

# **Health After Lifetime Health Cover**

## **Recent Health Insurance Experience**

**IAAust BIENNIAL CONVENTION 2003**



# Health after Lifetime Health Cover

- **Entry age rating system:**
  - originally proposed by Deeble & Scotton in 1973
  - industry discussions from early 1990's
  - recommended by Industry Commission in 1997
  - IAAust and actuarial involvement in final model
- **LHC announced in April 1999 Budget**
- **Implemented from July 2000**

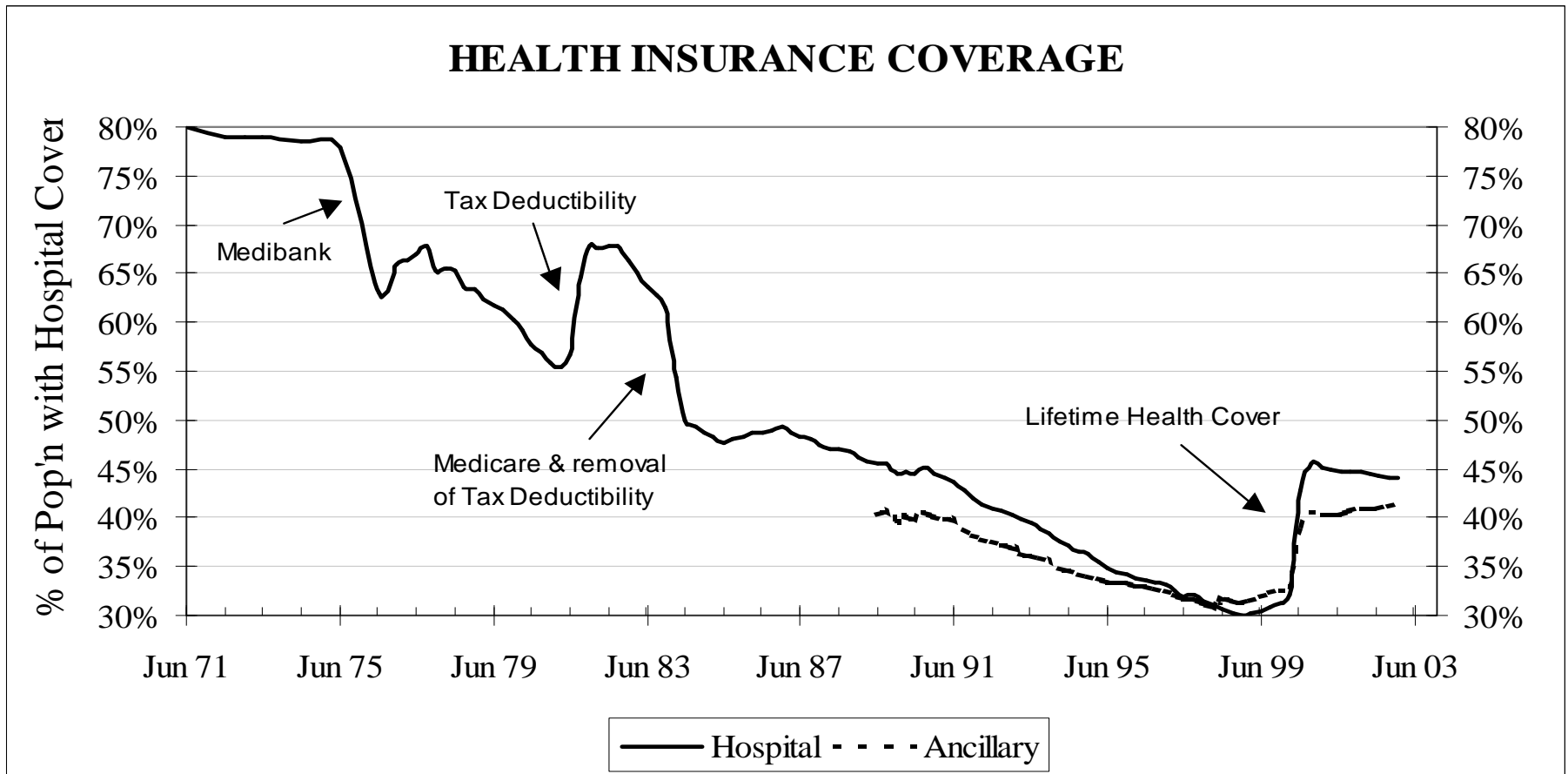


# PHIAC data collections

- Paper uses data from PHIAC website
- More confidential industry data available
- More than 200,000 data items per quarter!
- **Covers:**
  - membership and coverage
  - services, fees charged, benefits paid by age and sex
- **Latest additions:**
  - experience of new and old member cohorts
  - ancillary membership, fees, benefits by age and sex



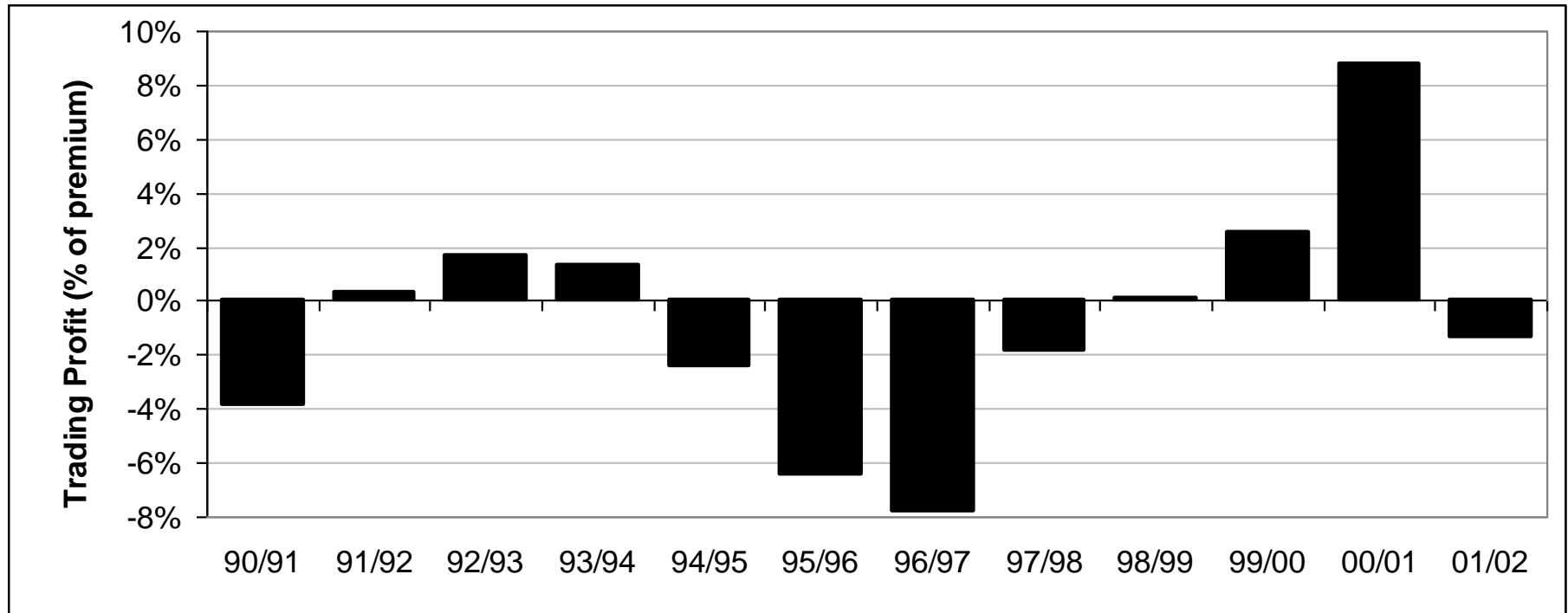
# Health Insurance Participation



- LHC arrested a 30 year decline in coverage
- Influence of Government changes



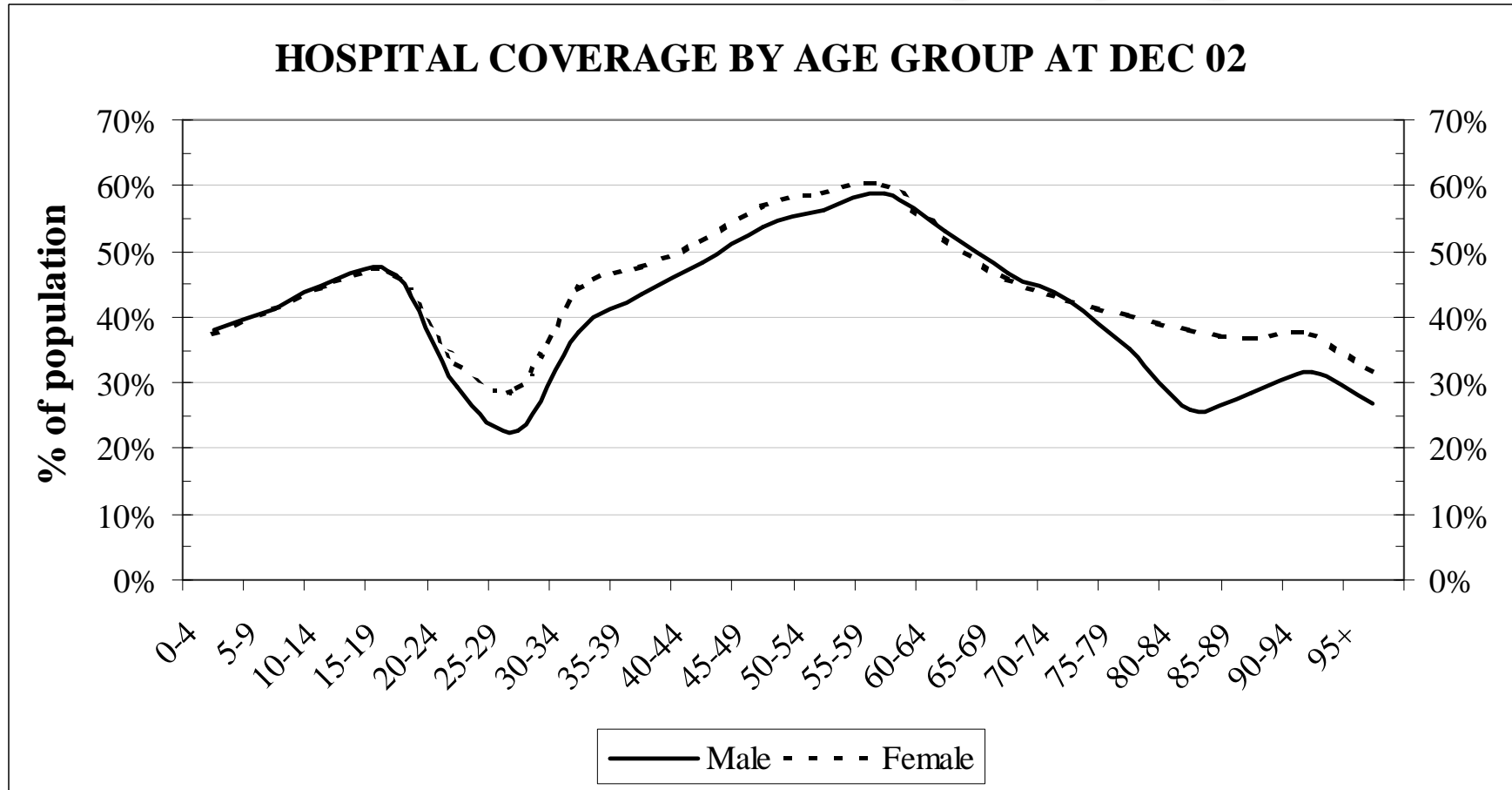
# Health Insurance Profitability



- Cyclical profitability – 12 year average 0.2%
- 2000/01 result due to Lifetime Health Cover
- 6 months to Dec 02 was -0.7% (source: BRW)



