

Pai, Neena

From:
Sent: Friday, 1 May 2009 12:13 PM
To:
Cc:
Subject: Requested PHI policy analysis
Attachments: 09 05 01 PHI policy analysis for Ian.doc

Security Classification:

Please find PHI policy analysis attached as requested.

We've also received the following request from Department of Health:-

"We are looking for data (actuals would be fine, projections also would be even better) that shows what proportion of people have private health insurance at different income levels. We presume that the higher the income people make the more likely the chance that they will have private health insurance as the cost of the MLS increases while the cost of private health insurance remains constant compared to income.

This is a request from our Minister's Office and I understand that you are currently working on a similar report because of a similar request from your Minister's Office."

Please let us know if you are happy for us to provide Health with a copy of Table 3 from the attached document, as well as the subsequent paragraph (which would appear to cover the details of their request), or if you have any questions.

Regards,

HEALTH SAVINGS POLICY

Making the PHI rebate fairer by:

- Reducing the rebate by 10 percentage points for those above the MLS thresholds but below \$90,000 (singles) and \$150,000 (couples) – MLS thresholds are projected to be \$75,000 (singles) and \$150,000 (couples) in 2010-11;
- Reduce the rebate by 20 percentage points and increase the MLS rate from 1% to 1.25% for those earning between \$90,000 and \$120,000 (singles) and \$180,000 and \$240,000 (couples); and
- Remove the rebate entirely and increase the MLS rate from 1% to 1.5% for those with incomes above \$120,000 (singles) and \$240,000 (couples).
- Changes to the PHI rebate are needed to make the system fairer.
- This package rebalances support for private health insurance so that those with a greater capacity to pay do so
 - higher-income earners will face more significant penalties for not holding PHI, and receive lower (or no) rebate.
- The Government will continue to support low and middle-income earners who elect to take out private health insurance.
- The existing 30, 35, 40 per cent PHI rebates will remain in place for those earning below the MLS thresholds.

Macroeconomic and longer-term fiscal implications

Spending on the PHI Rebate is growing quickly, and is projected to double as a proportion of health expenditure by 2046-47. Means-testing the rebate will generate savings that increase over time.

Distributional and Industry Analysis

Currently, those on high incomes receive a disproportionate share of rebate expenditure. While only around 25 per cent of individual taxpayers (*note: these individuals can be either single or members of a couple/family*) earn more than the MLS threshold, around 28 per cent of all PHI rebate expenditure on policies for singles is paid to these taxpayers.

The new means-testing arrangements would mean that around 12 per cent of PHI rebate expenditure on policies for singles would be paid to those earning above \$75,000, and those earning more than \$120,000 would not receive any rebate. This would concentrate PHI rebate expenditure on those who need it most, and those with the capacity to pay would be required to make a larger contribution to the cost of their insurance.

There will be an interaction with the tax cuts coming into effect on 1 July 2009 and 2010. Under this option, the combination of tax cuts and PHI means-testing would leave all taxpayers better off (on the basis of average premiums).

Treasury analysis estimates net PHI coverage to fall marginally. Specifically, Treasury estimates that around 25,000 individuals (6,500 singles and 5,500 couples and families) with PHI cover and earning between the MLS thresholds and \$90,000 (singles) and \$180,000 (couples) will opt out of PHI. This represents a decrease in the number of people with PHI of around 0.26 per cent (a 0.3 per cent decrease in singles and a 0.25 per cent decrease in couples and families).

Treasury further estimates that there will be no change in PHI coverage for those earning over \$90,000 (singles) and \$180,000 (couples), as the increase in net PHI costs for those affected will be commensurate with the increase in the cost of not having PHI cover (i.e. the MLS).

ADDITIONAL ANALYSIS OF PHI COVERAGE BY INCOME AND OVER TIME

Treasury estimates that in 2010-11:

- Of all tax filers who are single, about 14 per cent are above MLS thresholds, but this group currently receives about 28 per cent of the total PHI rebate paid to singles.
 - As a result of the policy changes outlined, this group will now be estimated to receive about 12 per cent of the total PHI rebate paid to singles.
- Of all tax filers who are members of couples / families, about 12 per cent are above MLS thresholds, but this group receives about 21 per cent of the total PHI rebate paid to members of couples / families.
 - As a result of the policy changes outlined, this group will now be estimated to receive about 9 per cent of the total PHI rebate paid to couples/ families.

While around 28 per cent of singles (around 630,000 individuals) and 21 per cent of members of couples / families (around 490,000 couples/families) will be impacted by an increase in out-of-pocket PHI costs, the majority of these singles and couples would also face a similar increase in out-of-pocket costs should they opt out of PHI via the increases to the MLS.

