

Is private health insurance affordable in Australia?

Barry Leung

Key words: private health insurance, regulations, claims inflation, affordability

Purpose of your paper:

There has been a lot of media recently on the affordability of private health insurance and the likely impact of the increasing costs and potential flow through effects on the Australian health funding system. This paper aims to explore the impact of recent regulatory changes and other factors that affect the premium of health insurance, how it translates into the affordability of health insurance in Australia.

Synopsis:

55% of Australians have some form of health insurance in Australia as at 30 June 2016. It is an important component of the health funding system - 57% of all elective surgeries are funded by health insurance¹. It is also one of the most regulated industries, with significant support from the government including the private health insurance rebate, lifetime health cover provisions, and the Medicare Levy Surcharge arrangements for high income earners who do not take out health insurance.

Recently, questions have been raised on the affordability of health insurance – now and into the future. In January 2016, the Health Minister asked all health funds to provide additional information regarding possible premium increases for 2016 in an attempt to ensure consumers get the best deal. In her media release, the Minister noted:

“Feedback from the Government’s consultations on private health insurance showed consumers have strong concerns about the affordability of their premiums; hardly surprising given premiums have increased at a rate of around 6 per cent per year for the past five years.”

Given the current debate on health insurance and its sustainability, it is timely to investigate what defines the “affordability” of health insurance policies, and understand the drivers of health insurance premium that consumer actually pays.

The aim of the paper is to:

1. Attempt to define an “affordability” measure for health insurance policies
2. Identify factors that drive health insurance premium and the contribution of each factor to the growth in premium payable by consumers over the last few years
3. Identify the impact of recent regulatory changes on premium paid by consumers
4. Project the future “affordability” of health insurance based on the measures identified above