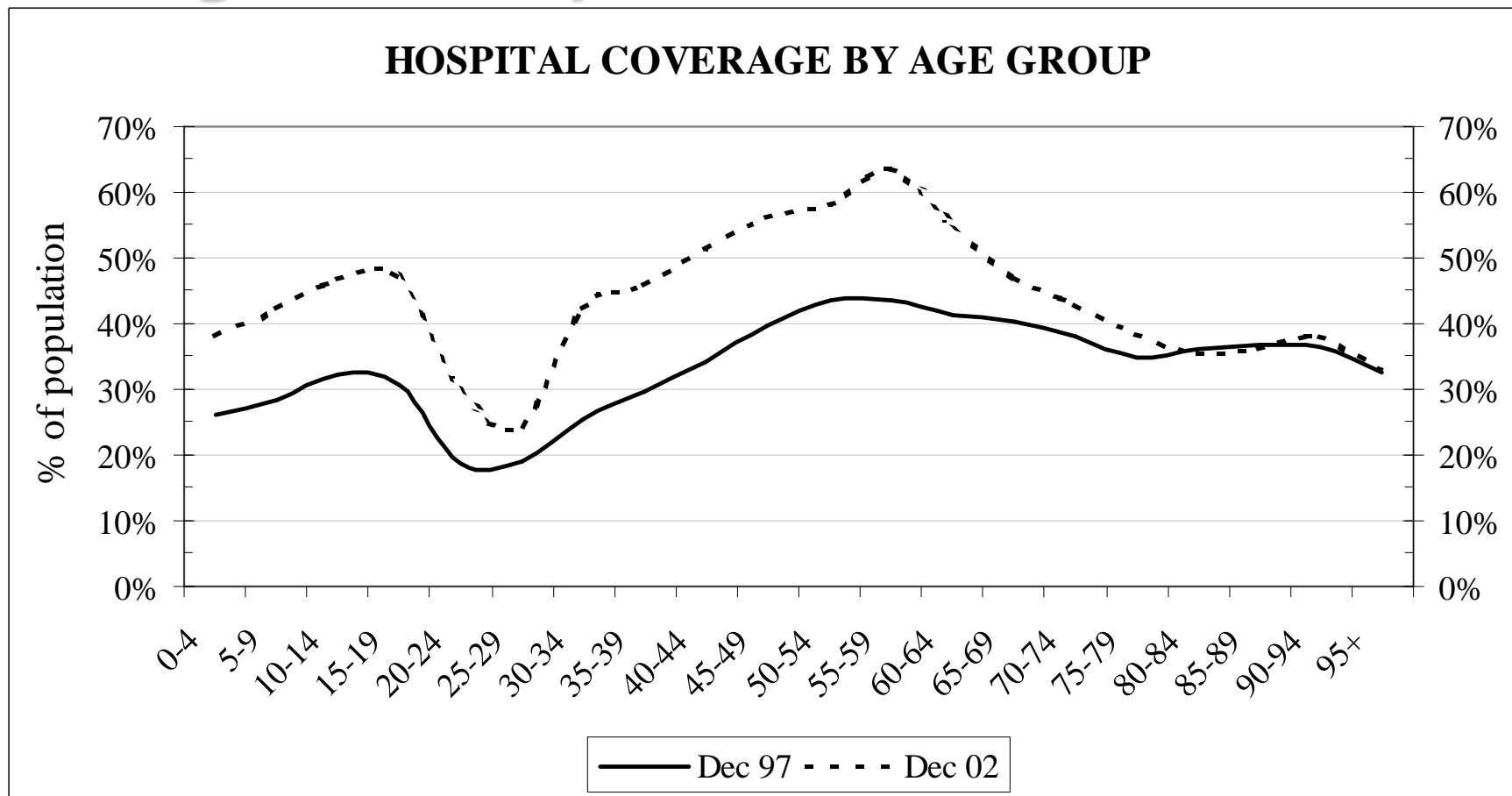
# Hospital Insurance Coverage by age & sex



- Coverage varies significantly by age
- Higher coverage levels for females
- War veterans do not require PHI due to Government provided cover



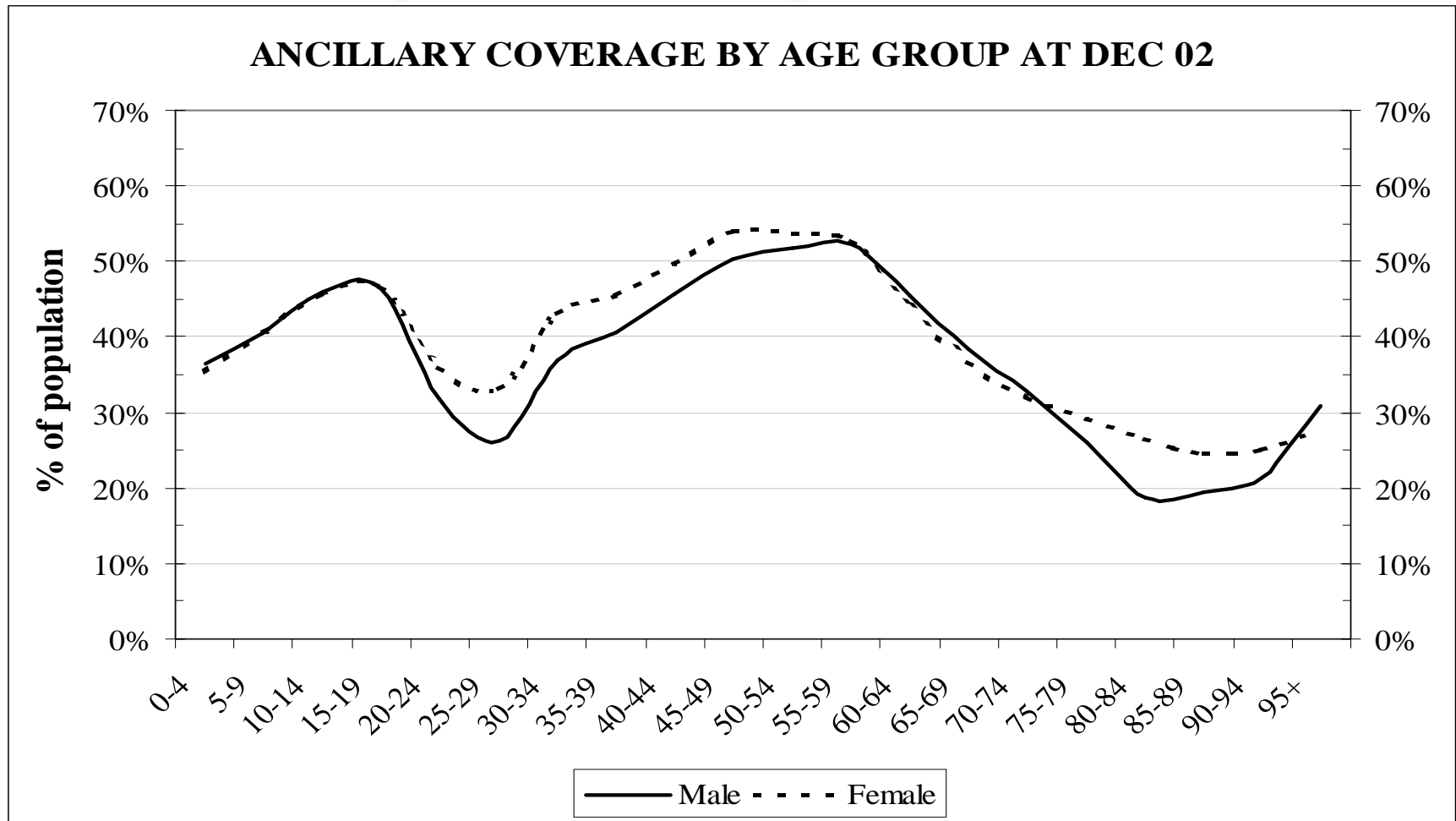
# Changes in Hospital Insurance Penetration



- LHC entrants were generally aged 30 to 64
- These entrants also insured their children
- There has been recent growth in the 65+ segment



