2024

OUR POSITION
Private health insurance premiums

BACKGROUND

Catholic Health Australia (CHA) is Australia's largest non-government, not-for-profit group of health, community, and aged care providers. Our members operate over 80 hospitals in each Australian state and in the Australian Capital Territory, providing around 30 per cent of private hospital care and 5 per cent of public hospital care, in addition to extensive community and residential aged care. CHA Members also provide approximately 12 per cent of all aged care facilities across Australia, in addition to around 20 per cent of home care services.

CHA not-for-profit health, community and aged care providers are a dedicated voice for the disadvantaged which advocates for an equitable, compassionate, best practice and secure health system that is person-centred in its delivery of care. CHA champions reforms aligned with the healing ministry of Christ and the work of Catholic congregations around the country.

The aim of this position statement is to outline CHA's policy and advocacy priorities on key issues that are essential to the mission and values of its members.

A more in-depth analysis of our policy positions is available through our government submissions.

POSITION

The primary purpose of the private health sector is to provide value and choice to patients while alleviating strain on the public sector. In recent years, the rules and regulations governing private health services have not sufficiently protected patients from hospital closures, which are on track to deteriorate further. The current system has neither prevented private health insurers from banking huge profits nor ensured an adequate flow of funding to private hospitals.

The annual private health insurance premium round process is where private health insurers submit their proposed premium increases to the federal government for approval. It's a crucial mechanism that determines how much Australians will pay for their private health insurance in the coming year. It also affects the financial sustainability of hospitals, as it influences the contract negotiation process between hospitals and insurers. The annual premium round offers a unique opportunity to ensure accountability is being appropriately shared by health insurers, decision makers, and hospital operators to address the challenges collectively facing the sector and to make thoughtful, sensible, and sustainable funding decisions.

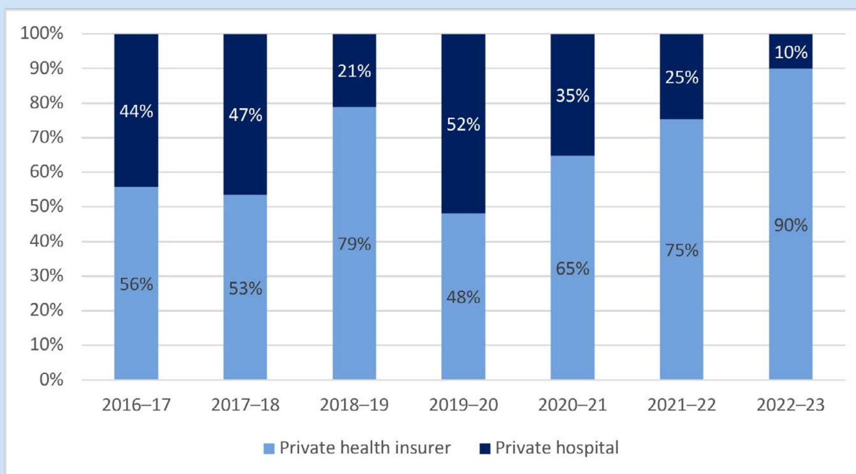
Why do private health insurers enter into contracts with private hospitals, and what does this mean for patients?

Private health insurers enter into agreements with private hospitals to define how much a hospital will charge for health services. These agreements ensure patients with private health insurance have no or known out-of-pocket costs associated with hospital services. These contracts help private health insurers control expenses and offer competitive premiums, while ensuring hospitals are paid to provide the high-quality care they deliver. The annual private health insurance premium round process includes the contract negotiations between hospitals and insurers as it sets a benchmark for funding increases.

How profitable is the private health insurance industry and how much should private health insurers return to patients?

