

Private Health Insurance

An appointed actuary

IAAust BIENNIAL CONVENTION 2003



Background

- **PHIAC - Private Health Insurance Administration Council**
 - Independent Statutory Authority
 - Health Insurance Regulator
 - Established in 1989 under the National Health Act
 - Reports through the Minister for Health and Ageing



PHIAC Structure

- **Board of five members**
 - currently 2 vacancies
- **CEO and staff of 10**



PHIAC (NHA S82BA(1))

- **Established to regulate the registered organisations**
 - in accordance with the NHA,
 - other Commonwealth laws, and
 - directions given by the Minister



Purposes of PHIAC (S82BA(2))

- **PHIAC must take all reasonable steps to achieve the appropriate balance between the following objectives:**
 - a) An efficient and competitive health insurance industry**
 - b) Protecting the interests of consumers**
 - c) Minimising the levels of premiums**
 - d) Ensuring the prudential safety of registered organisations**



Private Health Insurance

- **Highly regulated**
 - **PHIAC** - financial regulator
 - **Dept of Health and Ageing** - product regulation and community rating
 - **APRA** - for some funds part of a larger financial group
 - **ASIC** - company reporting
 - **ACCC** - Trade Practices Act



A Brief History

- Largely “Not for profit” industry
- Funds have been price takers
- Lawrence Reforms 1995 - shift towards purchaser of services
 - Funds negotiated hospital purchaser provider agreements
 - Some medical purchaser provider agreements
 - Start of case payment funding for private health insurance
- Slow decline in coverage



A brief history (continued)

- **Legislative Reforms 2000-01**
 - **Solvency and Capital Adequacy Standards**
 - **New regulatory processes for inspection, administration and liquidation of health funds**
 - **Lifetime Health Cover**
 - **New Gap Cover arrangements**



Solvency and Capital Adequacy Standards

- **Commenced January 2001**
- **Two tier standards**
 - **Capital Adequacy breach - warning**
 - **Solvency breach - PHIAC manages fund out of the industry**
- **Regulatory processes linked to standards**
 - **PHIAC can issue Solvency and Capital Adequacy directions**



Growth - A new phenomenon!

- **June 2000 - Introduction of Lifetime Health Cover**
- **Membership grew from 30% of the population with private health insurance to 44.5%**
- **Initial surge of claims in June 2001**
- **A number of funds grew by under pricing their product**



Gap Cover

- Medicare pays 75% of MBS fee
- Health funds must pay 25%
- Health funds can pay gap over MBS fee where an agreement between fund and doctor
- 31 December 2002 - 80% of “in hospital” medical services with no gap
- Cost increase - \$248 million or 95%



Reforms Announced 2003

- Removal of product approval by Health
- “State of the Health Funds” report
- Prosthetics Changes - funds will cover a basic list of items
- Medicare Reforms
 - Funds can offer a new GP gap cover in excess of \$1000



Complexity

- **Pricing**

- **Prostheses 41% growth in 01-02 FY**
- **Medical indemnity insurance**
- **Salaries for health professionals**
- **Growth in ancillary services - 30% of benefits**
- **Ageing of the population**
- **Premium increases once per year**



Complexity

- **Capital Issues**

- **Forecasting capital requirements for new business**
- **Obtaining capital for a largely “not for profit” industry**
- **Standards now allow subordinated debt**



Complexity

- **Business Issues**
 - Shift from traditional payer to purchaser
- **Product design**
 - Community not risk rating
 - Funds have been known to cannabilise their own profitable products
- **Health Fund Reinsurance - cross subsidy to support community rating**



Why an appointed actuary?

- **Funds with actuaries tend to spot problems faster**
- **Two health fund failures**
 - These funds grew their business at unsustainably low prices
- **Increasing complexity of private health insurance**
- **New business for funds e.g. Medicare changes - gap insurance over \$1000.**



Actuaries in private health insurance

- **History**

- Until 1989 Department of Health audited funds
- Stable mix of products
- High level of private health insurance
- Broad population coverage
- Relatively little use of actuaries across the industry until last three years



Appointed Actuary

- **Appointment similar to Public Officer**
 - **PHIAC to be notified of appointment and any changes**
- **Role**
 - **Rate Applications**
 - **Financial Condition Report**
 - **Prudential Reporting**
 - **New Products**
 - **Provisions and Budgets**



Staff or Consulting Actuary

- **PHIAC's view - either is appropriate**
 - Large funds will have actuaries on staff
 - Smaller funds are more likely to use consulting actuaries



Key Issues

- **Guidance notes and professional standards**
- **Education for health insurance actuaries**
- **Peer support and/or mentoring**
- **Not enough experienced health insurance actuaries yet**



Implementation

- **Still under consideration**
- **Further discussions with the private health insurance industry**
- **Proposed timetable**
 - **Pricing - now in place**
 - **Products - early 2004**
 - **FCR - for year ended 30 June 2004**



Summary

- **Appointed Actuary is coming for private health insurance**
- **Implementation date to be finalised**
- **PHIAC will need assistance from the IAAust for:**
 - **Guidance Notes**
 - **Training**
 - **Mentoring and Peer Review**



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