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# Private Health Insurance in Australia.

*Just like everywhere else but different*

Presentation to Singapore Actuarial Society Health Insurance Conference
7 June 2010

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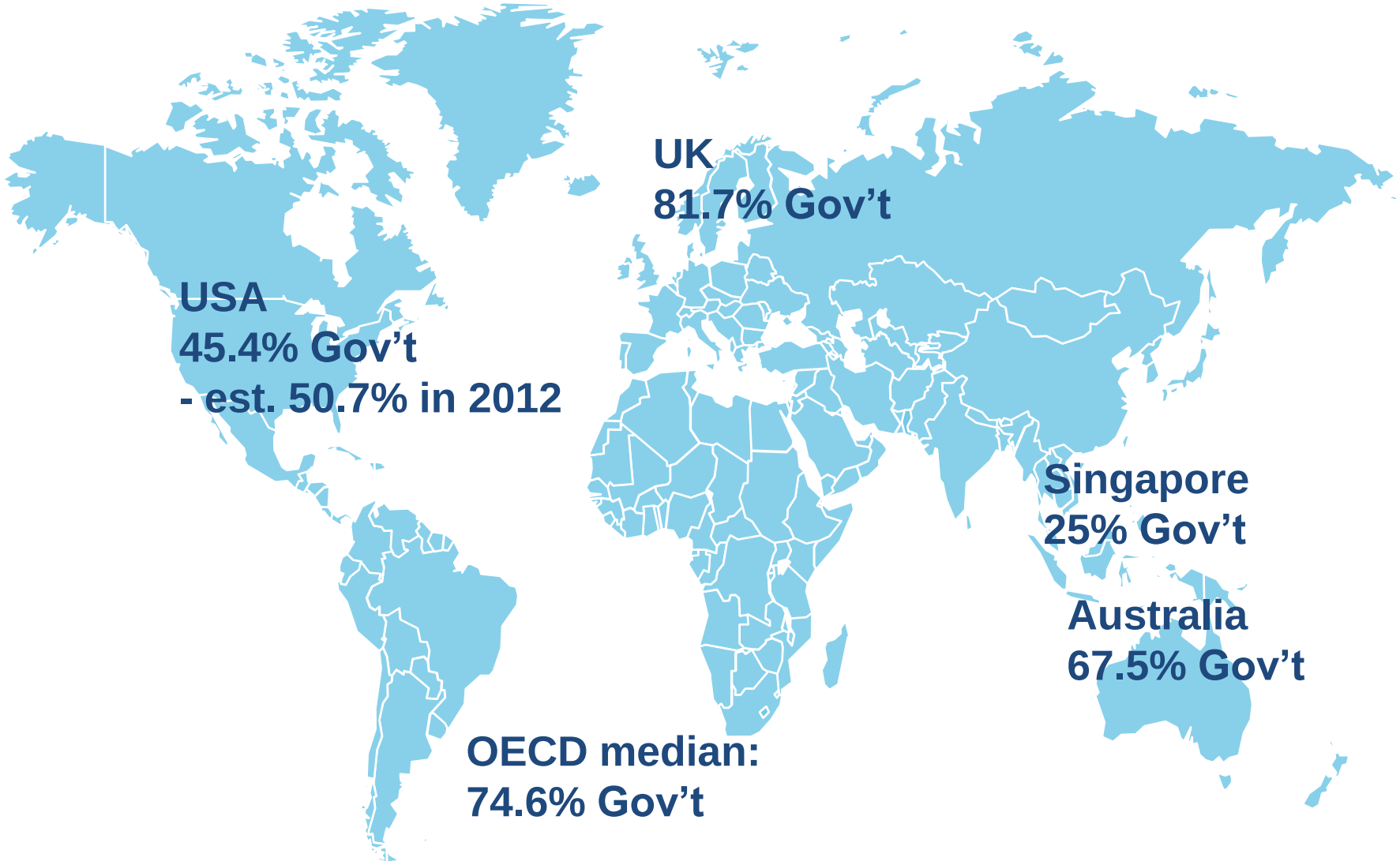
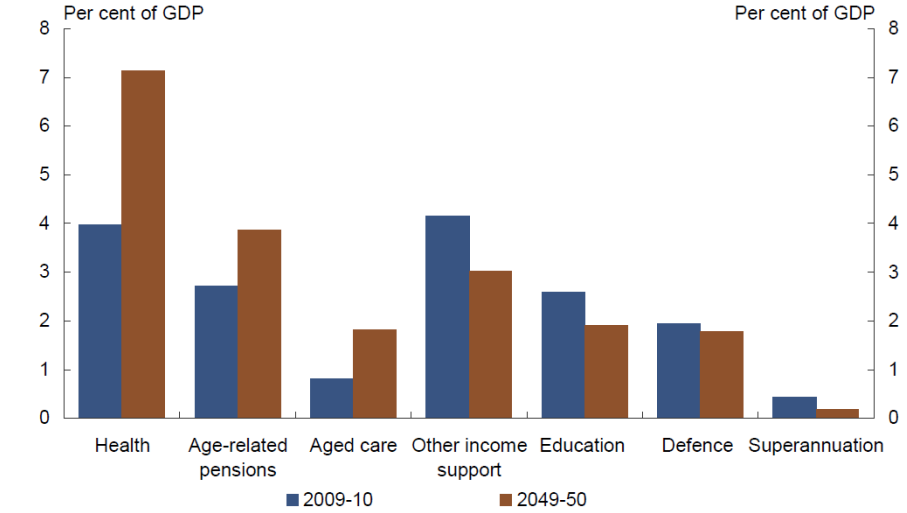
# Public and private finance

# Public vs private – a separate choice for each society



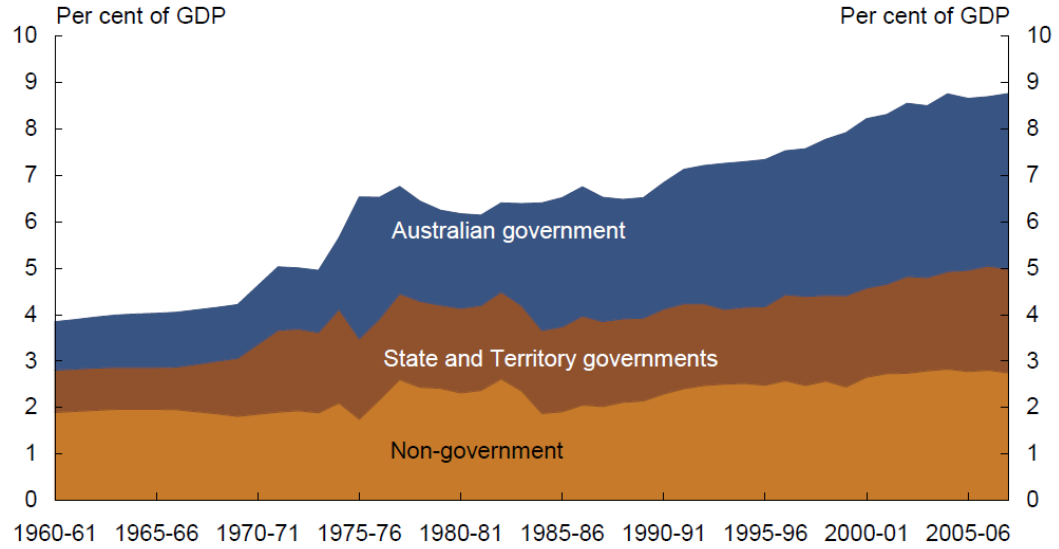
# Australia's health costs – IGR projections for government share

**Chart 4.2: Projections of Australian government spending by category (per cent of GDP)**




Source: Treasury projections.

