

Date: 23 Feb 2018

Interviewer: Ignatius Li

Guest: Jamie Reid, Anthony Lowe

Duration: 17:40 min

Ignatius: Hello and welcome to the Actuaries Dialogue podcast, I'm Ignatius Li. I'm an actuary and director at Deloitte. This podcast aims to give an overview of the Actuaries Institute thought leadership series 'The Dialogue' - leading the conversation. The Dialogue papers cover a wide range of topical issues from genetics and life insurance to climate and social risks. Today we're talking Private Health Insurance and Bill Shock.

We all know cancer is sadly a common disease that can kill you. What is lesser known is that the cost of treatment can destroy your financial well-being and what's worse, out-of-pocket expenses can be higher for patients who have private health insurance than those who don't. In the paper 'Private Health Insurance Bill Shock, What Can Insurers Do to Help?', actuaries Anthony Lowe and Jamie Reid propose a simple addition to private health insurance policies that should alleviate the severe financial impact of a cancer diagnosis.

I'm joined today by these two co-authors. Welcome firstly, Anthony Lowe, former CEO of the Prostate Cancer Foundation and adjunct associate professor at Griffith University.

Anthony: Thanks Ignatius, it's a great pleasure to be here.

Ignatius: Great to have you here and welcome Jamie Reid, actuary and Principal at Finity Consulting.

Jamie: Hi Ignatius.

Ignatius: Hi Jamie. Cancer is a major cause of illness and death in Australia with around 134,000 Australians diagnosed last year. The paper says many cancer patients are under the mistaken impression that with Australia's universal health care system, combined with private health insurance that costs will be fully covered. Now, financial shock can unfortunately occur to anyone. Out-of-pocket expenses can be higher for patients who have private health insurance than those patients who don't. In the dialogue paper, you both stress the importance of product innovation to offset financial shock. Maybe let's start with the first question, how can we ease bill shock for those on private health insurance and specifically let's start with, what is the extent of this bill shock that people are getting in dollar values?

Anthony: Yes Ignatius, so we did a survey of prostate cancer patients and we found that median out-of-pocket expenses for patients without private health insurance were \$2,000 but median out-of-pocket expenses for patients with private health insurance were \$6,000 so there's a very considerable difference there. The range of course is very large. Some patients have virtually no out-of-pocket expenses. For some it may be tens of thousands of dollars but nevertheless they're very significant numbers particularly when we're talking about elderly patients in the case of prostate cancer who may well be retirees.

Ignatius: Yes and does that shock vary depending by the type of cancer?

Anthony: Breast Cancer Network Australia did some work, looking at out-of-pocket expenses in breast cancer and they found very similar figures to prostate cancer. You would obviously have to look at each cancer individually and we haven't done that at this point.

Ignatius: One of the drivers of this financial shock is Medicare pricing technology and ancillary expenses. What's driving these differences between what patients are expecting their bill to be, versus what ends up being the bill that they're faced with?

Anthony: Well I think the important point to make is that the drivers are many and varied so start with a Medicare rebate freeze which was introduced in 2013, which means that gap payments for GP's and specialists have increased substantially in the last few years. Then we got technological advances and some of those are not covered by private health insurance for example robotic surgery for prostate cancer may not be covered. We've got reasonably long delays in getting PBS listing for new drugs for advanced cancers and then there are anomalies in the system or apparent anomalies at least.

Take product radiotherapy for example, it's an outpatient service so it's not covered by PHI. It can't be covered by PHI and that's something that patients often just don't understand. There is a lack of transparency, at least from some doctors about what costs are going to be. Not all doctors actually give a financial estimate upfront about what costs they may be facing. People don't necessarily understand things like the anaesthetist's fees won't be covered by private health insurance. There are things that you might not think about as well. Travel and accommodation for Australians in rural and regional locations, actually hospital car park fees is a reasonably big issue for patients surprisingly enough. Then there are the costs of managing side effects. Things like creams and wound dressings, wigs and turbans, continence pads, prostheses and so on and finally loss of income. So if you're diagnosed with cancer you may not be able to work for a period of time. Your partner may not be able to work while they're caring for you.

