

Actuaries Institute releases global perspective on Australian healthcare: optimism for progress in tackling sustainability concerns

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- **Australia's health system ranks well internationally: people are living longer and becoming healthier (although there are areas for improvement).**
- **Australia must look offshore for pathways to improvement to remain competitive.**
- **Options include better integration of public and private systems and some risk adjusted funding with rebates to support community rating for those in need (rather than only income-based rebates on premiums).**

An Actuaries Institute Dialogue paper* that compares Australia and other developed countries finds possibilities for better integration between private and public health care without the need for radical changes, but rather building on what exists.

"Australia's health care system compares favourably to other developed countries," the report states. "Nonetheless there are areas for improvement.

Australia's high out-of-pocket expenses and health cost growth suggests a need to review the health system to ensure sustainability for future generations."

The authors of the Dialogue paper, *Private Health and Health Care Financing – Learning from the World*, are: Josefa Henriquez, former advisor, the Ministry of Health, Chile; Andrew Matthews, Chief Actuary at Medibank and Associate Professor at Monash University; Dr Francesco Paolucci, Professor of Health Economics at the University of Newcastle and the University of Bologna School of Economics and Management; and Adam Stolz, Deputy Chief Actuary at Medibank.

The Dialogue paper, published by The Actuaries Institute, builds on work presented in the Green Paper, released June 2019, *How to Make Private Health Insurance Healthier*. The paper expresses the views of the authors.

The authors examined health systems in 12 comparable countries, where Australia rates second in overall performance rankings, after the United Kingdom and ahead of the Netherlands. It states out-of-pocket costs for healthcare are high in Australia, at about 17% of total national healthcare costs. It proposes use of risk adjusted rebates – a variation on an approach adopted in countries including the Netherlands, Germany and Chile.

The Dialogue examines ways to strengthen Australia's health system including:

- Exploring what works here and overseas for opportunities to enhance health, including remote services and indigenous health.
- Looking for pathways such as risk adjusted rebates (including improving the rebate system).
- Supporting collective action across the health network (avoid just considering PHI in isolation).

Australia's total share of healthcare costs as a percentage of gross domestic product is not expensive at 10.3%, compared with the US at 17.2%, and Switzerland, Germany and Japan at 12.4%, 11.3% and 10.9% respectively. But around 16% of Australians reported skipping a medical consultation because of costs, compared with an OECD average closer to 10% (ranging from only 2.6% of Germans to 22.3% of Americans).

The paper states outcomes for Aboriginal and Torres Strait Island people and people who suffer mental health problems need significant improvement.

Central to reforms are the adoption of new premium price setting, risk equalisation and financing structures, similar to those used in some other parts of the world.

The intention of community rating is to ensure all members of health funds pay similar premiums for the same cover, regardless of personal circumstances. Funds then use risk equalisation to spread the risk of higher claims either from chronically ill or older members. Funds with young, relatively healthy members with fewer claims pool funds that are then shared with insurers whose members are older or have a higher risk profile. In addition, the government subsidises premiums via an income-based rebate.

Another approach would allow partial risk rating, with some support from the government. This would make Australia's health system more affordable and equitable. It allows a more deliberate distinction as to which risks are shared and which are out-of-pocket costs.

A risk-based rebate can be calculated on factors that include age, gender, health conditions, and co-morbidities. An individual's contribution could be capped at a community rating level, and where extra services are provided by the private sector, funding would be available. If services move from private to public, the funding follows the risk.

The report concludes that although there is no perfect health system, improvements can be made, and lessons learnt, from what works elsewhere in the world.

"Looking for adaptations that improve our system and a quantitative mindset holds the hope of identifying problems and possible measures for progress," said co-author Andrew Matthews.

"Improving funding mechanisms is possible with new technology and learning from risk adjusted rebates in overseas health care," the paper states. "That is not just risk equalisation between PHI funds but also risk adjusted rebates that can enhance integration across the system – public and private."

A full copy of the report can be found [here](#).

*The Dialogue is a series of thought-leadership papers, written by actuaries, which aim to stimulate discussion on important issues. Opinions expressed are those of the authors and not necessarily those of their employers or the Actuaries Institute.

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