

Australian Private Health Insurance 20 years from now

Luke Cassar and Nirosana Maheswaran
Finity Consulting

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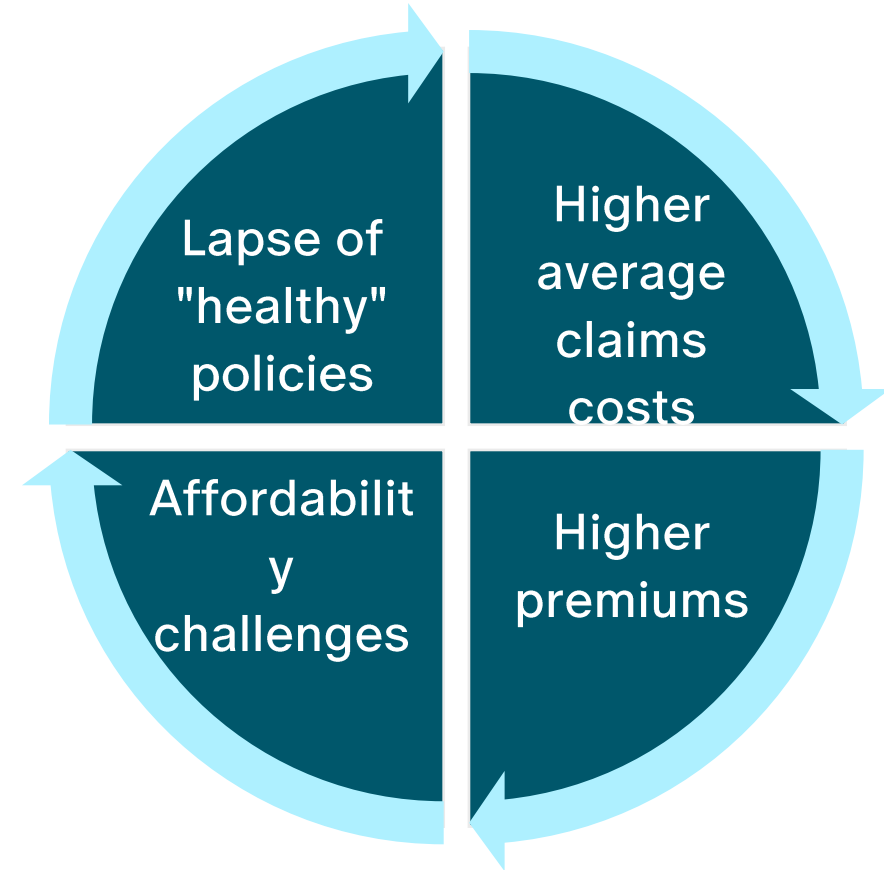
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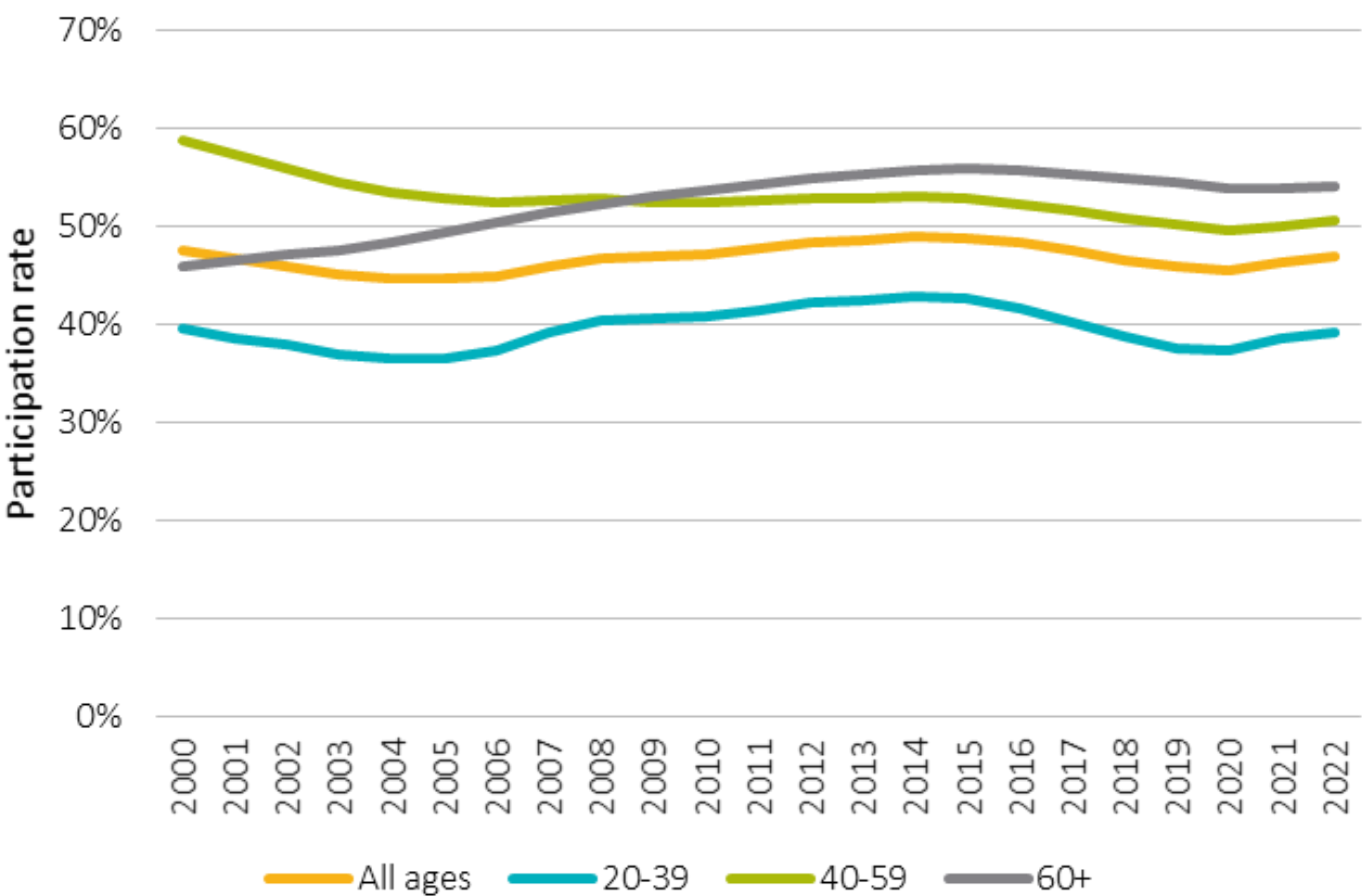
Introduction

