

Actuaries Summit

Think Differently



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Risk Equalisation – Time to think differently?

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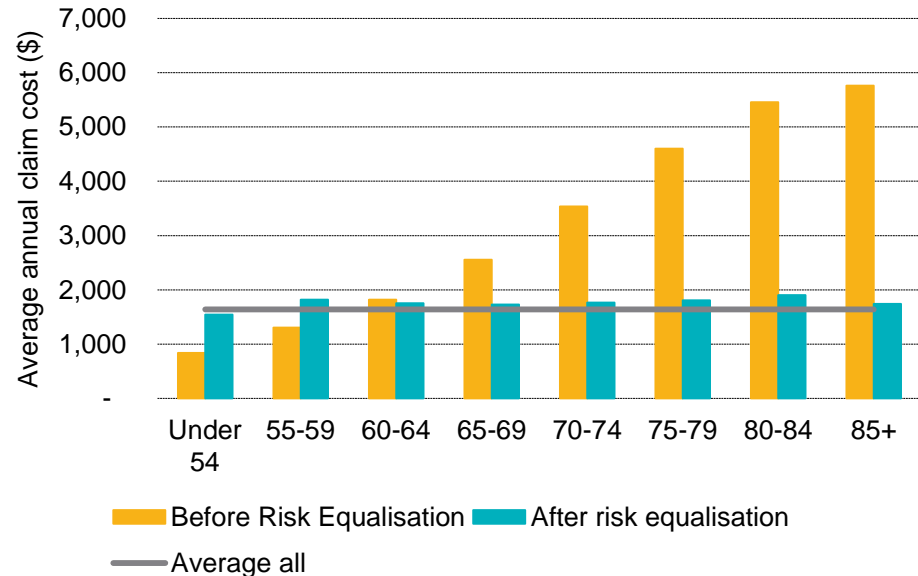


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Risk Equalisation – Why, how and what's wrong?

- Risk equalisation is required to ensure affordability of PHI
- Risk equalisation distributes costs from older to younger policyholders.
- Current system is challenged by affordability and efficiency



Source: Finity analysis of APRA statistics, year ending 31 December 2016
 Amounts are for hospital claims only. Risk equalisation amounts do not include the high cost claims pool. We have reallocated children's claim costs to their parents' policies.

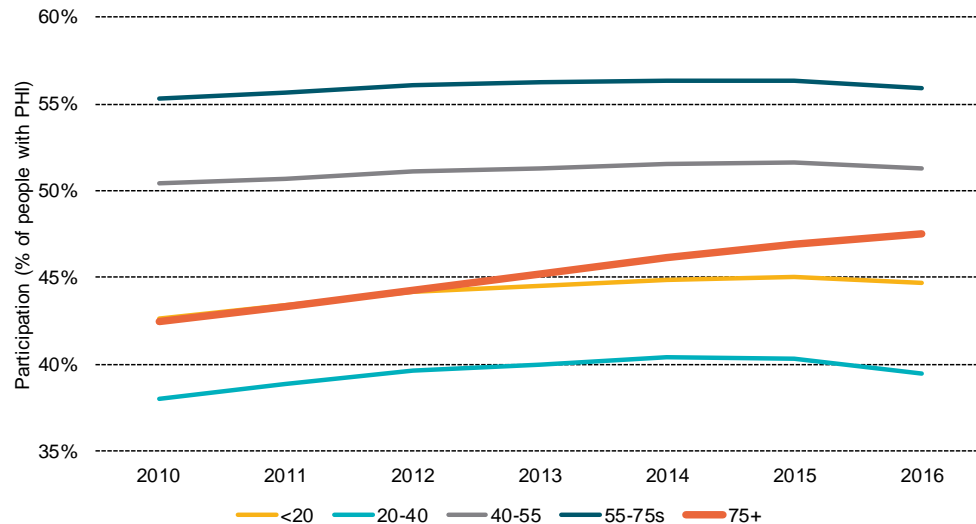
Impact on Insurers

Insurers with younger than average policyholders tend to be net contributors to the risk equalisation pool, which transfers funds to insurers with older than average policyholders.

