

Financing and Managing the Health System

Background

Australia's health system is based on universal entitlement by all Australian citizens and permanent residents (regardless of means) to government determined healthcare services under Medicare, called the Universal Service Obligation. Other health and wellbeing services are accessed by individuals by choice, often without government financial support. Australia has both public and private financing and provision of healthcare services. Financing arrangements and service provision are divided between individuals and institutions, and between different levels of government. The three levels of government in Australia (federal, state and local) share responsibility for ensuring that the healthcare system meets its objectives.

Currently, the actuarial profession's main work for the health system relates to private health insurance, with an increasing amount of work related to the public financing of healthcare. The actuarial profession has been entrusted with a statutory role (set out in the *Private Health Insurance Act 2007*) which requires each insurer to have an Appointed Actuary. The Appointed Actuary's statutory duties relate to financial risk management of the insurer, and the provision of an actuarial opinion on aspects of the insurer's detailed financial projections which are required as part of the Federal Government's assessment of the insurer's annual increase in its premiums.

The Institute of Actuaries of Australia has been active in the provision of professional education in healthcare. In addition to the broad based Health Financing Course that the Institute has run with partners on several occasions, the Institute offers the only publicly available education course covering financial aspects of Australia's private health insurance system.

Issues

The mix of policy settings for the Australian health system mean that, as a whole, the health system is complex and efficient cost control and risk management are difficult to achieve. Australia's total expenditure on healthcare was \$113 billion¹ in the 2008/09 year which equates to \$5,190² per Australian per year in 2008/09 dollars (average per person expenditure on people over age 60 is materially higher than on younger people). Total health care expenditure rose by 3.9% per year per person in real terms in the decade to 2008-09² (and over this period increased progressively from 7.8% of GDP to be 9.0% of GDP in 2008-09³). Drivers include growth in chronic disease, advancements in medical technology, population demand for better health and population ageing. There is no reason to suggest that the steady growth in real per person health care expenditure which has occurred over at least the last 10 years will not continue into the future.

¹ AIHW, "Health Expenditure Australia 2008-09" Table 2.1

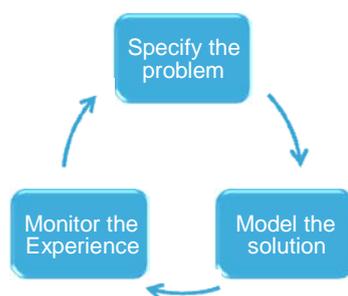
² AIHW, "Health Expenditure Australia 2008-09" Table 2.6

³ AIHW, "Health Expenditure Australia 2008-09" Table 2.2

The increasing cost of healthcare over time is a source of concern for governments and individuals. Individual out-of-pocket health care expenditure per person in Australia grew from 2.3% of household final consumption expenditure (HFCE) to 2.8% of HFCE between 1998 and 2008⁴. Government share of total health expenditure increased from 67.0% to 69.7% in the decade to 2008-2009⁵.

In planning health services and implementing change, rigour in analysis, projection and financial risk management is essential. Rigorous analysis (including determining the financial implications of changes) forms a key part of the actuarial skill set, using the actuarial control cycle which is illustrated in Figure 1.

Figure 1: The actuarial control cycle



Work is needed to **specify the problem** by clarifying the role of various payers and providers in the healthcare sector and identifying the major risks likely to impact future sustainability. To **model the solution**, further development is required of the methods that funders of health care services use to project both utilisation and costs of healthcare services. To **monitor the experience**, improvements in the timeliness, quality and transparency of data will be required, which will in turn encourage better forecasting, planning and decision making.

The final report of the National Health and Hospitals Reform Commission (2009) included 123 recommendations relating to changing Australia's health system, finding that "the case for health reform is compelling". The Commonwealth Government has made announcements from 2010 about reforms to the health system.

Policy Principles

The following policy principles provide a policy framework for the assessment of the current system and proposed changes to that system. The policy principles concentrate on financing and risk management areas, in line with the expertise of the actuarial profession.

