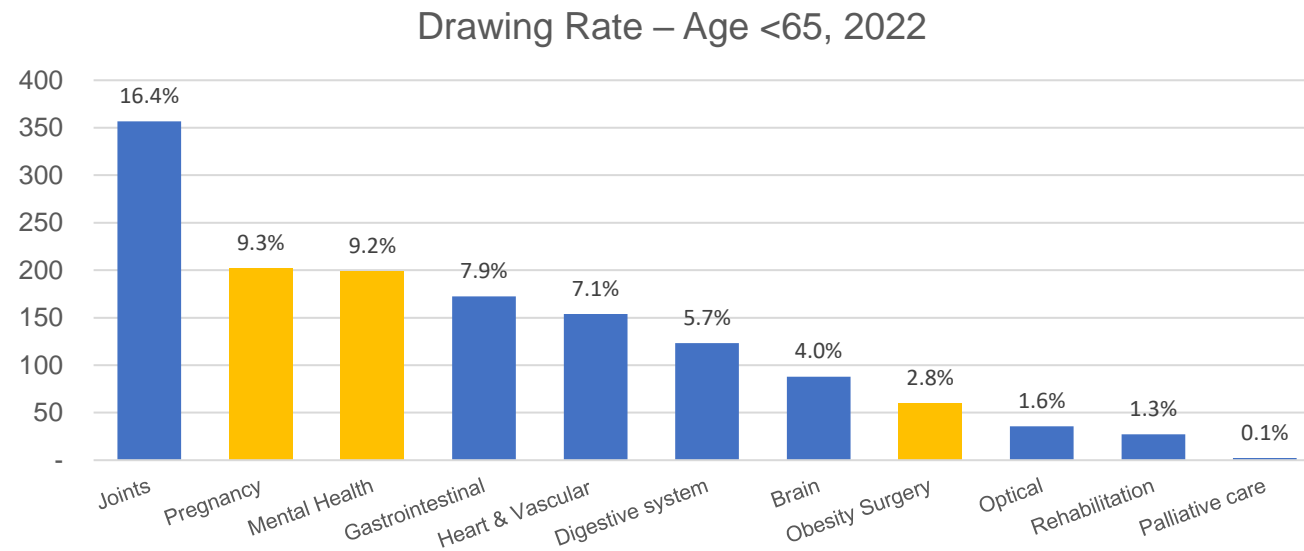
- New Gold products driven by younger members, and younger member claiming categories; high priced and loss making; vs closed products with lower prices and better margins
- Potential failure of community rating given consumers are paying 30%+ differences for the same products
- Likelihood of insurers exiting the Gold market or as close as they can get to doing so
- Is the grandfathering fair? What does it drive?

Number of insurers offering open, retail Gold Hospital product



Selection

- “Plannable” procedures only really available in Gold tiers now
- Structure of the Gold/Silver/Bronze/Basic categories potentially make Gold cover uninsurable/unsustainable
- Gold cover could be more insurable/sustainable if uninsurable costs spread across every product, but that would be inflationary and contribute to unaffordability across all products



