



# The Dialogue

Leading the conversation

## Private Health Insurance Bill Shock: What Can Insurers Do to Help?

Anthony Lowe and Jamie Reid



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## About the authors



### Anthony Lowe

Anthony is Chief Executive Officer at Prostate Cancer Foundation of Australia. He is also Adjunct Associate Professor at Menzies Health Institute Queensland, Griffith University; Non-Executive Director at Ensemble Offspring; and a member of the Actuaries Institute's Leadership & Career Development and Public Policy Council Committees.



### Jamie Reid

Jamie leads Finity's health insurance practice and is the appointed actuary of a number of health insurers. He is a member of the Institute's Health Practice Committee and chairs the Future of Health Seminar organising committee.



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# Private Health Insurance Bill Shock: What Can Insurers Do to Help?

Anthony Lowe and Jamie Reid

This paper proposes a simple addition to private health insurance (PHI) policies designed to alleviate the severe financial impact of a diagnosis of cancer.

## Key points

- Cancer can kill you. What is less well known is that the cost of treatment can destroy your financial well-being.
- Numerous factors drive treatment costs; Medicare pricing, new technology, bureaucratic hurdles, ancillary expenses – travel, medications, prostheses etc. PHI does not cover many of these imposts.
- Out-of-pocket expenses can be higher for patients who have PHI than those who don't.
- There are regulatory constraints that restrict PHI benefits and a lack of transparency about the extent of likely costs that can create 'financial shock.'
- Innovative regulatory policy and product design could ease the costs for cancer patients and the health system.

## Background

Cancer is a major cause of illness and death in Australia. The Australian Institute of Health and Welfare estimates that 134,000 Australians will be diagnosed with cancer in 2017 and that 47,700 will die of the disease.<sup>1</sup> What many of these newly diagnosed patients may not fully appreciate is just how much it can cost an individual to be treated for cancer.

Many cancer patients may be under the mistaken impression that with Australia's universal medical system, and because they have PHI, their costs will be fully covered. They may be about to experience bill shock, a phenomenon which has also been dubbed financial toxicity, akin to other toxicities of cancer treatment such as fatigue, nausea, blood toxicities and depression. Financial problems after cancer diagnosis are known to be a major contributor to poor quality of life, non-adherence to treatments and forgoing of medical appointments.<sup>2</sup>

## The Problem

For Australian cancer patients, one of the most unexpected and alarming aspects is the level of out-of-pocket costs for those with PHI, often running into thousands of dollars.<sup>3</sup> For example, a recent study of men who had been diagnosed with prostate cancer showed median out of pocket expenses for those with PHI were \$6,000 compared to \$2,000 for those without.<sup>4</sup> Although private cover does provide the benefits of choice of specialist, private rooms and generally lower waiting times, the cost differential is significant.



*"As I have had private health insurance for many years I was under the mistaken belief that a substantial amount of my surgery (robotic prostatectomy) would be covered. It was not made clear to me at any time before the surgery how much I would be out-of-pocket for the surgeon and anaesthetist, it turned out to be around \$14,000."<sup>5</sup>*

The situation is by no means unique to prostate cancer. Breast cancer patients report similar concerns:

*"I was diagnosed with breast cancer in 2012. I have a good outcome, but financially it has been a great burden as I went through the private hospital system. Even though I have private health insurance, I still had to pay a lot over and above any rebates. I have paid approximately \$9,000 over and above rebates."<sup>6</sup>*

Particularly irksome to some patients is that they have struggled financially for many years to pay ever rising PHI premiums, strongly encouraged to do so by the Federal Government through the rebate and Medicare levy surcharge, only to discover that the costs of private treatment are not fully covered.

*"I am a single parent with two children. I have private health insurance, which is a huge cost in itself, but to my horror I found that the out-of-pocket costs in treating this disease can be quite huge, especially when there is no time to budget for it. This journey from diagnosis through all the treatment is exhausting and stressful and you cannot get off it if you want to continue to live."<sup>6</sup>*

Industry insiders know that PHI does not cover the full costs of private treatment, of course, but to the public it is akin to discovering after the fact that their building insurance doesn't cover flood or storm damage. It may well be 'the way the PHI system works', but that won't necessarily stop PHI falling into disrepute and policyholders lapsing – experiences such as these erode public confidence in PHI.

