

**3 June 2019**

## **Actuaries Institute tackles challenges facing private health insurance**

- **Greater transparency of out-of-pocket costs coupled with effective treatment pathways could empower consumers.**
- **Care coordinators can drive improved consumer outcomes.**
- **Prospective risk equalisation regime should lower premiums over time.**

Australia has one of the world's best health care systems but high out-of-pocket costs, decreasing health insurance affordability, and a lack of transparency around specialists' fees and patient outcomes are undermining the current system.

Today, the Actuaries Institute launches a Green Paper, *How to Make Private Health Insurance Healthier*.

The Institute identifies several major opportunities worthy of deep consideration to help address this important public policy challenge.

The key opportunity is to improve transparency by increasing publicly available information around out-of-pocket costs in combination with health outcomes. This could empower individuals to make the best choices for their personal circumstances.

The Green Paper also calls on policy makers to consider the introduction of independent healthcare coordinators who are paid to help patients navigate the best treatment options and manage the level of out-of-pocket expenses for surgery. This role could be fulfilled by general practitioners, although it would involve additional funding, upskilling and access to relevant data.

Combining all costs associated with a treatment into a single total cost, while inherently challenging in the private health care industry, would be a game changer. This should help patients understand the total cost of their treatment and budget accordingly, target inefficiencies in the supply side of healthcare services and lower the total cost for the chosen healthcare pathway.

The time has come for a prospective risk equalisation scheme, now that standardised product classifications (Gold, Silver, Bronze and Basic) are embedded. Such an approach would provide incentives for insurers to drive down claims costs by improving the efficiency and value of the health care services covered (and without compromising cover). Those benefits would be passed to their members in the short term and spread to the community in the medium term through reduced premiums.

Health insurance premiums directly reflect the total cost of health insurance claims, which includes a volume of claims element as well as the average cost per claim. The best way to reduce the volume of claims would be to get everybody healthier, which obviously has broader benefits. Government and private organisations have a shared responsibility to continue to innovate and find new and better ways to drive health improvements. On the cost side, there are plenty of parts of the supply chain where inefficiencies may be targeted such as eliminating additional and hidden fees and continued prostheses reforms.



The Green Paper advocates for government-led reform developed in collaboration with the multiple stakeholders in the healthcare system to deliver a more sustainable health system.

"This is a significant report that shows, in its current form, private health insurance is suffering declining participation and rising premiums," said Actuaries Institute President, Nicolette Rubinsztein.

"If these trends continue, there will likely be a significant shock to the balances in the system." Those balances include private and public sector funding, contracts between insurers and providers, and relationships between specialists, GPs and patients.

Report author Bevan Damm said: "Insurers are unable to drive meaningful change alone. There needs to be collaboration between governments, hospitals, health care providers, doctors, specialists and the public.

"In many cases there will be winners and losers," said Mr Damm, a Partner at Ernst and Young. "But driving a high quality and efficient health care system needs to be the ultimate objective."

The report sought input from stakeholders across government, insurers, PHI industry groups, private health care providers and medical professionals. It provides case studies illustrating how overly expensive services may be performed with limited clinical evidence of better health outcomes; and how incentives are biased towards in-hospital treatment that may not always be the most cost effective.

It finds that low wages growth means those with private health insurance are spending a larger proportion of their income on premiums, with the likely result that people will at some point question its value and reduce or cancel cover. Pressure will then mount on the public health system. Currently only about 45% of Australians have PHI hospital cover.

The paper also finds that out-of-pocket expenses hit low income earners hardest and compromise the principles of universal access to health care. "Reports suggest that some low-income earners do not access the healthcare services that they need," it states, "and that many more experience significant difficulties in paying for health care services."

The paper provides an illustrative case study of a 57-year old prostate cancer patient whose specialist recommends robotic assisted surgery. The patient, who has top level PHI, bore over \$20,000 in out-of-pocket costs. If he had undergone traditional surgery, with similar results, his out-of-pocket costs would have been closer to \$3,000. There is even a third option available with similar outcomes yet even lower out-of-pocket costs, although the waiting time may be longer.

In other evidence, the paper states more than a quarter of patients with breast cancer had out-of-pocket costs for treatment of \$10,000. That pathway is also complex and involves multiple providers.

