Post-Implementation Review

Fairer Private Health Insurance Incentives

Australian Government
Department of Health

Table of contents

Introduction....4
Executive Summary....4
Background....5
Problem....6
Objective of Government Action....7
Impact Analysis....7
Financial....7
Making the Rebate Fairer....8
Private Health Insurance Coverage....8
Changes to Level of Cover....9
Premiums....10
Public Healthcare....10
Consumers....10
Medicare Levy Surcharge....10
Implementation Costs....11
Net Benefit....11
Consultation....11
Pre-Commencement Consultation....12
Post-Commencement Consultation....12
Conclusions....13
Attachment A - Timeline for FPHII Legislation....14
Attachment B - Estimated Financial Impact of FPHII....15
Estimated Impact of FPHII - Rebate....15
Estimated Impact FPHII - Medicare Levy Surcharge....16
Attachment C – Estimated Regulatory Cost for Consumers....18
Start-up Costs....18
Ongoing Costs....18
Estimated Annual Regulatory Costs Over 10 Years....19
Attachment D- Estimated Regulatory Cost for Insurers....20
Start-up Costs - IT Systems....20
Start-up Costs - Staff Training....20
Start-up Costs - Call Centre and Office Operations....20
Ongoing Costs....20
Estimated Annual Regulatory Costs Over 10 Years....20

List of Tables

Table 1: FPHII Tiers for 2012-13 6
Table 2: Financial Impact of FPHII on Government Expenditure 7
Table 3: Impact of FPHII on Level of Rebate by Income 8
Table 4: Estimated Financial Impact of FPHII 15
Table 5: Estimated Financial Impact of FPHII on Premium Reduction 16
Table 6: Estimated Financial Impact of FPHII on Tax Offset 16
Table 7: Estimated Financial Impact of FPHII on Medicare Levy Surcharge 17
Table 8: Increase in Number of All Policies for 2008 to 2014 19
Table 9: Cost of FPHII Training by Insurer Size 20

List of Figures

Figure 1: Number of Persons Covered by Hospital and General Insurance 8
Figure 2: Proportion of Australian Population Covered by Hospital and General Insurance ... 9
Figure 3: Number of MLS Taxpayers and MLS Paid 11

List of Acronyms

AHIA ..... Australian Health Insurance Association
ATO ..... Australian Taxation Office
FPHII ..... Fairer Private Health Insurance Incentives
LHC ..... Lifetime Health Cover
MLS ..... Medicare Levy Surcharge
OBPR ..... Office of Best Practice Regulation
PIR ..... Post-Implementation Review
PHIAC ..... Private Health Insurance Administration Council
PHIO ..... Private Health Insurance Ombudsman
PR ..... Premium Reduction/s

Introduction

This document is the Post-Implementation Review (PIR) for the regulatory changes that resulted from the *Fairer Private Health Insurance Incentives Act 2012* and related Acts. It was prepared because these changes were introduced without a Regulation Impact Statement. Under these circumstances a PIR is prepared to determine the impact of the regulation after it has taken effect.

This PIR was prepared by the Department of Health (the Department) in accordance with the PIR guidance notes, as issued by the Office of Best Practice Regulation (OBPR). This PIR was assessed by the OBPR as fulfilling PIR requirements. These requirements included outlining the original problem and the Government's objectives, providing evidence about the impacts of the regulation, analysing the impacts, presenting findings from consultations, and making a conclusion.

This review covers a two year period from the commencement of the regulation change on 1 July 2012.

Executive Summary

The introduction of Fairer Private Health Insurance Incentives (FPHII) was announced as part of the 2009 Budget. This measure was intended to reduce government spending on the Australian Government Rebate on private health insurance (rebate).

The measure introduced new income test tiers/thresholds to the rebate and the Medicare levy surcharge (MLS)[1]. FPHII changes included increasing the MLS for higher income earners to maintain their incentive to hold private health insurance despite a reduction in their rebate.

The private health insurance industry strongly opposed the changes, asserting they would reduce private health insurance coverage with detrimental flow on effects for the health system in general.

This review found that:

- FPHII supported the sustainability of the rebate into the future by providing significant savings to the Australian Government. Although the savings achieved, for the time period covered by this review, were not at the expected levels (around 40% less than expected), the reasons for this are not expected to significantly impact savings in the future as these were one off costs associated with the FPHII implementation;
- FPHII redistributed the rebate more equitably amongst higher and lower income earners by introducing an income test for the rebate; and
- participation in private health insurance continued to grow despite higher income earners receiving no or a reduced rebate under FPHII.

[1] The MLS is a tax on Australian taxpayers who do not have private hospital insurance or if they do, do not have an appropriate level of cover, and who earn above a certain income. The MLS is designed to encourage individuals to take out private hospital cover.

Background

The Australian Government introduced a number of measures over the period 1997 to 2001 to increase declining participation in private health insurance. These measures included the MLS, the rebate, and Lifetime Health Cover (LHC).

The MLS commenced on 1 July 1997 to encourage higher income earners to take out and maintain private hospital insurance. The MLS is a tax on people that earn over a certain amount and do not have private hospital cover. In 2011-12, prior to FPHII, the MLS applied to those without private hospital insurance on incomes above $80,000 for individuals and $160,000 for couples/families and was 1 per cent of their taxable income.

The rebate commenced on 1 January 1999 as a 30% rebate payable for all complying hospital, general and combined (hospital and general) treatment insurance policies. Higher rebates for older Australians were introduced from 1 April 2005; rebates increased to 35% for policyholders aged 65-69 years and to 40% for those 70 years and over.