Australian Private Health Insurance "Death Spiral"

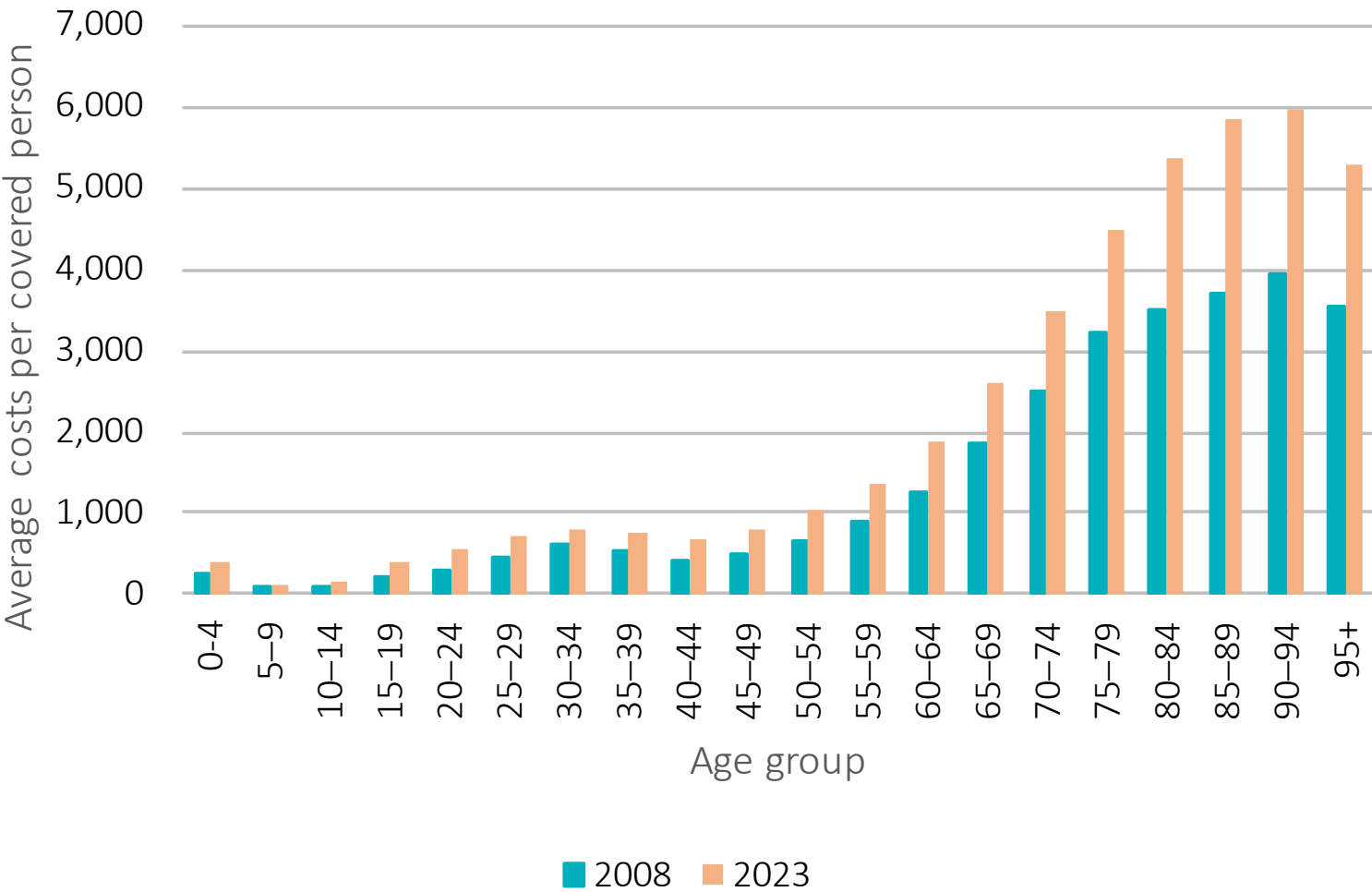
- Community rating means people with lower expected costs pay the same as people with higher expected costs.
- Upward pressures on cost from:
 - Aging population
 - Healthcare cost inflation
- Death spiral would seem inevitable
- An area of concern for regulators
 - In 2019, APRA wrote to insurers expressing concerns that PHIs lacked strategies to mitigate risks to sustainability



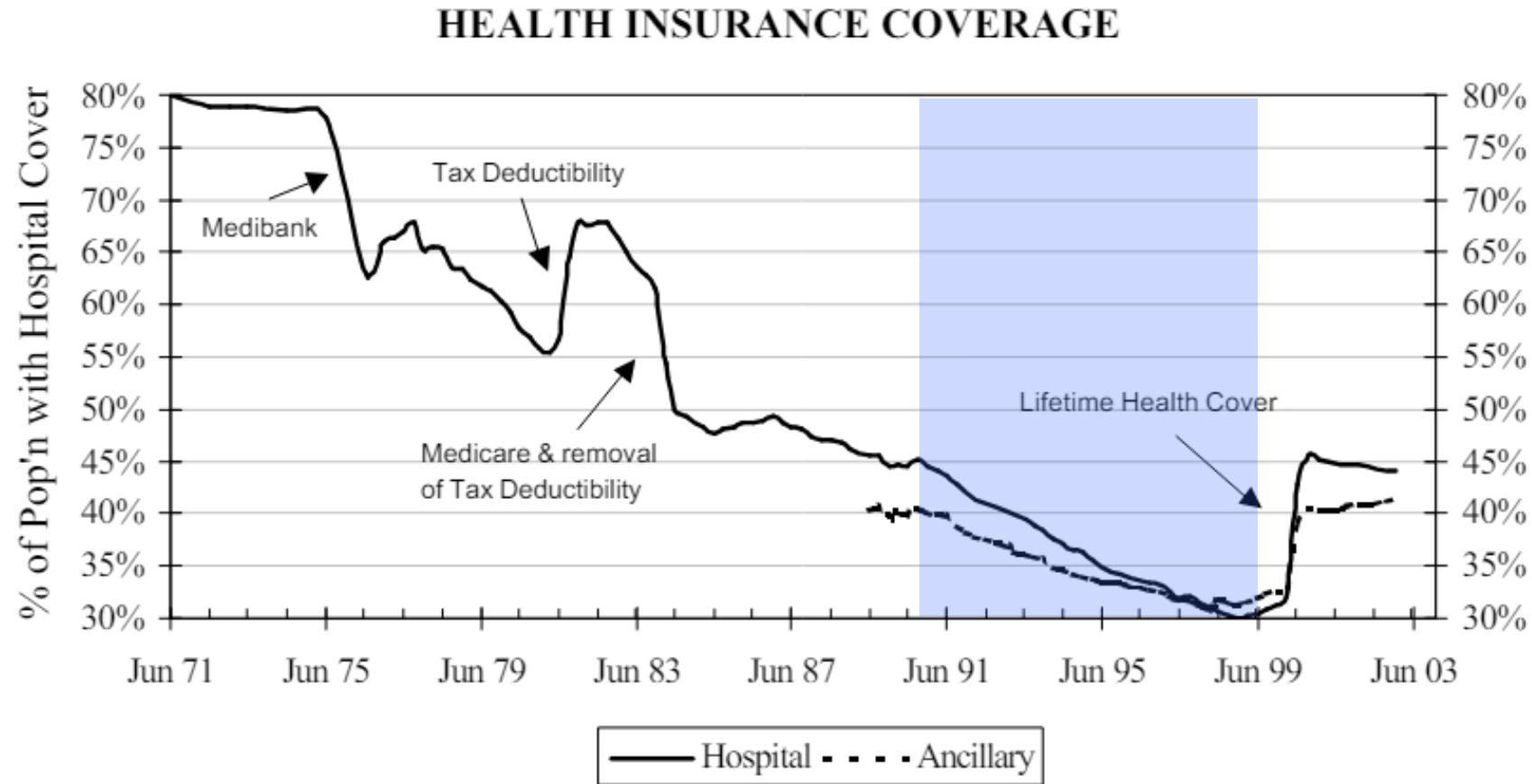
PHI participation increasing for over 60s