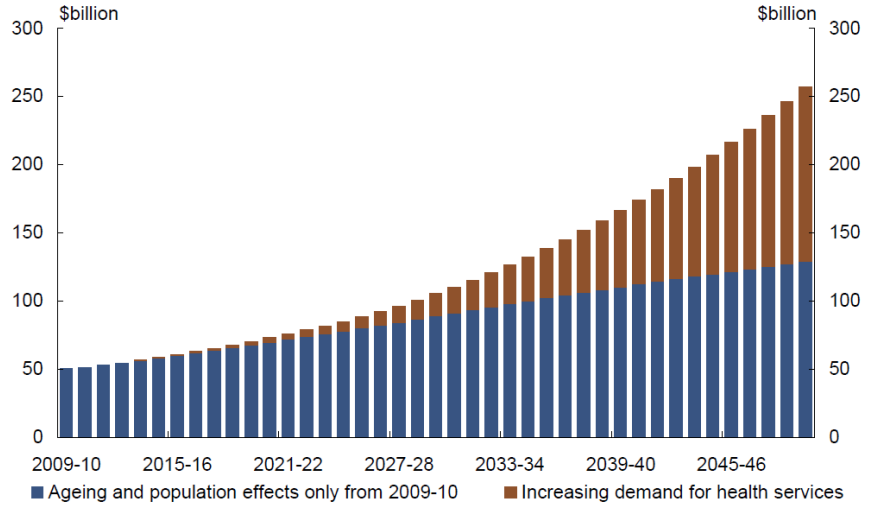
**Chart 4.4: Historical health spending**




Source: Australian Institute of Health and Welfare health spending database.

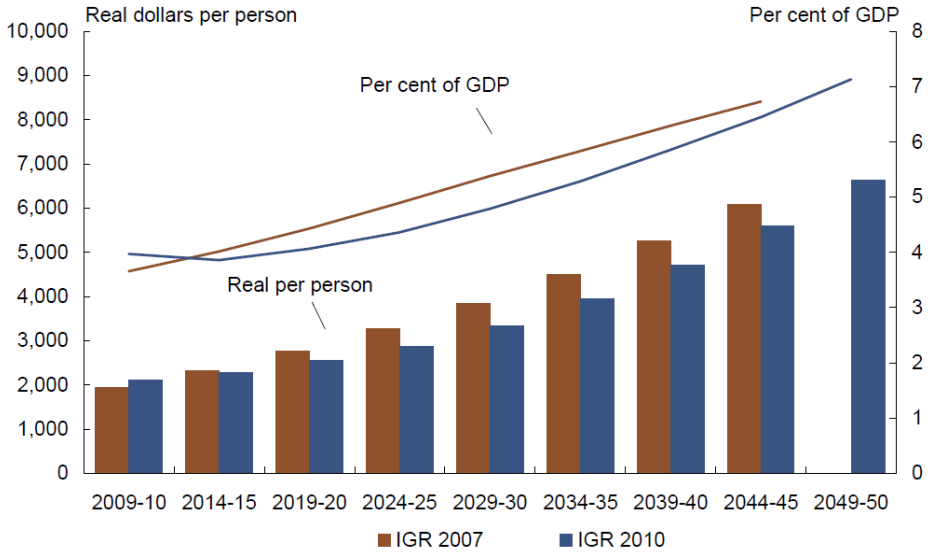
# Australia's health costs – IGR projections

**Chart 4.5: Total Australian government health expenditure with and without non-demographic growth (in 2009–10 dollars)**




Source: Treasury projections.

**Chart 4.8: Projections of Australian government health spending**




Source: Treasury projections.

# Health services – funding and responsibility

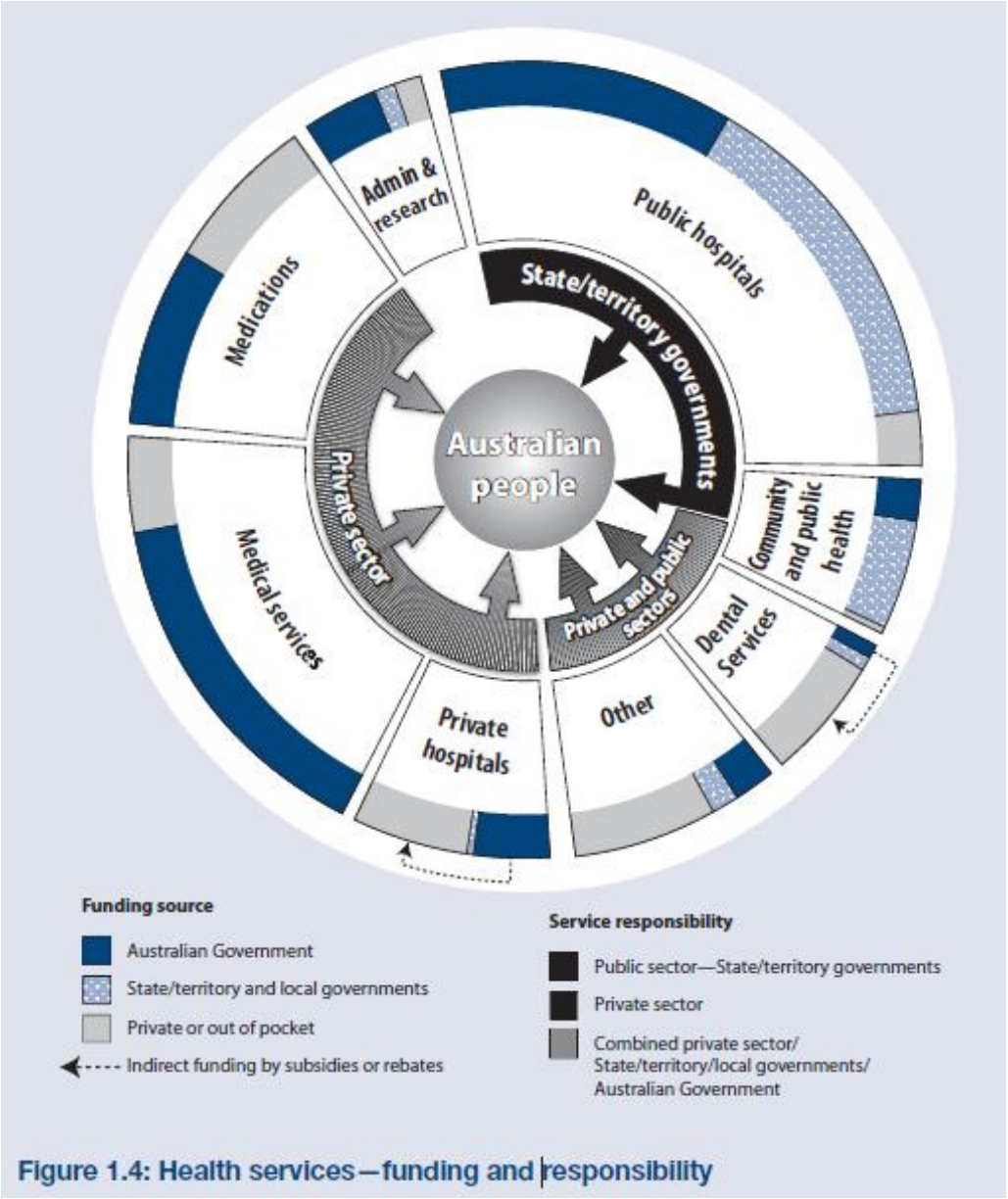



Figure 1.4: Health services—funding and responsibility

# Total funding for health expenditure

**Table 3.2: Total funding for health expenditure, by source of funds as a proportion of total health expenditure, 1997–98 to 2007–08 (per cent)**

| | Government | | | Non-government | | | |
|---|---|---|---|---|---|---|---|
| Year | Australian Government[(a)] | State/ territory and local | Total | Health insurance funds | Individuals[(a)] | Other | Total |
| 1997–98 | 42.1 | 25.3 | 67.4 | 9.5 | 16.3 | 6.8 | 32.6 |
| 1998–99 | 43.3 | 23.7 | 67.0 | 8.0 | 17.3 | 7.8 | 33.0 |
| 1999–00 | 44.3 | 24.9 | 69.2 | 6.9 | 16.7 | 7.3 | 30.8 |
| 2000–01 | 44.4 | 23.3 | 67.7 | 7.1 | 18.0 | 7.2 | 32.3 |
| 2001–02 | 44.0 | 23.2 | 67.2 | 8.0 | 17.5 | 7.2 | 32.8 |
| 2002–03 | 43.6 | 24.4 | 68.0 | 8.0 | 16.7 | 7.3 | 32.0 |
| 2003–04 | 43.6 | 23.6 | 67.2 | 8.1 | 17.4 | 7.3 | 32.8 |
| 2004–05 | 43.8 | 24.0 | 67.7 | 7.7 | 17.4 | 7.1 | 32.3 |
| 2005–06 | 42.8 | 25.3 | 68.0 | 7.6 | 17.4 | 6.9 | 32.0 |
| 2006–07 | 42.0 | 25.8 | 67.8 | 7.6 | 17.4 | 7.2 | 32.2 |
| 2007–08 | 43.2 | 25.5 | 68.7 | 7.6 | 16.8 | 6.9 | 31.3 |