# Ancillary Coverage

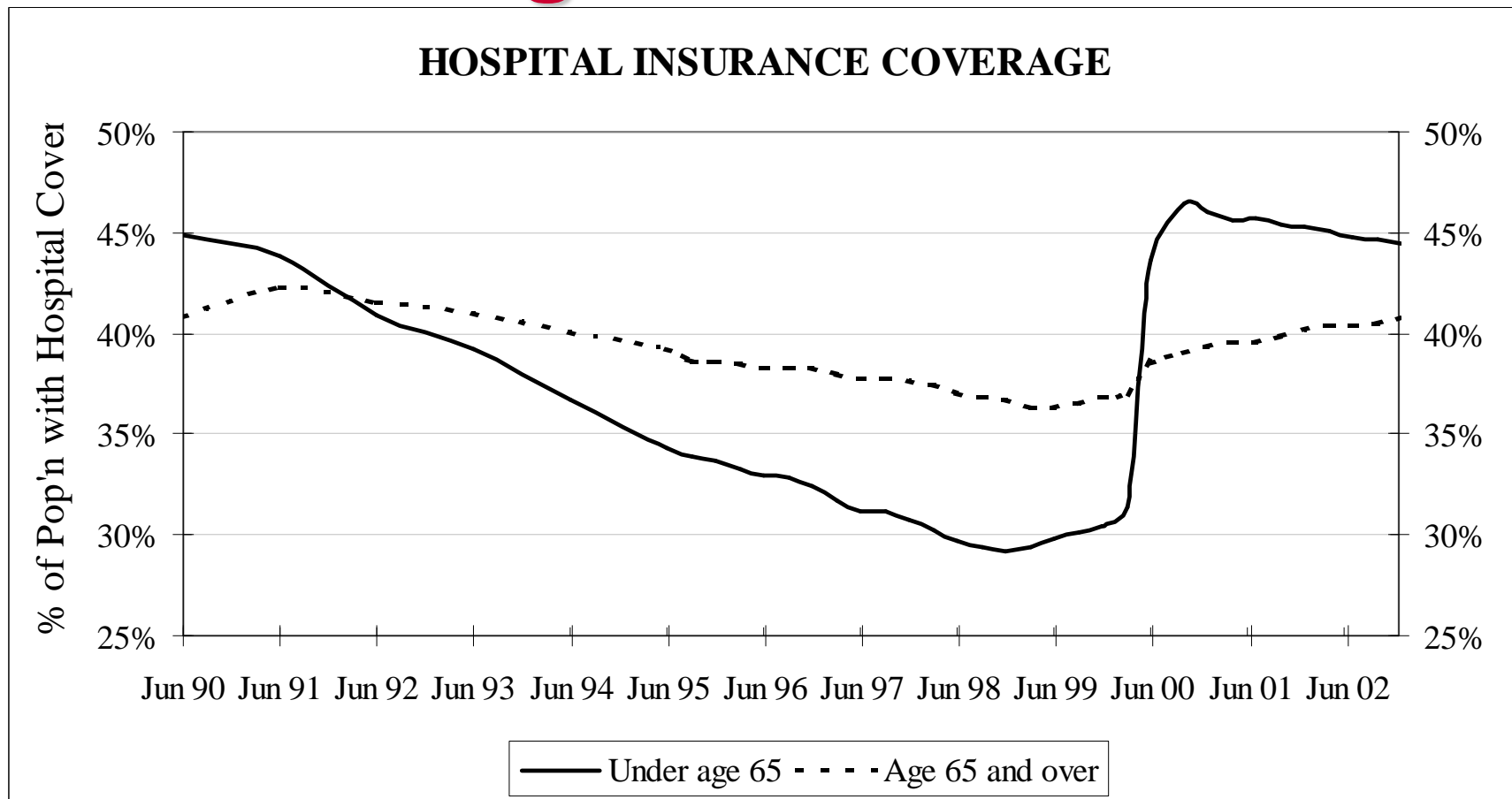


- Ancillary coverage shows a similar pattern by age and sex
- Higher levels at young ages and lower levels for other age groups





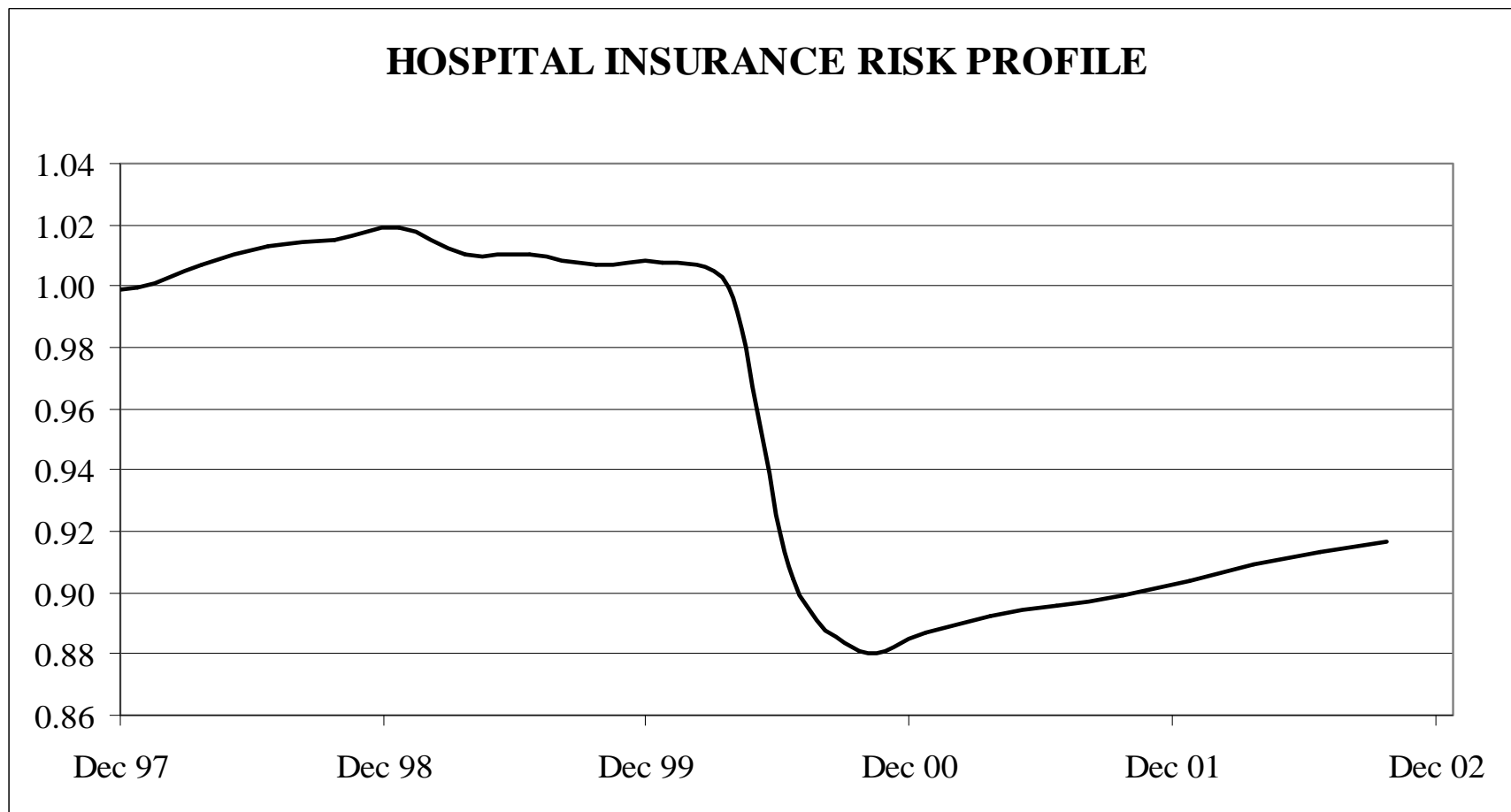
# Trends in Age Profile



- After the massive LHC changes, the 0-64 group is now declining while the 65+ group is growing back to historical levels



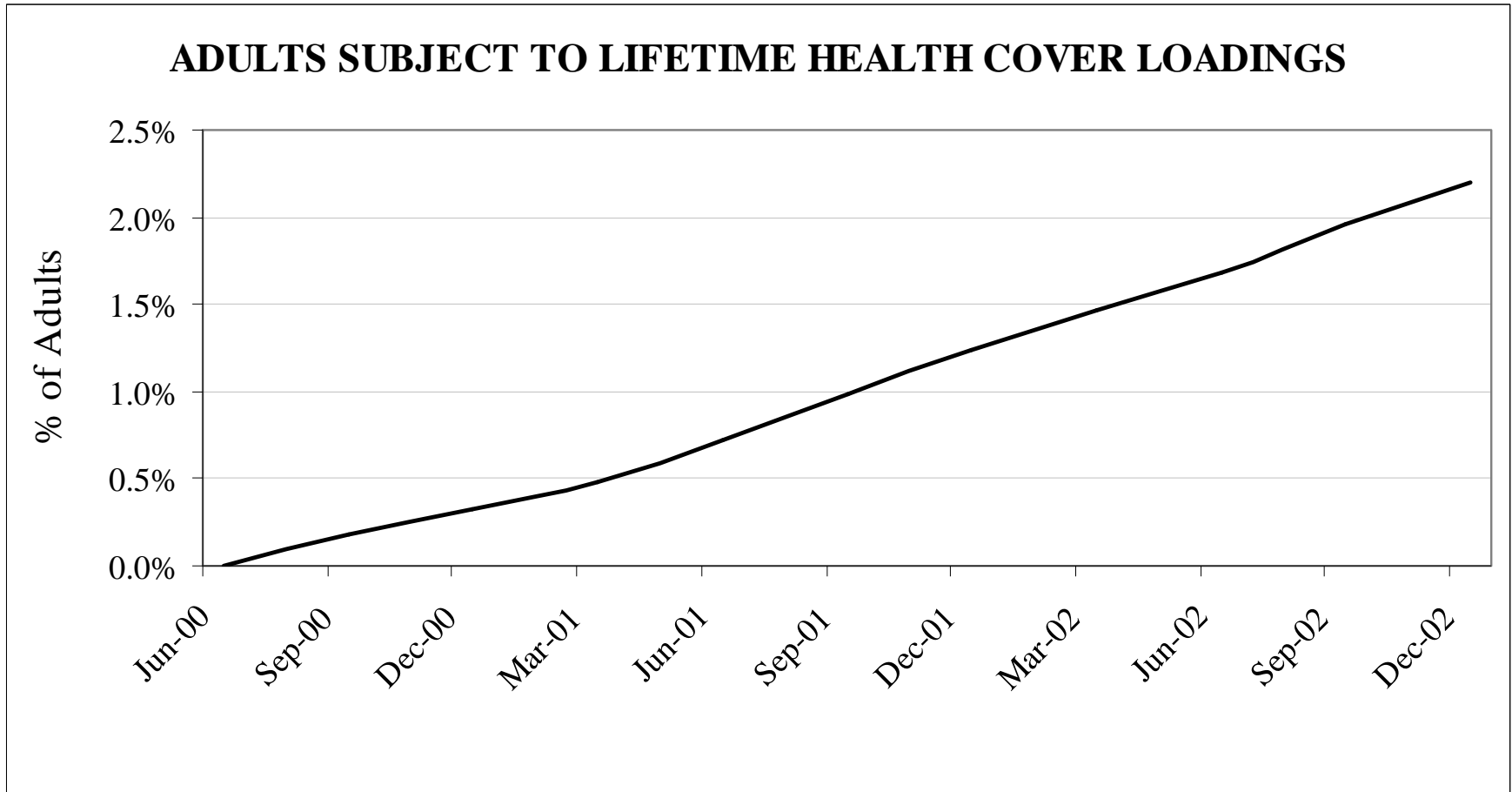
# Trends in Risk Profile



- About one-third of the improvement in the risk profile caused by LHC has been lost due to the growth in the 65+ age group post LHC