Leads to higher overall costs due to higher average costs for older ages



What are the signs of a death spiral?



Source: Gale, A. P. and Brown, A., "Health after lifetime health cover: recent health insurance experience", Institute of Actuaries of Australia, 2003 Biennial Convention, 18-21 May 2003.



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Questions we aim to answer

What is the potential for and timing of a death spiral under a best estimate projection?

What scenarios of participation reductions and/or benefit increases would produce a death spiral?

Are there factors which may mitigate or accelerate a death spiral?

How do projections change for insurers with younger or older age profile, or higher expense rates?



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Projections

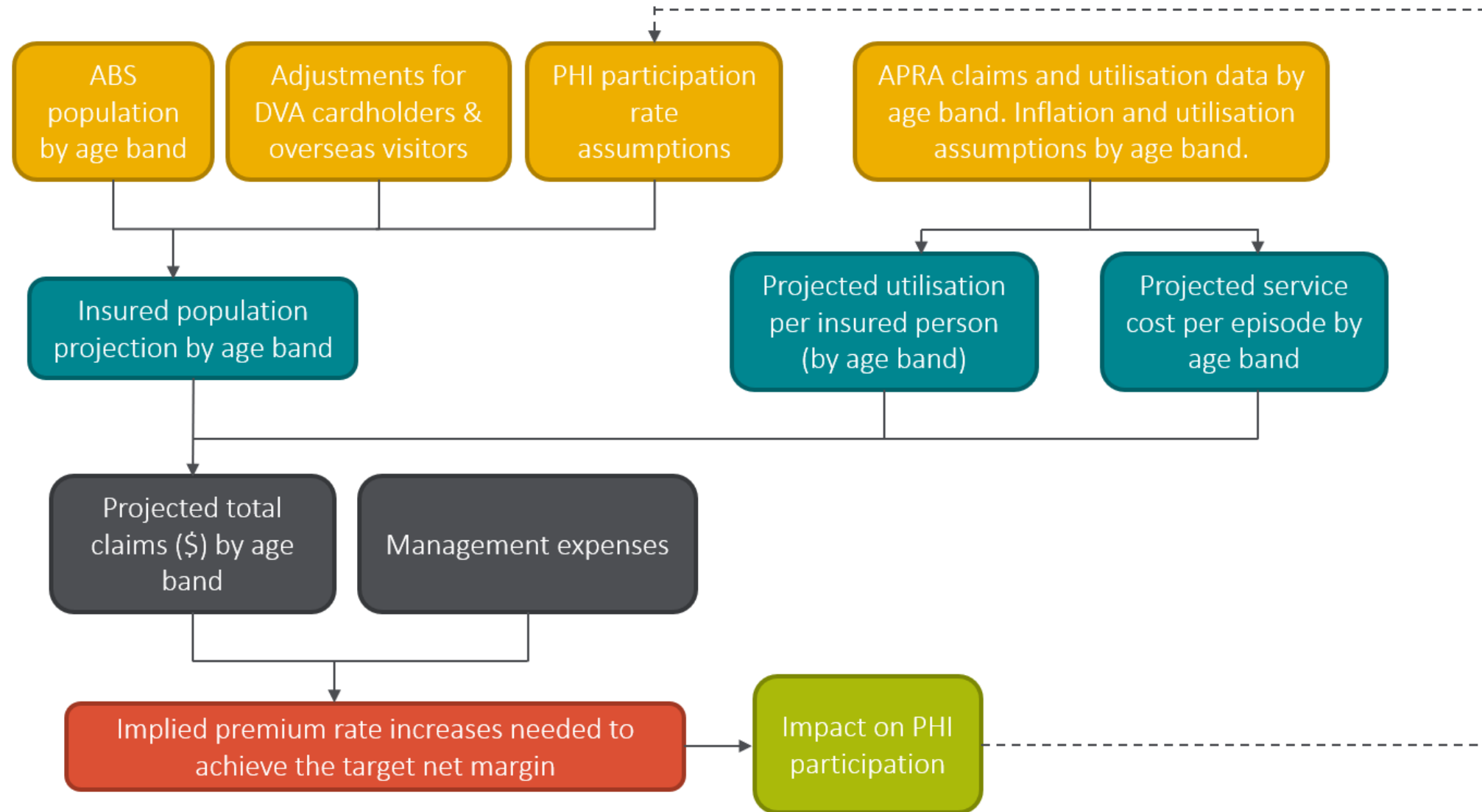


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Projection approach



Three distinct periods over the past 10 years

2014 to 2017

- 0.5% per annum reduction in participation
- Relatively high levels of benefit inflation
- As close to a death spiral as it got, in terms of both participation and benefits

