Turning Logic and Evidence on it Head: Australia's Subsidy to Private Insurance

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Thank Jamie Daw for assistance.

Australia’s Health Care System

- **responsibility for health care divided between the federal and state governments**
- **split between public and private finance is similar to Canada's: 70:30**
- **Australian Medicare combines universal, public financing for medically necessary physician, hospital and drug services with predominately private delivery**
- **allows and has encouraged a regulated, parallel system of private finance for inpatient hospital care**

Health Insurance in Australia

1953 National Health Act

- health care primarily privately financed through subsidized and regulated private insurance markets

1974 Medibank

- short-lived universal public plan (<2 yrs)

1984 Medicare

- universal public coverage for physician and hospital services and prescription drugs
- Allows parallel private insurance for private hospital care

The Subsidy Policy

1997 Private Health Insurance Incentive Scheme

- tax rebates for for low- and middle-income households that purchase private insurance
  - $125 per single, $250 per couple and $450 per family
- tax surcharge for those who do not purchase private insurance
  - 1% of taxable income for individuals earning over $50,000 and families earning over $100,000

1998 Private Health Insurance Act

- 30% universal rebate for purchase of private insurance
- 1% tax surcharge on higher earners who do not purchase private insurance
- Lifetime Community Rating: after July 2000 a person's premium is to be based on age at which private insurance is first purchased; penalty for each year delayed in purchase after age 30

Objectives of the Subsidy Policy

- **"Save" the private health insurance industry**

  Essentially our policy approach – and especially the role of the private health insurance incentive scheme – recognizes the essential role of the private health system as a complementary structure to the public sector . . . (Wooldridge 1996)"

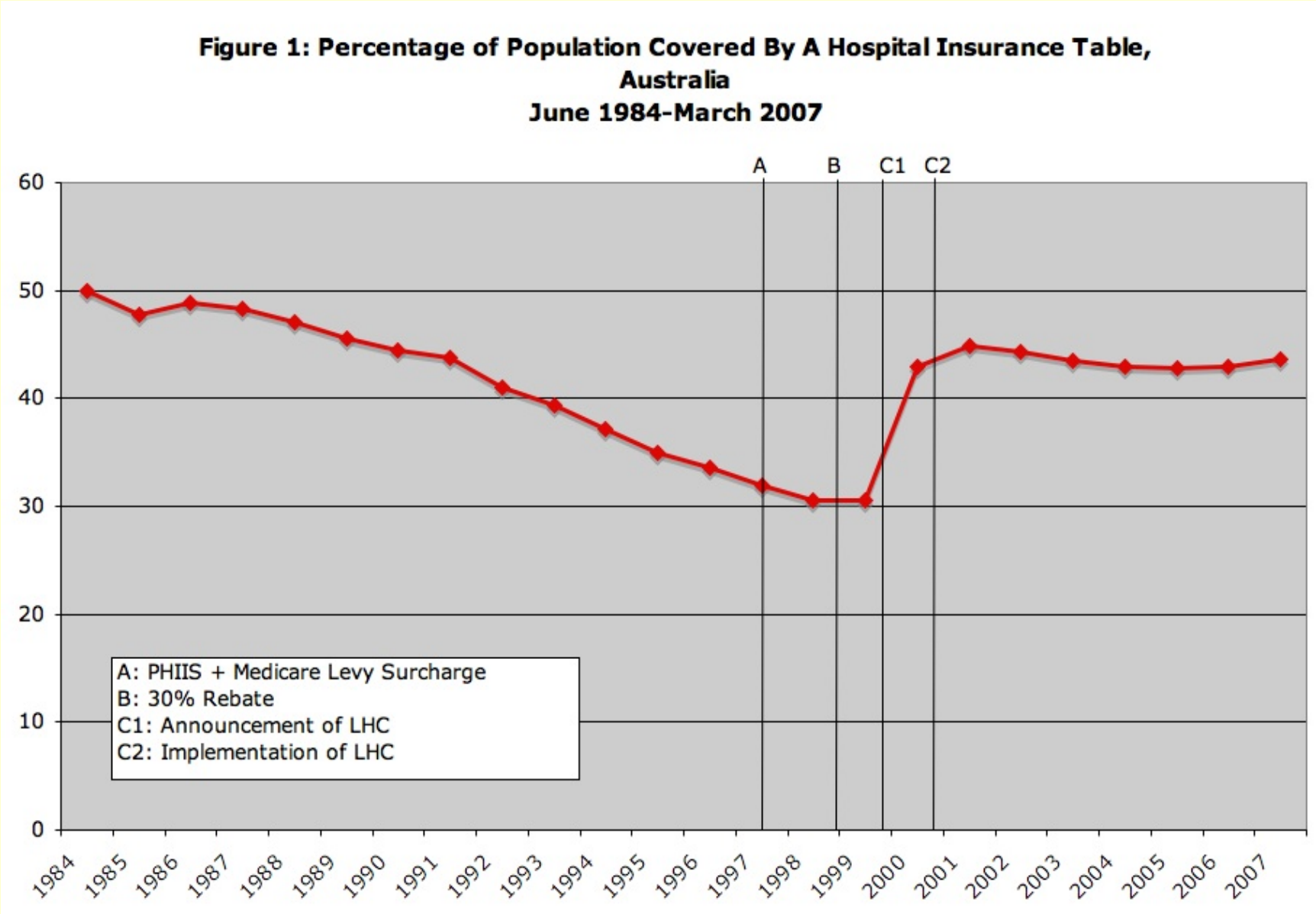
- **Make private health insurance accessible to all Australians**