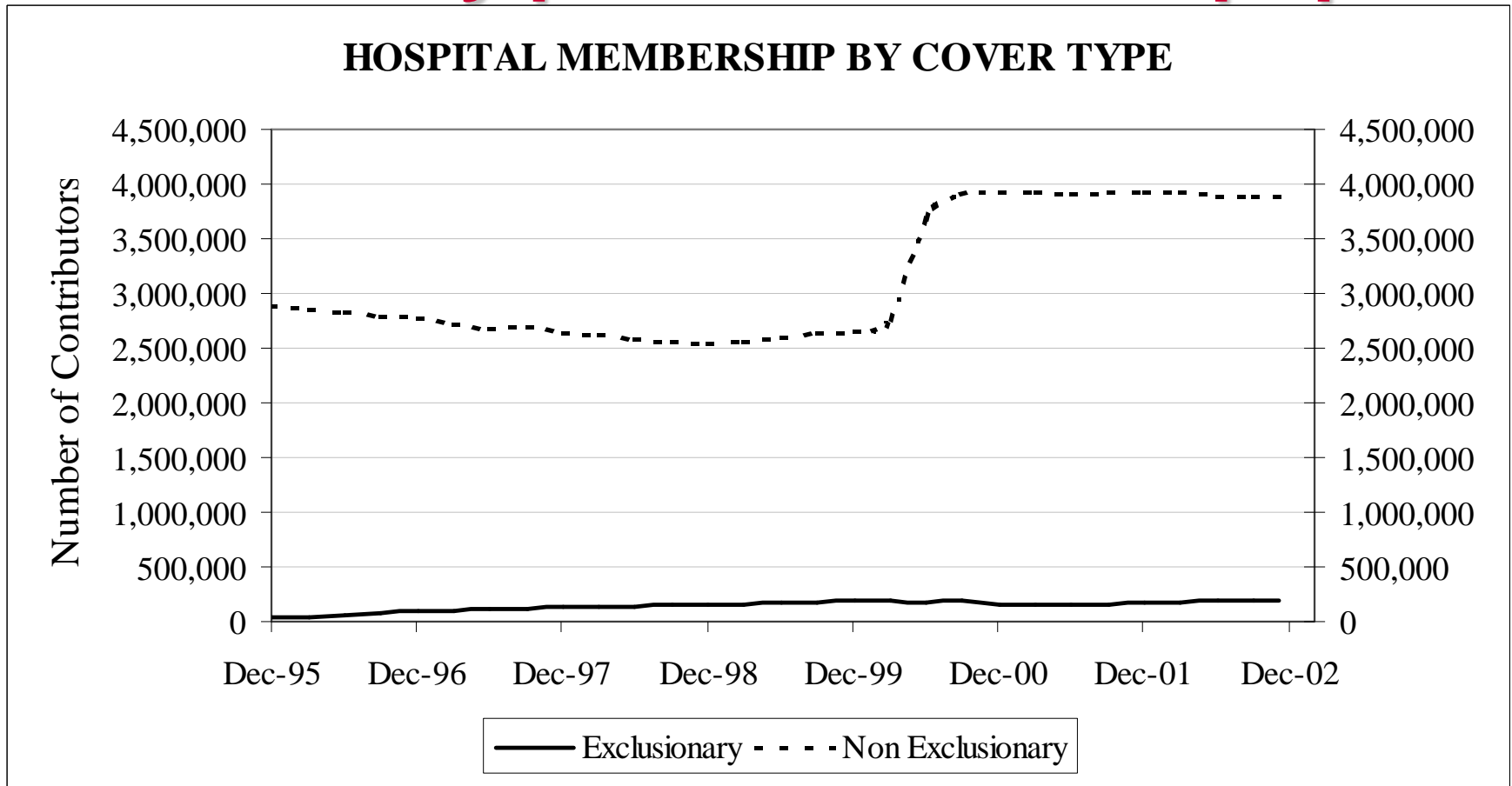
# New members now pay loadings



- There has been steady growth in new members paying premium loadings under LHC
- About 2.2% of insured adults pay an average loading of 22%



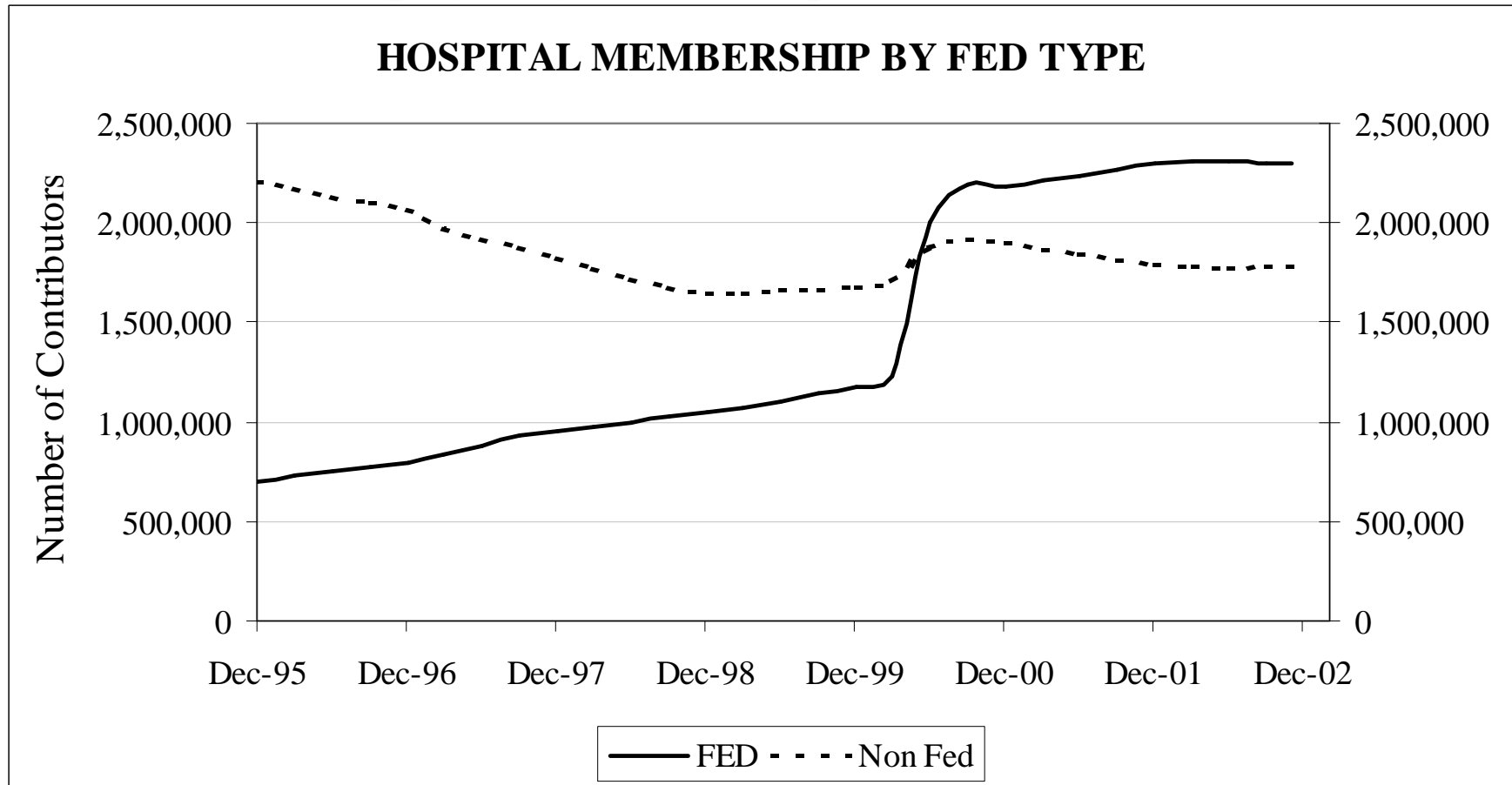
# Exclusionary products are not popular



- **Products with exclusions are not popular with consumers (but note reporting definition)**