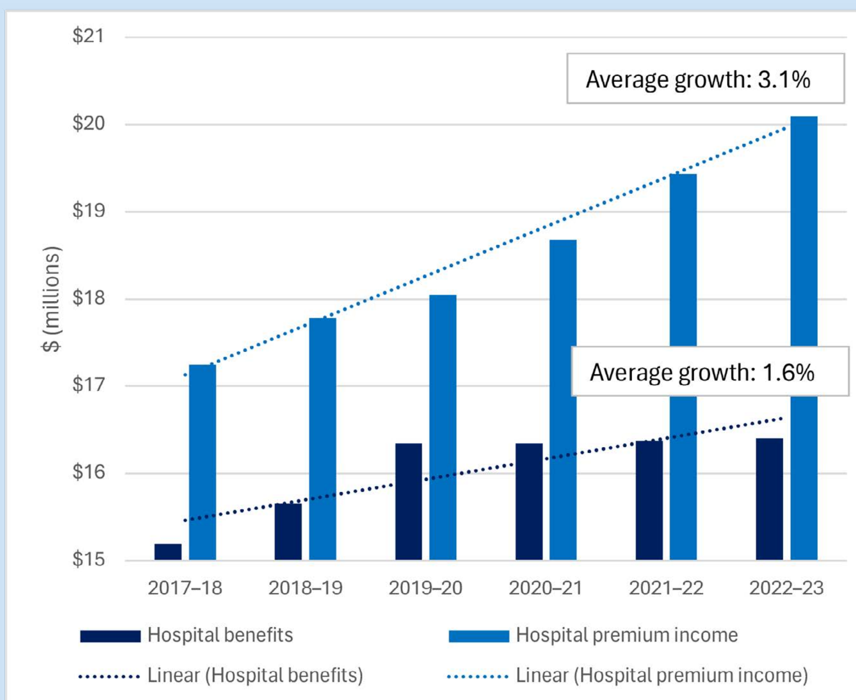
According to the Australian Prudential Regulation Authority (APRA), the private health insurance industry reported a net profit after tax of $2.2 billion in the 2022–23 financial year. This is a doubling of profit compared to the previous year ($1.1 billion profit in 2021–2022). While some of this profit was due to a reduction in claims during the COVID-19 pandemic (and was subsequently handed back to policyholders), the overall share of profits has shifted towards insurers (Figure 1). Furthermore, Figure 2 the income received from consumer private health insurance premiums for hospital services (hospital premium income) is increasing at a faster rate than the funding paid by private health insurers to hospitals for services (hospital benefits).

Figure 1: Operating profit of private health insurers and private hospitals before tax, 2016–17 to 2022–23



Source: Australian Prudential Regulation Authority, Operations of Private Health Insurers Annual Report. Australian Bureau of Statistics, Australian Industry data.

Figure 2: Private health insurance hospital premium income versus benefits, 2017–18 to 2022–23



Source: Australian Prudential Regulation Authority, Operations of Private Health Insurers Annual Report.

Data from APRA shows that the industry is failing to meet its own gold standard of returning 90 per cent of premiums to patients,[1] with only 83 per cent of premiums returned to patients in 2022–2023. Of the top ten health insurers (in terms of premium revenue), all failed to meet this standard (Table 1), with Bupa, nib, Australian Unity, Defence, and GMHBA providing the least value for patients. Over the last five years, the proportion of premiums returned to patients has largely been declining year on year (Figure 3).

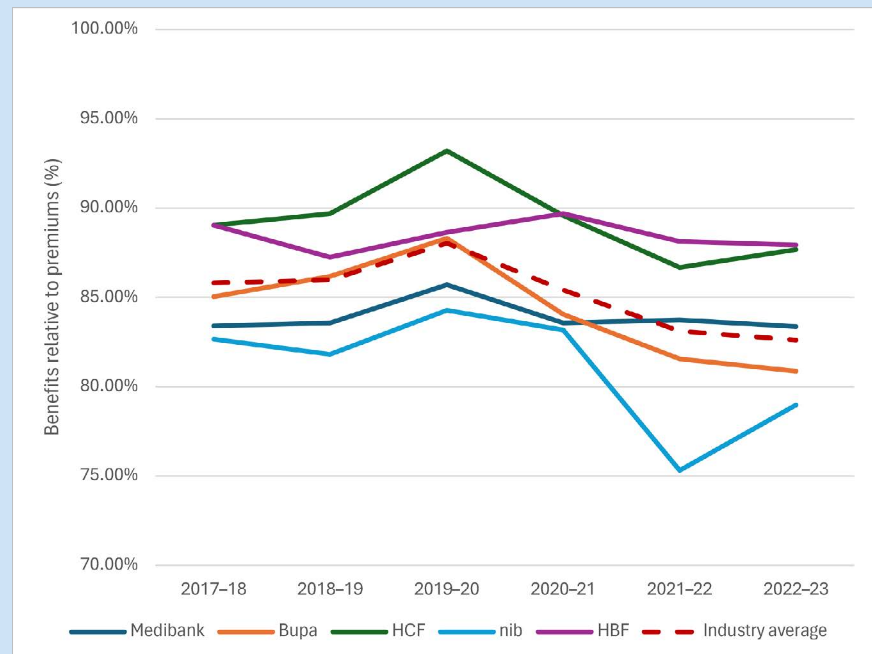
Table 1: Premium revenue and benefits paid to patients, 2022–23

