Australian public hospitals relying on private patients

Gary Alvernia
16 March 2017

Chronically underfunded public hospitals are increasingly depending on privately insured patients, a practice encouraged by state and territory governments to help cut public health spending. Between 2008 and 2015, the number of private patients rose by 50 percent, and the number of services provided to private patients nearly doubled.

A report by the Australian government's Independent Hospital Pricing Authority (IHPA) examined the impact of the Activity Based Framework (ABF) on the use of public health services by private patients. The ABF is the funding model for public hospitals nationwide, with funds directly tied to "national efficient prices" for the procedures performed by a given hospital or health service.

This "casemix" system was implemented by the Rudd-Gillard federal Labor government in 2011 to reduce health care expenditure by effectively forcing public hospitals to increase workloads to maintain funding. As a result of this and other cost-cutting measures, health care spending accounted for less than 16 percent of the federal government budget in 2016–17, down from 18 percent in 2006–07.

The Private Patient Public Hospital Service Utilisation report released this month by the IHPA, which oversees the ABF, made no mention of declining funding, but noted certain perverse incentives to promote the private utilisation of public hospitals.

Though the public system is free for all Medicare card holders, privately insured individuals can seek treatment, and have the option to receive additional services, a private room and choice of treating physician, along with shorter waiting times for some so-called elective procedures.

As public hospitals can charge a private patient's health insurance fund for services provided, this offers a source of income to cash-strapped institutions. The IHPA report documents that the number of services provided to private patients rose from 450,000 to 815,000 hospital separations (a metric used to measure hospital activity) between 2008 and 2015.

This is not a new practice, as shown by a 2013 report on the same issue by the Australian Centre for Health Research (ACHR). It noted a near 10 percent per year rise in private patients since at least 2005, even before the ABF was implemented, and blamed this trend on inadequate federal and state funding for public hospitals.

A key incentive for admitting private patients is that the ABF does not account for payments received from health funds when determining federal and state contributions, allowing hospitals to treat private patients while maintaining public funding.

Hospitals are also exploiting a loophole that allows them to persuade public patients to use their private insurance during their stay. Hospitals are hiring private liaison officers to pressure patients with private insurance for contributions, or even charging their health funds without informed consent.

The ACHR notes that hospitals go further, with physicians leaned on to increase the number of private patients they admit, and some hospitals setting informal quotas for how many public patients a doctor can admit, with only private patients accepted after. Such practices are facilitated by state and territory governments, which often set targets for public hospitals to acquire private funding.

These practices have resulted in a marked increase in the proportion of privately insured patients seen in public hospitals, a trend seen in every state and territory, except South Australia. There was a national average increase of 10.3 percent per year, leading to

14.1 percent of public hospital patients being privately funded in 2014–15, up from 9.7 percent in 2008–09.

In the most populous states, New South Wales (NSW) and Victoria, one-fifth and one-seventh respectively of all public hospital patients are privately insured, while Queensland has seen a three-fold increase in the number of such patients since 2008. For individual hospitals, the figures can be higher. An article in the *Age* noted that the Peter MacCallum Cancer Centre and Royal Children's Hospital in Melbourne are expected to privately charge roughly 30 percent of their patients this year.

That public hospitals are turning toward privately insured patients reflects the severity of their funding crisis, the effects of which have been documented by the Australian Medical Association's (AMA) 2017 public hospital report card. As the WSWS article on that report noted, there has been a blowout in public hospital waiting times for both urgent and "elective" treatment, as a result of the cuts initiated by the 2007–13 Labor government, and continued by the Abbott-Turnbull Liberal-National Coalition government.

With the corporate elite demanding further social spending cuts, the situation can only worsen. Proportions of private patients will rise, with those who can pay favoured. This will almost certainly see waiting times worsen further for public patients, expanding the inequality of the already two-tiered health system.

The ACHR report seems to view this as most likely in NSW, where apparently doctors are often leaned on by hospital managements to admit larger numbers of private patients, which guarantees less time and ability to admit public ones.

The rising numbers of private patients will be used to justify further attacks on the basic social right to free, high quality healthcare. An article in the *Australian*, titled "States urge hospitals to bill insurers," criticised public hospitals for using private funds as a means of "thwarting efforts to make hospitals more efficient in their use of public funds," thus effectively demanding further cost-cutting.

Despite cuts to health spending being the primary cause of the problem, the ACHR and IHPA reports recommend adjusting the funding schemes to reduce public funding if private patients are taken on, a proposal that would exacerbate the situation.

Private health insurance funds have also accused public hospitals of hurting their bottom lines, complaining that over $1 billion a year is being spent in additional charges incurred by private patients in public hospitals.

Undoubtedly the funds will exploit this trend to further raise premiums. Shaun Larkin, managing director of health fund HCF, told the *Australian*: "For HCF this is the fastest growing cost portion of our portfolios and it's having a significant impact... If it continues to grow at the rate that it is, it's going to be responsible for a significant part of the premium rate increases."

Such increases would force working class households to drop out of the ever-more expensive insurance funds, leaving them no choice but to wait even longer for treatment in public hospitals.