Specifying the Problem

1. Clarity over strategic oversight, governance and funding is an essential element of any well-managed system. **The Institute supports greater clarity of roles and responsibilities of payers and providers in the health system.** The role of a primary health care provider in the health outcomes of each person should be maintained.
2. The health system should support both **health maintenance and prevention services, and the provision of timely and quality healthcare services in a least cost setting.**

⁴ AIHW, "Health Expenditure Australia 2008-09" Table 5.3

⁵ AIHW, "Health Expenditure Australia 2008-09" Table 3.2

3. Risks which will impact the future sustainability of the health system should be identified and addressed through **appropriate risk management strategies**.
4. The growing burden of chronic disease has been identified as a clear risk for the sustainability of the current health system. The health system should encourage the formation of structures which **bring together provision of quality services for chronic conditions in a least cost setting**.
5. The ageing of the population combined with growth in chronic disease have been identified as clear risks for the sustainability of the health system. Strategies to manage this future 'known liability' should be put in place. As with other long term liabilities, tax effective options to **encourage advance saving or insuring** for these future costs should be explored.
6. Funding models must be designed to **align financial incentives for providers of health care services with the objectives of the health system**. Funding models should assist in providing appropriate incentives for health service providers to optimise patient health outcomes.
7. Incentives for engagement by an individual in their ongoing healthcare should be maximised. The health system should encourage **both carefully designed co-payment arrangements and communication of cost of service information to each patient** where possible - including where costs are publicly or privately insured.
8. In order to ensure a balance between the obligations set out in universal entitlements and community expectations for a high standard of health, the health system should maintain a **balance between public and private financing**. Government policy should encourage **private financing to be provided through insurance or savings offered by regulated entities**.
9. **Government should ensure that private health insurance premiums remain affordable for working Australians on average incomes**. In the absence of increased payments by governments to support the higher costs of older people or others incurring high healthcare costs, to enable both those at older ages to maintain private insurance and those who have existing health conditions to obtain private insurance, **regulation of private health insurance should follow a "community rated" approach** (i.e. guaranteed access to insurance cover after appropriate waiting periods, portability between insurers, no "improper discrimination" (as defined by the government) against those who wish to become or who are insurance policyholders, and risk equalisation between insurers).

While the Institute's policy for other forms of insurance is that a "risk rated" approach should usually be adopted (for risk alignment and equity reasons), the Institute recognises the substantial element of public benefit which underlies many elements of healthcare, and therefore accepts a community rating over a risk rating approach for private health insurance at this time. This policy principle does not mean that the Institute cannot foresee improvements being made to the current private health insurance system, or to the interactions between private health insurance and the public health financing system.

Modelling the Solution

10. Government policy for the health system should be based on **measurement and analysis of healthcare cost and effectiveness data**.
11. Changes to the Universal Service Obligation should be considered only in conjunction with **cost projections based on reliable data** to determine the budgetary impact of those changes.
12. The Institute supports ongoing **development of the methods that governments use to project costs of healthcare services** over the typical government forward estimates periods, based on the underlying characteristics of the services that are expected to be needed by the covered populations.

Monitoring the Experience

13. Timely data need to be made available and analysed to achieve a system of **monitoring and benchmarking which spans the continuum of care**, to support other objectives of access, efficiency, and outcomes.
14. When changes to funding models are introduced, **risks associated with the new funding models need to be clearly identified, the data needed to monitor the risks identified, and risk management strategies incorporated** prior to these changes to funding being introduced.
15. The health system should encourage **each Australian to maintain and have access to their own health record** (and of those under their care) with their primary health care provider.

Public Benefits

The benefits to Australians from changes to the health system which follow the policy principles set out above would be:

- Government financed access to the Universal Service Obligation, with choice provided to those Australians who wish to insure or prefund the financing of additional services;
- Increased predictability of the costs of healthcare services for those who are responsible for financing those costs;
- Reduction of risk of cost overruns, long waiting time for a healthcare service, or of an adverse outcome from a healthcare procedure; and
- Increased understanding of healthcare issues by Australians.

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