	Premium revenue (billion)	Benefits paid (billion)	Benefits relative to premiums
Medibank	7.0	5.8	83.4%
Bupa	6.6	5.4	80.9%
HCF	3.7	3.2	87.7%
nib	2.4	1.9	79.0%
HBF	1.9	1.7	87.9%
Teachers Health Fund	0.9	0.8	86.0%
Australian Unity	0.7	0.5	70.0%
Defence	0.7	0.5	76.4%
GMHBA	0.6	0.5	78.9%
CBHS	0.5	0.4	84.2%

Source: Australian Prudential Regulation Authority, Operations of Private Health Insurers Annual Report.

Major private health insurers (~50% of the market)

Figure 3: Benefits relative to premiums, 2017–18 to 2022–23



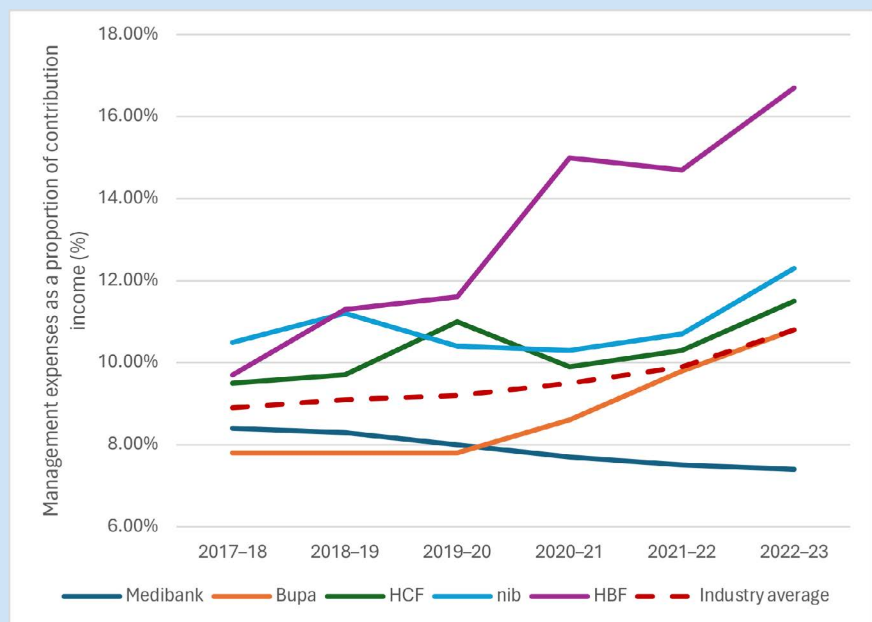
Source: Australian Prudential Regulation Authority, Operations of Private Health Insurers Annual Report.

[1] In their **submission to Senate Inquiry into Private Health Insurance Legislation Amendment Bill 2018** and related Bills, the Members Health Fund Alliance, which represents 26 health insurers, said "Members Health funds are unashamedly customer centric in their ethos. They return on average around 90 per cent of all premiums paid, back to policyholders, as benefits. This is in contrast to the for-profit insurers, which operate primarily for the benefit of shareholders and return on average around 85 per cent."

What are management expenses and how much of patients' premiums goes towards them?

Management expenses comprise of the amount of premiums per policy that are used to manage the business of the insurer. All private health insurers have management expenses, and depending on their position in the market and whether they are "for-profit", they can have varying marketing costs, staff salaries, overheads and profit margins that need to be built into these expenses. Management expenses have been increasing year on year (Figure 4), from 8.9 per cent as a proportion of contribution income in 2017–18 to 10.8 per cent as a proportion of contribution income in 2022–2023, and poor transparency regarding what these management expenses are used for means it is challenging to discern the benefit for patients and the private health system.

Figure 4: Management expenses as a proportion of contribution income for the five major insurers, 2017–18 to 2022–23



Source: Australian Prudential Regulation Authority, Operations of Private Health Insurers Annual Report.