2017 to 2019

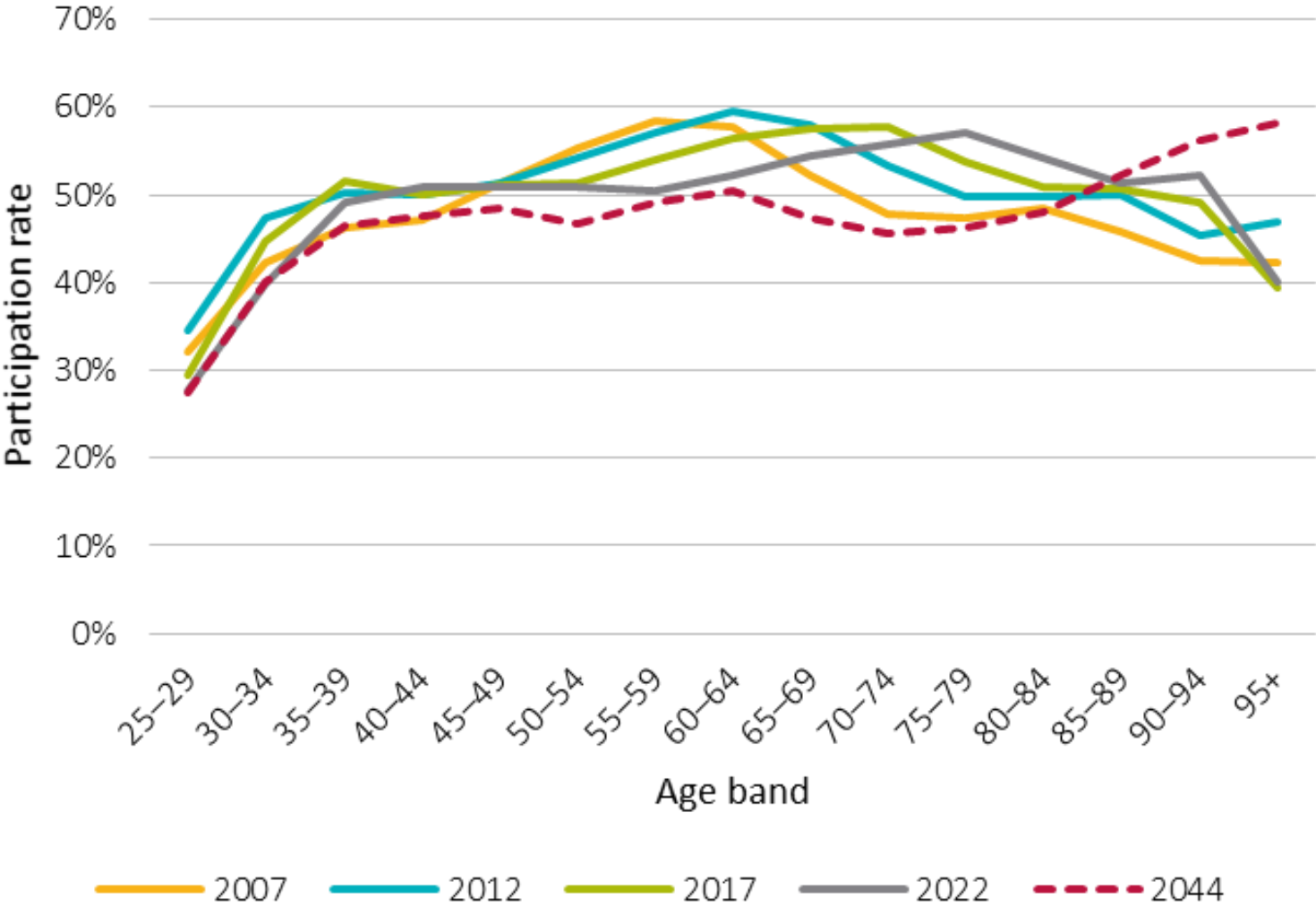
- 0.8% per annum reduction in participation
- Lower levels of benefit inflation driven by flattening utilisation for some ages. Reforms to prosthesis reforms also contributed.

2020 to now

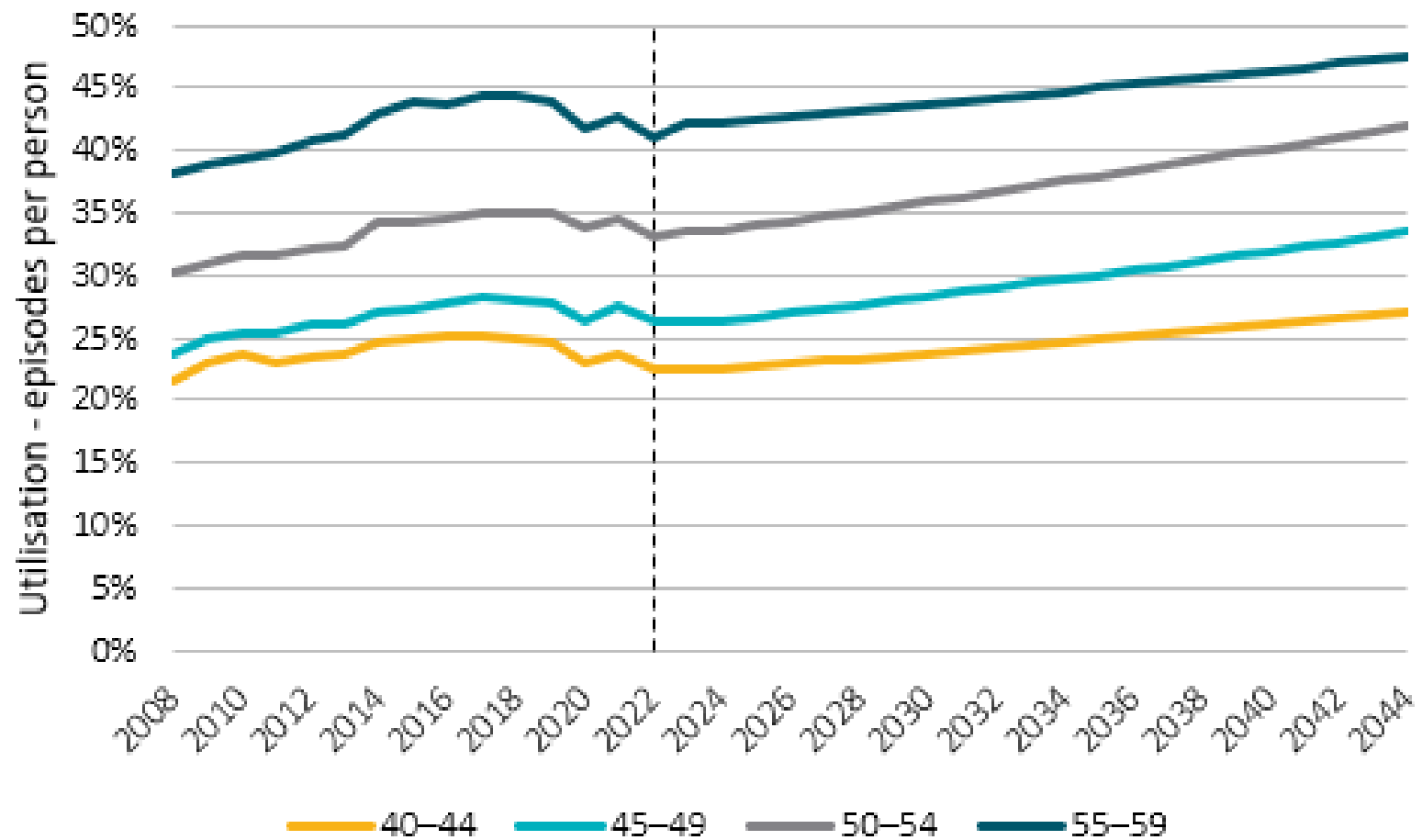
- COVID-19 pandemic had significant impacts on participation and utilisation
- Youth participation continues to increase due to the perception of the public hospital system (as well as extended dependants reforms)
- Utilisation