Insurer (and market share)	Gross deficit (receivable from risk equalisation)	Calculated deficit (payable to risk equalisation)	Net receipt from / (transfer to) other insurers
BUPA (28%)	1,844	1,697	147
Medibank (27%)	1,720	1,651	69
HCF (11%)	673	698	(25)
nib (8%)	318	495	(177)
Industry total (100%)	6,140	6,140	0

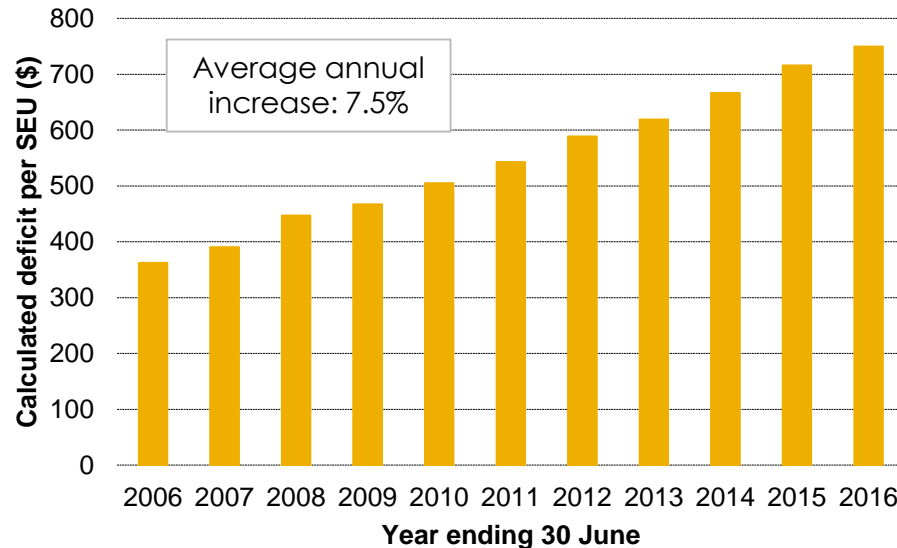
Affordability - Participation

- Participation rates for 20-40 year olds are consistently the lowest and have recently been decreasing



Affordability – Flagfall Premium

Flagfall costs has grown faster than premium rates suggesting younger people on basic products are bearing an increasing share of PHI costs, despite their low claim rates.