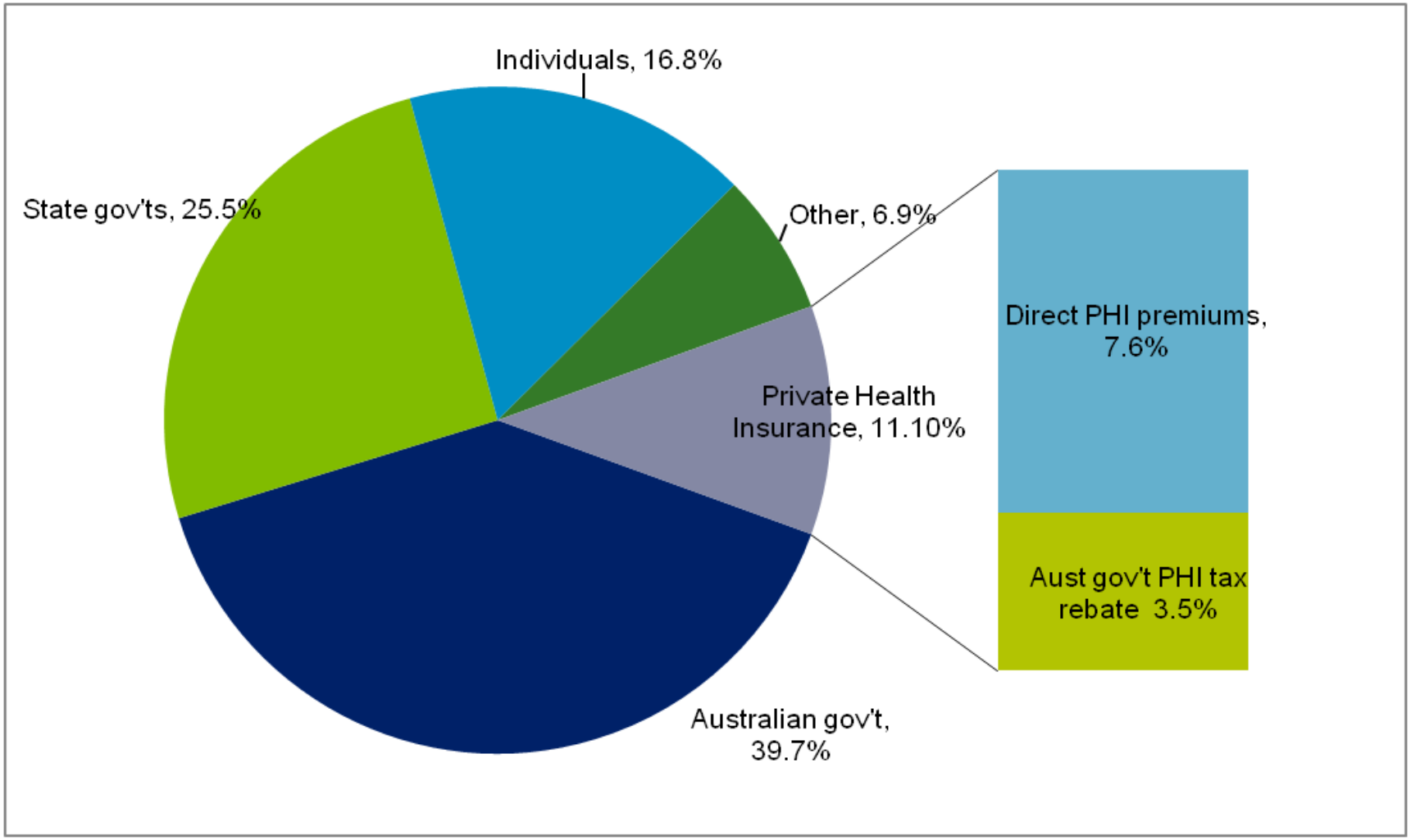
(a) Funding of expenditure has been adjusted for non-specific tax expenditures (see page 28).

*Note:* Components may not add to totals due to rounding.

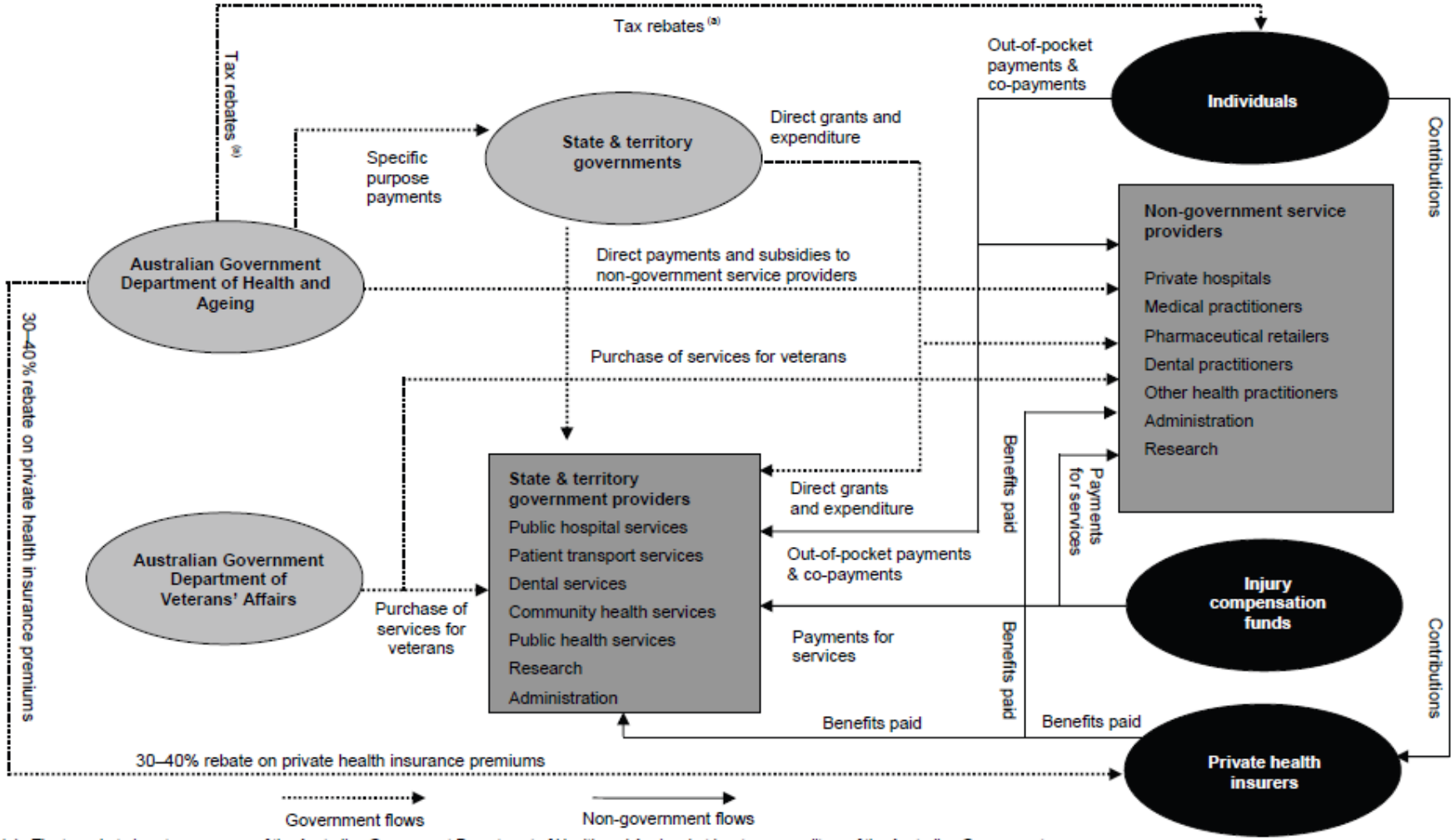
*Source:* AIHW health expenditure database.