LHC commenced on 1 July 2000 and was designed to encourage people to take out hospital insurance earlier in life, and to maintain their cover. LHC is an initiative to ensure that if a person purchases hospital cover earlier in life, and keeps it, they will pay lower premiums compared to someone who joins when they are older.

FPHII was announced as part of the 2009 Budget and the original bills for these changes were introduced into Parliament in May 2009. At that time, it was anticipated that FPHII would start from 1 July 2010. The enabling legislation for the regulatory changes received Royal Assent in April 2012 and took effect from 1 July 2012. A timeline of the passage of legislation is at Attachment A.

The three Acts enabling FPHII were:

- the *Fairer Private Health Insurance Incentives Act 2012*;
- the *Fairer Private Health Insurance Incentives (Medicare Levy Surcharge) Act 2012*; and
- the *Fairer Private Health Insurance Incentives (Medicare Levy Surcharge – Fringe Benefits) Act 2012*.

FPHII reduced the rebate and increased the MLS for higher income earners. From 1 July 2012 the additional three FPHII tiers, or income thresholds, and changes to the level of rebate and MLS were introduced. These are as shown in Table 1.

Table 1: FPHII Tiers for 2012-13

	No Change	Tier 1	Tier 2	Tier 3
Singles **Families**	**≤ $84,000** **≤ $168,000**	**$84,001-97,000** **$168,001-194,000**	**$97,001-130,000** **$194,001-260,000**	**≥ $130,001** **≥ $260,001**
REBATE				
< Age 65	30%	20%	10%	0%
Age 65-69	35%	25%	15%	0%
Age 70+	40%	30%	20%	0%
MEDICARE LEVY SURCHARGE				
All ages	0.0%	1.0%	1.25%	1.5%

Source: *Means Testing the Private Health Insurance Rebate and Medicare Levy Surcharge (Fairer Private Health Insurance Incentives Tiers)*, Private Health Insurance Circular 14/12, Department of Health and Ageing, 17 March 2012

FPHII changes were opposed by the private health insurance industry as they feared the changes would significantly reduce private health insurance coverage. The Australian Health Insurance Association (AHIA), now Private Healthcare Australia, commissioned its own modelling by Deloitte[i] which predicted private health insurance participation would be significantly reduced through the new arrangements. The AHIA-commissioned Deloitte report is used throughout this PIR as a gauge of industry views on FPHII.

The AHIA-commissioned Deloitte report contrasted with the Government's modelling that expected 99.7% of insured people would remain in private health insurance.[ii]

The Government estimated that FPHII reforms commencing on 1 July 2012 would result in savings to Government of around $1.6 billion over two years (2012-13 to 2013-14).[iii]

Further changes to the rebate were introduced after FPHII. These increase the complexity of identifying and separating out impacts specific to FPHII. The measures introduced were the:

- removal of the rebate from the LHC component of private health premiums, which came into effect on 1 July 2013; and
- indexation of the Government's contribution to the rebate, which adjusts the rebate percentages each year and came into effect on 1 April 2014.

These changes to the rebate were the main reason the period of analysis for the PIR was limited to two years after the commencement of FPHII. This time period is also consistent with the recommended timeframe for PIRs.

Problem

Concerns about the sustainability of the rebate were raised in Australia's 2nd Intergenerational Report (IGR 2007), which forecast that hospitals and health services expenditure, under which rebate spending was recorded, was expected to increase from 1.2% of GDP in 2006-07 to 2.3% of GDP in 2046-47.[iv] In Australia's 3rd Intergenerational Report (IGR 2010) these concerns were repeated; 'the private health insurance rebate is the fastest growing component of Australian government health expenditure, projected to grow from $192 real per capita in 2012-13 to $319 real per capita in 2022-23, an increase of over 50% in real spending per person. This is notwithstanding recent changes to the private health insurance rebate that, if enacted, are expected to deliver net savings of $2.0 billion over five years.'[v]

Objective of Government Action

FPHII changes aimed to support the sustainability of the rebate, by slowing the rapid growth of the cost of the rebate to Government while also redistributing the rebate more equitably amongst higher and lower income earners. Higher income earners were to receive no or a reduced rebate on their private health insurance.

Impact Analysis

Financial

The expected financial impact of FPHII for the period 2011-12 to 2013-14 was a reduction of government expenditure of $1.579 billion.[vi] The actual reduction for the period is estimated to be around 40% less than expected; being a savings of $0.946 billion. Refer to Table 2 and Attachment B - Estimated Financial Impact of FPHII for more detail.

Table 2: Financial Impact of FPHII on Government Expenditure

Year	Estimated Actual Impact $ billion [a]	Expected Savings $ billion [b]
2011-12	-0.360	-
2012-13	0.372	0.746
2013-14	0.933	0.833
Total	0.945	1.579

Source: [a] Attachment B - Estimated Financial Impact of FPHII; [b] Expected saving *Revised Explanatory Memorandum Fairer Private Health Insurance Incentives Bill 2011 Fairer Private Health Insurance Incentives (Medicare Levy Surcharge) Bill 2011 Fairer Private Health Insurance Incentives (Medicare Levy Surcharge — Fringe Benefits) Bill 2011*, Commonwealth of Australia, Senate, 2012, page 3.