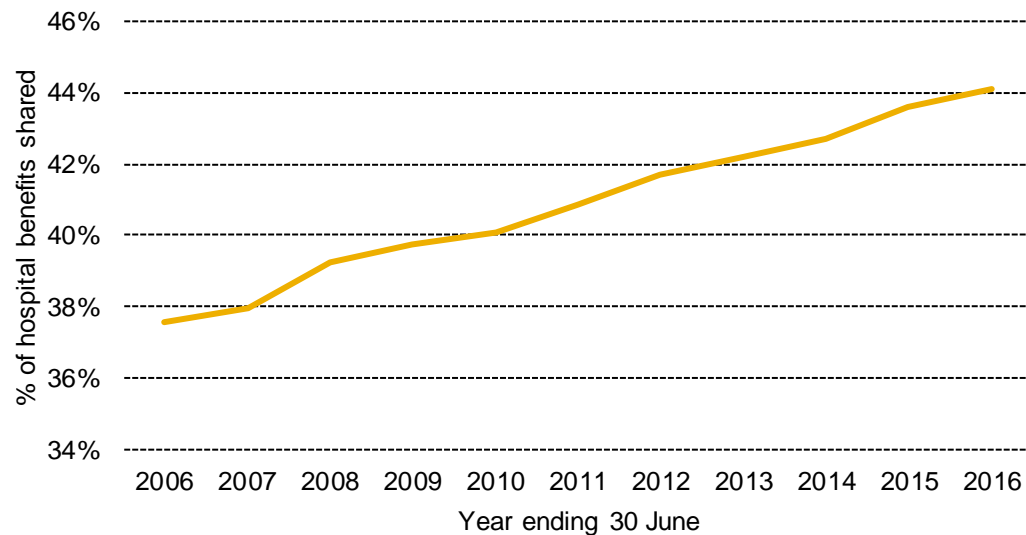


Around 70% of the total premium subsidises older policyholders

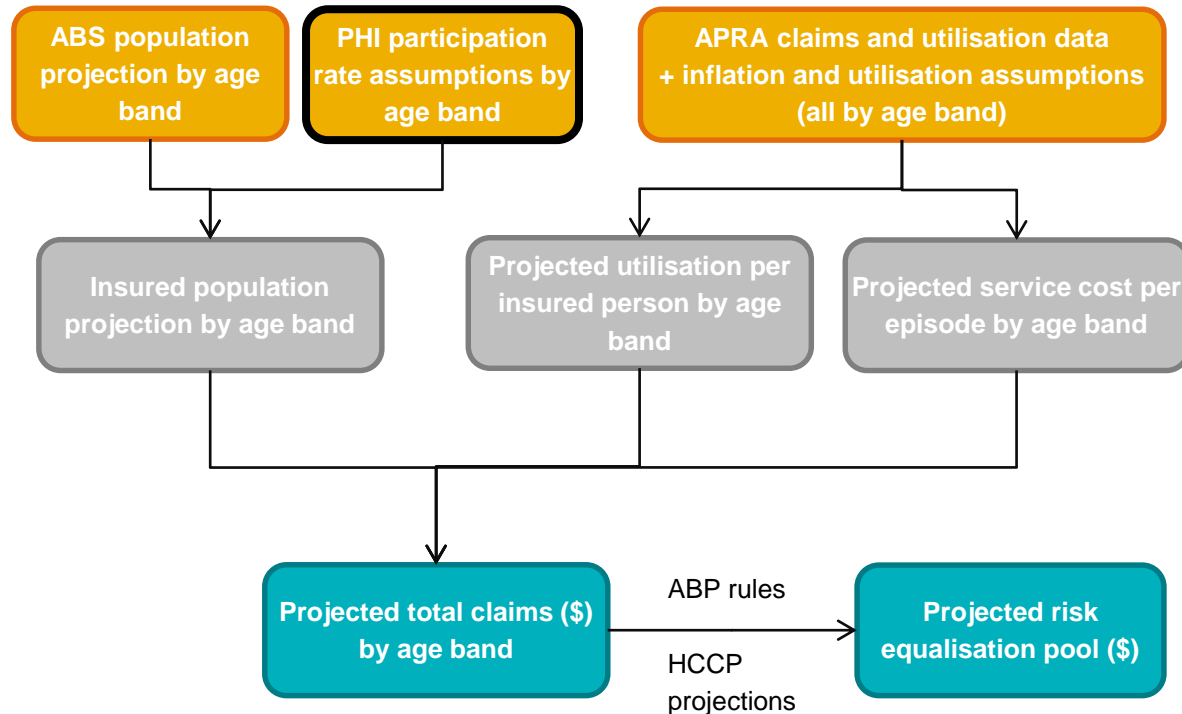
(for a basic hospital policy costing \$1,100 and assuming a calculated deficit of \$750 per SEU)

Efficiency

- As the proportion of shared costs increases, the incentive for an individual insurer to control claim costs reduces.