# Increasing popularity of FED products



- Many members have chosen an excess to help manage premium increases



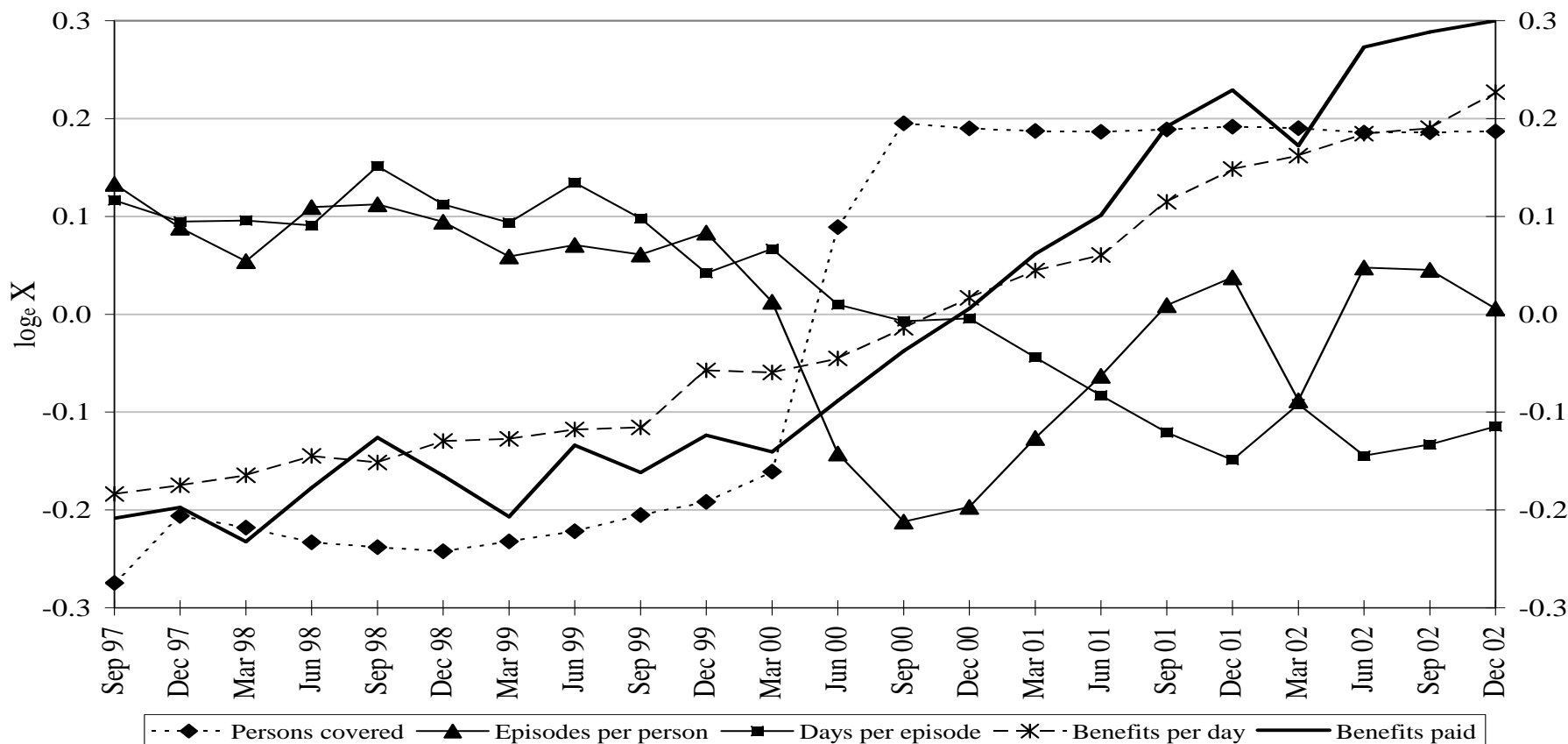
# Average Price Increases

	Year	Ave. Price Increase
	1998	6.8%
	1999	4.9%
	2000	1.8%
	2001	0.0%
	2002	6.9%
	2003	7.4%

- **Low price increases for 2000 and 2001 were the Lifetime Health Cover ‘dividend’ – about 12%**



# Component analysis



- Can see changes in trends in series on one graph
- All series have zero average and are additive to give total benefits
- Can visually see contribution to the total
- Annual growth rate in any component measured by  $e^{1/n(z_{t+n} - z_t)}$



# Component analysis

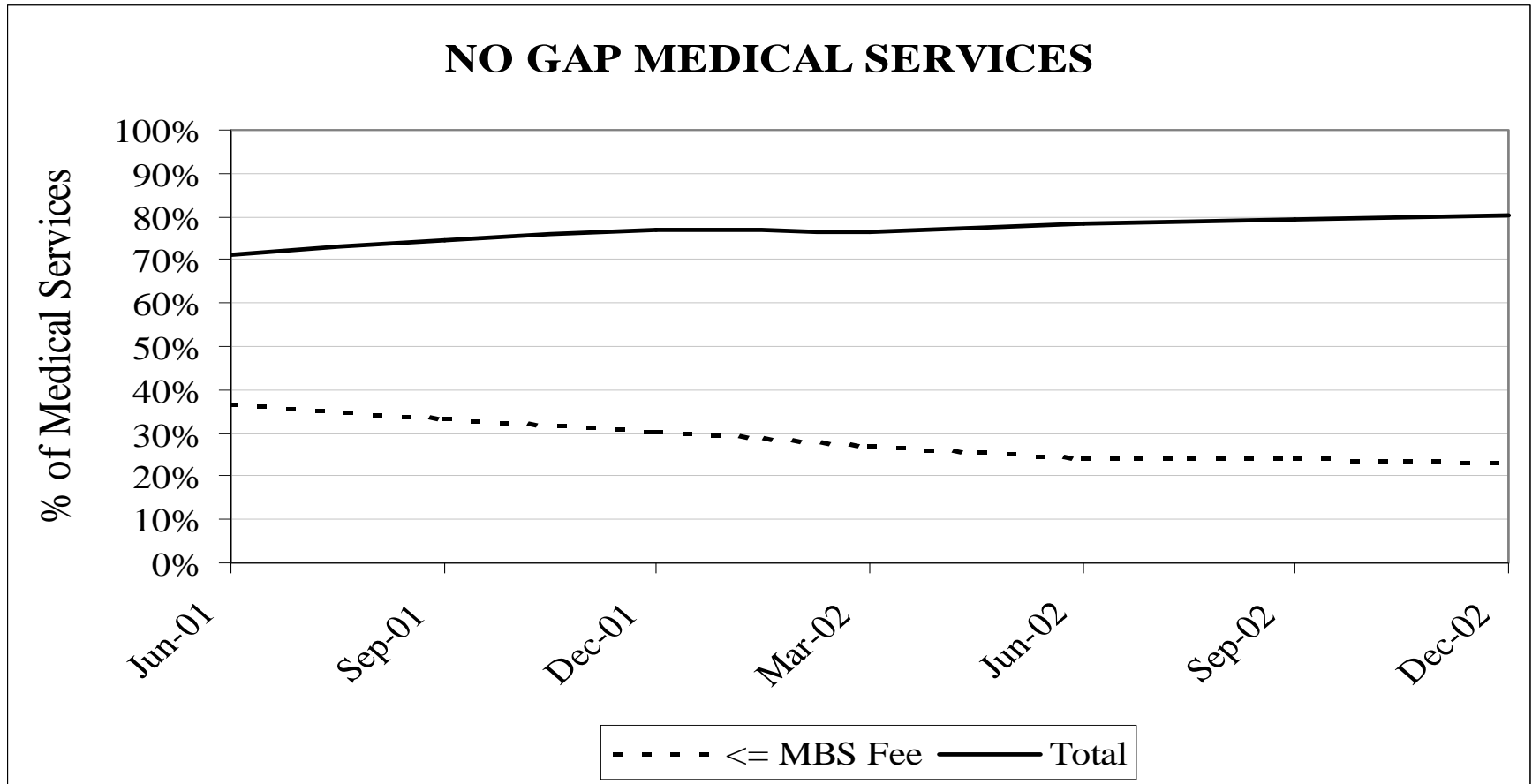
Component	Dec 97 to Dec 99 % pa	Dec 99 to Dec 00 % pa	Dec 00 to Dec 02 % pa	Dec 97 to Dec 02 % pa
Persons Covered	0.7%	46.5%	-0.1%	8.2%
Episodes per Person	-0.3%	-24.4%	10.7%	-1.6%
Days per Episode	-2.6%	-4.5%	-5.4%	-4.1%
Benefits per Day	6.0%	7.7%	11.1%	8.4%
Benefits	3.8%	13.8%	16.1%	10.6%

- **The LHC changes can be seen in the changes in Persons Covered and Episodes per Person**
- **The underlying trends in Benefits per Day are evident**
- **The trend towards same day can be seen in Days per Episode –this has partially offset the strong growth in Benefits per Day**





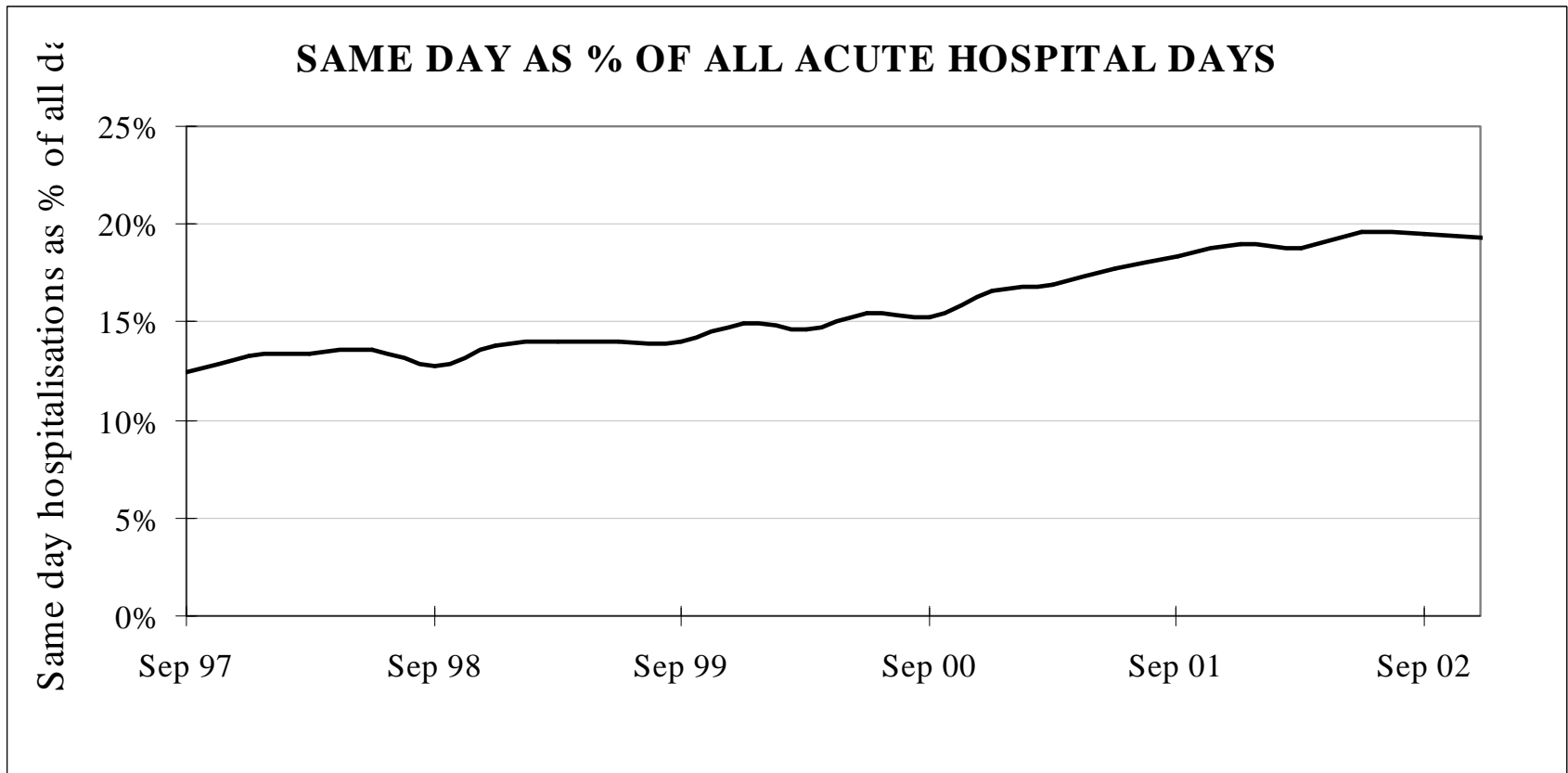
# No Gap Medical Services



- The % of no gap medical services has increased to 80%
- Funds are now paying more to some specialists who previously charged at the MBS Fee



