Australian private health insurance premiums soaring

Michelle Stevens
28 March 2017

As of April 1, private health insurance premiums will rise by an average of 4.84 percent—3.3 times the official inflation rate. Prime Minister Malcolm Turnbull, conscious of the rising animosity to the yearly premium hikes authorised by successive governments, said it was the lowest annual rise in a decade. He failed to mention the cumulative increases of 28 percent since 2012 and 54.6 percent since 2009.

Premiums have risen above inflation every year for the past 17 years, making it increasingly difficult for working class people to afford private insurance. Already struggling to make ends meet, and with average wages now falling, many are being forced to consider dropping their coverage, despite fearing they will not receive appropriate care through the seriously-underfunded public healthcare system.

Official statistics show private health fund membership began to decline from June 2015, from a peak of 47.4 percent of the population covered by hospital insurance to 47 percent in June 2016. The number of people covered fell by 2,958 during that year, the first drop in 15 years.

Data from health insurance broker iSelect also showed a drop off in the number of new people aged under 40 joining health funds. This means that the average age of those covered will increase, and this will inevitably drive up premiums further because older people tend to need more healthcare.

Premiums are soaring despite more procedures being excluded from coverage or subjected to “excess” payments that require patients to pay a portion of the bills. According to market researcher IPSOS, private health fund products that exclude treatments such as obstetrics or hip replacements have grown from 1 percent to 30 percent over 20 years. And 80 percent of policies now have an excess or exclusions, up from 20 percent two decades ago.

Each year private health insurance companies are required by legislation to submit proposed premium increases to the federal health minister for approval. The latest rise is estimated to increase the average cost of singles’ cover by $100, to between $1,500 and $2,000 a year. Family cover is expected to rise by an average of $200, to around $4,500 to $5,000 annually.

Together with the profits raked in by private health corporations, two other factors are driving up premiums—Lifetime Health Cover (LHC) loading and changes to the private health insurance rebate. They receive little attention in mainstream media coverage. Both factors point to the enormous government subsidies handed to the profiteering health funds.

In 2000, the Howard Liberal-National Coalition government introduced the LHC loading to coerce people into buying private health insurance at an earlier age and maintaining it for life. The LHC financially penalises those over the age of 30 years by charging a 2 percent loading on their insurance premium for every year a person is over 30. For example, a person taking out hospital cover at age 40 will pay 20 percent more than someone who first took out hospital cover at age 30. The maximum loading is 70 percent and the loading is charged for 10 consecutive years.

The health insurance rebate, first introduced in 1999, was portrayed as another “incentive” for people to purchase insurance. However, the “rebate,” which was 30 percent on its introduction, is paid by the government to private health insurance companies. This provides a massive annual injection of money into their coffers, estimated last year at $6.4 billion.

In 2012, the last Labor government, which maintained both the LHC loading and the rebate, started to curtail the rebate as part of its austerity program to slash social spending as the mining boom began to implode. It introduced means-testing based on income and age, and indexed the rebate to the Consumer Price Index (CPI).

As premiums have continued to rise well beyond the CPI, the rebate has decreased. Combined with the means-testing, this has added to the cost of insurance for many working class households. From April 1, the rebate will be 25.9 percent for those under 65 years earning less than $90,000 (or $180,000 as a couple), adding an estimated $163 a year to the cost of insurance. Consumer organisation CHOICE says those in this tier will see premiums rise by an average of 6.1 percent this year, rather than the 4.84 percent announced by the government.

Private health insurance has become a multi-billion dollar industry. News Corp reported that gross profits rose 15 percent to $1.73 billion in 2016, from $1.51 billion in 2015. Company executives receive multi-million dollar salaries, some of which have doubled since 2012. Medibank CEO George Savvides's salary climbed from $1.4 million in 2014 to $2.4 million in 2016, when he quit. His successor, Craig Drummond, signed on for a base salary of $1.5 million with incentives that could net him a further $4.5 million.

Even greater wealth is generated by private hospitals, into which the private health funds feed patients. As one example, Australian health industry magnate Paul Ramsay, whose Ramsay Health Care operates more than 150 hospitals and day surgery facilities in Australia, Europe and Asia, was worth an estimated $US3.4 billion when he died in 2014.

The Medicare public insurance scheme is meant to provide free public hospital treatment and subsidised access to general practitioners, specialists and diagnostic testing. But Labor and Coalition governments alike have frozen or cut Medicare payments and slashed public hospital funding, deliberately pressuring people into taking out private insurance in the hope of securing decent medical treatment.

At the same time, these governments have poured billions into the rebate scheme and other incentives to further push patients into private insurance and fatten private health industry profits. Before the LHC loading and rebate were introduced, private health fund membership had fallen to about one-third of the population. After driving the coverage up to over 47 percent of the population, or about 13 million people, government cuts are now starting to see households abandon their insurance policies, and this will intensify the healthcare crisis.

Australia has a two-tier health system. There is an ever-widening gap between those who can afford private insurance and those who are left to navigate the under-resourced public health system which leaves many stranded on waiting lists, endangering their health, as documented recently by the Australian Medical Association.

Access to free and first-class health care, including diagnostic tests and treatment, is a basic social right. But to achieve it, the health industry—along with the banks, financial institutions and major corporations—must be placed in public ownership, under the democratic control of the working class. Only then would the necessary billions of dollars be poured into building hospitals, training and employing healthcare workers on decent wages and conditions and providing preventative care programs.