  ". . . keep private health insurance within the reach of ordinary Australians, including those of high need and low income, many of whom scrimp and save desperately to ensure their cover is maintained (Wooldridge, 1996)"

- **Relieve fiscal pressure on the public system**
- **Reduce wait times in the public system**

  ". . . [the incentive scheme] is the centrepiece of the Government's strategy to assist Medicare from collapsing under the weight of demand for publicly funded hospital and medical services (Minister, House of Representatives 1996)

Effects of the Policy – Insurance Holdings



Post-1998 Modifications

2000	Policy Regulation: Policies with deductible greater than $500 for individual and $1000 for family no longer qualify for avoiding medicare levy Gap cover: increases scope for policies to cover gap between MD fees and medicare payment
2004	Medicare Extended Safety Net: rebate for 80% of out-of-hospital out-of-pocket costs beyond an annual threshold
2005	Increased senior rebates: 35% for aged 65-69; 40% for those 70 or older
2007	Modifications to lifetime health cover and broadened services insurance can cover to include defined outpatient services

Fiscal Effects

Incentive Expenditures: 2005-06

30% PHI Rebates:	$3.95b
1% Medicare Surcharge Revenue:	$0.25b
Net Government Expenditure:	$3.70b

➔ 16.5% of government spending on public hospitals

Net Cost to Government

	Rebate	Hosp Saving	Net Impact
Vaithianathan (1999/00)	$2.2b	$0.8b	$1.5b
Deeble (2000/01)	$2.6b	$0.7b	$1.8b
Duckett (2001/02	$2.25b	$0.45b	$1.8b
Segal (2001/02)	$2.51b	$0.65b	$1.85b

➔ on net costs government money

Fiscal Effects

Redistribution of Income

- More than half of the payments go to those in the top third of the income distribution
- Less than a fifth go to those in the bottom third

Effect on Wait Times

Elective Surgery Waiting Times - Australia							
	99/00	00/01	01/02	02/03	03/04	04/05	05/06
Days waited at 50th percentile	27	27	27	28	28	29	32
Days waited at 90th percentile	175	202	203	197	193	217	237
% waited more than 365 days	3.1	4.4	4.5	4.0	3.9	4.8	4.6

Source: AIHW: Australia's Health Report, Various Years

Effect on Wait Times

Indicator Procedures - % of Patients Waited More Than 365 Days - Australia							
	99/00	00/01	01/02	02/03	03/04	04/05	05/06
Cataract Extraction	7.0	13.6	15.4	11.9	10.9	12.1	7.5
Total Hip Replacement	8.9	12.3	11.7	12.0	11.1	14.4	13.3
Total Knee Replacement	14.3	19.0	19.4	18.9	19.6	34.5	23.1

Source: AIHW: Australia's Health Report, Various Years

Other Effects

Increase in MD fees

Year	Payments for Fees Above Fee Schedule	% Inc	% Total Medical Payments
98/99	12.2m	667.7	4.8
99/00	34.2m	180.8	11.8
00/01	126.7m	270.9	29.7
01/02	247.8m	95.5	41.4
02/03	330.4m	33.3	47.2
03/04	393.9m	19.2	49.9
04/05	441m	11.9	50.8
05/06	494m	11.9	51.6

Evidence Related to Policy

Elasticity of Demand for Private Health Insurance

- Consistent evidence of inelastic demand: price subsidies not effective for increasing quantity purchased
- Trend internationally was to remove such subsidies during the period

Parallel Private Insurance/provision & Wait times

- No evidence that parallel private finance reduces wait times or pressure in public system
- Theoretically possible, but depends on a number of empirical parameters on both demand- and supply-sides

Logic of Policy

Saving industry vs. Reducing Public Costs

- Saving the PHI industry required attracting good health risks into the insurance pool
- Reducing pressure on the public system required attracting high-using, bad risks

Maintain high-quality public system and high rates of private insurance coverage

Why Implemented?

Power of Private Insurance Industry

- well-connected politically
- sympathetic government post-1996

Political Calculation

- 30+ percent benefit immediately
  - Older, wealthier and politically active (i.e. voters)
- New purchasers benefit

Conditional Equity Judgments

- Those with private insurance pay twice
- Poor should have the same chance as wealth to get PHI

Why was the policy implemented?

Policy Legacy/Australian Attitudes/Confusion

- 1953 Insurance Act: explicit decision to achieve health policy goals through system of regulated, subsidized private health insurance
- Confusion regarding role of private insurance under Medicare
    - Supplementary (i.e., add-on for those who want it)
    - Complementary (substitute, alternative option)
  - Community rating; common carrier, no refusal, previous subsidies, etc.
  - Largest “private” insurer is government-owned (Medibank Private)

➔ non-rational amalgam of old private system and Medicare

Summary

- Subsidy policy costs billions each year
- No evidence that it is achieving its goals other than supporting private insurance industry
- No sign of change – subsidy has only expanded since first implemented