Private health insurance rebate:

A further erosion of Australian public health care

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Earlier this month the Australian parliament passed a tax measure, which will bolster the private health system at the expense of public health care. Anyone paying private health insurance, even the very rich, will now receive a 30 percent tax rebate. The measure, which was proposed by the coalition government of Prime Minister John Howard at the time of the last national elections, is expected to cost $A5.4 billion over the next four years.

This huge bonanza for the private health funds coincides with the rundown and deterioration of the public health system. In two and a half years the Howard government has slashed $2.6 billion from public health funding, including $800 million from hospital budgets, $400 million from the Commonwealth dental health service and $1.4 billion from the Pharmaceutical Benefits Scheme.

While everyone, theoretically, has access to free public hospital care under the Medicare scheme, the erosion of public health funding has resulted in lengthy waiting lists with some patients forced to wait years for elective surgery. Over the next five years, expenditure on public hospitals, which are managed by state governments, will be tightly capped. A recent auditor-general's report in the state of NSW indicated that public hospital budgets had blown out by $155 million, despite years of staff cuts and cost-cutting measures.

Despite concern over the state of the public hospital system, the number of private health insurance holders has continued to decline rapidly. In 1984, 48 percent of the population belonged to private health funds. Now the figure is only 30.3 percent. More than 250,000 people have dropped their private insurance in the last 12 months, despite the Howard government's Private Health Incentive scheme which provided an annual subsidy of $650 million to the insurance companies.

Substantial sections of the middle class previously took out private health insurance as a means of ensuring immediate access to hospital. Increasingly, however, only the wealthier layers can afford to maintain private health cover with policies costing up to $3,000 a year. According to Australian Bureau of Statistics figures released in May, only 22 percent of people earning $20,000 or less annually, have private health insurance. For those earning between $50,000 and $60,000, the figure is 60 percent and for people with an annual income over $70,000, it is 72 percent.

In order to secure the passage of the private insurance rebate, the Howard government had to rely on the support of right-wing independent Brian Harradine in the Senate. In return for his support, Harradine insisted on an amendment aimed at pressuring private health funds to negotiate with doctors and private hospitals to remove out-of-pocket expenses (known as the 'gap') for privately insured patients.

In the past, private health insurance companies have refused to insure for the difference between the scheduled fees for doctors, surgeons and specialists and their actual charges. As a result even those patients with the top level of private health cover often pay thousands of dollars in extra costs for private hospital treatment. Instances have been cited of bills of $15,000 for a single operation, on top of hefty insurance premiums.

Harradine's amendment has brought into the open a long-running conflict between doctors and the Australian Medical Association (AMA), on the one hand, and private insurance companies on the other.

Insurers seeking to cut hospital costs and therefore their own payouts have clashed with doctors, particularly surgeons and other specialists, who have insisted on being able to set fees at whatever level they wish.

The 'gap' was an uneasy compromise. Doctors continued to determine their own fees while the insurance companies only paid the scheduled amounts. Furthermore, the arrangement had the added advantage for insurers of acting as a heavy disincentive to their policy holders to undergo medical treatment.

Harradine's amendment effectively ends the existing standoff. It requires private funds to offer 'known gap' policies, which will cover all but a specified amount of the full cost of hospital treatment, or 'no gap' policies, which cover the full cost of hospital treatment within 18 months.

The AMA, which supported the private insurance rebate, immediately protested the legislative change and pledged to campaign against it. The new types of policy are likely to lead to the implementation of the US system of 'managed care' medicine, as insurance companies seek to prevent a potential cost blowout caused by privately insured patients making greater use of their policy benefits.

Under 'managed care,' private insurance companies contract with particular hospitals and doctors to provide stipulated levels of care at a fixed cost. All aspects of a patient's treatment, from surgical procedures to nursing care and medicines, are strictly monitored. Contracted doctors are under constant pressure to keep down costs and to restrict the access of patients to more expensive procedures and medicines.

Responding to the AMA's protests, Liberal Health Minister Michael Wooldridge stated that such a system would never be introduced in Australia. But the largest health funds such as Medibank Private and National Mutual Health Insurance have already moved towards such selective contracts with private hospitals, and Harradine's amendment will ensure that other funds follow suit.

Moreover, the government is already beginning to introduce such methods in the treatment of the elderly. In response to Harradine's protestations of concern for elderly people without private insurance, Howard also announced an extra $25 million in the next budget to trial so-called co-ordinated care for the elderly. Co-ordinated care, far from offering better care for elderly and frail patients, is aimed at streamlining and minimising government expenditure through Medicare.

The Private Health Insurance Incentives Act lays the basis for the further undermining of Medicare and the public health care system. High quality health care is increasingly available only to those who can afford to pay, while working people and their families are condemned to overcrowded, underfunded and understaffed public hospitals.