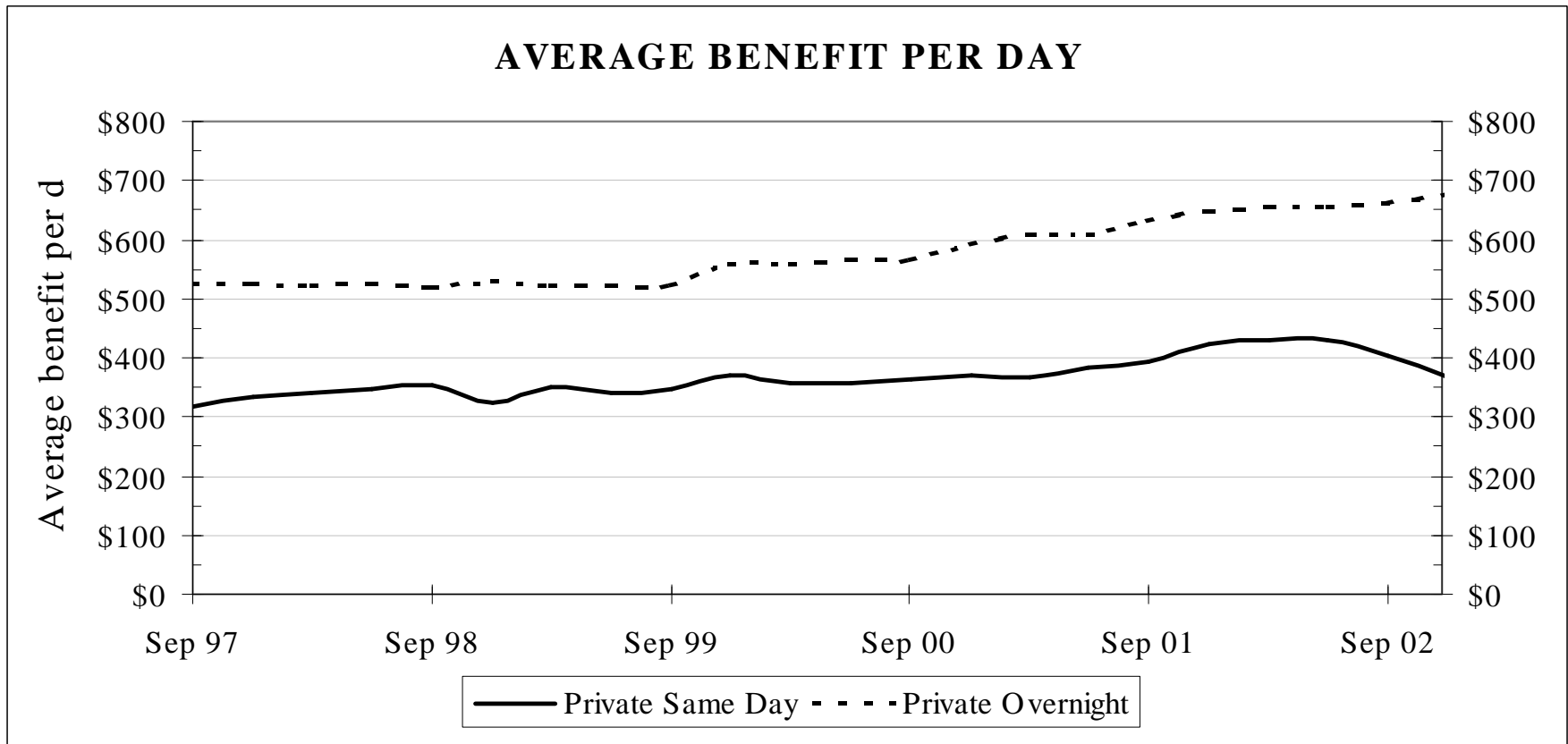
# Trend towards Same Day treatment



- There has been a significant trend towards same day hospital treatment, but this trend appears to be slowing



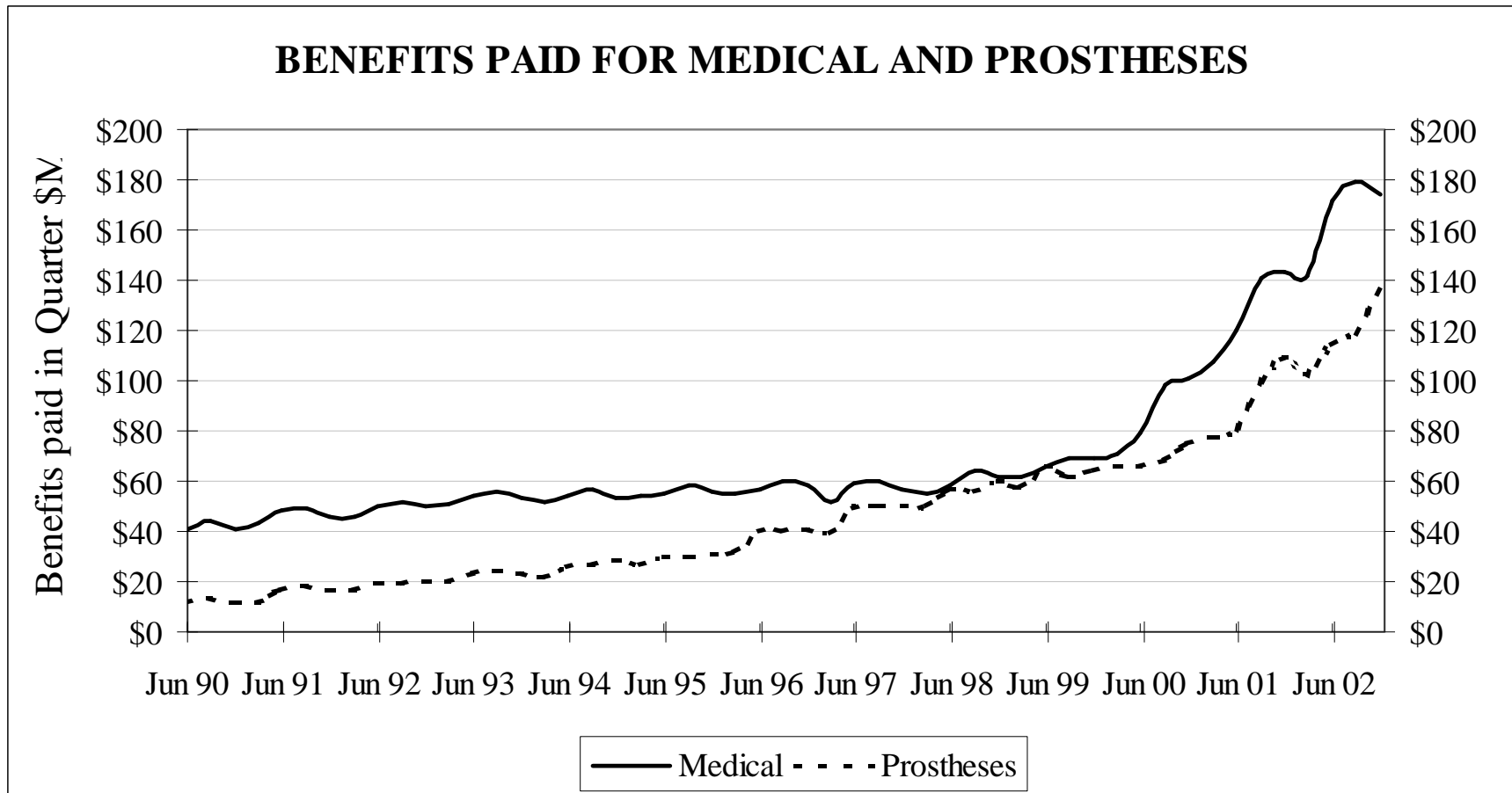
# Trend towards Same Day saves costs



- The difference in the cost per day between same day and overnight hospital treatment highlights the importance of the trend towards same day
- This trend may also cause the price difference to widen



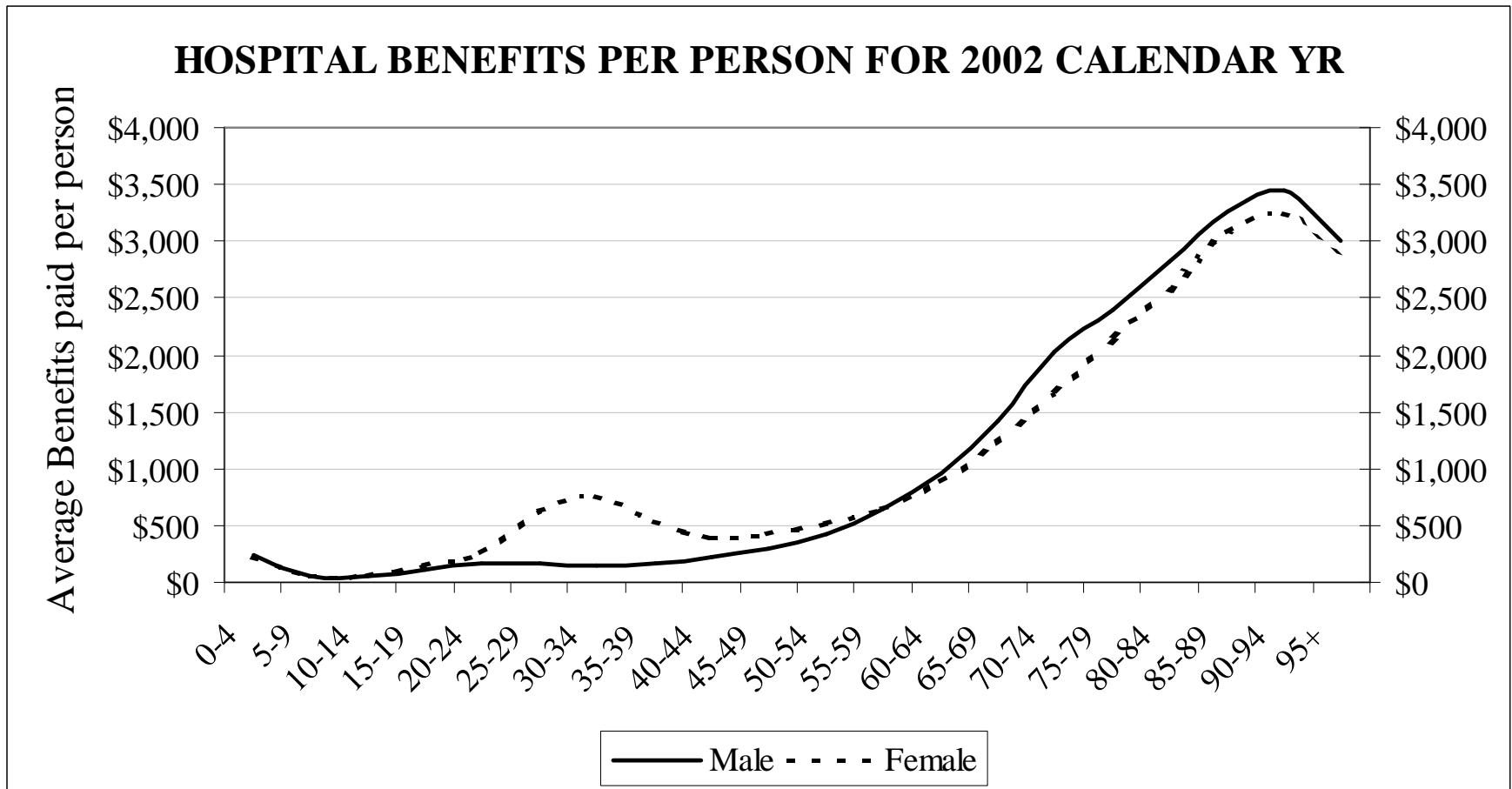
# Rapid growth in Medical & Prostheses costs