The Australian Government's contribution in 2007–08 was 43.2%, which was 1.1 percentage points higher than in 1997–98, while the contribution of the state, territory and local governments in 2007–08 was 25.5%, 0.2 of a percentage point higher than in 1997–98 (Table 3.2).

# Share of health expenditure



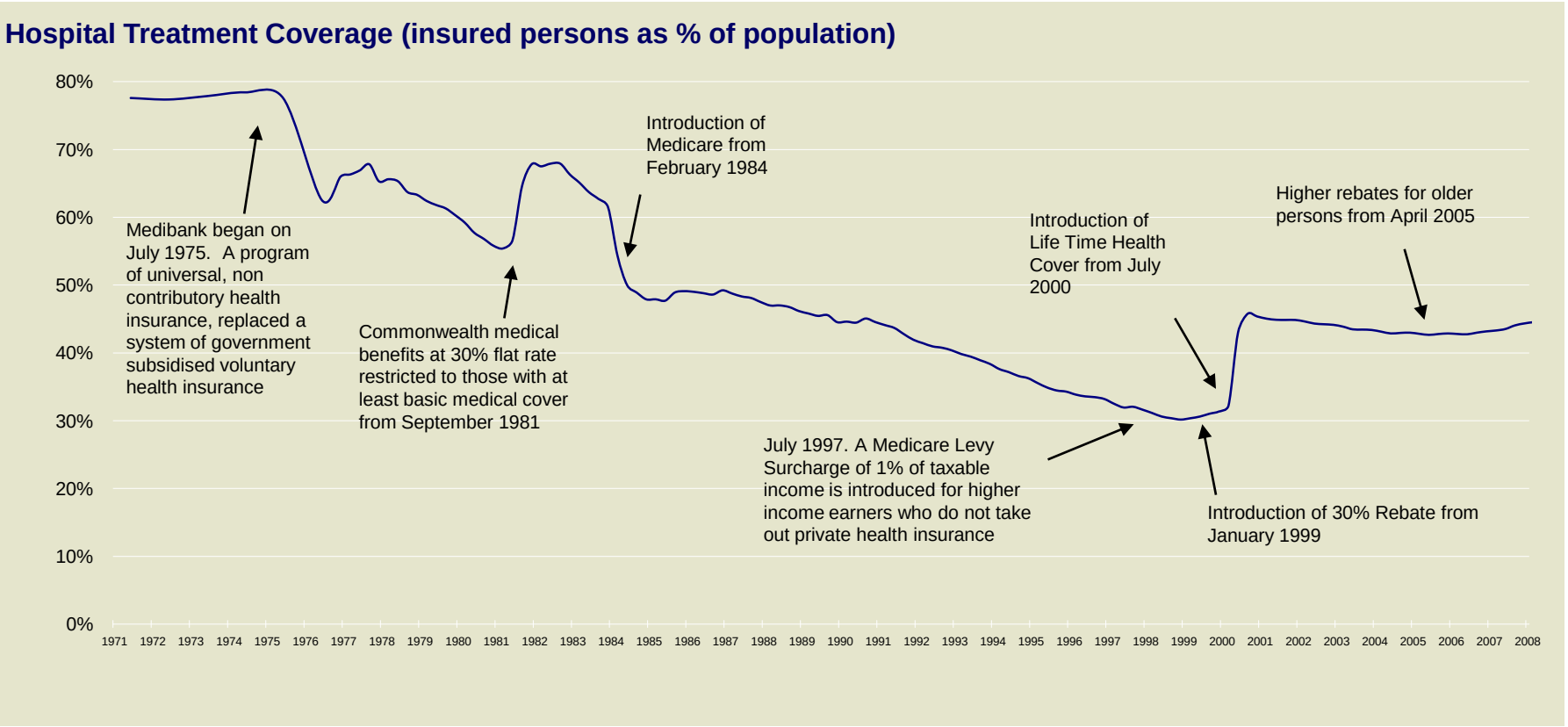
# The Structure of the Australian health care system and its flow of funds




(a) The tax rebate is not an expense of the Australian Government Department of Health and Ageing, but is a tax expenditure of the Australian Government.

**Figure 1.1: The structure of the Australian health care system and its flow of funds**

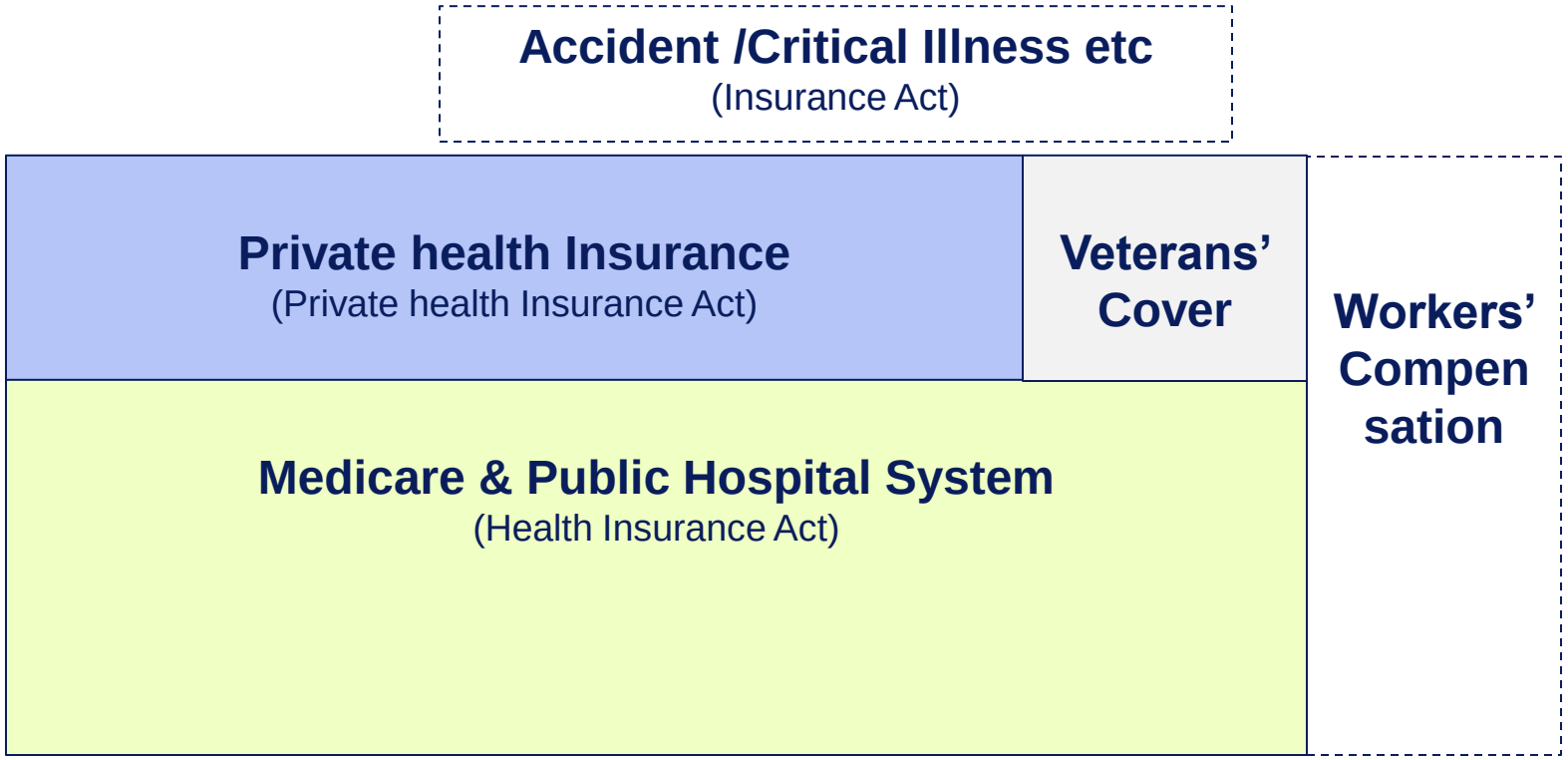
# With government support, 43% of Australians now have private hospital cover . . . but in the past a death spiral has threatened