Table 1 outlines the proportional increases in out-of-pocket costs on the basis of a single or couple who are currently receiving 30 per cent PHI rebate.

Table 1: Increase in out-of-pocket costs for PHI and for MLS for singles and couples/families

MLS income range*	% increase in out-of-pocket PHI cost**	% increase in out-of-pocket MLS cost	% of singles with PHI***	% of couples/families with PHI ***
\$75,000 to \$90,000 (singles) \$150,000 to \$180,000 (couples)	14.3%	0%	10.4%	8.0%
\$90,000 to \$120,000 (singles) \$180,000 to \$240,000 (couples)	29%	25%	9.4%	6.4%
\$120,000 and over (singles) \$240,000 and over (couples)	43%	50%	8.6%	6.2%
Total above MLS thresholds			28.4%	20.6%

* Note that MLS income refers to income for MLS purposes, which includes an individual’s taxable income, reportable fringe benefits, salary sacrifice contributions to superannuation and net investment losses.

** Out-of-pocket PHI costs increases based on currently receiving 30 per cent PHI rebate.

*** Distributions for singles and families are based on 2010-11 Treasury estimates.

For those individuals who engage with the tax system, PHI take-up appears to increase with age, as indicated in Table 2 below. However, as many individuals aged 65 and above are not

required to engage with the tax system, it does not necessarily follow that PHI take-up for the population as a whole increases with age.

Table 2: Estimated 2010-11 PHI take-up percentages of tax filers by age range

Age range	PHI take-up for tax filers who are single	PHI take-up for tax filers who are members of a couple / family
Under 65	35.4%	49.7%
65 – 69	58.5%	66.2%
70 and over	56.1%	62.2%
All ages	36.7%	51.2%

Note that the PHI take-up percentages in Table 2 apply to tax filers only, and therefore do not represent the population as a whole. In particular, the PHI-take up percentages for individuals aged over 65 may not be representative of those age cohorts as a whole, as a significant proportion of people aged over 65 no longer have to engage with the tax system and would not be tax filers.

For those individuals who engage with the tax system, PHI take-up appears to increase with income, as indicated in Table 3 below. Of particular relevance are the very high PHI take-up rates for those who will have the rebate entitlement affected by the means testing arrangements.

When Table 3 is evaluated in conjunction with Table 1, it is reasonable to suggest that for singles and couples/ families whose MLS incomes exceed \$90,000 and \$180,000 respectively:

- (a) The increase in out-of-pocket costs should they opt out of PHI are comparable to the increase in out-of-pocket costs for retaining their PHI cover, so it is rational to continue with their PHI coverage; and
- (b) The high level of current PHI take-up suggests that for many in these income ranges, the choice to take PHI cover is one that is driven significantly by other factors beyond pricing (though pricing will still be relevant to some extent).

Table 3: Estimated 2010-11 PHI take-up percentages of tax filers by income range

MLS income range for singles	PHI take-up for tax filers who are single	MLS income range for couples / families	PHI take-up for tax filers who are members of a couple / family
Under \$50,000	25.6%	Under \$100,000	41.8%
\$50,000 to \$75,000	48.0%	\$100,000 to \$150,000	60.5%
\$75,000 to \$90,000	69.9%	\$150,000 to \$180,000	80.7%
\$90,000 to \$120,000	77.3%	\$180,000 to \$240,000	87.0%
\$120,000 and over	86.7%	\$240,000 and over	92.3%
Total	36.7%	Total	51.2%