Who are the best performing private health insurers?

Not-for-profit private health insurers HBF and HCF came out on top, both returning over 87 per cent of premiums back to patients in the latest financial year, 2022–23.

Outside of the biggest five insurers, Police Health Limited was the best at 87 per cent, followed by Teachers Federation Health Limited at 86 per cent.

Which private health insurers performed the worst against their own benchmarks?

Among the major health insurers, nib provided the least value to its patients in the 2022–23 financial year, returning only 79 per cent of premiums. Bupa was the second-lowest, returning 81 per cent of premiums to patients.

Outside of the biggest five insurers, Australian Unity Health Limited returned just 70 per cent, followed by Cessnock District Health Benefits Fund Limited, returning 71 per cent.

How can patients beat the private health insurance price hikes?

There are some great private health insurance products out there, but patients need to shop around to find them. Patients should be aware of how their insurer compares to others and move to a better value product if they can. Patients can compare policies on the Australian Government **PrivateHealth.gov** website.

What would Catholic Health Australia like to see change?

CHA advocates for a more sustainable, equitable and robust health system so we can deliver care to those who need it most. We are advocating for reforms to the current system through the **annual private health insurance premium round process**, when private health insurers submit their proposed premium increases to the federal government for approval to determine how much Australians will pay for their private health insurance in the coming year.

There are limited mechanisms for hospital providers to incorporate their own costs into the premium round process, and therefore the premium increases do not accurately reflect the actual costs of providing high-quality care. Additionally, there is no certainty that the increases to premiums will result in more care being delivered to patients, with many insurers making significant profits while returning less to patients and hospitals. CHA recommends the following:

Depoliticise the annual private health insurance premium round process

CHA believes that there needs to be evolution of the Ministerial involvement in premium round. The Minister for Health and Aged care should be setting the parameters and principles (such as affordability, value for money, sector wide sustainability, sector efficiency) that guide an independent and objective private health sector pricing process. This can be achieved through a range of initiatives both in the short-term and the longer-term.

Leverage the annual Department of Veterans' Affairs Cost Indexation Report

The cost pressures faced by private hospitals must be integrated through an external cost model to ensure premium increases account for hospital cost pressures. The annual Department of Veterans' Affairs (DVA) Cost Indexation Report would be a simple and sensible first integration into premium round of the cost pressures private hospitals are facing, as it offers a robust, evidence-based, independently generated annual overview of cost pressures in private hospitals. Additionally, it is available for no cost or administrative burden. This report could be considered as part of the premium round each year, with private health insurers expected to reference it within their application, explaining how they will ensure health providers are sufficiently reimbursed to meet these accepted cost pressures.

Appoint an independent body to determine premium increases

This pricing process could be entrusted to an independent panel/body (such as the Independent Health and Aged Care Pricing Authority (IHACPA)) that could, in their decision-making process, take into account the evidence and data across the sector (i.e. not just insurers) to deliver better outcomes for patients, hospitals, and private health insurers. APRA would continue to contribute financial solvency analysis, but additional inputs would ensure the independent panel/body are also able to consider the financial solvency of the health providers delivering the services funded, and therefore ensure premium setting is delivering patient access to health services and value.

Implement a National Private Price for private health services

While delivering a more robust premium round in the short-term, this would also lay the groundwork for a careful and considered longer term move towards an independently set, nationally consistent, activity-based funding model for private hospitals. A key aspect of this reform would see an independent pricing body, such as IHACPA, determine a National Private Price for private health services. This price would be determined based on cost data provided by private health providers, meaning that price growth would mirror cost growth, similar to what has been the case for public hospitals over the past decade.

Directly link premium indexation approval to the level of benefits paid

Coupling premium indexation approvals to the transparent reporting of direct increases in benefits paid to patients and hospitals would deliver a formal and easy to implement incentive for private health insurers to return at least a minimum level of funding to health providers and patients. This offers a simple short-term fix to improve funding flows to health providers and could be achieved by establishing threshold tiers that are expected to be met to achieve a premium increase above a specified level. For example, key metrics could include:

- benefits returned to patients through health services
- management expense ratios
- money spent on sponsorships etc.

Private health insurers with the lowest returns to patients and hospitals would then only quality for a limited increase in premiums the following year (X per cent), while those with the highest returns would quality for the maximum (Y per cent) increase in premiums the following year.