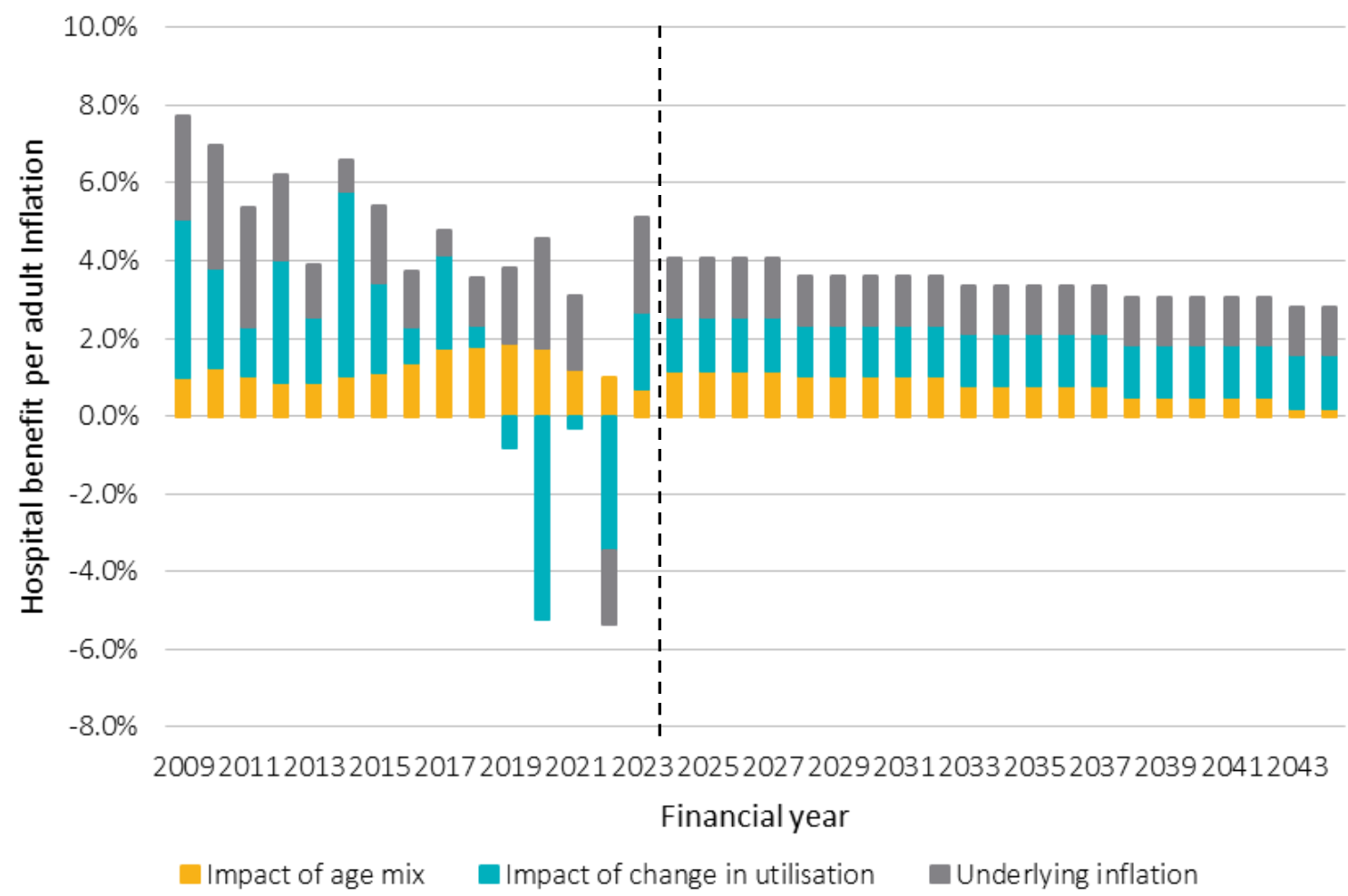
PHI participation has a cohort effect



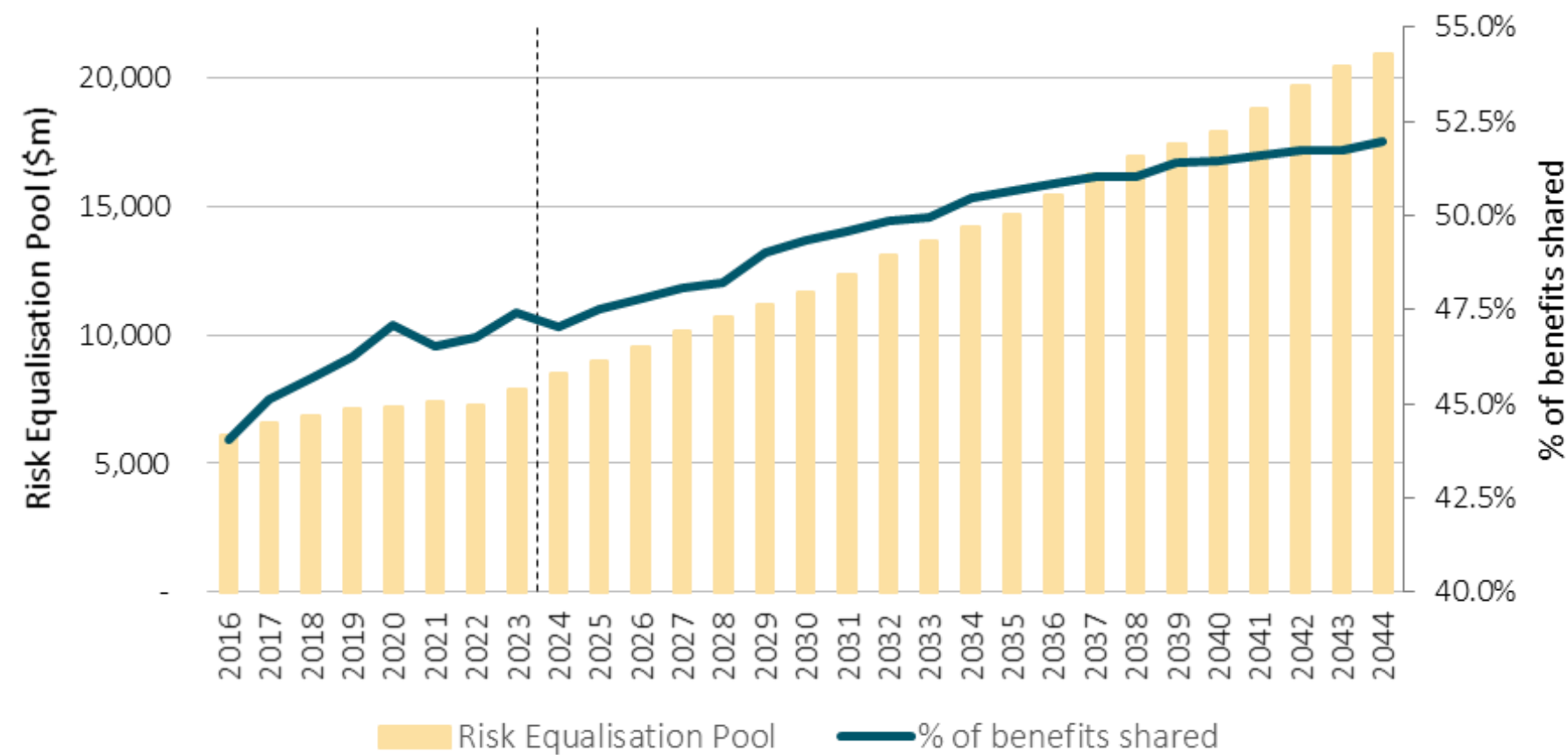
Hospital utilisation pre-pandemic: flat or decreasing for some ages