Questions about the value of PHI have recently been raised by both sides of politics. Former Minister for Health, The Hon. Sussan Ley, has said:

*"Everywhere I go, consumers, health insurers, doctors and private hospitals tell me their needs are not being met by PHI... Australians are paying too much for health insurance that does not deliver them much value."<sup>7</sup>*

At Labor's recent National Health Policy Summit, Opposition Leader The Hon. Bill Shorten said that the top three issues raised at his community forums are ice addiction, suicide prevention and PHI.<sup>8</sup>

## Causes

Unfortunately, there are multiple causes to the problem of high out-of-pocket expenses experienced by cancer patients and, therefore, no simple solution. Issues include:

- The Medicare rebate freeze first introduced in 2013, which means that gap payments for GPs and specialists have increased substantially in recent years.
- Technological advances, for example new diagnostic imaging techniques and robotic-assisted surgery, which may not be considered standard by insurers and hence may not be reimbursed.
- Long delays in obtaining PBS listing for new cancer drugs after approval by TGA, which often means the drugs are unaffordable to everyday Australians.
- Apparent anomalies of the system, such as private radiotherapy, which being an outpatient service is not covered by PHI.
- Lack of transparency from doctors about out-of-pocket costs for private treatment and that the same treatment may be available free of charge in the public system.
- Travel, accommodation and hospital parking costs, which are especially burdensome for rural and regional Australians.
- Cost associated with managing side effects of treatment such as creams and wound dressings, wigs and turbans, incontinence pads, prostheses, physiotherapists, counsellors and dieticians.
- Loss of income for patient and carer due to taking unpaid time off work, reduction in work hours, or taking early retirement.

The following quotes illustrate the wide range of out-of-pocket cost issues cancer patients encounter:

*"The out-of-pocket expenses (\$6,000 - \$7,000) for this non-cosmetic procedure are simply unacceptable, especially after the nightmare of actually dealing with the cancer diagnosis. My out-of-pocket expenses for the anaesthetic alone were \$1,400 and my anaesthetist charged the AMA recommended fee."*<sup>6</sup>

*"It is a shame that you don't get a Medicare rebate for an MRI. My surgeon recommends having an MRI but it is very expensive. It seems unfair for this valuable test to only be available to women who can afford it."*<sup>6</sup>

*"I stated my current policy has been held for one year one month. Prior to that, I was with a different private insurer for more than 20 years. That insurer would not cover the costs of my robotic surgery, as they deemed that procedure not medically necessary. They would only pay for treatment done in the traditional way (i.e. more invasive). As that insurer would not pay for the robotic surgery, we shopped around until we found an insurer that would fund the robotic surgery."*<sup>5</sup>

*"The cost of radiotherapy if you are not a public patient, and the fact you cannot claim it on your private health cover [is of concern to me]."*<sup>6</sup>

*"I am still on active surveillance and attend the Hospital X in City X for regular biopsies every year and after the biopsy I have to stay overnight in a hotel or the hospital before returning the next day to Town X. Although there is a patient travel subsidy scheme through the State X government the forms are complicated and there is also an exclusion of the first four nights' accommodation per financial year."*<sup>5</sup>

*"Since my diagnosis, we are more than \$20,000 out-of-pocket. I can't work anymore, so we live on my husband's salary and we constantly 'rob Peter to pay Paul'. The financial strain hugely compounds the stress of dealing with cancer."*<sup>6</sup>





**Case studies demonstrate, a benefit of \$5,000 to \$10,000 would go a long way towards relieving patients' financial stress.**

## A Solution

Solving such a wide range of financial issues would require substantial change to Australia's health and social security systems – something which is unlikely to happen quickly. However, there is a simple addition to PHI policies which could make a substantial and immediate difference.

Before setting out this addition, it's worth explaining why insurers don't do more already.

- Legislation sets out what insurers can and can't pay for. For example, insurers aren't allowed to cover the cost of specialist consultations out of hospital. Our proposal would need a change in the law to proceed.
- If there is one thing that concerns policyholders more than out-of-pocket costs, it's premium affordability. Any increase in benefits paid will ultimately need to be reflected in premium rates. While large out of pocket costs must be addressed, insurers must remain sustainable to continue to provide benefits at reasonable premiums.