Ignatius: Yeah so it's at a time when under financial stress, you're obviously stressed because all these things that are happening to you. You don't know what's ahead and it's completely understandable that in that situation people don't even think about asking for what the likely bill is. So that leads me to my next question, which is what do you think is the gap between public knowledge and data industry insiders?

Anthony: Look I think the gaps are very substantial I think the average Australian thinks that they pay their taxes. They pay their Medicare levy and they also one way or another are strongly induced to take out private health insurance by the rebate in the Medicare levy surcharge. A lot of Australians struggle to pay their private health insurance. Of course we know it's been increasing. Premiums have been increasing substantially over the last few years and because it's called insurance they're sort of under the belief that they would cover everything so it's kind of like discovering that you've got you know buildings insurance. but your roof wasn't covered for example. I think most Australians just automatically assume that they won't face a bill of five or ten thousand dollars if they get diagnosed with cancer, unfortunately that's not the case.

Ignatius: I guess moving on to the next question. What are the causes of the rise in out-of-pocket expenses experienced by cancer patients?

Anthony: Well they're the things that we talked about earlier so particularly the Medicare rebate freeze and how gap payments have increased but also technological advances, new drugs and so on and the system not keeping up with that if you like

Ignatius: So our pocket expenses have increased over time?

Anthony: Yes absolutely and what we know is there are inconsistencies so some things like for example robotic assisted surgery for prostate cancer they're covered by some insurers, not by others and that's confusing people as well

Ignatius: So to a large extent, whether you get advised to have the robotic versus some other type of treatment depends on the preference of the specialist that you end up getting referred to. In some ways that's also out of control of the patient.

Anthony: Yes it does and there's another factor which I kind of think about as in my own mind is the iPhone factor, which is actually this considerable amount of evidence now that some of these new procedures like robotic assisted surgery in the medium to long term don't actually give better outcomes than their more traditional open surgery and there are some benefits, shorter hospital stay and so on, but in the medium to long term the differences are not all that great. There's a sort of a natural assumption that the latest technology will give the latest results and I think another thing that we need to think about is, these patients are in very vulnerable situation. If I said to you "You know, your wife's got cancer and you need to think about what you're going to do", I think that there would be a natural assumption that you would go "Well we need to spend whatever we have to spend to help her live", and so there is a sort of a natural assumption that if you spend more money you're going to get a better outcome but of course it's not necessarily the case.

Ignatius: Yeah that's a very common perception amongst the community around healthcare in general.

Anthony: Yes

Ignatius: And I think to that point, there's a lot of quotes in your paper from patients that really illustrate the stress that's caused by out-of-pocket expenses that are unexpected, which is on top of the nightmare of dealing with the cancer diagnosis as you've already mentioned. Did you speak to these individuals firsthand?

Anthony: No I didn't, so the quotes in the paper are a mixture of prostate cancer patients who responded to a survey that was run by Griffith University and breast cancer patients who responded to a survey from Breast Cancer Network Australia but it's surprising the similarity of the quotes between prostate cancer and breast cancer patients.

It's uncanny really and as you say a lot of the patients talk about. It's very, very, stressful obviously to be diagnosed with cancer and to have to face his financial stress on top is really a significant burden to them.

Ignatius: What is the correlation between financial stress and recovery from cancer?

Anthony: Yeah well it's a good question and we actually know from a quite substantial body of literature that financial problems after cancer diagnosis do lead to poorer outcomes, poorer quality of life, non-adherence to treatment and foregoing of treatment as well

Ignatius: I think we've heard the problem, so what are the solutions. Why don't insurers do more already to alleviate this pain?

Jamie: I'll take that one Ignatius. Insurers are very concerned about out-of-pocket costs because they want their policy holders to be happy with their insurance. Anything that that creates a bad experience is obviously not ultimately good for health insurers. There's probably three challenges that you come up with against when you're trying to solve this problem. The first is legislation so there's very strict rules about what health insurers can and cannot pay for and Anthony touched on a couple of those that you know, whatever they may like to do in. Health insurers are simply not allowed to cover some of these costs.

The second one is affordability and if there's one issue that concerns people more than out-of-pocket costs and they're probably only is one issue there then it would be affordability and any enhancement to benefits will lead to extra cost. So that cost benefit has to be weighed up very carefully and the third thing which insurers want to think about is if they were to spend extra money, they would want to be sure that they get good value for that and it actually helps to solve the problem and there is a concern that some sorts of spending in the industry could simply pump up costs even more. So you put premiums up and you don't solve out of pockets. So I think those three things explain why this is such a tricky thing to solve.

