

Actuaries Institute issues 'Dialogue' paper on Private Health Insurance

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- ▶ **Out-of-pocket expenses can be higher for patients who have private health insurance than those patients who don't.**
- ▶ **Private health insurance bill shock could be eased through product innovation.**

The Actuaries Institute has issued a paper, as part of its thought leadership series *The Dialogue*, that calls for legislative changes that would allow private health insurers to pay a \$5,000 lump sum to people diagnosed with cancer.

In the paper titled *Private Health Insurance Bill Shock: What Can Insurers Do to Help?* actuaries Anthony Lowe and Jamie Reid said the money would help offset out-of-pocket medical expenses and loss of income following a cancer diagnosis that can cause patients "financial shock."

They said many cancer patients are under the mistaken impression that Australia's universal health care system, combined with private health insurance, covers all costs.

But their paper noted that a recent survey showed men diagnosed with prostate cancer who had private health insurance were significantly worse off financially after treatment than those whose treatment took place in the public sector.

"People know cancer can kill you, but what they don't know is that the cost of treatment can destroy your financial well-being," said Associate Professor Lowe, Chief Executive Officer at Prostate Cancer Foundation of Australia, and a member of the Actuaries Institute's Public Policy Council committee.

"Financial problems, after cancer diagnosis, are known to be a major contributor to poor quality of life. Patients sometimes stop undergoing treatment and they may forgo medical appointments," Associate Professor Lowe said.

This year, 134,000 people will be diagnosed with cancer and 47,700 will die from the disease, according to estimates from the Australian Institute for Health and Welfare. A recent study of men

diagnosed with prostate cancer showed median out-of-pocket expenses were \$6,000 for those with private health insurance, compared to \$2,000 for those without private cover.

Many factors drive costs: Medicare pricing, technology, ancillary expenses including travel, medication and the cost of prostheses, said Mr Reid, lead actuary at Finity's health insurance practice and a member of the Actuaries Institute's Health Practice Committee.

"Regulatory constraints also restrict the benefits that private health insurers can pay," Mr Reid said. Private health insurers are not permitted under law to cover the cost of specialist consultations out of hospital.

Other anomalies include:

- ▶ private radiotherapy, which is an outpatient service, is not covered under private health insurance;
- ▶ new drugs may be approved by the Therapeutic Goods Administration, but there can be long delays in obtaining a Pharmaceutical Benefits Scheme listing, which means the treatment remains unaffordable for many patients;
- ▶ lack of transparency from doctors about out-of-pocket expenses for private treatment that may be available free of charge in the public system;
- ▶ costs associated with prostheses, physiotherapists and dieticians; and
- ▶ advances in treatment including robot-assisted surgery that is not considered standard by insurers and therefore not covered.

"Particularly irksome to some patients is that they struggle to pay rising health insurance premiums, only to be significantly out-of-pocket when their treatment costs are not met by their insurer," Associate Professor Lowe said.

He said policyholders face high costs for other medical treatments in the private system. "But cancer is arguably a special case given the impact on a person's life and finances over a prolonged period," Associate Professor Lowe said.

The paper states that less than three percent of Australians are covered for trauma insurance and increasing this will be challenging. Policyholders are subject to underwriting, premiums may rise with age, and cover may not be extended to everyone.



In comparison, health insurance is not underwritten, everyone is entitled to cover, and premiums do not vary with age. The cancer benefit would be affordable because the cost is spread over a large pool of people. Claims could be processed simply by linking Medicare item numbers to payment of the benefit.

The cost of providing the small lump sum benefit is around \$2.30 per person for month.

"Any rise in premiums requires considerable scrutiny," Mr Reid said. "But providing additional benefits, particularly following a life-changing diagnosis, adds significant value to private health insurance."

The Dialogue is series of thought- leadership papers, written by actuaries, that aim to stimulate discussion on important issues. Opinions expressed are those of the authors and not necessarily those of the Actuaries Institute. A copy of Private Health Bill Shock: What Can Insurers Do to Help? can be downloaded [here](#).

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