Health insurers should be allowed to provide a small lump sum payment to people diagnosed with cancer. While policyholders may experience out-of-pocket costs for other claim types, cancer is arguably a special case given the impact on a person's life and finances over many years. If successful this benefit could be extended to other illnesses at a later date.

While this benefit is possible to obtain from a life insurer, current PHI products aren't permitted to address public needs in this area. Trauma insurance pays a lump sum if the policyholder is diagnosed with a specified serious illness. Life insurance companies and government websites such as [moneysmart.gov.au](http://moneysmart.gov.au) promote this as a product to help meet private medical costs above health insurance, or the costs of an extended period off work. People claiming under trauma insurance received more than \$150,000 on average, with some policies paying more than \$1 million, which looks like the perfect antidote to financial toxicity.

The problem is that less than 3%<sup>9</sup> of Australians are covered by trauma insurance, and increasing this will be challenging. Access to trauma insurance is constrained; policyholders are subject to underwriting, premiums can increase with age, and cover may be unavailable for older Australians.

Given the large payouts available for trauma insurance, life insurers need to precisely define the events covered. This results in complex policy documents, and people with serious illnesses may sometimes fall outside the letter of the rules. As with any insurance, if the benefits available are high then the premiums need to cover this, and may be unaffordable.

As the previous case studies demonstrate, a benefit of \$5,000 to \$10,000 would go a long way towards relieving patients' financial stress. We propose PHI include a simple trauma insurance benefit, paying \$5,000 if the policyholder is diagnosed with cancer.

While people could purchase trauma cover from a life insurer, this simple trauma insurance sits well with health insurance for a number of reasons.

- Health insurance policies are not underwritten, everyone is entitled to buy PHI, and premiums do not vary with age. The cancer benefit would be affordable if costs can be spread over a large number of people covered.
- Around half the population has health insurance, and could benefit from the additional benefits.
- While entitlement rules and other details would need to be worked through, these need not be as complex as under existing trauma policies. For example, anyone claiming under certain cancer-related Medicare item numbers could automatically be paid the additional benefit. Clearly less verification is required when paying a \$5,000 benefit than a \$1 million payment under existing trauma insurance products.
- Administration expenses can represent a significant proportion of the cost of basic insurances, so it makes sense to attach this benefit to an existing product. Insurers will already be administering a policy and paying cancer-related claims, so the lump sum benefit should not be costly to administer.

The cost of providing this benefit is estimated at \$2.30 per person per month.<sup>10</sup> Up to 35% of premium would be covered by the government rebate. The cost represents 1.4% of annual premium so could be funded by, for example, additional premium increases of 0.5% per year for three years. An even lower cost option would limit the benefit to the most serious types of cancer.

Value for money reflects both what health insurance costs and what it covers. Any proposal to increase health insurance premiums requires considerable scrutiny, but providing additional benefits following a life-changing diagnosis would significantly increase the value of PHI, while reducing financial toxicity associated with a cancer diagnosis.

Improving disclosure over the costs of various treatment options will also help people consider their options at the time of diagnosis.

We encourage government and industry to work out a practical and cost-effective solution to the concerns raised in this paper to ease the burden on personal and public budgets. ▲

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- 10 The estimate makes the following assumptions. 134,000 cancer cases per year, 46.6% of population has hospital PHI, \$5,000 per person benefit, gives total insured cost of \$312 million per year. The number of people with hospital PHI is 11.3 million, so the cost is equivalent to \$2.30 per person per month. Annual PHI premium revenue is \$22.6 billion, so the additional cost is 1.4% of premium. *PHI statistics sourced from APRA Private Health Insurance Quarterly Statistics December 2016*.



Institute of Actuaries of Australia  
ABN 69 000 423 656  
Level 2, 50 Carrington Street,  
Sydney NSW Australia 2000  
t +61 (0) 2 9239 6100  
f +61 (0) 2 9239 6170  
e [actuaries@actuaries.asn.au](mailto:actuaries@actuaries.asn.au)  
w [www.actuaries.asn.au](http://www.actuaries.asn.au)