

Date:	25 August 2004
Subject	Health insurance rebate money well spent

The Federal Government's announcement this week of increased private health insurance rebates for older Australians has already drawn fire from those with vested political interests or little understanding of health economics.

The initiative will see the existing 30% rebate increase to 35% for those over 65 years of age, and to 40% for those over 70. This is expected to provide further savings of up to \$200 per annum for more than a million people.

The basis for the attacks on the Government's proposal is that the money would produce better health outcomes if directly injected into the public system.

The fact is these initiatives will actually help to improve the public system and health outcomes overall in a number of ways.

Firstly, by encouraging people into private health insurance and thereby private hospital care there is less pressure on the public sector. We do have a world-class public system but it struggles under the weight of ever-increasing demand. It's a fact that cannot be ignored - average waiting times for elective procedures are now as high as 90 days.

And older Australians, the target of the Government's initiative, account for almost half of hospital admissions even though they only account for 12% of the population. Providing more of these people with greater access to private hospital services will not only shorten waiting times for the individual, but will also relieve the pressure on the public system.

Secondly, and contrary to the Herald's recent editorial comment, Government investment in private health insurance does assist in redressing some of the more fundamental problems facing the health system.

Additional private sector involvement increases the number of hospital beds available, brings more funds to the market for research and innovation and actually mitigates cost shifting by putting more responsibility on the consumer to fund their health needs.

It's worth remembering that a recent study by the Melbourne Business School found that if the procedures performed in the private hospital system within Australia in 2000/01 were to be transferred to the public hospital system, it would be at a cost of \$4.3billion to taxpayers, or double the cost of the 30% rebate.

Thirdly, the Federal Government is simultaneously investing considerably more in the public system, which makes a nonsense of suggestions that further investment in the private system is at the expense of the public system.

Recent improvements to Medicare have cost taxpayers an additional \$2.8 billion a year. The clear message from the Government is that the community will always need a mixed private/public health system.

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Apart from the savings available to those older Australians with private hospital cover, it will be interesting to see what broader impact the increased rebate has on private health insurance in Australia.

There may be considerable potential to grow a market that is presently stuck at about 45% of the population.

But it remains to be seen how much more attractive private health cover will be to older people currently relying on the public system, especially when those aged between 65-69 will still face a Lifetime Health Cover loading when they join.

This loading adds 2% to contributions for every year you are over 30 unless you joined before you were 30 or before 1 July 2000. It is designed of course to encourage people to take out health insurance early in their life cycle. The issue, however, is that a person in the 65-69 age bracket who takes out private hospital cover with a registered health fund for the first time faces a loading of up to 70%. (People born on or before 1 July 1934 are not affected by Lifetime Health Cover).

If the Government's increased rebate does succeed in encouraging more of the older generation to take out cover, what impact will this have on claims inflation and premiums for everybody else?

Given the status quo, having a greater proportion of older members (15% of NIB's members are 65 or older) will undoubtedly inflate claims and put more pressure on premiums.

But that should never be used as a reason not to support such an opportunity for them. After all, health funds exist to pay claims and to help people of all ages by providing access to quality medical care.

The challenge for NIB, and for all health funds, must be to welcome these people and to take active steps to better cope with the position. We must operate more efficiently and effectively by placing greater emphasis on better standards of care, disease prevention/management and consumer education.

With or without this new potential growth these steps have to be taken if the private and public systems are to cope with the pressures of an ageing population and increasing medical inflation.

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