- There has been rapid growth in benefits paid for in-hospital medical services and prostheses
- 12 year growth rate: medical 11%pa, prostheses 22%pa



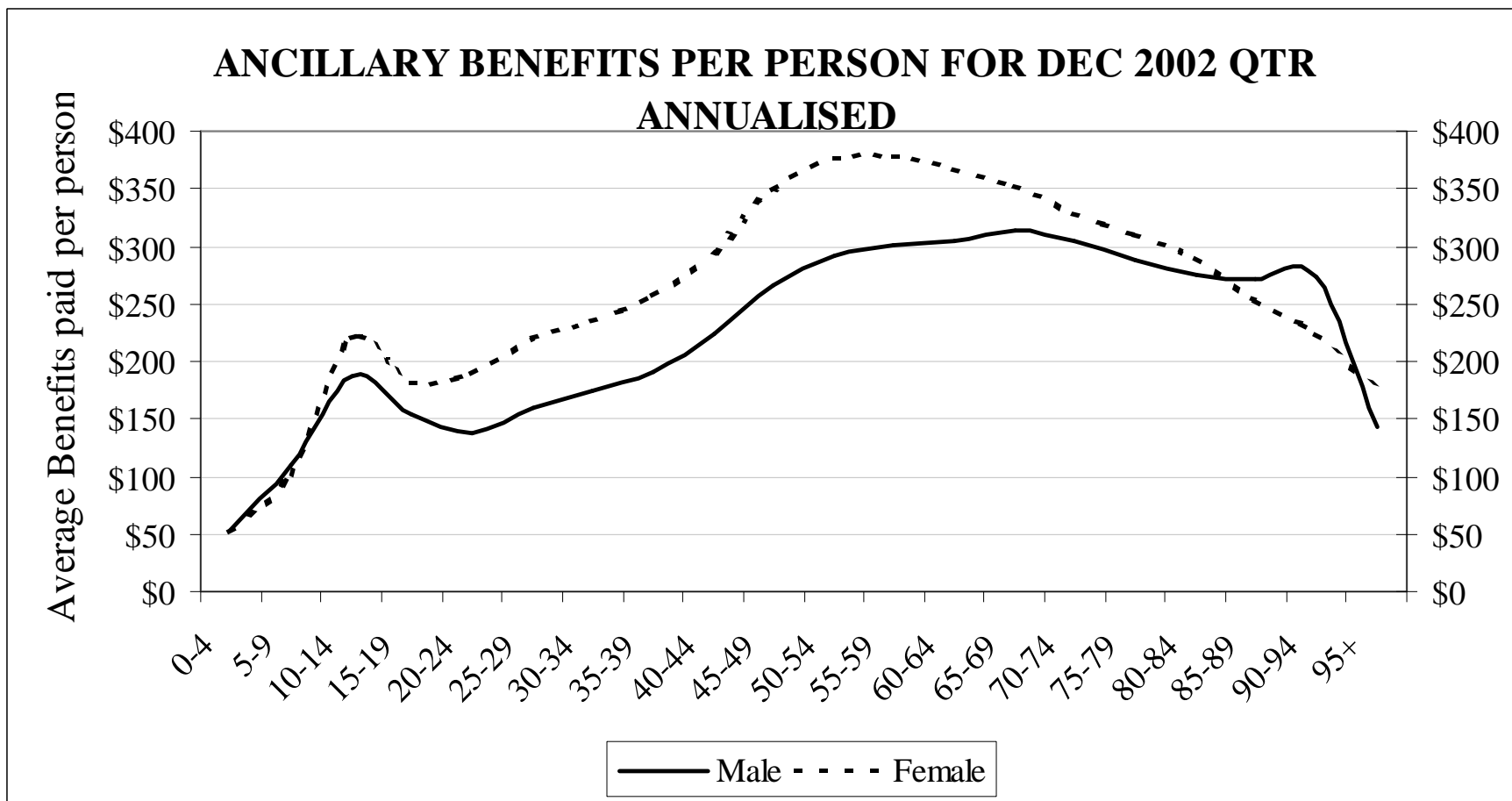
# Hospital Drawing Rates



- Hospital benefits increase markedly with advancing age



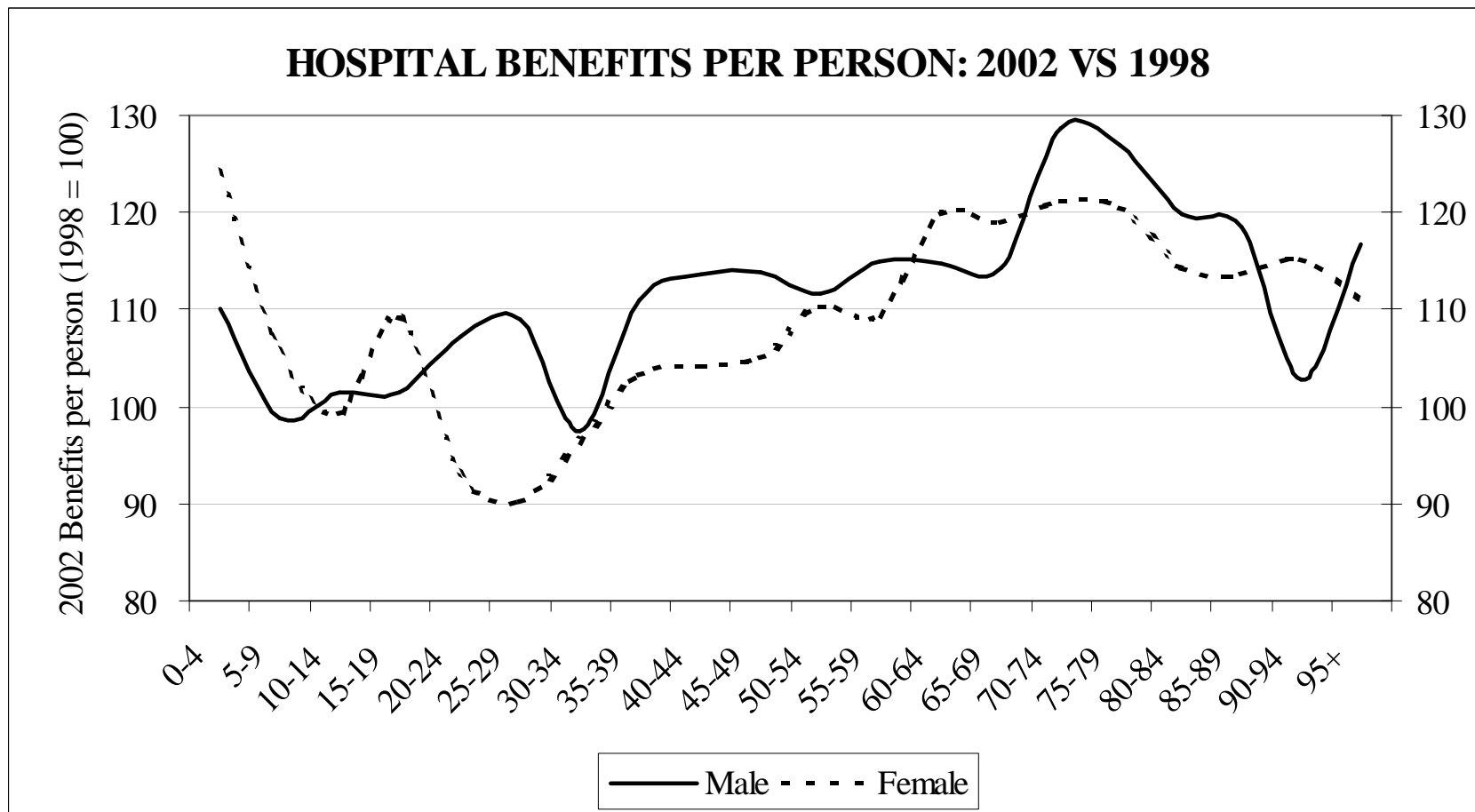
# Ancillary Drawing Rates



- **Ancillary benefits generally increase with age, but not as markedly as for hospital benefits**