# Australia's private health insurance products

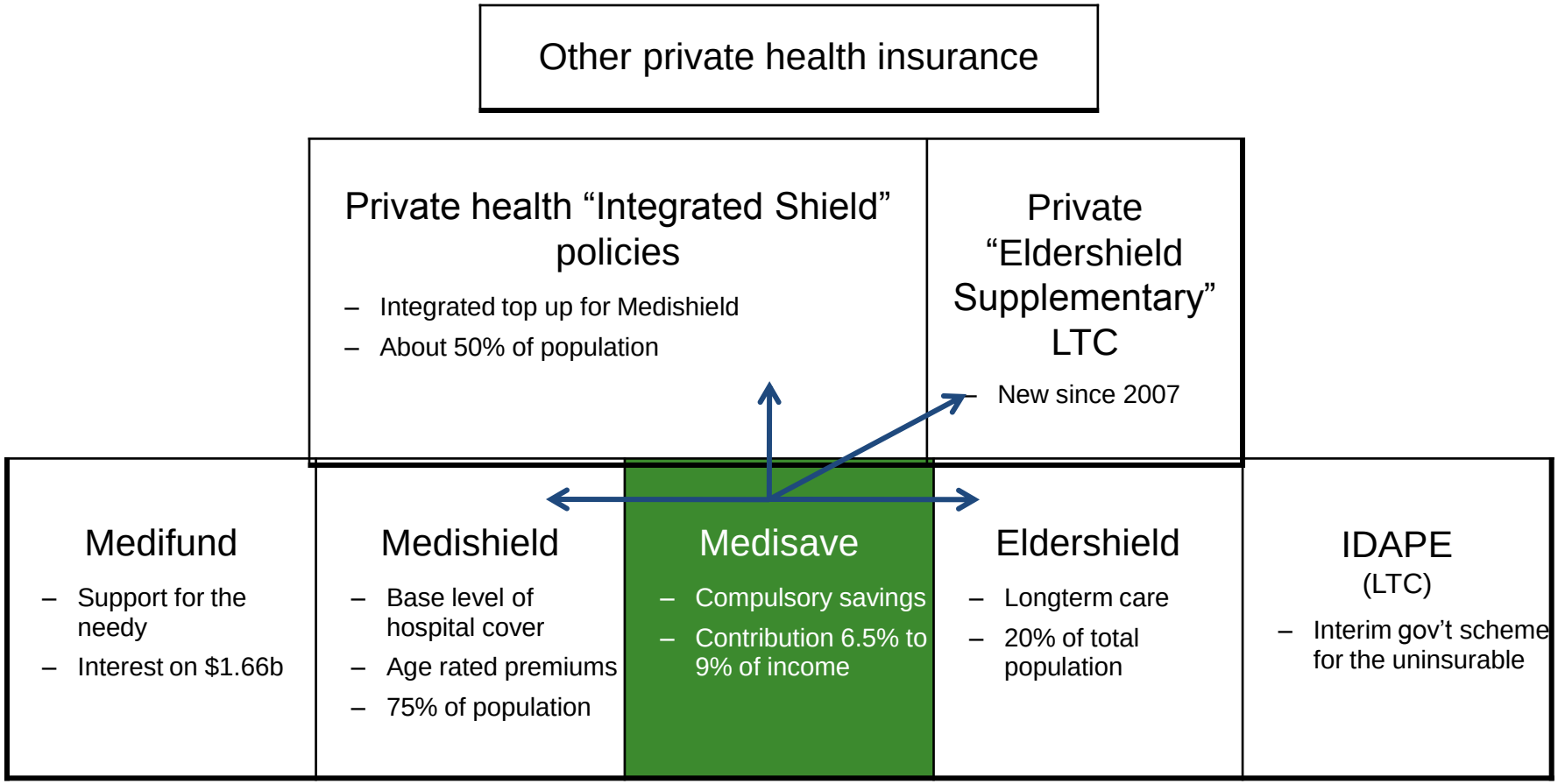
# Public and private insurance tiers are locked in by legislation

- base layer, government-sponsored
- private top-up layer, government-favoured and integrated to the base layer
- additional systems cover Veterans, Workers Comp
- life insurers are limited to critical illness, accident, disability cover

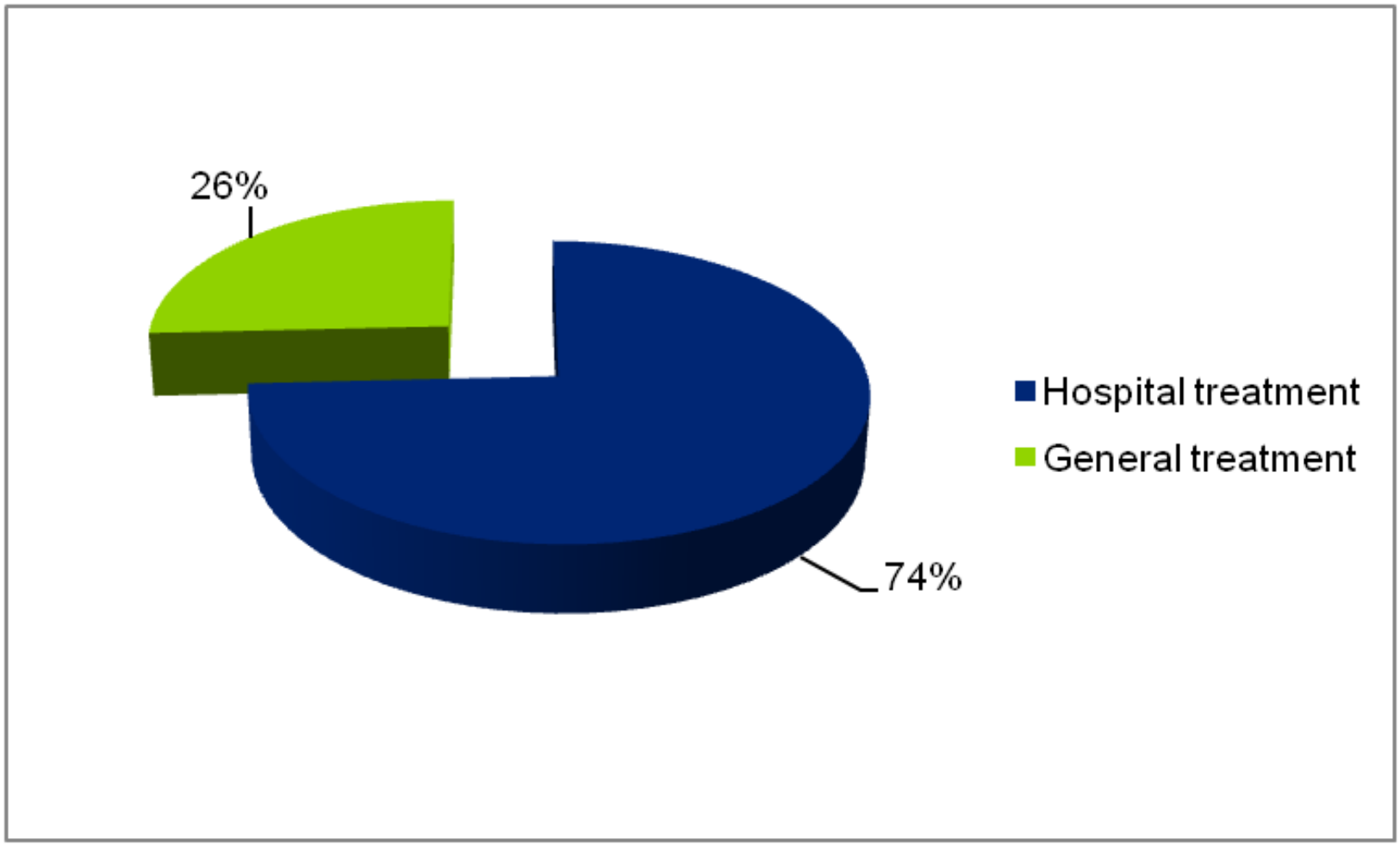


# There are some similarities with Singapore's layered health insurance structure

- base layer, government-sponsored
- optional top-up layer, government-favoured and integrated to the base layer



# Private health insurance covers treatment in hospitals (“Hospital”) and treatment by allied health professionals (“General”)



# Hospital benefits range from full cover through a mix of deductibles and exclusions to very basic cover

Example of full cover: **Medibank Private Premier Plus**

"**We cover all services where a Medicare benefit is payable, including**:

- Obstetrics-related services
- Assisted reproductive services
- Cardio-thoracic procedures such as angiograms or open heart and bypass surgery
- Colonoscopies
- Appendicitis treatment
- Removal of tonsils and adenoids
- Knee reconstruction surgery and investigations
- Shoulder reconstruction surgery and investigations
- Surgical extraction of wisdom teeth
- Plastic and reconstructive surgery (doesn't include cosmetic surgery)
- Major eye surgery – including cataract and lens-related services
- Hip and knee joint replacement surgery
- Renal dialysis
- Palliative care
- Psychiatric treatment
- Rehabilitation treatment.