The unexpected cost to government expenditure in 2011-12 of $0.360 billion was a result of an increase in premium payments, and the resultant increase in rebate payments, that occurred in the June 2012 quarter. This increase in premium payments was approximately $1.2 billion more than the March 2012 quarter.[vii]

The increase in premium payments immediately prior to the introduction of FPHII on 1 July 2012 occurred because insurers encouraged higher income earning customers to make longer than usual prepayments as a way of delaying the reduction in their rebate due to FPHII. This was possible because the rebate on premiums paid before FPHII started was not affected by FPHII. Insurers allowed prepayments for periods longer than a year in advance before FPHII; normally insurers only allow prepayments of up to a year in advance.

These prepayments also reduced the amount of government saving that occurred in 2012-13.

Another reason for the reduced savings in 2012-13 was due to a significant number of people affected by FPHII failing to nominate a FPHII income tier with their insurer. This had the effect of delaying the government savings until the following year.

When a person fails to nominate an income tier with their insurer they may receive a rebate on their premium to which they are not entitled. Incorrect rebate payments are identified through the income tax system and recovered as a tax liability on assessment usually in the following year. For the 2012-13 tax year the Australian Taxation Office (ATO) reported that 1,137,422 taxpayers, or 70% of taxpayers affected by FPHII (higher income earners with private health insurance), had a tax liability for the rebate and the amount to be recovered

was $465 million.[viii] Accordingly, the $465 million was a saving for 2013-14 instead of in 2012-13.

Making the Rebate Fairer

One of the aims of FPHII was redistributing the rebate benefit more fairly between higher and lower income earners. This was achieved by distributing the rebate to insured people on a sliding scale based on their income. Table 3 shows the impact of FPHII on the level of rebate received by income level.

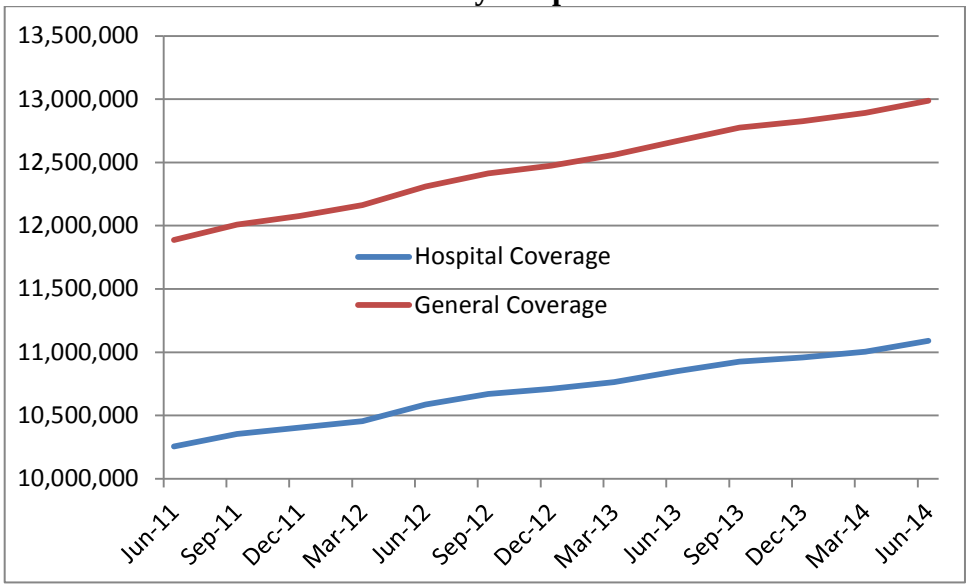
Table 3: Impact of FPHII on Level of Rebate by Income

Tier	Income Thresholds (Singles/Families)	Rebate Level before FPHII	Rebate Level after FPHII
No Change	≤ $84,000 ≤ $168,000	full rebate	full rebate
1	$84,001-97,000 $168,001-194,000	full rebate	rebate is reduced by 10 percentage points
2	$97,001-130,000 $194,001-260,000	full rebate	rebate is reduced by 20 percentage points
3	≥ $130,001 ≥ $260,001	full rebate	no rebate

Private Health Insurance Coverage

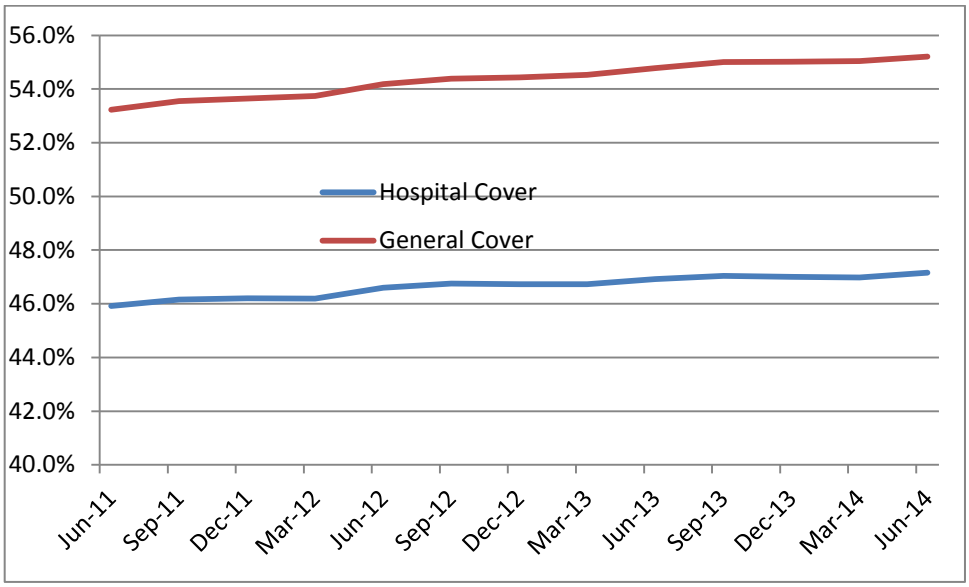
Contrary to insurers' and Government's expectations overall private health insurance membership continued to increase after FPHII commencement. Figure 1 shows the continued growth in private health cover membership in absolute terms, while Figure 2 shows the continued growth in relative terms.