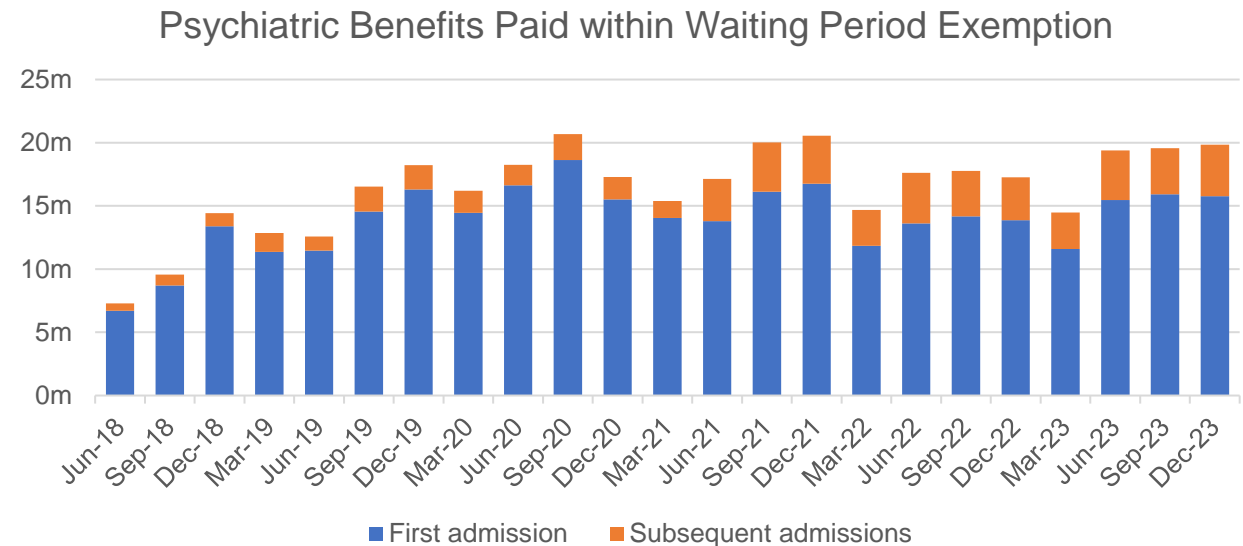
Waiting Periods

- Introduction of Psychiatric waiting period waiver coincided with the beginning of high inflation for Gold hospital products. There was an increase in bariatric (weight loss surgery) claims at the same time.
- There are other many examples of claims categories where treatment can be planned leading to anti-selection against the insurer (e.g. Joint Replacements, Cataracts)
- We need data to confirm the level of anti-selection and cost impact. Initially an examination of product coverage for Psychiatric conditions between 2004 and 2024 would be

useful



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Consumer Activity

- Aggregators and comparators are increasingly facilitating consumers to be more savvy in obtaining coverage for exactly what they need at the lowest cost
- Commoditisation of products linked to Gold/Silver/Bronze/Basic categorisation
- Rational purchasing would tend to encourage purchase of Gold hospital cover if the customer have an imminent claiming need on a gold-eligible category, but otherwise purchase a lower tier cover (Silver/Bronze/Basic)

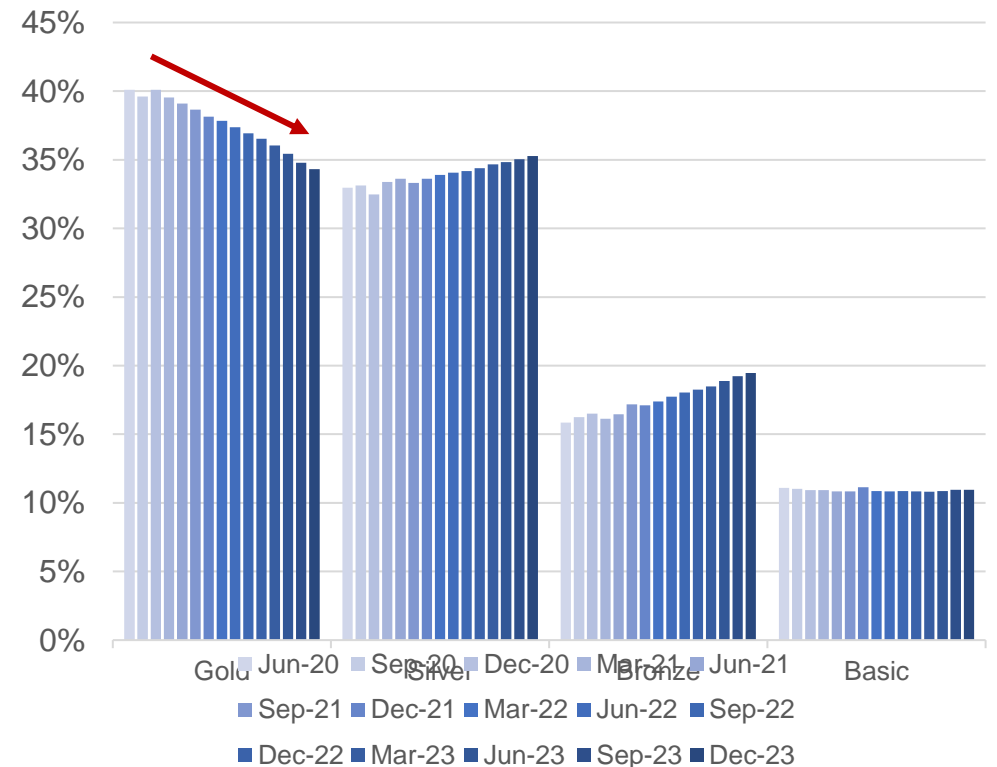
Yahoo Finance AU

Private health insurance price rises: 10 tips to avoid paying more

It can be costly to get into health trouble with no insurance. Our expert shares how to shave costs as premiums rise.