Insurers have been active in using clinical evidence to identify treatments that are ineffective or inefficient, and calling out those treatments.

These examples highlight the additional role that greater transparency of fees and outcomes and an independent care coordinator could provide to strengthen the system.



Actuaries Institute CEO, Elayne Grace, said the report shows in detail changes that could improve health insurance so that Australia's health system delivers for all Australians.

"We acknowledge the unique complexities of the health care system necessarily complicate reform," Ms Grace said.

"Given the importance of these decisions, a strong evidence base must be established. The paper is a great starting point for that discussion."

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

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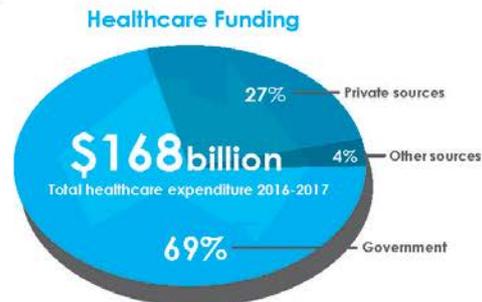
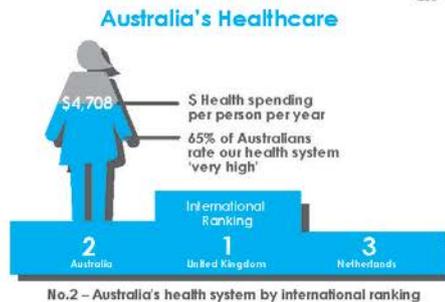
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**About the Actuaries Institute**

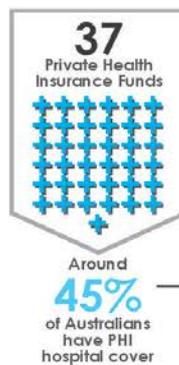
As the sole professional body for Members in Australia and overseas, the Actuaries Institute represents the interests of the profession to government, business and the community. Actuaries assess risks through long-term analyses, modelling and scenario planning across a wide range of business problems. This unrivalled expertise enables the profession to comment on a range of business-related issues including enterprise risk management and prudential regulation, retirement income policy, finance and investment, general insurance, life insurance and health financing.



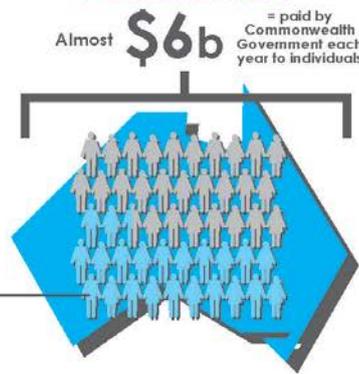
## Australia's Healthcare System at a glance



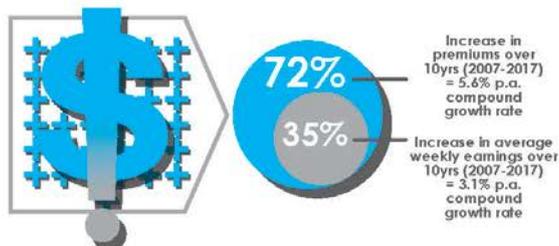
### Private sources of funding



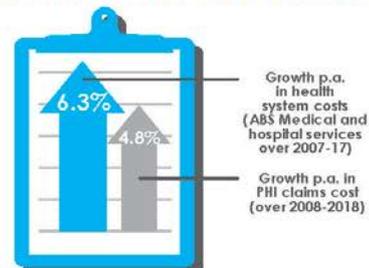
### Government rebate



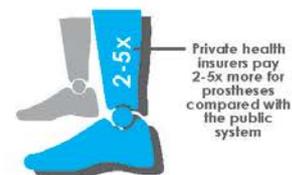
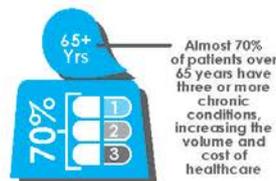
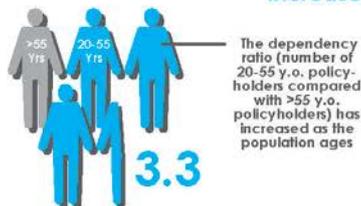
### Affordability is a growing concern



### Growth in healthcare and PHI claims



### Increased unit costs and inefficiencies



### Other issues include