Figure 1: Number of Persons Covered by Hospital and General Insurance



Source: *Membership and Coverage*, Private Health Insurance Administration Council (PHIAC), March 2015
Note: From 1 July 2015 responsibility for the prudential supervision of private health insurers transferred from the PHIAC to the Australian Prudential Regulation Authority.

Figure 2: Proportion of Australian Population Covered by Hospital and General Insurance



Source: *Membership and Coverage*, Private Health Insurance Administration Council (PHIAC), March 2015
Note: From 1 July 2015 responsibility for the prudential supervision of private health insurers transferred from the PHIAC to the Australian Prudential Regulation Authority.

The AHIA-commissioned Deloitte research predicted that 175,000 consumers would drop their private hospital cover in the first year of implementation of FPHII and approximately 425,000 more would drop their cover in the second year.[ix] Government modelling indicated around 27,000 would drop cover during the first two years.[x] In June 2014, over 11.1 million people were covered by hospital policies; 503,619 more people than June 2012.[xi]

The AHIA-commissioned Deloitte research predicted 554,000 consumers would drop their general treatment cover in the first year and approximately 1,290,000 more would drop their cover in the second year of FPHII.[xii] In June 2014, nearly 13 million people were covered by general treatment policies; 676,439 more people than in June 2012.[xiii]

The rate of growth for both hospital and general coverage was higher than that of population growth for the period, demonstrated by the upward gradient of the lines in Figure 2. In June 2014, 47.2% of Australians were covered by hospital policies, an increase of 0.6% since June 2012. Likewise, in June 2014, 55.2% of Australians were covered by general policies, an increase of 1.0% since June 2012.[xiv]

Changes to Level of Cover

Changes to the level of cover occur when insured people upgrade, downgrade or switch between products. The motivation for changing products are numerous and can include seeking a better priced product and/or a product that better matches the insured's changing health needs and/or the insured being influenced by advertising.

Upgrades generally mean the insured changes to a product that is more comprehensive in what it covers and/or provides greater benefits. Downgrades generally mean the insured changing to a product that is less comprehensive in what it covers and/or provides lesser benefits. Switching generally means the insured changes to a product that is similar in what it covers and provides similar benefits. Changes to level of cover include insured people moving within and between insurers.

Government modelling did not estimate how many people would change their level of cover due to FPHII. The AHIA-commissioned Deloitte report predicted 538,000 consumers would downgrade their hospital treatment cover and 803,000 consumers would downgrade their general treatment cover in the first year of FPHII.[xv]

Changes to the level of coverage are difficult to determine because of the large number of products available in the market[xvi], the difficulty in tracking changes in level of cover that result in transfers between insurers, a lack of a common definition of upgrading, downgrading and switching, and the volume of policyholders that change their level of cover. As a result, reliable industry wide data on changes to level of cover are not available.

Premiums

The AHIA-commissioned Deloitte report estimated private health insurance premium growth would not be impacted by FPHII changes in the first two years after its commencement.[xvii] The first two annual industry premium rises following the commencement of FPHII showed no significant variation to the premium rises prior to FPHII. The average industry premium increase for 2013 and 2014 were 5.60% and 6.20%, respectively. The average industry premium increase for the previous 10 years was 6.05% with a standard deviation of 1.13%.

Public Healthcare

The AHIA-commissioned Deloitte report's expectation was that people would withdraw from private health insurance and the burden on publically provided healthcare would rise.[xviii] As there was no reduction in private health insurance participation (refer to Figure 1 on page 9) it was not possible to relate any change to the demand for public healthcare services to the introduction of FPHII.

Consumers

The Private Health Insurance Ombudsman (PHIO) assists people who have complaints relating to private health insurance. For 2012-13 the PHIO reported that FPHII 'resulted in significant numbers of enquiries to PHIO, but there were very few complaints about this issue during the reporting period, with 13 complaints recorded for 2012–13.'[xix] For 2013-14 the PHIO recorded five complaints about FPHII.[xx]

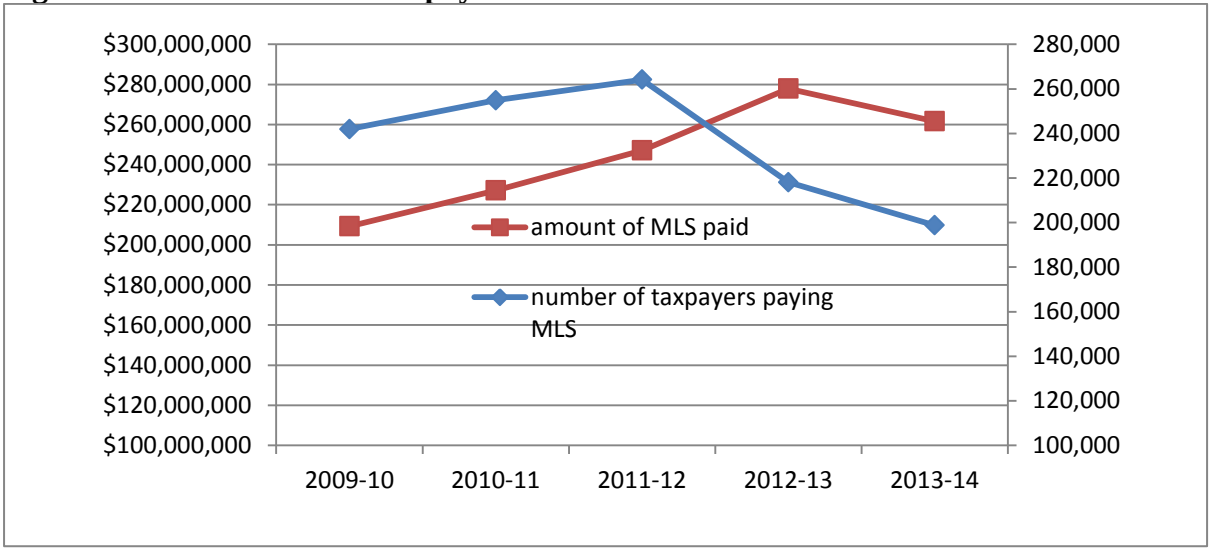
Taking the level of complaint as a proxy of consumer satisfaction, the low level of complaints indicates FPHII was working well for consumers over the period covered by this report.