Hospital Treatment Policies by Tier




High out of pocket costs

 The Sydney Morning Herald

The private health procedures where out-of-pocket costs have jumped most

Australians' out-of-pocket payments for common medical procedures in the private system have increased by as much as 300 per cent in five years.

- Excesses and co-payments applicable to Gold hospital covers (both directly chosen product excesses and reducing cover for medical fees) have become higher and higher over time
 - Little public data available
- Erosion of value of Gold Hospital cover despite the high premiums and significant price increases

 National Seniors Australia

Why seniors love to hate private health

The value of private health insurance (PHI) is being eroded by rising costs, reducing coverage, increasing hospital excess, and gap fees.

7 June 2024



 AFR

Insurer payments to hospitals are rising – so are out-of-pocket costs

But major hospital groups say surging specialist fees and medical device expenses mean the higher payments are still barely keeping them...

1 month ago



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Public Perception of Gold Hospital cover

- Public perception of Gold hospital cover as unaffordable and focus on its significant price increases spreads to a more general view of the unaffordability of private health insurance
- Fund actions to close and increase premiums are seen as 'sneaky'
- This makes for an easy criticism of the industry in the media

 Yahoo Finance AU

Bupa, Medibank, HCF: Health insurers accused of 'jacking up' prices

Australia's major health insurers are significantly hiking premiums for top-tier hospital cover, consumer group CHOICE says.

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Insurers hiding soaring increases to top-level health cover

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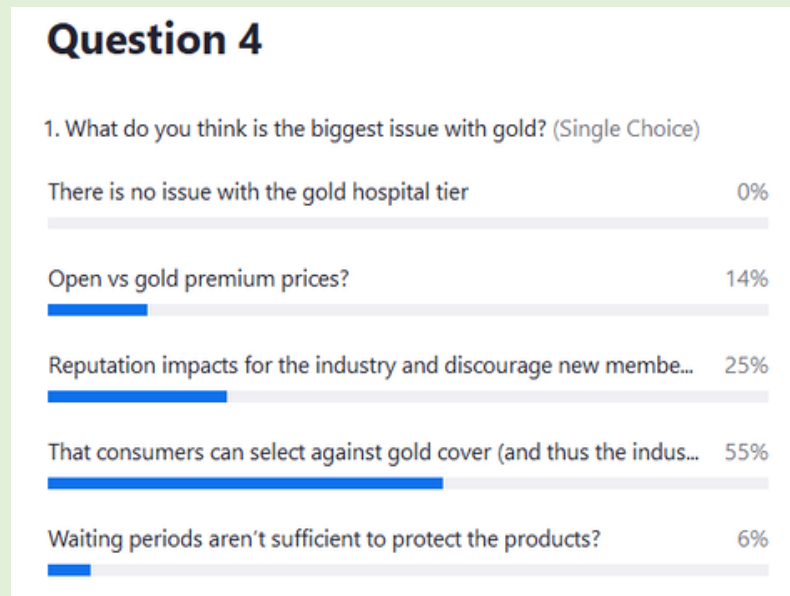


Are there benefits?

- Hospital participation has increased across recent years, how much is this
 - Covid changing perceptions of PHI value?
 - Public hospital waits?
 - ... or the cheaper price of non-gold products?
- Does closing gold products to new members protect membership?
- Is it fair that those who know they will claim ... pay more?



- Question 4: What do you think is the biggest issue with gold?
 - A1: There is no issue with the gold hospital tier
 - A2: Open vs gold premium prices?
 - A3: Reputation impacts for the industry and discourage new members?
 - A4: That consumers can select against gold cover (and thus the industry)?
 - A5: Waiting periods aren't sufficient to protect the products?



Discussion points

- Are there any potential issues that we have missed?
- What do you think are the greatest issues?

