

Biennial Convention 2007

# Adventures in Risk

23-26 September 2007 • Christchurch, New Zealand



Institute of Actuaries of Australia



# The New Private Health Insurance Environment

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## Key Reforms

- Broader health cover
- Standards product information
- Changes to Lifetime Healthcover
- Risk equalisation
- Pricing
- Prudential standards
- Re-registration
- Changes to regulatory environment



## PHIAC Key Changes

- Price increase now approved, not disallowed
- PHIAC regulates fund not insurer
- Re-registration by 1 July 2008
- PHIAC Prudential standards
- Disqualified persons
- Whistleblower powers for actuaries
- AAT review



## Legislation

- *Private Health Insurance Act 2007* took effect on 1 April 2007
- Allows development of innovative products
  - Some outpatient and out of hospital services
  - Chronic care management programs
- Supports greater choice for consumers



## Health Insurance

- Covers in hospital treatment
- Ancillary health service
- Medical services
  - Medicare 75%,
  - Private health insurance 25% plus gap cover
- Prostheses



## Broader Health Cover

- Substitute for or prevent hospitalisation
- Flexibility in working with providers to design better products
- Remain community rated
- Rebate remains on premiums



## Standard Product Information

- Short document providing standard information to allow comparisons
- PHIO website



## Lifetime Healthcover

- 2% loading for each year over 30 at joining
- Capped at 70% at age 65
- Will now be removed after 10 years of continuous cover
- Effects wont start until 2010





## Risk Equalisation

- Shares costs of high risk groups
- Support community rating
- Modification of previous reinsurance scheme
  - Change to benefits included in calculation
  - Change in definition of Single Equivalent Units (SEUs)
  - Removal of 500 SEU rule.



## Risk Equalisation

- Risk equalisation model includes
  - benefits for persons aged 55 and over at an increasing rate, from 15% for 55 to 59 year old up to 82% for persons aged 85 and over, and
  - Benefits paid for very high cost claims, being claims exceeding \$50,000 after the age based benefits are taken into account.



## Risk equalisation includes

- Hospital benefits
- Hospital substitute benefits
- Chronic Disease Management Program benefits
- High Cost Claimants benefits



## % of benefits included in ABP

Age	%
0-54	0.0%
55-59	15%
60-64	42.5%
65-69	60%
70-74	70%
75-79	76%
80-84	78%
85+	82%



## Key Reforms

- Definition of Policy types has changed
- There are additional types
- Major change for Risk Equalisation is the counting of Single Parent as 1 SEU



## Pricing

- Applications require approval by Minister
- Previously disallowance
- Significant change in sovereign risk



## Re-Registration

- Restricted access or open
- Not for profit or for profit
  - Change of status
    - Is it a demutualisation?
    - If yes, PHIAC must advertise
  - PHIAC must consider application and approve
    - If no benefits to anyone other than a policy holder or insured person
    - Financial benefits distributed “not inequitably”



## Re-Registration

- By 1 July 2008
- Product approval from Department of Health and Ageing
- 90 days to consider application
- Administrative Law decision
- AAT review





## Changes in Regulation

- Appointed actuaries
- Prudential standards
- Disqualified persons
- Increased enforcement powers
- Ability to seek remedies in Federal Court



## PHIAC Rules

- Insurer Obligations Rules
- Health Benefits Fund Rules
- Risk Equalisation Administration Rules



## Insurer Obligations Rules

- Deal with appointed actuaries
  - FCRs
  - Eligibility requirements
  - Notification requirements
  - Process for PHIAC to declare an actuary ineligible to be appointed



## HBF Administration Rules

- Expenditure and application of Fund assets
- Restructure of health funds
- Merger and acquisition of health funds
- Specify risk equalisation jurisdictions
- Solvency and capital adequacy standards



## RE Administration Rules

- Records
- Records for HCCP
- Requirement for Quarterly returns
- Annual audit by 30 September
- Interpretation of terms in return
- Template for return



## Minister's Rules

- Incentives
- Lifetime Health Cover
- Complying Product
- Prostheses
- Accreditation
- Health Insurance Business
- Registration
- Health Benefits Fund Policy
- Data Provision
- Health Benefits Fund Enforcement
- Ombudsman
- Council
- Management
- Levy Administration
- Risk Equalisation Policy
- Information Disclosure



## Summary

- Allow broadening of coverage
- Supported by risk equalisation
- PHI remains heavily regulated
- Challenge for funds to keep affordable