Additionally, an evaluation by Woolcott Research of the Department's communication campaign to inform consumers about FPHII found *'Given that television advertising was not part of the communication mix used to inform the general public of the changes to the Private Health Insurance Rebate and Medicare Levy Surcharge the communication does appear to have been successful in reaching the target audiences and informing them of the reforms'*.[xxi]

Medicare Levy Surcharge

Figure 3 shows the changes that occurred in the number of taxpayers paying the MLS (higher income earners without private hospital insurance) and the amount of MLS paid by year from 2008-09 to 2013-14. There was a drop of 65,349 taxpayers paying the MLS in the first two years following the introduction of FPHII. The amount of MLS paid in the first two years following the introduction of FPHII was higher than in the year before FPHII began.

Figure 3: Number of MLS Taxpayers and MLS Paid



Source: *Taxation Statistics 2014–15 Table 1 Individuals: Selected items for 1978-79 to 2014-15 income years*, Australian Taxation Office

Implementation Costs

The cost for government to implement and administer FPHII was estimated to be $69 million over five years or an average of $13.80 million per annum.[xxii]

The cost for consumers was estimated to be approximately $1.54 million per annum when spread over 10 years. Details and calculations for this costing are at Attachment C.

The cost for insurers was estimated to be approximately $4.72 million per annum over 10 years. Details and calculations for this costing are at Attachment D.

The overall estimated cost of implementation was $20.06 million per annum.

Net Benefit

The net benefits of FPHII over its first two years of operation were:

- a saving to government expenditure of $918 million (this figure was obtained by subtracting the overall estimated cost to government of implementation from the estimated actual savings to government expenditure for 2011-12 to 2013-14);
- no reduction in the private health insurance participation; and
- a fairer distribution of the rebate based on income level.

Consultation

Stakeholders affected by FPHII were higher income earners receiving the rebate, higher income earners paying the MLS, private health insurers and their peak bodies, software providers for private health insurers, private health insurance brokers, government agencies responsible for administering the rebate and/or the MLS (ATO, Medibank Australia, the Department), and the PHIO.

Consultation for FPHII primarily occurred in the period between its announcement in May 2009 and its commencement on 1 July 2012.

Pre-Commencement Consultation

A Working Group was established in July 2009 as a consultative forum to consider and address issues which might arise from the implementation of FPHII, discuss possible solutions and provide advice back to Government.

The Working Group comprised representatives from Medicare Australia, the ATO, the Health Insurance Restricted Membership Association of Australia, the Institute of Actuaries of Australia, the Consumers' Health Forum, the Private Health Insurance Intermediaries Association, IT specialists and providers, the Australian Private Hospitals Association, Catholic Health Australia, Australian Health Services Alliance and the PHIO. The AHIA, the peak body for the majority of insurers, strongly opposed FPHII as it feared a reduction in insurance coverage would result from FPHII and chose not to participate in the Working Group. The AHIA commissioned a research report from Deloitte on FPHII and promoted the report's findings, which predicted private health insurance participation would be significantly reduced through the new arrangements. This report was taken into consideration as part of the consultation process.[xxiii]

The Working Group met on: 23 July 2009, 20 August 2009, 7 December 2009, 8 September 2011 and finally on 28 March 2012, after the enabling legislation was passed by Parliament.

The Working Group was then replaced with two separate groups: one group dealt with general policy questions and communication and met on 18 and 19 April 2012; the other group dealt with information technology and reporting and met on 20 April 2012.

The prolonged passage of the enabling legislation through Parliament allowed the scheduling of more Working Group meetings to address issues raised by stakeholders. This meant issues raised were able to be resolved before FPHII's commencement on 1 July 2012. Due to the consultation completed during this time, there was a diminished need to undertake comprehensive consultations post 1 July 2012. During the three years from announcement to implementation all issues relating to FPHII were satisfactorily resolved.

The pre-commencement FPHII consultation was concluded with a series of well attended information sessions: for non-insurer stakeholders who had an interest in the changes to private health insurance on 14 May 2012; and private health insurers, software developers, and other industry stakeholders on 6, 7 and 8 June 2012, respectively. These sessions provided an opportunity for stakeholders to learn more about the changes and issues relating to implementing FPHII.