Ignatius: Yes I definitely agree with those observations there. So what about trauma insurance? Less than 3% of Australians are covered for trauma insurance. What do you think of that as a solution?

Jamie: Well that's right so although most of us are trying to work out the answer to out-of-pocket costs and bill shock. It's not a problem for everybody so there is a product out there called trauma insurance. Now if a certain event happens in your life, that insurance pays out a sum of money and in fact the average payout in Australia is \$150,000 so you know that, that covers these incidental expenses and loss of income and so on. That's the right product to deal with these issues. The challenges are as you say, only 3% of the population has this product so you know why might that be? Generally you have to be underwritten for this product, so you have to be in good health to start with to get the product. Premiums increase with age so particularly some of the elderly patients Anthony talked about would not be able to use this solution and these very large sums insured, these 150,000, they come in at significant cost in terms of premiums which again might put them out of reach.

So I guess we're proposing something more simple and something in the health insurance framework, so smaller sums means smaller premium. Community rating spreads out the cost and perhaps it's although it doesn't solve this huge array of complex problems. It's a quick step in the right direction.

Anthony: I think it's worth saying Ignatius that what we know from prostate cancer and breast cancer is the out-of-pocket expenses are typically five to ten thousand dollars so a small payment of say five thousand dollars will go a very long way to addressing the issue and we talked earlier about the complex causes of the issue and it's not going to be easy to solve those overnight, whereas a simple payment of five thousand dollars on diagnosis of cancer would substantially alleviate the issue.

Ignatius: This is a solution that could be implemented now without any other legislative changes

Anthony: That's exactly right.

Ignatius: Look, I think that's a great idea. When I saw your estimates that it could cost as little as \$2.30 per month, you know it makes me think well why hasn't it been done already? So I guess maybe do you think this is one way that private health insurance companies can offer some benefit or service like this that can help with the current challenges around customer satisfaction and affordability?

Jamie: So just on the \$2 a month, I mean that's based on, we know the frequency of cancer. There's very good statistics on that and obviously you know the cost of the benefit it's \$5,000 so it's very very simple as an actuary to work out the cost. Absolutely it's something that you would need some regulation changes to be allowed to bring it in or insurers could distribute this product but absolutely it's something that could be done in in the short term and I would hope that when insurers are thinking about out-of-pocket costs and looking at ideas to reduce them. I would hope they would they would look seriously at this idea.

Ignatius: So, I guess thinking more about that question then, what should government and industry do now?

Jamie: Well I think just look at this one long and hard. Look at the pros, look at the cons. We think the case stacks up well for this and if not this then what else? I think the industry does need to bring these discussions on out of pockets to a conclusion and put something up that can help with the issue of Bill shock in cancer.

Anthony: I think it'll be interesting Ignatius to see what comes out of the government's chief medical officers review of out-of-pocket expenses, so Minister Greg Hunt announced a review of out-of-pocket expenses. He called them exorbitant expenses at the beginning of the year and it'll be interesting to see what comes out of that

Ignatius: So will you be putting in submissions you think in response to that kind of review? I mean this idea is that appropriate having you to promote

Jamie: Well this idea's out in the public domain. The Actuaries Institute have published it in an issue of The Dialogue and it's available for anybody who would care to pick it up.

Anthony: It's also been picked up by Breast Cancer Network Australia so they are pushing for this to happen.

Ignatius: okay great well I think this is a great idea and unfortunately I think that's about all we have time for. Thank you Anthony and Jamie for sharing your insights with us today and for writing this paper. I think it's a brilliant piece of thought leadership. Please listen out for future episodes in our dialogue podcast series, coming soon.

Anthony: Thanks a lot Ignatius

Jamie: Thanks Ignatius

Ignatius: And thank you to our listeners. I hope you enjoyed today's conversation and are now better informed about the state of health insurance affordability in Australia, especially the challenges facing those facing a cancer diagnosis and what can be done to ease that bill shock. Look out for further related articles on actuaries.digital and head to the public policy and media section of our website for more latest research from actuaries. I'm Ignatius Li thanks for your time