

**Date** Wednesday 4 May 2011

**Subject** Means testing of 30% private health insurance rebate

The purpose of this announcement is to update nib's past assessment of the proposal to means test the 30% rebate especially following the release today by the Australian Health Insurance Association (AHIA) of research into the possible impact. The AHIA commissioned the research by ANOP/Newspoll and Deloitte.

The AHIA and nib both anticipate the Federal Budget, to be released on 10 May 2011, will again include the proposal notwithstanding previous failed attempts to legislate the proposal.

### Main points

- nib estimates means testing of the rebate would be far less significant for nib than the AHIA research estimates for the entire industry.
- nib estimates means testing the rebate coupled with corresponding increases to the Medicare Levy Surcharge (MLS) would result in approximately an additional 4,700 nib customers lapsing (0.6% of nib customers, compared with 1.7%\* for hospital and 5.4%\* for general treatment cover for the entire industry calculated from results included in the AHIA report) in the first year beyond normal lapse rates and with negligible impact in subsequent years.
- nib maintains FY11 guidance of pre-tax underwriting profit of \$55 million-\$58 million (net underwriting margin 5.4% to 5.7%) and net policyholder growth of 5.5%-6%.
- nib expects an ongoing pre-tax net margin of 5%-6% with annual policyholder growth 5%-6%.

### AHIA report

The key conclusions of the AHIA report for the whole of industry suggest that following means testing of the 30% rebate with corresponding increases to the Medicare Levy Surcharge (MLS):

- Within 1<sup>st</sup> year 175,000 people with hospital cover and 554,000 with general treatment cover would lapse beyond normal rates.
- Within 1<sup>st</sup> year 538,000 people with hospital cover and 803,000 people with general treatment cover would downgrade their cover beyond normal rates.
- There would be further lapse in following years due to premium increases caused by the initial lapse. In all, 1.6 million people with hospital cover and 2.8 million people with general treatment would lapse over five years.
- A further 4.3 million people with hospital cover and 5.7 million with general treatment cover would downgrade their cover over five years.
- Government savings from the policy change would deteriorate with the cost to service the additional demand on the public hospital system forecast to eventually exceed the expected savings.

### nib analysis

nib's own analysis forecast that the impact on nib would be far less significant than that projected for the whole of industry in the AHIA's report. nib's analysis indicates means testing the 30% rebate with corresponding increases to the MLS, would result in approximately 4,700 nib customers (0.6% of nib customers) dropping their nib cover beyond normal lapse rates in year one.

In terms of product downgrades, nib forecasts that approximately 19,600 nib customers (2.5% of nib customers) could downgrade their cover beyond normal levels following the policy change in year one.

\* Percentage estimates by nib based on 9,973,864 hospital persons covered and 10,289,807 general treatment persons covered at 30 June 2010.

nib is of the view that the influence of the initial change would be negligible on premium increases in subsequent years so that further additional lapse or downgrading beyond year one would be equally negligible. It's also worth noting that nib is typically a net beneficiary of people moving coverage between health insurers.

The disjunction with the AHIA research is best explained by methodology. In the case of the AHIA it appears the researchers have relied upon questioning people's likely reaction to the proposed rebate changes by telephone survey. In contrast, nib has relied empirically on its own actual previous experience with lapse and downgrading when premiums have increased as part of the annual pricing process.

### **Commentary**

nib's Managing Director, Mark Fitzgibbon said means testing the 30% rebate would not be good policy in the absence of broader policy changes to healthcare.

"Why, for example, means test the rebate and not Medicare benefits for wealthier people? Means testing will simply increase the risk of people foregoing their private health insurance therefore placing further strain on a public system already in crisis," Mr Fitzgibbon said.

"Means testing the rebate is obviously unhelpful to our business and the industry. However, based upon our analysis and past experience we don't expect it will have anywhere near the impact on nib that the AHIA research predicts for the entire industry.

"In population surveys, predictions are always constrained by the extent to which people can reliably predict their spending given changes and we know purchasing is more a function of disposable income than prices.

"Overall our analysis indicates any impact would be moderate, which is in line with previous Treasury estimates which inter alia rely upon the countervailing influence of the Medicare Levy Surcharge and proposed increases.

"The actual prospect of the proposed legislation passing through Parliament is equally uncertain," Mr Fitzgibbon added.

### **Outlook**

The media reports suggest that any changes to the rebate would not be implemented until July 2012 and therefore would not materially impact nib's FY11 earnings. As a result nib has maintained its FY11 guidance of a pre-tax underwriting profit of \$55 million to \$58 million (net underwriting margin 5.4% to 5.7%) and a net policyholder growth rate of 5.5% to 6%.

nib continues to expect an ongoing pre-tax net margin of 5%-6% with annual policyholder growth 5%-6%.

### **MEDIA AND INVESTOR RELATIONS**

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