Post-Commencement Consultation

Two years after the commencement of FPHII the Department hosted industry consultation sessions on 23 July 2014. These sessions were well attended by industry, with all insurers represented either directly, or through industry associations, Private Healthcare Australia and Health Insurance Restricted Membership Association of Australia. The Australian Prudential Regulation Authority, PHIO, ATO and PHIAC were also represented. These sessions covered a wide range of private health insurance matters including FPHII. At these sessions insurers did not raise any significant concerns specific to FPHII.[xxiv]

Consultation information for private health insurance consumers was also obtained from the Ipsos health consumer survey on health care and insurance. The 2013 report was released in

November 2013 and was based on interviews that occurred from July to August 2013. Some findings from the report about respondents affected by FPHII were: 39% could provide a reasonable accurate estimate of their new level of rebate; 31% had not heard of FPHII; and 77% expected to pay additional tax because they were no longer eligible for the full rebate.[xxv]

Conclusions

FPHII supported the sustainability of the rebate into the future by providing significant savings to the Australian Government. Although the savings achieved, for the time period covered by this review, were not at the expected levels (around 40% less than expected), the reasons for this are not expected to significantly impact savings in the future as these were one off costs associated with FPHII implementation due to reduced savings to government from an increase in rebate payments to those who made prepayments to avoid the FPHII changes, and a delay in savings to government from repayments from those who failed to nominate their income tier after the change.

FPHII redistributed the rebate more equitably amongst higher and lower income earners by introducing an income test for the rebate.

The introduction of FPHII did not result in a reduction in the overall number or proportion of people covered by private health insurance for the time period covered by this review. In June 2014 more people were covered by hospital and general treatment policies than in June 2012. The changes to the MLS as part of FPHII appear to have been effective in maintaining higher income earners' participation in private health insurance despite them receiving no or a reduced rebate.

Attachment A - Timeline for FPHII Legislation

12 May 2009	The Treasurer and Minister for Health and Ageing announced the "Rebalancing Support for Private Health Insurance" measure in a joint media release.	
27 May 2009	Fairer Private Health Insurance Incentives Bill 2009	- Introduced into the House of Representatives and read a first time - Second reading moved
1 June 2009		- Second reading debate
2 June 2009		- Second reading debate - Second reading agreed to - Third reading agreed to
15 June 2009		- Introduced into the Senate and read a first time - Second reading moved
18 August 2009		- Second reading debate
9 September 2009		- Second reading debate - Second reading negatived
19 November 2009	Fairer Private Health Insurance Incentives Bill 2009 [No. 2]	- Introduced into the House of Representatives and read a first time - Second reading moved
3 February 2010		- Second reading debate - Second reading agreed to - Third reading agreed to
4 February 2010		- Introduced into the Senate and read a first time - Second reading moved
25 February 2010		- Second reading debate
9 March 2010		- Second reading debate - Second reading negatived
7 July 2011	Fairer Private Health Insurance Incentives Bill 2011	- Introduced into the House of Representatives and read a first time - Second reading moved
09–15 February 2012	Fairer Private Health Insurance Incentives Bill 2012	- Second reading debate
15 February 2012		- Second reading agreed to - Consideration in detail debate - Third reading agreed to
27 February 2012		- Introduced into the Senate and read a first time - Second reading moved
13–15 March 2012		- Second reading debate
15 March 2012		- Second reading agreed to - Third reading agreed to
4 April 2012	*Fairer Private Health Insurance Incentives Act 2012*	- Assent (Act No: 26)

Source: *Fairer Private Health Insurance Incentives Bill 2012*, Parliament of Australia website

Attachment B - Estimated Financial Impact of FPHII

The estimated financial impact of FPHII was based on the difference between the actual costs of the rebate and the MLS, and the projected costs of the rebate and the MLS had FPHII not been introduced. The projected costs were calculated using the average percentage growth from years prior to FPHII.

The financial impact of FPHII on the costs of rebate claimed as a premium reduction, the rebate claimed as a tax offset, and the MLS for the years 2011-12, 2012-13 and 2013-14 are summarised in Table 4: Estimated Financial Impact of FPHII.

Table 4: Estimated Financial Impact of FPHII

Year	Estimated Impact of FPHII $ billion			
	Rebate		Medicare Levy Surcharge [c,d]	Total
	Premium Reduction [a]	Tax Offset [b,d]		
2011-12	-0.360			-0.360
2012-13	0.384	-0.014	0.002	0.372
2013-14	0.920	0.002	0.011	0.933
Total	0.944	-0.012	0.013	0.945

Source: [a] Table 5: Estimated Financial Impact of FPHII on Premium Reduction; [b] Table 6: Estimated Financial Impact of FPHII on Tax Offset; [c] Table 7: Estimated Financial Impact of FPHII on Medicare Levy Surcharge.
[d] The tax offset and Medicare levy surcharge amounts were moved from the income/tax year to which they relate to the year in which liability arises. This provides the best approximation of the financial impact of FPHII for the purposes of comparison to Budget figures.

Estimated Impact of FPHII - Rebate

The rebate can be claimed either as a premium reduction (PR) or as a refund through the income tax system, known as a tax offset.

The estimated impact on the PR as a result of FPHII is shown in Table 5: Estimated Financial Impact of FPHII on Premium Reduction. The recovered PR in Table 5 refers to incorrect rebate payments made as a PR in 2012-13 that were then identified for recovery through the income tax system in 2013-14.