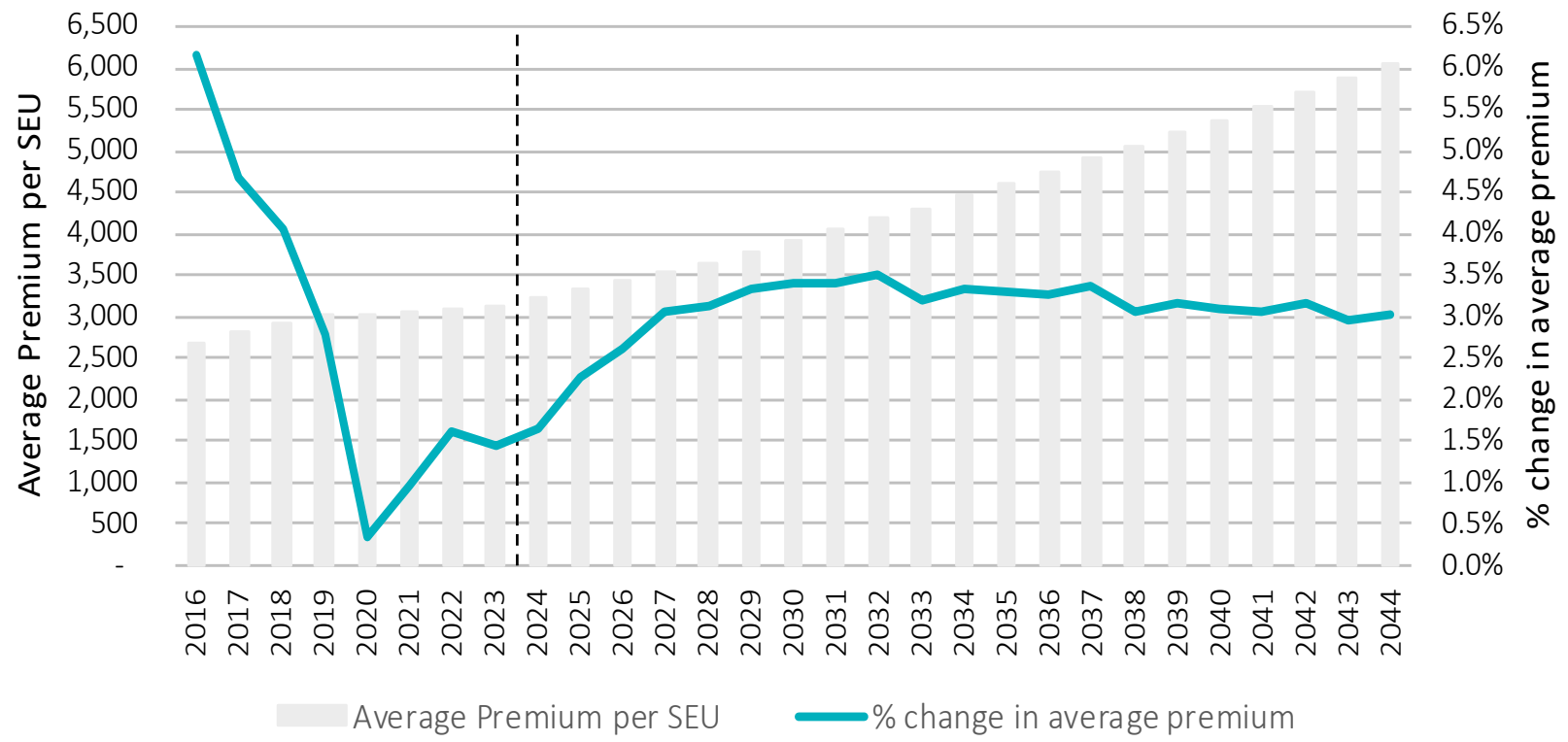
Projected hospital benefit inflation



Sharing under risk equilisation projected to increase but at a slower rate

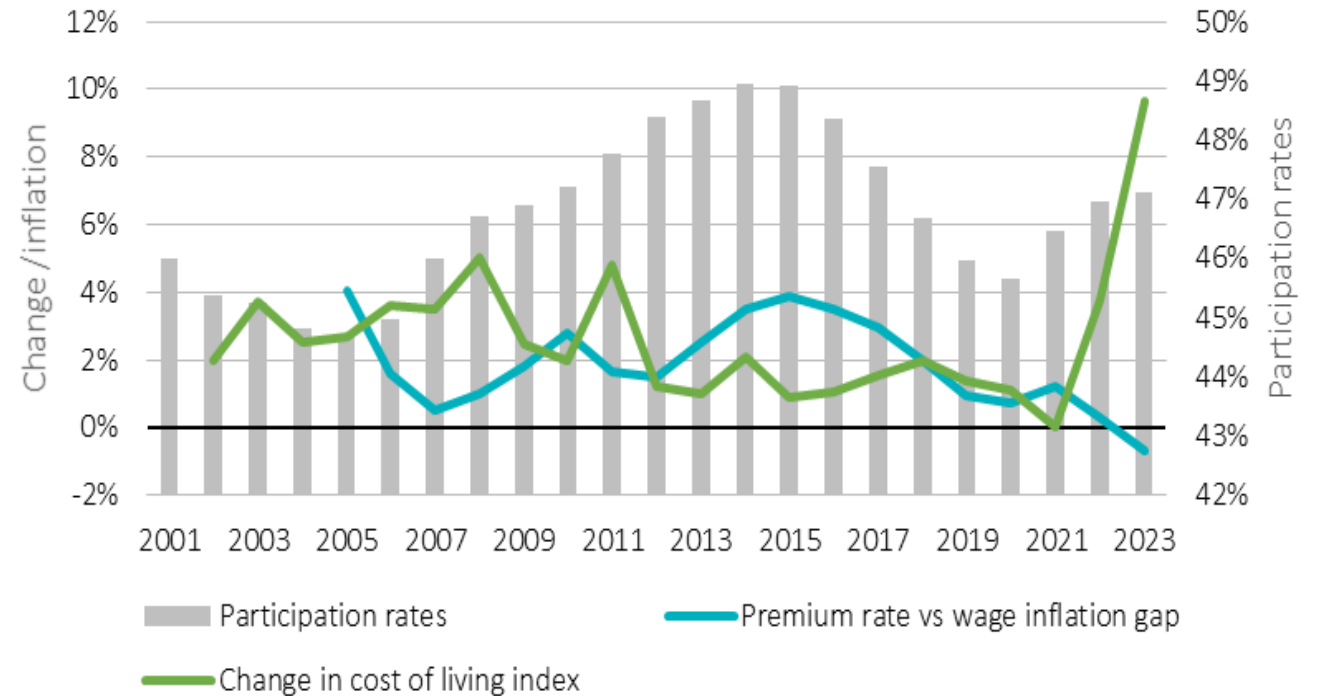


Average premium increases projected to be around 3.2% per annum



Impact of premium rate increases on participation is not clear

- Analysis of survey data in McLean, M. et al. (2022) suggests PHI premium rate increases have very low impacts on PHI participation.