"**For these services we pay benefits towards**:

- Hospital accommodation
  - Overnight accommodation in a private or shared room
  - Same day admissions
  - Intensive care
  - Theatre fees
- Surgically implanted prostheses and other items on the Federal Government's Prostheses Schedule

**Private Room Guarantee**

- if there isn't a private room available at a Members' Choice hospital and you're eligible to receive benefits under PremierPlus for the treatment you received during your stay, you may be entitled to receive $50 a night up to a maximum of five nights per stay.

# General Treatment benefits range from comprehensive to basic, and are often packaged together with a similar level of hospital cover

Example: Medibank Private Premier Plus – Extras

"We'll pay benefits towards:

- General dental and endodontic services (e.g. root canal)
- Optical items
- Physiotherapy
- Pharmaceutical prescriptions (non-PBS)
- Medically necessary ambulance transport

"Plus you'll also get benefits for:

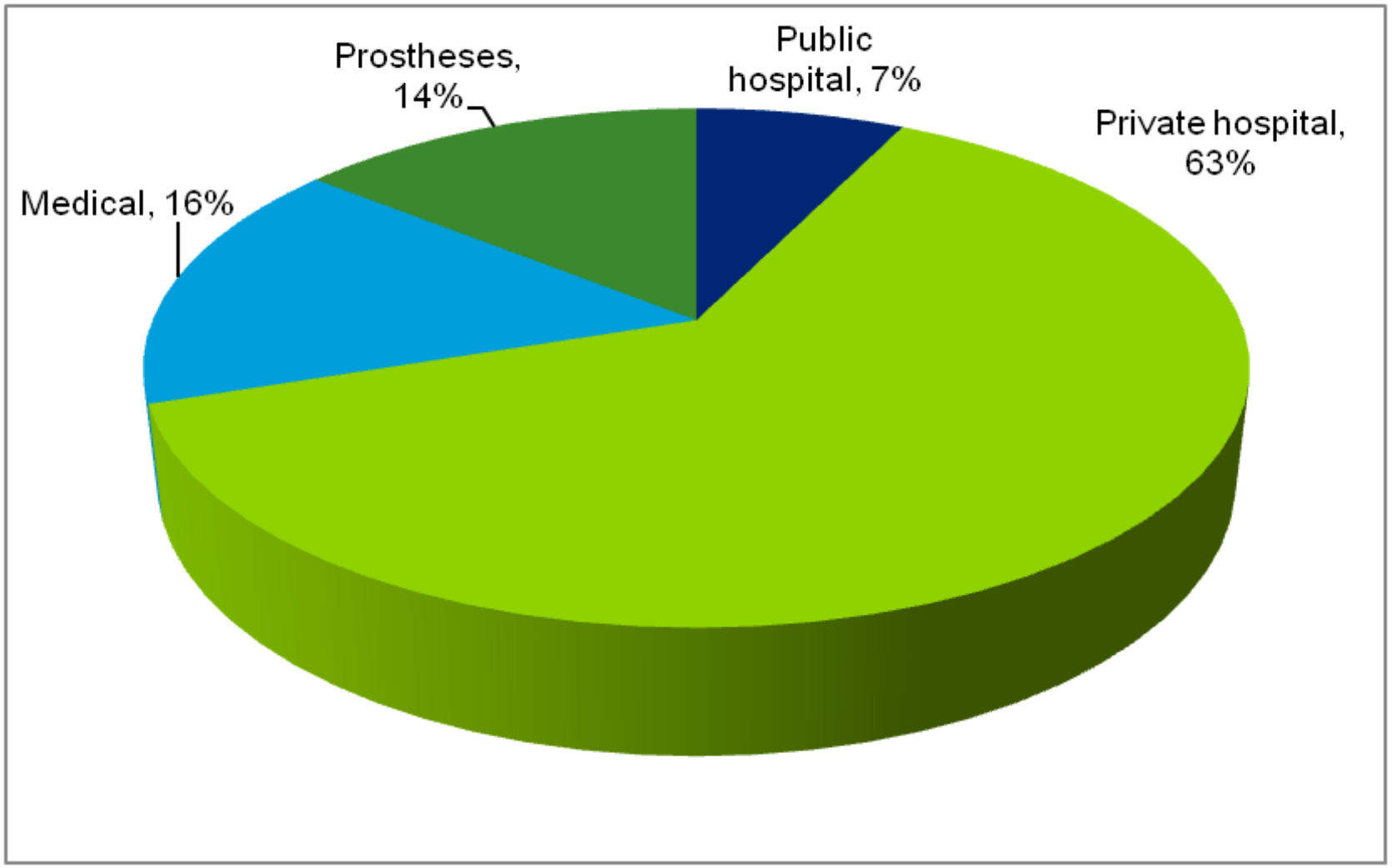
- Major dental such as orthodontic treatment
- Alternative therapies such as chiropractic and naturopathy
- Other therapies such as podiatry and speech therapy
- Health appliances such as hearing aids and blood glucose monitors
- Clinical psychology consultations
- School accidents.