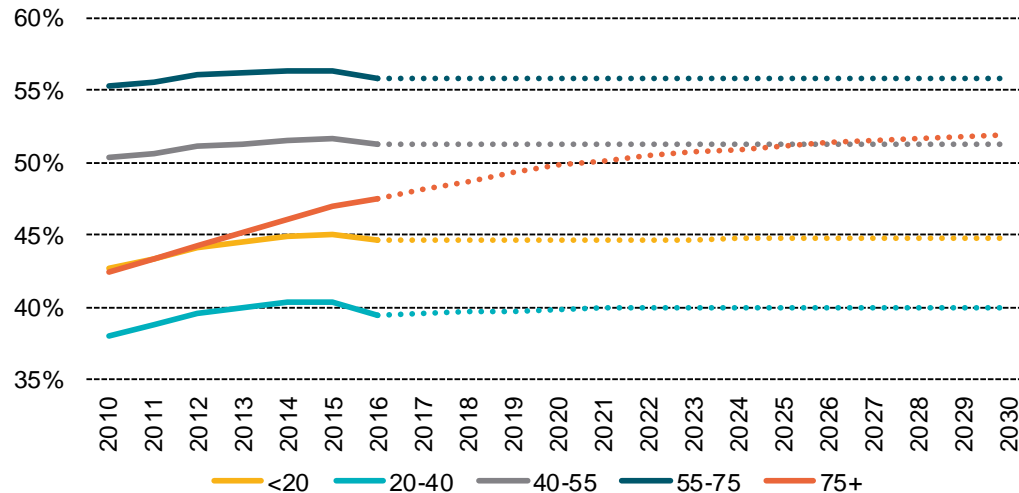


Projection to 2030



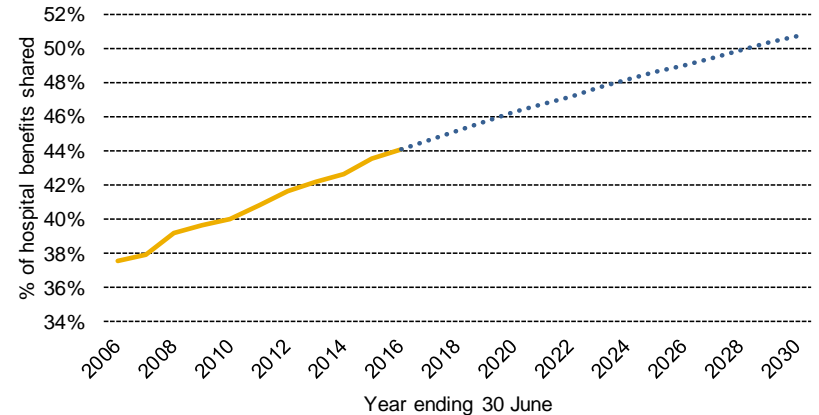
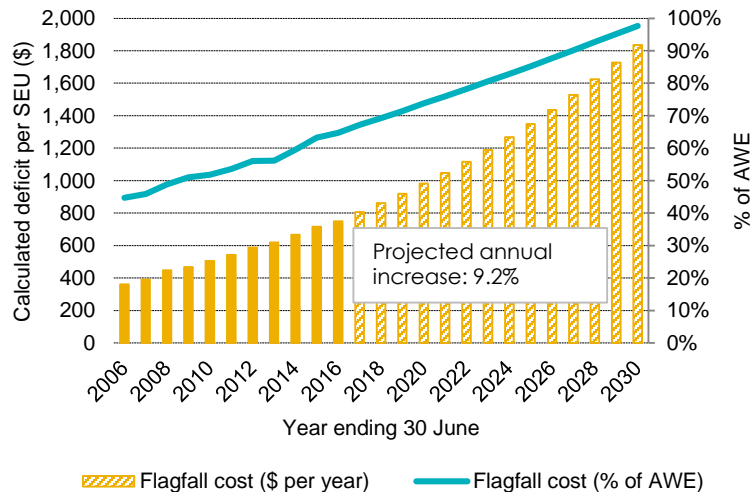
Projection – Participation Rates

- We have assumed current participation characteristics will continue



Results

- Flagfall cost are projected to increase from around 65% of Average Weekly Earnings to nearly 100% in 2030
- Over half of all hospital benefits are projected to be shared



Scenarios

Scenario	Description	Proportion of benefits shared (2030)	Flagfall PHI premium (\$ and % of AWE, 2030)
Base	Participation continues to increase for 75+ age group, but remains around the current level for other age groups	51%	\$1,850, 98%
A	Small reductions in participation rate for under 55s - Participation rate for 20-40 year olds reduces to 35% in 2030 (currently 41%) - Participation rate for 40-55 year olds reduces to 48% in 2030 (currently 51%)	53%	\$2,050, 109%
B	Participation rates for all ages converge to 50%	50%	\$1,650, 94%
C	Participation rates for all ages remain at June 2016 levels	50%	\$1,750, 94%
D	Increase participation for under 55s to 80% (which is the level required to keep the flagfall at the around current proportion of AWE)	42%	\$1,150, 62%
E	Claims inflation rate reduces from 4.55% to 4%	51%	\$1,700, 91%
F	Claims inflation rate increases from 4.55% to 6%	51%	\$2,200, 118%

Time to think differently?

Policy Change Option	Considerations
Keep current system unchanged	<ul style="list-style-type: none"> • Participation of young people unlikely to increase. ✘ • Affordability concerns will not be alleviated. ✘
Maintain a similar system but pool a lower portion of claims	<ul style="list-style-type: none"> • Lower flagfall and slower growth. ✓ • Increase participation of young people and improve the affordability of basic policies. ✓ • Increased complexity. ✘ • Would need to demonstrate that any changes are equitable.
Move to a Prospective Risk Equalisation System	<ul style="list-style-type: none"> • Incentivises insurers to control claim costs which should improve affordability. ✓ • Increased complexity. ✘

Time to think differently?

Policy Change Option	Considerations
<p>Government Incentives Includes increasing the Medicare Levy Surcharge or extending the LHC scheme to provide discounts</p>	<ul style="list-style-type: none"> • Incentives will improve PHI participation . ✓ • May be challenging for government to consistently provide support. ✗
<p>Changes to Government Regulations to allow insurers to manage claims costs more efficiently</p>	<ul style="list-style-type: none"> • Changes could enable insurers to provide more affordable basic policies. ✓



Time to think differently?

Policy Change Option	Considerations
Changes to Community Rating Rules , including allowing higher premiums to be charged to individuals with higher than average expected claim costs (or discounts to people with lower claim costs)	<ul style="list-style-type: none">• Improve affordability for individuals with low claims costs. ✓• Encourages participation. ✓• Increased complexity. ✗• Would need to be able to demonstrate fairness of changes to longstanding members.
Introducing Young Adult Policies	<ul style="list-style-type: none">• Provide better value for money for young people. ✓• Encourages greater participation. ✓• Increased complexity. ✗• Would need to be able to demonstrate fairness of changes to longstanding members.



Conclusion

- A discount for young people is effectively a penalty for everyone else
- New measures are necessary to ensure continued high participation rates
- Is it time to stop debating and start acting?

Appendix A – Historical Risk Equalisation Arrangements