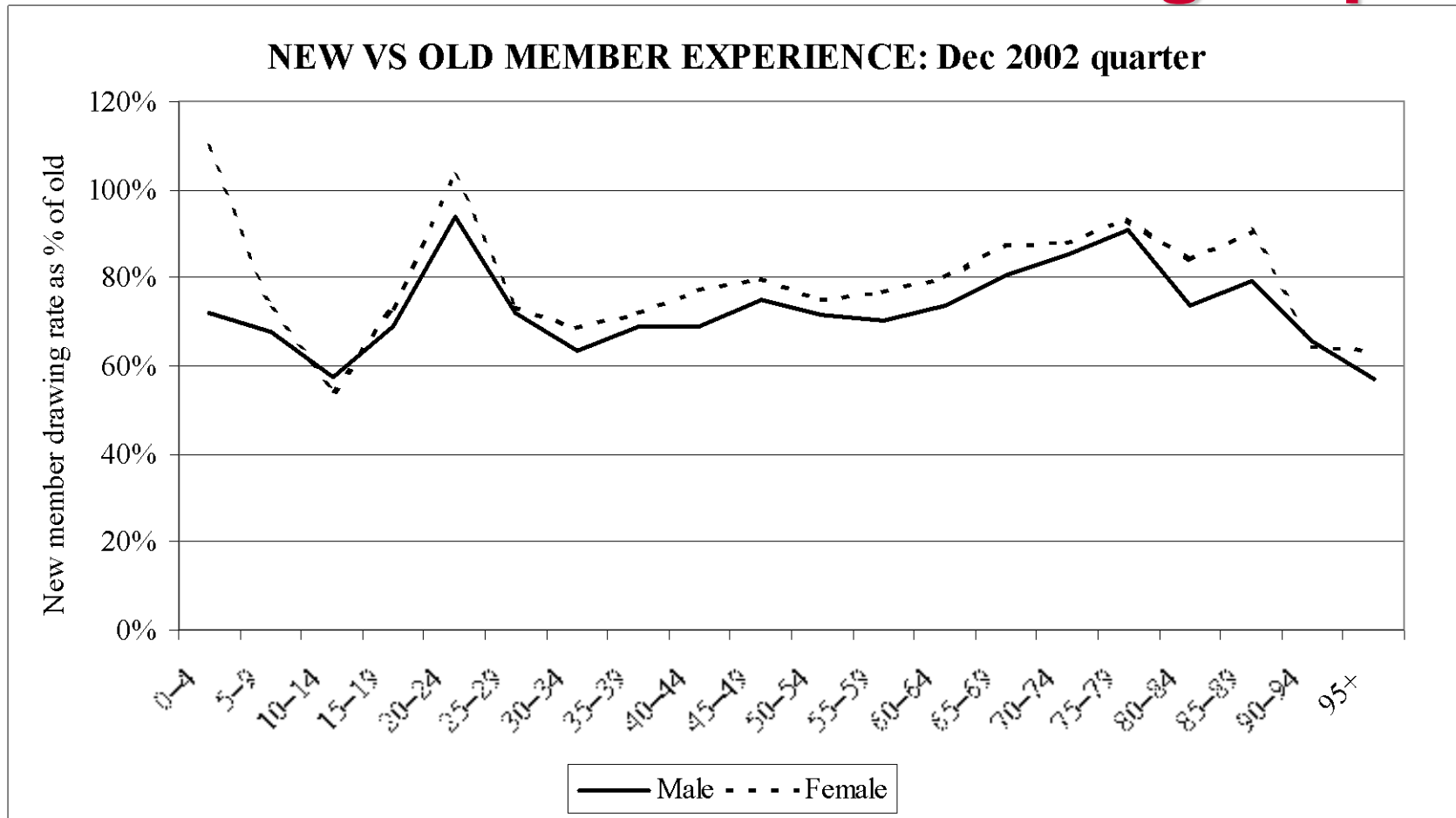
# Hospital Drawing Rate growth



- Hospital benefits per person appear to be growing at a faster rate in older age groups



# Was the LHC cohort a select group?



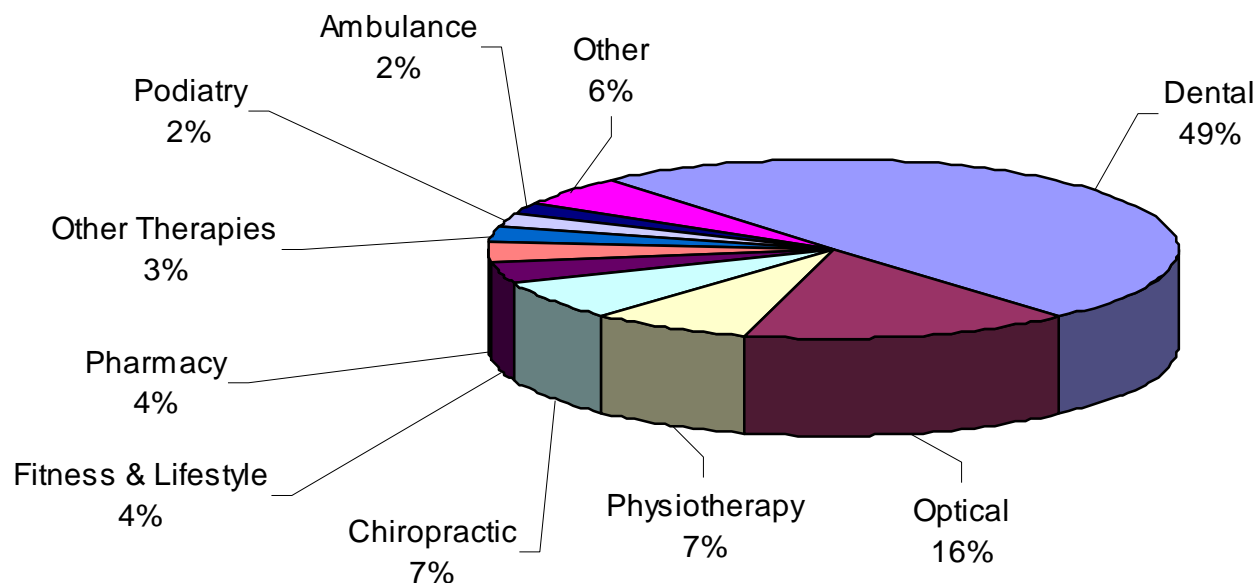
- The new members who joined in the LHC rush in 2000 appear to have a healthier profile than existing members
- The average new/old ratio is 80%. 5% due to FED's





# Ancillary Benefits

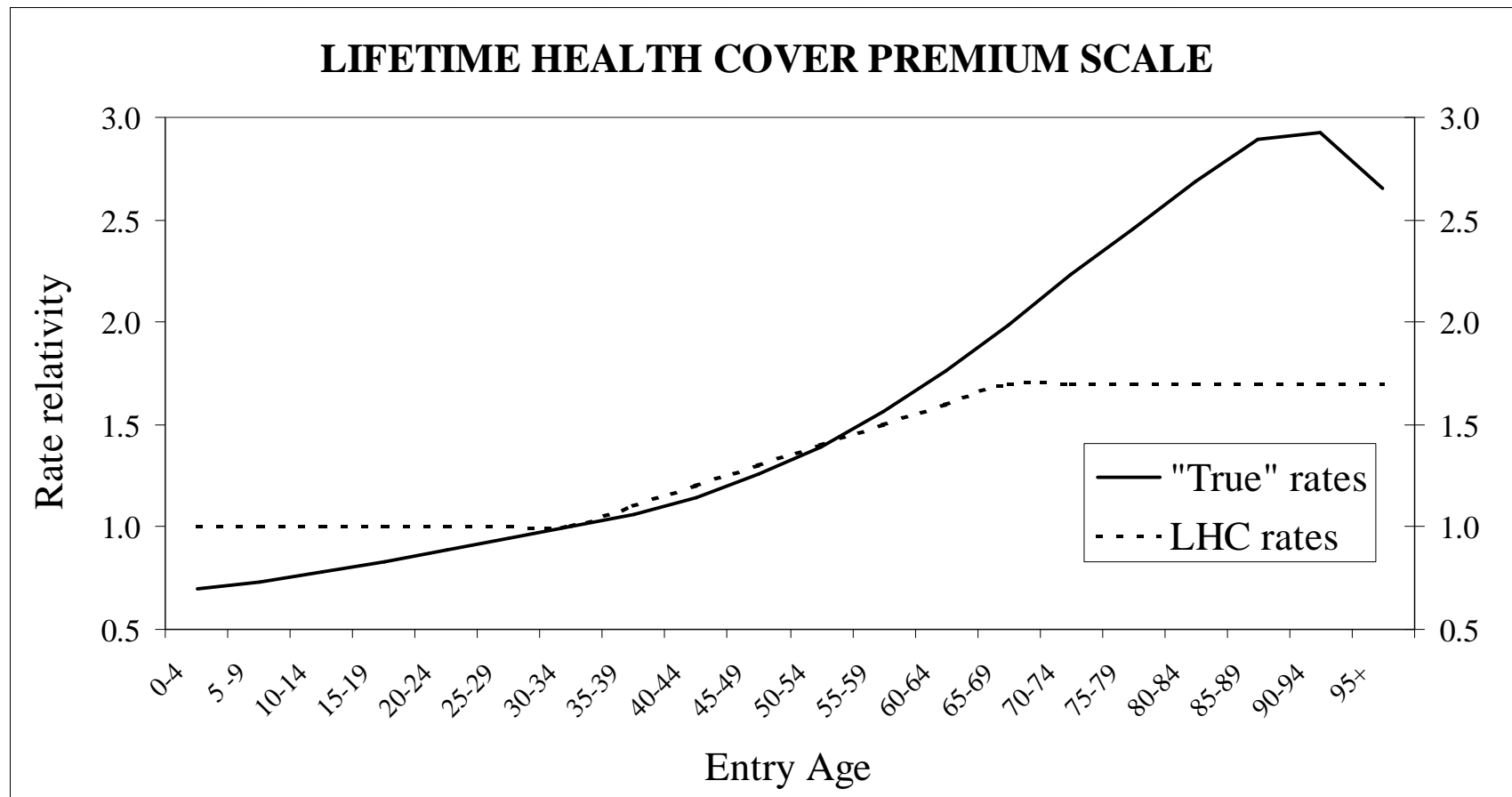
Ancillary Benefits paid in the 12 months to Dec 2002



- Dental makes up about half of all ancillary benefits**  
**Another 30% are paid for optical, physiotherapy & chiropractic services**



# Is Lifetime Health Cover fair?



- The LHC scale is actuarially fair for the age range 30-60
- The scale should increase at 4% per year after age 60
- A fair scale would provide discounts prior to age 30



# Is Lifetime Health Cover forever?

- Will the new members stick it out?
- What will happen to the age profile
- How could LHC change in future?
  - discounts for under age 30
  - steeper loading scale at advanced ages



# Cost pressures

- **Medical gap (11% pa)**
- **Prostheses (22% pa)**
- **When will the Same day trend end?**
- **Insured Population ageing (1.9% pa)**



# Health after Lifetime Health Cover

- The LHC legacy:

- 50% market growth in one year

- 60% (\$800m) increase in industry capital

- 2 years of price stability (12% dividend)

- stable membership

- removed anti-selection option

- perception that problems were fixed

- expectation of zero or CPI rate increases

- Questions / Comments?