# General treatment benefits are subject to limits; there is wide variation in the design of these

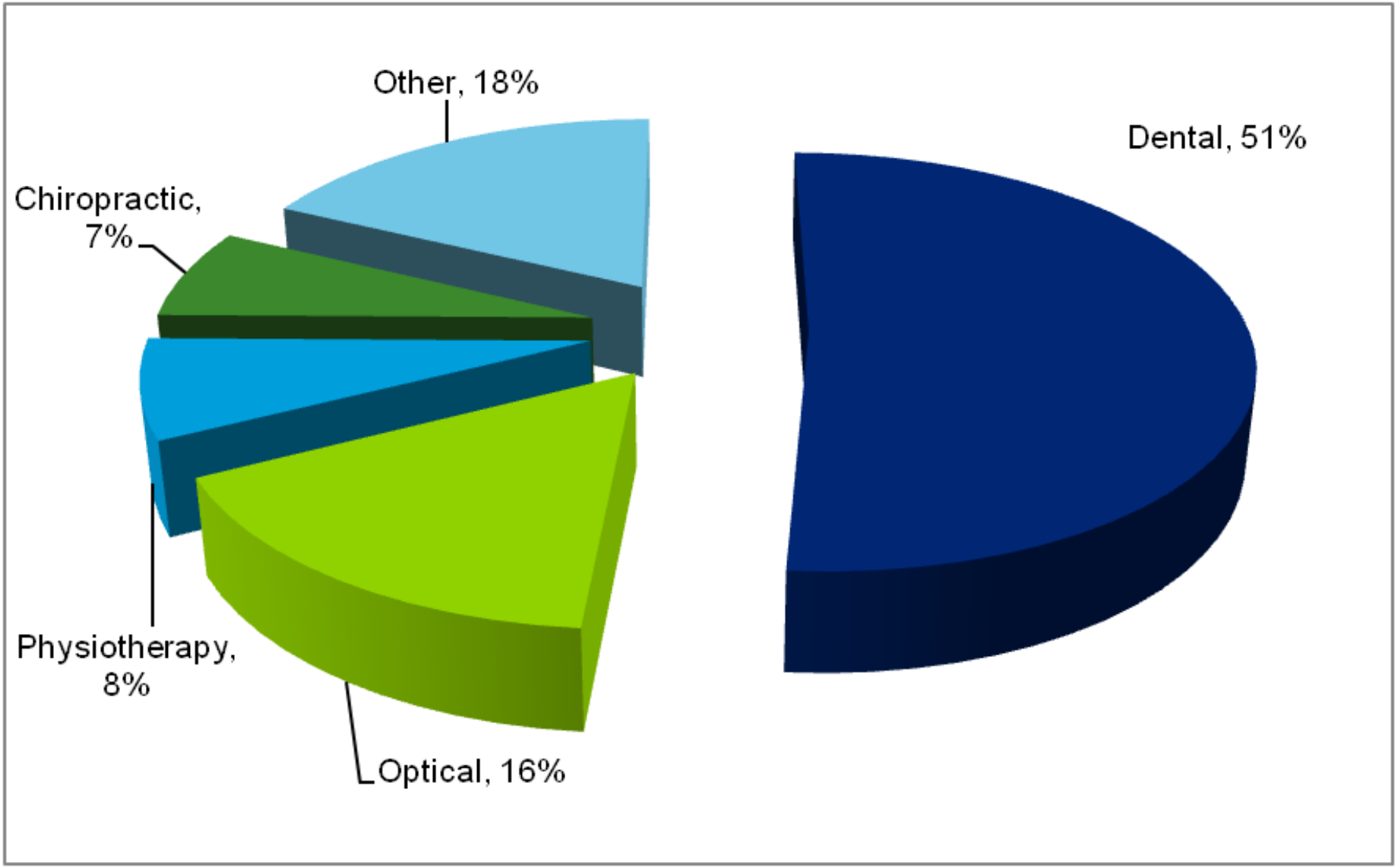
## Example: HCF Multicover

| Service | Service Example | Benefit Amount |
|---|---|---|
| Diagnostic & preventative dental | Periodic oral examination (general dentist) | $30 |
| | Application of fluoride | $20 |
| | Scale & clean | $55 |
| Restorative dental | Metallic filling (1 surface) | $60 |
| Major dental | Simple extraction | $75 |
| | Full crown (non-metallic indirect) | $625 |
| | Endodontic (preparation of root canal) | $150 |
| Orthodontic | General dentist (2 full arch banding) | $1,000 |
| | Orthodontist (Functional orthopaedic appliance, upper & lower braces and retainers) | $2,640 |
| Optical | Spectacle frames | $85 |
| | Single vision stock lens (pair) | $92 |
| | Soft toric contact lenses (pair) | $220 |
| Acupuncture/Chinese herbal medicine consultation | Initial consultation | $27 |
| | Subsequent consultation | $17 |

# Most claim expenditure is paid to private hospitals



# General treatment claims are dominated by dental, then optical



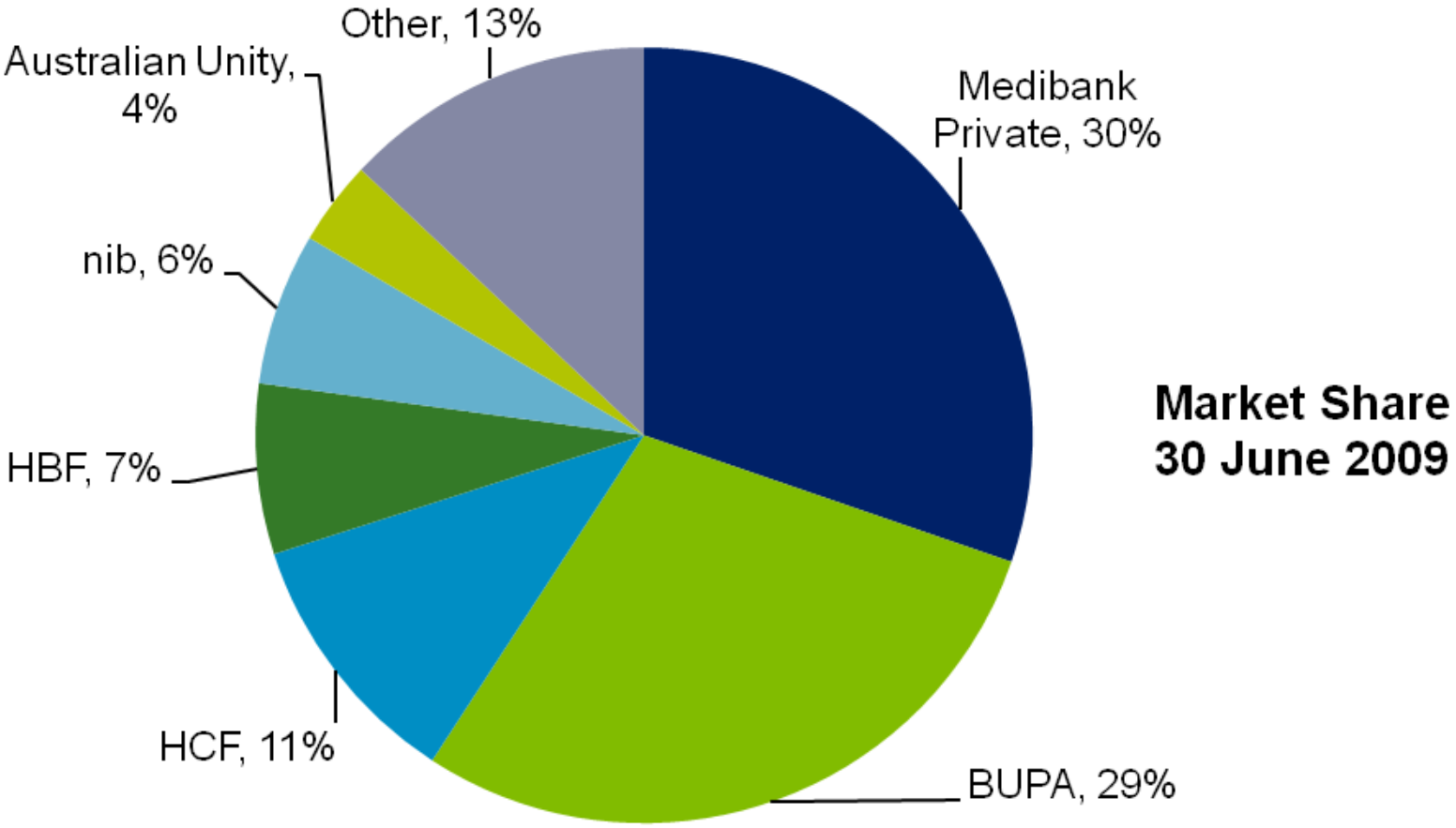
# Community Rating defines the grounds for competition

- Insurers cannot discriminate on grounds of individual's risk
- Regulated risk equalisation system – insurers with good risks pay to insurers with bad risks
- Result: compulsory cross-subsidies from healthy/young to unhealthy/old

- Three important impacts:
  - Higher "access" to the system
  - Healthy people need incentive to join / stay
  - Competition focuses on effective provider purchasing and on target marketing

# Industry structure

# There are 31 insurer groups, but the top 5 have 85% of the market



# Industry consolidation: In 9 years 11 health insurers have been taken over by others

| "Too hard to continue" | "Other priorities" | "An offer too good to refuse" |
|---|---|---|
| Goldfields<br>IOR<br>Federation<br>Druids NSW<br>Druids VIC<br>Grand United? | IOOF<br>NRMA | MBF<br>AHM<br>MU |

Observations:

- Mutuality is no guarantee of survival
- Were any of these organisations "successful"?