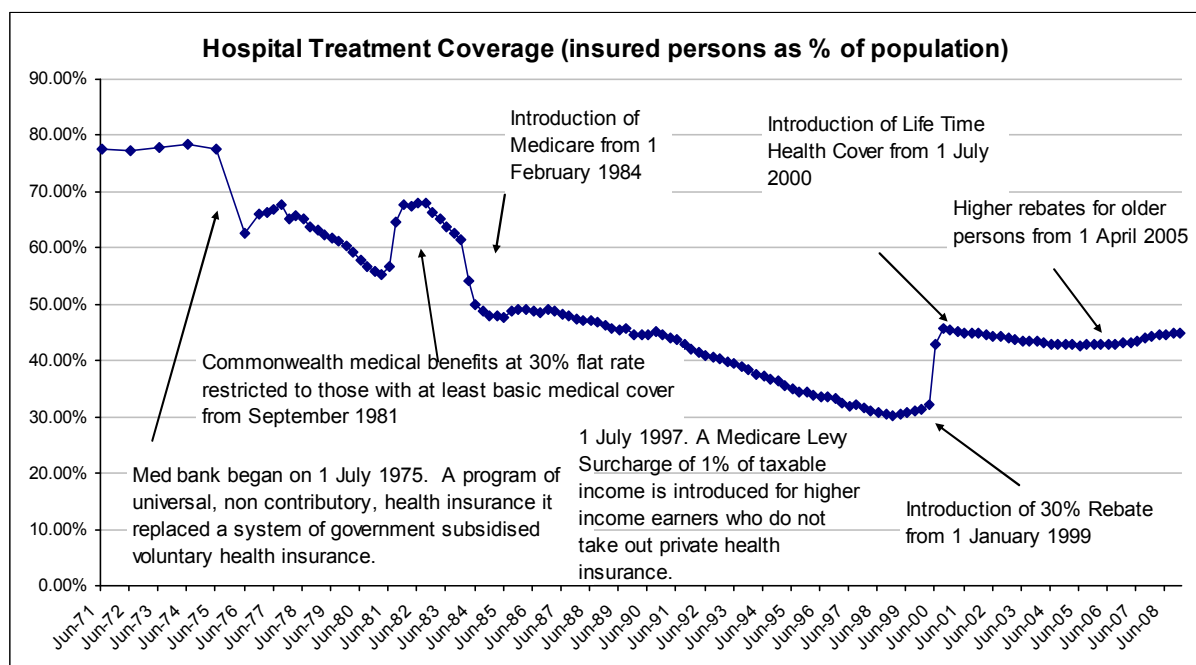
It should also be noted that as an individual’s MLS income increases, the amount of surcharge they are liable for in dollar terms also increases, whereas the cost of PHI in dollar terms does not increase with their income. This suggests that for individuals on higher MLS incomes, there is significant financial incentive to have PHI coverage.

Longer term historic PHI coverage

- PHI coverage has remained fairly stable over the period from when Life Time Health Cover was introduced (1 July, 2000) until 2005-06. As Chart 1 below demonstrates, the PHI take-up rate has been steadily over 40% throughout this period.
- After allowing for income growth from 2000-01 to 2005-06, PHI coverage does not appear to have changed significantly (both in terms of overall take-up and in terms of the income distribution of those with cover), though there has been some minor increase in take-up at high income levels over that period. For example:-
 - In 2000-01, singles with MLS incomes exceeding 1.5 x AWOTE (around \$60,000 at the time) had a PHI take-up rate of around 74%, compared with 2005-06 where singles earning above 1.5 x AWOTE (around \$80,000 at the time) had a PHI take-up rate of around 83%.
 - Similarly, in 2000-01, members of couples / families with MLS incomes exceeding above 3 x AWOTE (around \$120,000 at the time) had a PHI take-up rate of around 85%, compared with 2005-06 where members of couples / families earning above 3 x AWOTE (around \$160,000 at the time) had a PHI take-up rate of around 91%.

As at 30 June 1997, private health insurance membership (hospital level cover) was 5.9 million or 31.9% of the Australian population. As at 31 December 2008, 9.657 million people or 44.8% of the population were in possession of private hospital insurance (see Chart 1).¹

Chart 1: PHI coverage and major initiatives, June 1971-June 2008



¹ Private Health Insurance Administration Council, <http://www.phiac.gov.au/statistics/membershipcoverage/table1.htm>

Since the introduction of the MLS, participation has increased by 3.74 million or 12.9 percentage points. During that time, other major policy initiatives have been introduced (see Table 4).

Table 4: Private health insurance measures and relative participation rate, 1997-2005

Date	Measure	Participation rate (June)
July 1997	Means-tested Private Health Insurance Incentive Scheme	31.9%
July 1997	1% Medicare Levy Surcharge	31.9%
January 1999	30% Rebate	30.6%
July 2000	Lifetime Health Cover	43.0%
August 2000	Gap Cover scheme	
2002-03	Measures to streamline red tape and regulation, encourage funds to become more competitive and reduce their administration costs, and improve the effectiveness of Lifetime Health Cover (e.g. a notional Lifetime Health Cover birthday)	43.5%
April 2005	Increased Rebate for 65-69 year olds (35%) and 70+ (40%)	42.8%
November 2005	Implementation of new arrangements for the payment of prostheses benefits	43.0%

In 1997, there was very little impact on participation resulting from the introduction of the MLS. The decline in private health insurance participation continued until December 1998 when the lowest participation rate of recent years of 30.3% was observed. This suggests that by itself, the MLS is not a driver of participation and is a relatively minor reason for joining PHI.