



# Modernising the Private Health Insurance Rebate

Department of Health, Disability and Ageing



## The policy problem and preferred policy approach

- The Government subsidises Private Health Insurance (PHI) premiums for eligible consumers through the PHI Rebate. The Rebate is inequitable and poorly targeted as it subsidises older Australians more, even if they have the same income as younger Australians. Older Australians receive significantly higher average PHI benefits than younger people.
- This can be addressed by removing the higher Rebates received by older people compared with those aged less than 65 years earning the same income.



## Impact Analysis

### Impacts

- The preferred policy approach will simplify the Rebate to be based only on income, and target the Rebate equitably by removing the higher Rebate for people aged 65+ years compared to younger people earning the same income.
- Savings to government of \$2,994.7m over 4 years from 2026-27 will be available to support additional Government funding for important aged care initiatives.
- As a result of the reduced Rebate, a marginal negative impact on PHI participation is expected (-0.4% in 2028-29 compared to status quo) while noting that the overall number of people covered by PHI is expected to continue to grow.
- This slower growth in the insured population is expected to result in marginally lower demand for private hospital services and a corresponding marginal increase in demand for public hospital services, compared to status quo.
- Private health insurers will incur a one-off regulatory burden of around **\$689,584 across all insurers**.

### Who is impacted

#### Individuals

People aged 65+ in Base Tier, Tier 1 and Tier 2 will experience a reduced Rebate depending on their age, income and the cost of their policy. Average impact is expected to be -\$252 in 2028-29. Some policyholders are expected to drop or downgrade their cover, while noting that people aged 65+ will still be strongly incentivised to hold PHI.

#### Businesses

Private health insurers will incur one-off regulatory burden of around **\$689,584 across all insurers** to provide communications to all members and handle enquiries from directly affected policyholders.

#### Community organisations

No direct impact on community organisations is expected.



## Other considerations and implementation

- Other policy options considered were to maintain the Status Quo (Option 1) and an alternative option where Rebates were reduced for all people in Income Tier 1 and removed for Income Tier 2, in addition to removing the higher rates for older people (Option 3). Option 1 was not chosen as it would not address the inherent inequity of people aged 65+ receiving a higher Rebate than younger people earning the same income. Option 3 was not chosen due to the higher regulatory costs for insurers, a larger impact on consumers and because it is likely to result in more people dropping PHI.
- The Rebate changes would be implemented through amendments to the *Private Health Insurance Act 2007*, to come into effect on 1 April 2027.