# Distribution is dominated by direct channels but alternatives are growing

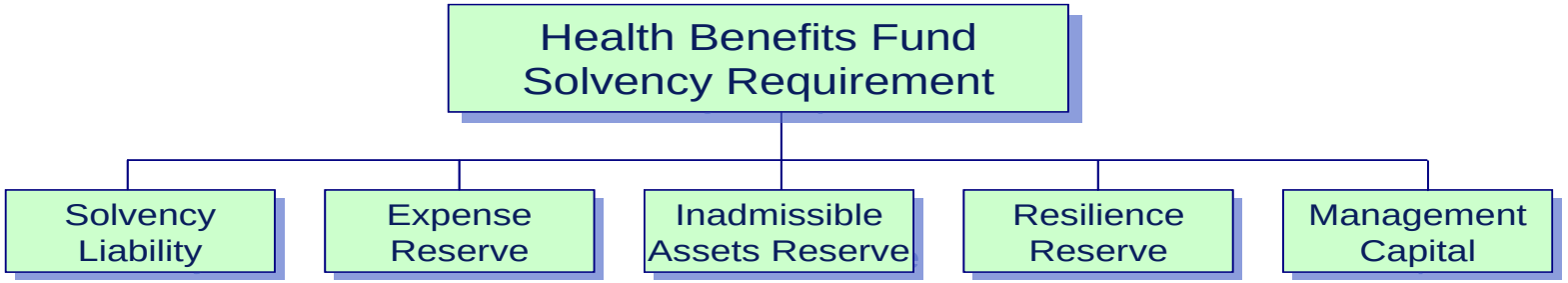
- The distribution battlefront – young members
- Direct – the dominant channel
- Corporate – a traditional alternative
- Brokers, intermediaries, internet channels – growing but facing opposition

# Benefits are underpinned by insurers' provider networks

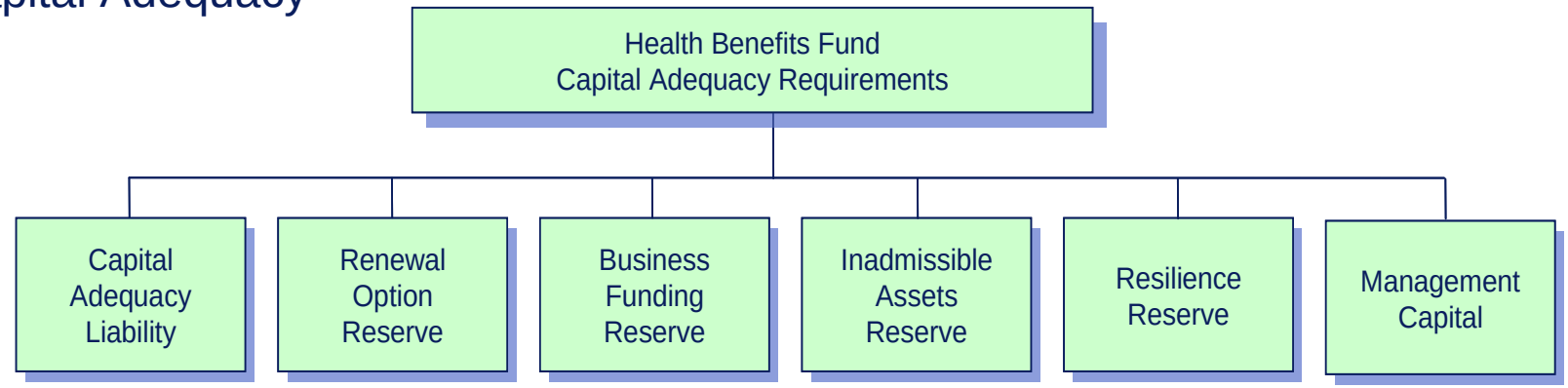
- Hospital contracting by each insurer
  - Five largest insurers contract on their own
  - All others use one of two "bulk-buying" specialist hospital contracting companies
  - Default arrangements if no contract in place for a hospital – less favourable for consumers, so pressure is on insurer and hospital to agree
- Medical arrangements
  - Medical practitioners act on their own fee for service basis but may opt into special arrangements with an insurer
- General treatment arrangements
  - Insurer costs limited by benefit limits; a small number of insurers operate their own dental or optical clinics
- Wellness / Prevention services
  - Increasing use of these
  - Three largest insurers each have recently put substantial service arrangements in place

# Solvency and capital adequacy requirements are specific to the Private Health Insurance industry, which has its own regulator

- Solvency




- Capital Adequacy




- Private Health Insurance Administration Council (PHIAC) is a stand-alone regulator reporting to the Dept of Health and Ageing, and separate from Australia's main prudential regulator APRA

# Public / private – the role of government

# Public / private partnership – government support for private health insurance

- Tax support
  - Income tax rebate of 30% - 40% premiums
  - Surcharge income tax 1% penalty for higher earners with no insurance

- Community rating support
  - “Lifetime health cover regime” – penalties for deferring entry to the insurance pool
  - Risk equalisation system – equalises claim costs between insurers with different age/health membership profiles

- Price control support
  - Pharmaceutical Benefits Scheme
  - Prosthetic Devices Committee

- Administrative “support” for the product and consumer
  - Special prudential regulator for health insurance alone
  - Private Health Insurance ombudsman

# Other government interfaces are more unpredictable

- Health insurance premium controls
  - No premium increase allowed unless the Minister approves
  - “Public interest” test for all price rises
- Australian Competition and Consumer Commission
  - Regular report on anti-competitive practices, specific to PHI
- Political processes generally
  - Some see the private sector as detracting from the public sector
  - Health is always a potential political issue – in any country

# Challenges for the PHI industry in Australia

# Short term – “an industry holding its position”

- Recent growth - continuing
  - Extra 45k people covered in December quarter; extra 209k over full year to Dec 2009
  - Growth every quarter since June 2005
  - Industry profit of $916m for calendar year 2009? (up from $324m for 2008/09)
- Major uncertainties – “the economy” and “investments” no longer major
  - Medicare Levy Surcharge weakening of incentives => if it passes
  - Government attitude => post 2010 election
  - Flow-on of health system changes
- Competitors - strong enough to change the market?
  - BUPA – operational excellence, consolidate MBF, largest profit
  - Medibank – expanding its footprint (McKesson, Medicare Select concepts)
  - HCF – Healthways & wellness, reinforcing mutuality
- Consolidation
  - To continue with smaller funds
- Government
  - Regulatory – operational focus
  - Premium increases below cost growth

# … but profitability and capital have been under pressure

- Declining underwriting surplus (premiums less claims less expenses):

  Industry

  - 2006/07: $616m
  - 2007/08: $513m
  - 2008/09: $413m

- Reduced capital cover at 30 June 2009:

| | Solvency Risk Multiple | | |
|---|---|---|---|
| | 2009 | 2008 | |
| Medibank | 2.45 | 4.18 | (Takeover cost) |
| BUPA | 1.75 | 1.71 | (Dividend management) |
| MBF | 1.72 | 2.31 | (Capital payment to parent) |
| HCF | 1.85 | 4.13 | (Takeover cost) |
| HBF | 2.77 | 3.10 | (Investment losses) |
| Nib | 2.79 | 3.16 | (Share buyback) |

# Health financing reform

- Health and Hospitals Commission:123 recommendations, focussed on the public sector
- Preventative Health and Primary Health taskforces
- Commonwealth takeover of funding responsibility from states
- All *assume* the existence of a private hospital sector => which must be funded

Medicare Select – the radical alternative for Australia, but unlikely to be adopted:

- Medicare Select is the more radical of two alternatives raised by the Health & Hospitals Commission; the questions that it raises are important
  - Health and Hospital Plans, funding total care, to be set up by:
    - Governments
    - Existing private health insurers
    - Others?
  - Using competition to control cost growth, spur innovation, improve health strategies
  - Public funding, but the mix of public/private administration chosen by consumers
  - Similar to Dutch model
  - Recommended 2 years to investigate and define it

# Insurers' response: Economies of scale provide special challenges for small insurers

- Solved:
  - Provider
  - IT

} "Defend and improve" (e.g. electronic health records, claims leakage techniques)

- Unsolved
  - Operational
  - Capital and finance

} "Recognise and Develop"

- Marketing and distribution – Play a different game
  - Strong niches instead of scale;
  - The advantages of cellular growth
  - Dilemma of using insurance brokers
  - Enablement from the web

- How to 'play' in the emerging games – e.g. eHealth

# Insurers' response – retaining attractiveness

- Risk/Premium relationship – when should 'savings' replace 'insurance'
- Meaningful choices & simple access ⇨ relevant to consumer where he/she is
- Community rating – understanding, acceptance, social pride
- Consumer purchasing advocate – "our buyer"
- "My Health" – managing personal responsibility and wellness
- Manage the threat to dental coverage
- Innovation – Health programs? Saving for health? New alliances?

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