A Response to the Australian Health Care Agreements series

The ten articles on the Australian Health Care Agreements present the views of an eclectic mix of authors, with several starting from a position of opposition to Government subsidies for private sector users.

I suggest that if a different, yet totally reasonable starting point is adopted, then quite different conclusions would be reached. As John Deeble observed 'what you see depends on where you sit.'

The health care system offered by Australian Governments to its citizens is one of universal access and entitlement to needs based health, hospital and aged care at zero or limited cost. The system includes programmes for hospital care, medical care, pharmaceuticals and aged care. Every citizen is entitled to make use of any part of the system, whether they have contributed to the cost of such use, or not. There are effectively no means tests, although some citizens may have discounts applied to their out of pocket costs, e.g. pensioners are effectively entitled to free pharmaceuticals.

The system also provides subsidies to individuals who take out private insurance. Such individuals pay a private contribution of 70% to the cost of their insurance. They may gain the advantages of choice of doctor and faster/more convenient access to services. They do not deprive others of their right to access. To the contrary, because they reduce the cost to Governments (and taxpayers) of the system, they enhance the prospects of access of others. Their participation as private consumers in the system introduces elements of choice, service, competition, innovation and quality that would not otherwise exist in a monopolistic public system.

Those individuals that receive a 30% rebate on their health insurance premiums are not takers from the system. Because of their personal 70% contribution they are contributors. Their willingness to provide additional support to the system, over and above the taxes they pay, should be gratefully received, not pilloried. (The arguments for private health are similar to those concerning Government subsidies to private schools. Private schools save the Government, and taxpayers, money, but this simple fact is sometimes totally ignored by some commentators).

John Deeble opines that the health insurance rebate may have saved $600 million in net public inpatient costs in 2000/01 or just 26% of the cost of the rebate. (His estimate of savings is in respect of recurrent costs and does not include capital costs). On top of these savings, the latest figures show that in 2001/02 private health insurers made payments of more than $500 million to the public sector (accommodation $296, levies $99, and payments for prostheses and medical gap in respect of public hospital services more than $100).

From the PHIAC Annual Report we know that the base accrual cost of the rebate in 2000/01was about $2.14 billion (leaving aside the complications of the rebate on changes in contributions paid in advance, or in arrears for that particular financial year). However, this was not all new funding. Butler reports that the cost of PHIIS in 1997/98 was over $410 million – leaving the additional cost of the rebate at no more than $1.7 billion.

Private health insurance was in a state of crisis with the proportion of the population with cover declining rapidly when the PHIIS rebate was introduced in July 1997 and then replaced by the health insurance rebate in January 1999. These rebates saved private health insurance from serious decline, and saved the significant contribution the private sector makes to overall acute hospital care (including about 50% of all surgery). There is thus very strong evidence that the introduction of the rebate was a masterful and pragmatic decision which will preserve choice in hospital care in Australia and save public sector health expenditure on an ongoing basis.

I am not arguing that the current structure of private health insurance, and incentives for its use, are the best that Australia can achieve. My view is that we need to work much harder on integrated care, both within and between the public and private sectors. My comments are rather directed at the lack of balance displayed by many academic commentators on the place of the private sector and the incessant and poorly informed sniping at the health insurance rebate.

Several of the authors draw attention to the fact that privately insured patients admitted to public hospitals are not forced to declare their insurance status, and, if they do, are paid at a lower rate than would be the case if they were treated in a private hospital. Thwaites refers to "forgone revenue to Victoria for treating subsidised insured patients as public patients…" Dwyer thinks that "It is a frustrating anomaly therefore that private health funds provide a lower rebate to public hospitals who care for their privately insured patients…." Duckett quotes a study that concluded "Currently, fees for private patients in public hospitals are subsidised by State Governments and indirectly by the Commonwealth."

All of these comments are conditioned by perspective. The alternative view is that all Australians are entitled to free public hospital care. Why then should any Australian be required to pay for a basic public hospital bed?

Finally the article by Butler is notable for at least two reasons. First, its core finding has been contradicted by a recent research paper. Secondly egregious errors in the cost of the health insurance rebate remain uncorrected.

In October 2002 Access Economics released a research paper examining Australia's 30% private health insurance rebate. The Access Economics paper led to a conclusion (based on econometric analysis of affordability from 1984/85 – 2001/02) that "The affordability of private health insurance premiums is the dominant, but not the only, determinant of private health insurance coverage." In his paper Butler argued that "those two policies with a cost to government appear to have had either no impact on private health insurance coverage (PHIIS) or a modest impact (the 30% rebate), while the third policy (lifetime health cover) appears to have induced a major response at virtually no cost to government."

In his paper Butler suggested that the projected gross cost of the health insurance rebate in 2000/01 was $2.924 billion. In 2000/01 total private health insurance premiums were $7.132 billion (a figure reported in December 2001). 30% of this figure is $2.14 billion. The Butler overestimate (peer reviewed) is a mere $810 million, or 36.6% (leaving aside the complications of contributions paid in advance, or in arrears). In similar vein Butler reported a cost of direct subsidies and tax expenditures for private health insurance of $2.1 billion in 1999/00. 30% of total contribution income in that year was just $1.64 billion.

References

Access Economics 2002 'Striking a Balance: Choice, Access and Affordability in Australian Health Care'

A report prepared for the Australian Private Hospitals Association.

Duckett SJ & Jackson TJ 2000, 'The new health insurance rebate: an inefficient way of assisting public hospitals' *Med J Aust* vol 172 pp 439-42.

Private Health Insurance Administration Council 2001/02, Quarterly PHIAC A Reports, Canberra, PHIAC

Private Health Insurance Administration Council 2002, 2001, 2002, Operations of the Registered Health Benefits Organisations, Annual Report, 1999/00, 2000/01, 2001/02, Canberra, PHIAC

Wright Graham 2001, 'Towards a Better Understanding of Private Hospitals' *Australian Health Executive* ACHSE Autumn 2001 pp 1-6

Graham Wright
Management Consultant