- Average measures of wage inflation and the cost of living may not be a good indicator of PHI participation, as movements in disposable income are not uniform.
- Impacts of the Medicare Levy Surcharge which incentivises high income earners to participate in PHI.
- Impacts of Lifetime Health Cover incentivises participants to retain cover.



Scenario analysis

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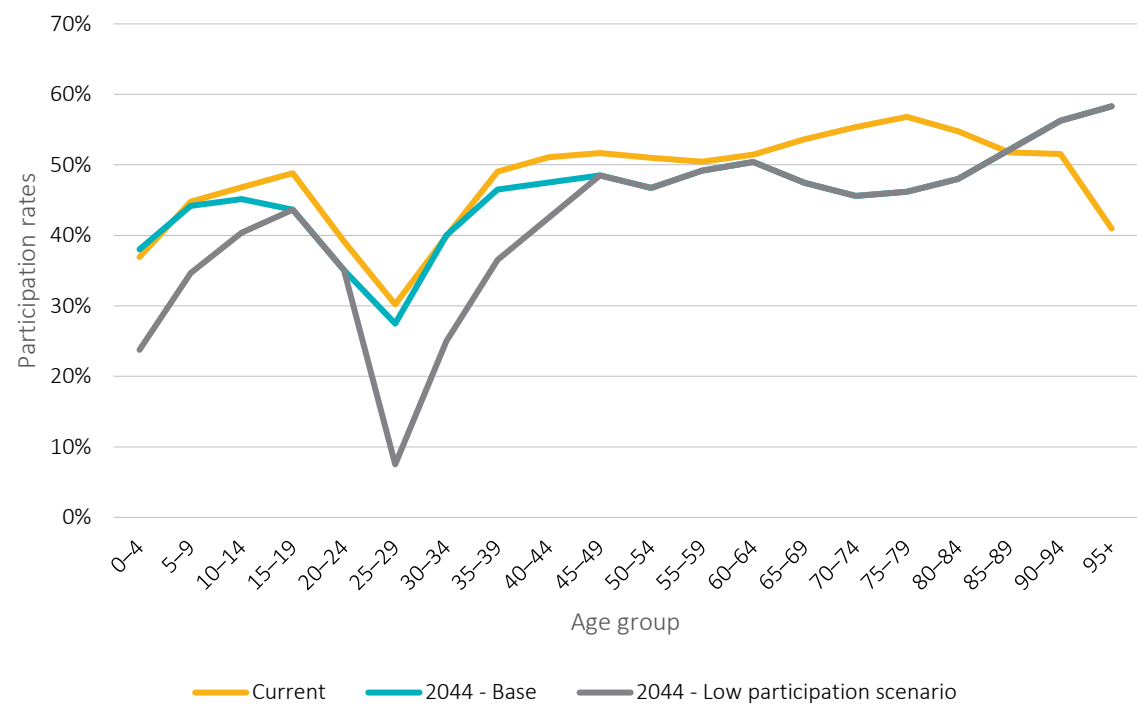