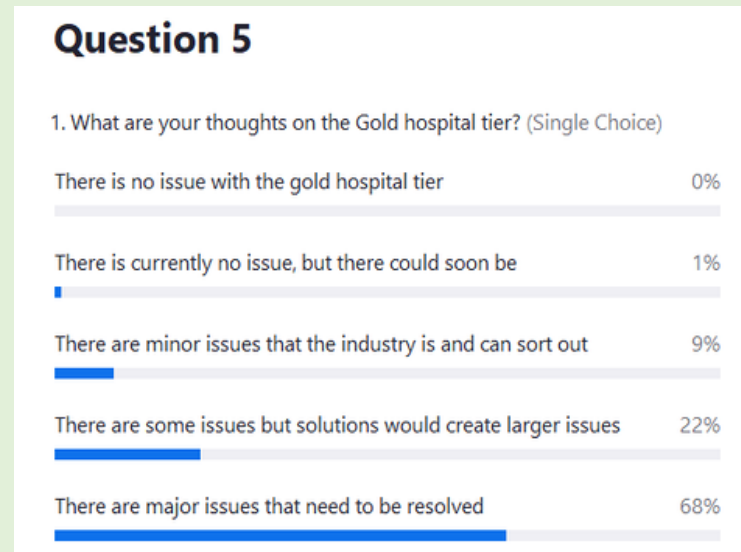
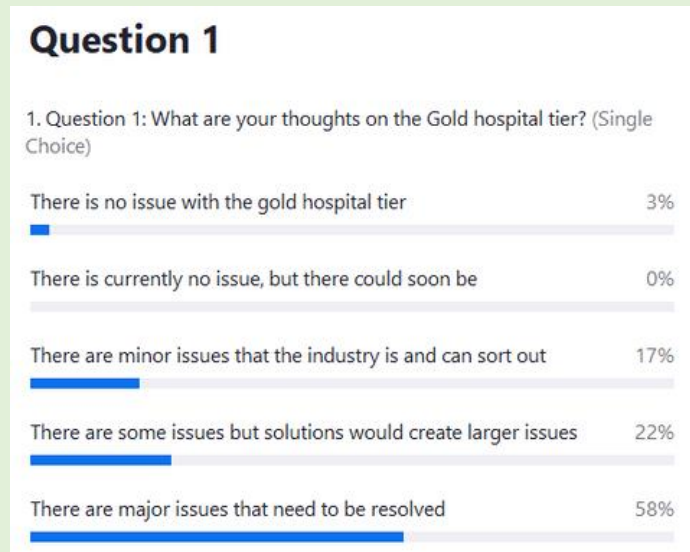


Open questions and discussions

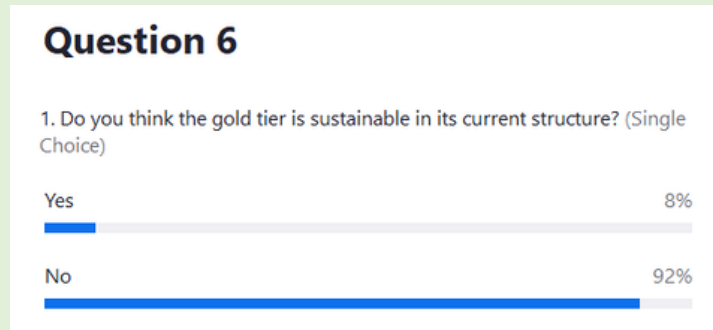
What are your views?



- Question 5: (repeated) What are your thoughts on the Gold hospital tier?
 - A1: There is no issue with the gold hospital tier
 - A2: There is currently no issue, but there could soon be
 - A3: There are minor issues that the industry is and can sort out
 - A4: There are some issues but solutions would create larger issues
 - A5: There are major issues that need to be resolved



- Question 6: Do you think the gold tier is sustainable in its current structure?
 - A1: Yes
 - A2: No



Next steps

What is the working group doing?



The working party on Gold is happy to consider anyone else wanting to assist.

Working group's plans

- Further analysis of the data available
- Decide whether to approach the ACCC and funds on whether to share data for more detailed analysis
- We're considering approaching industry stakeholders for opinions
- Consider the wide variety of possible solutions
- Projecting where Gold might be in 10 years' time under scenarios
- Consideration of potential solutions
- Pull together a series of outputs looking at the issue, where gold may end up, the possible solutions, and the winners and losers from each
 - Aiming for publication Q1 and Q2 in 2025





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Thank you

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