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HIRMAA SUBMISSION

to the

Review of Australia's future tax system

Health Insurance Restricted Membership
Association of Australia

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Authorised officer : Mr Ron Wilson, Executive Director

HIRMAA is the peak industry body representing all thirteen restricted private health insurers and four open regional insurers (Attachment A). In summary, HIRMAA funds exist because of their unique historical and contemporary links to various professions, trades, industries, unions, employers and geographic regions. They are *not-for-profit* organisations with over 430,000 contributors providing health insurance coverage for approximately one million Australians.

Since its formation in 1978, HIRMAA has advocated for the preservation of competition, believing it to be fundamental to Australians having access to the best value health care services. HIRMAA has done this by:

- promoting legislation, regulations, policies and practices which increase the capacity of its member organisations to deliver best value health care services; and,
- vigorously resisting the efforts of those who seek to gain by concentrating the provision of private health insurance into the hands of a few large organisations.

A number of characteristics distinguish the HIRMAA member funds. They:

- are value-based as opposed to being profit-based;
- continue to offer various levels of insurance at highly competitive premiums;
- optimize benefit entitlements and premiums;
- continue to tangibly grow their membership numbers in a greater proportion from the overall industry;
- in the case of restricted funds, they have had their unique nature acknowledged in Part 1, Section 4 of the *National Health Act 1953* and now in the *Private Health Insurance Act 2007*.

Concurrently, the HIRMAA organisation :

- founded and provides the majority membership of the Australian Health Service Alliance. This organization is recognized as a highly effective negotiator of hospital and medical arrangements and the developer of the most comprehensive database in the country;
- shares critical performance and operational information to promote enhanced efficiency and capability throughout its total membership;
- founded and provides the majority membership of HAMB Systems, the software provider and developer for 23 registered funds;
- provides objective input and underlying support to government and industry initiatives;
- provides an educational forum for all member funds and their staff; and,
- works cohesively and positively with the regulator, Ombudsman, Government and other relevant parties.

HIRMAA wishes to make a submission based around a limited number of issues – all of which impact upon the long-term viability of private health insurance in Australia and quality of healthcare for all Australians.

Taxation and private health insurance

Private health insurance plays a significant role in Australia's health system. According to the most recent figures released by the Private Health Insurance Administration Council (PHIAC), 44.8% of Australians were covered by private health insurance at 31 December, 2008. Unquestionably, this high figure (compared to a historic low of 30.2% in 1998) is directly due to a number of Federal Government initiatives, including.

1. Introduction in 1997 of a 1% tax levy for high income earners who did not purchase private health insurance;
2. Introduction in 1999 of a 30% rebate on private health insurance premiums;
3. Introduction in 2000 of Lifetime Health Cover;
4. Introduction in 2005 of higher rebates for older Australians.

These evolving policies have underpinned the viability and future of Australia's private health insurance industry over the past decade and HIRMAA vigorously advocates their retention.

Health services should remain GST-free:

1. The reasons for making health services GST-free have not changed:
   - to recognise the importance of the non-government sector in the provision of health services; and
   - to treat health in such a way as to keep the public and private sectors on an equal, competitive footing.

The 30% Private Health Insurance (PHI) rebate (up to 40% for older Australians) should be retained:

2. If the PHI rebate is reduced or abolished, PHI coverage would decline because premiums would increase by the amount of the reduction in the rebate. Some patients would move out of the private hospital sector into the public hospital sector. Government expenditure on public hospitals would necessarily increase and the health outcomes for many Australians would deteriorate.

3. Publicly provided health services are fully funded by the Government, whereas privately provided services are only partly funded (by the PHI rebate). Many of these health services are the same, regardless of whether they are provided in the public or private sectors. The substitution by a person of a privately provided service with a publicly provided service – for example, as a result of them discontinuing their PHI due to PHI premiums increasing due, in turn, to a reduction in the rebate – will move demand from a partly funded service to a fully funded service.

4. Insured and uninsured people contribute on the same basis, through the taxation system, to the funding of public health services. However, on receiving treatment, insured people are only partly funded whereas uninsured people (who choose treatment in the public sector) are fully funded. It costs the Government less to fund the average person's PHI rebate than it does to fund their treatment in the public sector.

The Lifetime Health Cover (LHC) and the Medicare Levy Surcharge (MLS) should be retained:

5. The most fundamental characteristic of Australia's PHI is that a particular policy may be purchased for the same premium regardless of the age, gender, health condition, etc. of those insured – so called "community rating", whereby all Australians are rated as having the same health risk and insurers are prohibited from selecting low risk individuals and denying insurance to high risk individuals.

6. A consequence of "community rating" is that the young and healthy subsidise the PHI premiums of the old and sick; they pay higher premiums than their individual health risk profiles would otherwise suggest. There has to be some incentive for the young and healthy to purchase PHI. The current incentives are LHC and the MLS, both of which should be retained.

7. For the record, HIRMAA understood, accepted and endorsed the recent decision of the Government to lift the MLS income thresholds from their 1997 levels.

PHI premiums should not give rise to a fringe benefits tax (FBT) liability if paid by an employer:

8. Currently, an "expense payment benefit" arises where an employer (or associate of an employer or a third party under arrangement) pays or reimburses, in whole or in part, PHI premiums by an employee. Such a benefit is a "fringe benefit" under the Fringe Benefits Tax Assessment Act (FBTAA) and gives rise to a liability for FBT on the part of the employer.

9. The FBTAA provides for a wide range of exemptions that have been introduced by the Government either on social, political or administrative convenience grounds. The payment of an employee's PHI premiums by their employer (or associate or third party by arrangement) should be exempted.

10. The reasons for such an exemption are the same as for the maintenance of the 30% PHI rebate.

RON WILSON
Executive Director

Attachment A

ACA Health Benefits Fund Ltd

CBHS Health Fund Ltd

Defence Health Ltd

Health Care Insurance Ltd

Health Partners Ltd*

Lysaght Peoplecare Ltd*

Navy Health Ltd

Phoenix Health Fund Ltd

Queensland Country Heath Ltd*

Queensland Teachers' Union Health Fund Ltd

Railway and Transport Health Fund Ltd

Reserve Bank Health Society Ltd

South Australian Police Employees' Health Fund Inc

Teachers Federation Health Ltd

The Doctors' Health Fund Ltd

Transport Health Pty Ltd

Westfund Ltd*

* denotes regional open fund