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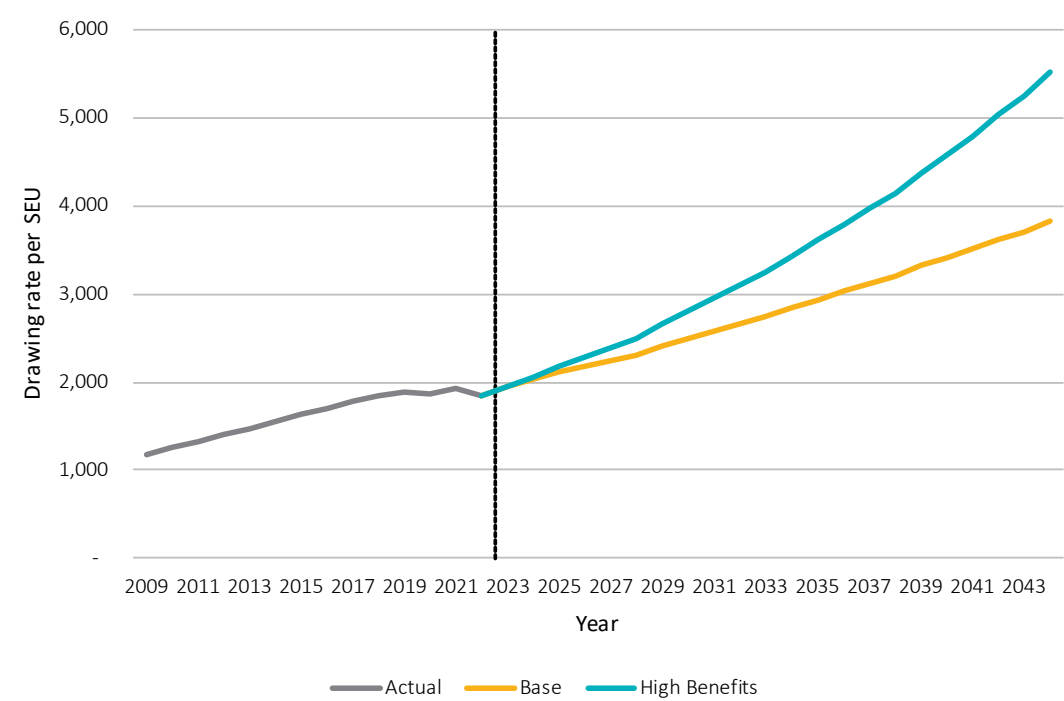
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Scenarios

Participation



Benefits



Scenario analysis results

	End of period participation rates	Average age	Average premium rate increases	Gross Benefit Inflation	Benefits shared with industry	Expenses
Historical						
2003	45.2%	38.9	7.4%			
2023	46.9%	42.6	2.9%	4.0%	47.0%	12.6%
2044 Forecast						
Base	44.8%	46.1	3.2%	4.2%	51.4%	9.5%
Increased participation	48.4%	44.7	3.1%	4.4%	50.5%	9.7%
Lower participation	32.6%	52.8	3.9%	3.4%	54.4%	8.8%
Increased benefits	44.8%	46.1	4.5%	5.6%	53.0%	8.2%
Increased benefits & lower participation	32.5%	52.9	5.5%	5.1%	54.9%	7.4%
Older population	44.8%	54.1	2.7%	3.9%	58.7%	13.6%
Younger population	44.8%	41.1	3.0%	4.0%	44.6%	14.9%

Conclusions



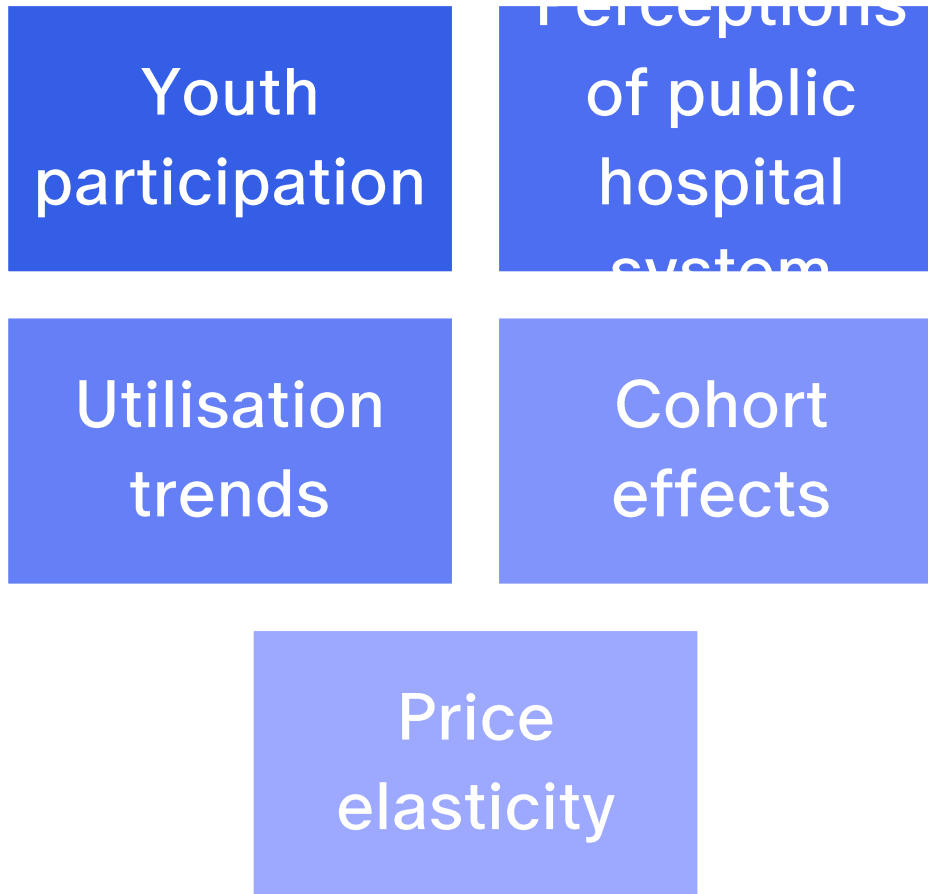
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Conclusion

- It would seem intuitive that an aging population and healthcare inflation would lead to a death spiral.
- However, there are more complex and uncertain movements underpinning participation and benefit inflation, that mean a death spiral is no certainty.
- However, this does not mean there is room for complacency.



Other changes over the next 20 years

- There are a multitude of aspects of the PHI industry that may change over the next 20 years that our projections do not explicitly take into account.
- Some suggested areas for further research:

Preventative
and
integrated
care

Changes in
services

Policy
settings

Product tier
system

Benefit
reforms

Population
health





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Thank you

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