Table 5: Estimated Financial Impact of FPHII on Premium Reduction

Year	Actual PR [a] $ billion	Actual PR year to year growth	Estimated PR without FPHII $ billion	Estimated Impact of FPHII on PR, $ billion	
				PR	PR Recovery [b]
2007-08	-3.631				
2008-09	-3.990	9.89%			
2009-10	-4.309	7.99%			
2010-11	-4.692	8.89%			
2011-12	-5.471		-5.111	-0.360	
2012-13	-5.183		-5.567	0.384	
2013-14	-5.608		-6.063	0.455	0.465

Source: [a] internal figures from the Department of Health; [b] *Private Health Insurance rebate Interim Report 1 July 2013 to 30 June 2014 Analysis of Private health insurance rebate and Medicare levy surcharge for reporting and performance measurement purposes*, Australian Taxation Office, July 2014

The estimated impact on the rebate tax offset as a result of FPHII is shown in the Table 6: Estimated Financial Impact of FPHII on Tax Offset.

Table 6: Estimated Financial Impact of FPHII on Tax Offset

Year	Actual Tax Offset [a] $ billion	Actual Tax Offset year to year growth	Estimated Tax Offset without FPHII $ billion	Estimated Impact of FPHII on Tax Offset $ billion
2007-08	-0.179			
2008-09	-0.183	2.23%		
2009-10	-0.197	7.65%		
2010-11	-0.194	-1.52%		
2011-12	-0.213		-0.199	-0.014
2012-13	-0.203		-0.205	0.002

Source: [a] *Taxation Statistics 2014–15 Table 1 Individuals: Selected items for 1978-79 to 2014-15 income years; Private health insurance tax offset $ was used for 2007-12 and Private health insurance rebate $ was used for 2012-13*

Estimated Impact FPHII - Medicare Levy Surcharge

The estimated impact on the MLS as a result of FPHII is shown in Table 7: Estimated Financial Impact of FPHII on Medicare Levy Surcharge.

Table 7: Estimated Financial Impact of FPHII on Medicare Levy Surcharge

Year	Actual MLS $ billion [a]	Actual MLS year to year growth	Estimated MLS without FPHII $ billion	Estimated Impact of FPHII on MLS $ billion
2008-09	0.195			
2009-10	0.209	7.18%		
2010-11	0.227	8.61%		
2011-12	0.247		0.245	0.002
2012-13	0.278		0.267	0.011

Source: [a] *Taxation Statistics 2014–15 Table 1 Individuals: Selected items for 1978-79 to 2014-15 income years; Medicare levy surcharge $,* Australian Taxation Office

Attachment C – Estimated Regulatory Cost for Consumers

Start-up Costs

As part of the implementation of FPHII, the ATO wrote to policyholders in the affected income groups advising them to nominate their income tier to their insurer.

The start-up cost of policyholders nominating their income to their insurer is estimated to be $11,661,030. This figure was calculated based on:

- 431,890 policyholders nominating their income tier for 2012-13;
- the length of time for a policyholder to confirm their income details and advise their insurer being one hour; and
- non-work-related labour cost of $27 per hour.

An estimate of 431,890 policyholders nominated an income tier in the first year of FPHII. This figure was based on a the average of percentages of policyholders thought to have nominated based on information provided to the Department by the ATO and from the Health Care & Insurance Australia 2013 survey produced by Ipsos:

- For the financial year 2012-13, tax information was that 1,629,776 people were in the income bracket affected by FPHII and of these 393,934 had no rebate tax offset or no rebate liability. It is assumed that the majority of people in this group had nominated their income tier to their insurer and that most of the people who nominated an income tier did so correctly. On this basis 24% of people nominated their income tier. [xxvi]
- The Ipsos survey reported that 29% of those affected by FPHII claimed to have nominated a tier to their insurer. [xxvii]

Ongoing Costs

New policyholders nominate a tier as part of the application process for private health insurance. The annual ongoing regulatory cost of policyholders nominating their income tier to their insurer is estimated to be $376,003. This figure was calculated based on:

- an average increase of 139,260 policies, see Table 8: Increase in Number of All Policies for 2008 to 2014;
- 20% of new policyholders nominating a tier to their insurer;
- a non-work-related labour cost of $27 per hour; and
- the length of time taken to confirm income details and nominate an income tier being half an hour.

Table 8: Increase in Number of All Policies for 2008 to 2014

Year	Number of policies	Annual increase
2008-09	4,671,649	
2009-10	4,811,403	139,754
2010-11	4,959,605	148,202
2011-12	5,123,426	163,821
2012-13	5,252,557	129,131
2013-14	5,367,950	115,393
Average		139,260

Source: *Membership and Coverage*, Private Health Insurance Administration Council (PHIAC), March 2015
Note: From 1 July 2015 responsibility for the prudential supervision of private health insurers transferred from the PHIAC to the Australian Prudential Regulation Authority.

Estimated Annual Regulatory Costs Over 10 Years

The annual start-up cost was estimated to be $1,166,103 when averaged over 10 years.

The annual ongoing cost was estimated to be $376,003.

The total annual cost to consumers nominating their income tier to their insurer, including the first year start-up, is estimated to be $1.54 million over 10 years.

Attachment D- Estimated Regulatory Cost for Insurers

Start-up Costs - IT Systems

The estimated start-up cost for IT systems was $34.0 million.

This figure was based on each of the 34 insurers incurring a similar cost of $1.0 million[xxviii] for IT changes associated with FPHII.

Start-up Costs - Staff Training

The estimated start-up costs for staff training was $0.68 million. This figure was based on:

- there being 2 large, 3 medium and 29 small insurers;
- staff receiving an estimated 6 hours of training each;
- each large insurer would train 1,200 staff;
- each medium insurer would train 400 service staff;
- each small insurer would train 5 staff members;
- staff wage cost is $29 per hour[xxix];
- contract cost of $5,000 for an external training session. Given the number of staff per insurer undertaking training, multiple sessions would need to take place, estimated at four sessions for large insurers and 2 for medium insurers; and
- it is assumed that small insurers will not require the services of an external trainer due to the low numbers of service staff.

Table 9: Cost of FPHII Training by Insurer Size

Size	Cost of Training
Large	$437,600
Medium	$218,800
Small	$25,230
Total	$681,630

Start-up Costs - Call Centre and Office Operations

The estimated start-up cost for call centre and office operations is $12.5 million. This figure was based on:

- the explanation of FPHII and the nomination of tiers takes an hour to complete;
- staff wage cost is $29 per hour[xxx];
- insurers receiving 431,890 customer contacts (representing 26.5% of affected policyholders).

Ongoing Costs

No ongoing costs are included because after the start up, FPHII activities would become part of insurers' usual business.

Estimated Annual Regulatory Costs Over 10 Years

The annual start-up IT system cost is estimated to be $3.40 million when spread over 10 years.

The annual start-up staff training cost is estimated to be $0.07 million when spread over 10 years.

The annual start-up call centre/office cost is estimated to be $1.25 million when spread over 10 years.

The total annual cost to insurers is $4.72 million over 10 years.

[i] *Australian Health Insurance Association Economic Impact Assessment of the Proposed Reforms to Private Health Insurance,* Final Report, Deloitte, Canberra, 28 April 2011
[ii] *Second Reading Speech Fairer Private Health Insurance Incentives Bill 2011*, N. Roxon, Commonwealth of Australia, House of Representatives Hansard, Parliamentary Debates, 7 July 2011, page 7981
[iii] *Revised Explanatory Memorandum Fairer Private Health Insurance Incentives Bill 2011 Fairer Private Health Insurance Incentives (Medicare Levy Surcharge) Bill 2011 Fairer Private Health Insurance Incentives (Medicare Levy Surcharge — Fringe Benefits) Bill 2011*, Commonwealth of Australia, Senate, 2012, page 3
[iv] *Intergenerational Report 2007*, Commonwealth of Australia, April 2007, page 93
[v] *Australia to 2050: future challenges*, Commonwealth of Australia, January 2010 pages 53-54
[vi] *Revised Explanatory Memorandum Fairer Private Health Insurance Incentives Bill 2011 Fairer Private Health Insurance Incentives (Medicare Levy Surcharge) Bill 2011 Fairer Private Health Insurance Incentives (Medicare Levy Surcharge — Fringe Benefits) Bill 2011*, Commonwealth of Australia, Senate, 2012, page 3
[vii] *Quarterly Statistics June 2012*, Private Health Insurance Administration Council, page 12
[viii] *Private Health Insurance rebate Interim Report 1 July 2013 to 30 June 2014 Analysis of Private health insurance rebate and Medicare levy surcharge for reporting and performance measurement purposes*, Australian Taxation Office, July 2014
[ix] *Australian Health Insurance Association Economic Impact Assessment of the Proposed Reforms to Private Health Insurance*, page 30
[x] *Second Reading Speech Fairer Private Health Insurance Incentives Bill 2011*, page 7981
[xi] *Membership and Coverage*, Private Health Insurance Administration Council, March 2015
[xii] *Australian Health Insurance Association Economic Impact Assessment of the Proposed Reforms to Private Health Insurance*, page ii
[xiii] *Membership and Coverage*, Private Health Insurance Administration Council, March 2015
[xiv] *Membership and Coverage*, Private Health Insurance Administration Council, March 2015
[xv] *Australian Health Insurance Association Economic Impact Assessment of the Proposed Reforms to Private Health Insurance*, page ii
[xvi] *2016 Private Health Insurance Premium Round Outcome and Outline of Process*, There are more than 50,000 private health insurance products in the market. Accessed on line at http://www.health.gov.au/internet/main/publishing.nsf/Content/privatehealth-summary-premiumincreases
[xvii] *Australian Health Insurance Association Economic Impact Assessment of the Proposed Reforms to Private Health Insurance*, page ii-iii
[xviii] *Australian Health Insurance Association Economic Impact Assessment of the Proposed Reforms to Private Health Insurance*, page ii
[xix] *Private Health Insurance Ombudsman Annual Report 2012-13*, Australian Government, Private Health Insurance Ombudsman, page 8
[xx] *Private Health Insurance Ombudsman Annual Report 2013-14*, Australian Government, Private Health Insurance Ombudsman, page 28
[xxi] *Private Health Insurance Reform Study*, Department of Health and Ageing, Woolcott Research, June 2012, page 6
[xxii] *Budget Measures Budget Paper No. 2 2009-10*, Commonwealth of Australia, 12 May 2009, page 311; note Budget papers only provide a 5 year estimate for cost of implementation to government for FPHII
[xxiii] *Australian Health Insurance Association Economic Impact Assessment of the Proposed Reforms to Private Health Insurance*
[xxiv] Departmental record numbers D14-1545845, D14-1373774 and D14-1725589
[xxv] *Health Care & Insurance Australia 2013*, Ipsos, November 2013, p.118-121,124; Ipsos material is bound by copyright, and detailed findings cannot be reproduced in this PIR.
[xxvi] *Private Health Insurance rebate Interim Report 1 July 2013 – 30 June 2014*
[xxvii] *Health Care & Insurance Australia 2013*
[xxviii] Based on available information from 2013 premium round applications.
[xxix] *6306.0 Employee Earnings and Hours, Australia*, Summary, Australian Bureau of Statistics, Sales workers, May 2014
[xxx] *6306.0 Employee Earnings and Hours, Australia*, Summary, Australian Bureau of Statistics, Sales workers, May 2014