

CLIENT ALERT

FEDERAL GOVERNMENT ANNOUNCES MAJOR REFORMS TO PRIVATE HEALTH INSURANCE

On 13 October, the Australian Government announced the most significant and wide-ranging reforms to the private health insurance industry in over 15 years. These reforms will affect private health insurance members across the board, as well as employers who subsidise their employees' health insurance premium.

Key changes include:

- Discounted premiums for members who join before they turn 30
- A reduction in the cost of prostheses for private health insurers
- The introduction of Gold, Silver and Bronze product categories
- The removal of the government rebate on some "natural therapies"
- The removal of waiting periods for benefits on pre-existing mental health conditions when upgrading membership
- An increase in the maximum excess/ deductible allowable for hospital cover

The sweeping reforms follow commitments by the federal government to address the rising cost of private health insurance, which has greatly outpaced the Consumer Price Index (CPI) over recent years.

While the Federal Health Minister has not committed to an expected percentage increase in April 2018, the general market view is that the government is targeting an increase in the mid to high 3% range.

The announcement has been welcomed by the private health insurance industry, which has pledged to pass on all the savings to keep premium increases to a minimum.

SUMMARY OF PROPOSED CHANGES

- An agreement has been struck between the government and device makers that will see the cost of prostheses decrease for insurers from 1 February 2018. This will include medical devices such as artificial hips and knees, and pacemakers, which currently comprise a significant portion of benefits paid by health funds. The price reduction is expected to directly result in lower premiums from April 2018.
- From 1 April 2018, insurers will be allowed to discount insurance premiums for 18 to 29 year olds by up to 10 per cent. The discount will gradually phase out after a member turns 40. This has the potential to significantly lower an employer's cost of subsidising employee premiums.
- With the increased occurrence of mental health issues, the new reforms will allow members without mental health cover on their current cover to immediately upgrade to a level that includes mental health coverage without serving the traditional waiting periods. This is a significant change designed to allow individuals more immediate access to medical attention.
- From 1 April 2019, cover for the following natural therapies will be removed from private health insurance products: Alexander technique, aromatherapy, Bowen therapy, Buteyko, Feldenkrais, herbalism, homeopathy, iridology, kinesiology, naturopathy, Pilates, reflexology, Rolfing, shiatsu, tai chi, and yoga.

- At face-value, the inclusion of Pilates in the list of natural therapies slated for removal seems somewhat out of place alongside the other listed therapies. However, Mercer Marsh Benefits believes there is a possibility that the government is keen to ensure Pilates is only carried out by qualified physiotherapists in one on one sessions and, as such, could still be claimed under physiotherapy benefits.
- From 1 April 2019, there will be a lift on the cap for available excess levels, from \$500/\$1000 to \$750/\$1500. It is believed that it will not be compulsory for funds to offer these levels of excess. Raising the ceiling for excesses will give consumers and employers the opportunity to choose higher excesses to lower their premiums.

IMPACT TO ORGANISATIONS WITH SUBSIDISED EMPLOYEE PLANS

The expected discount on premiums will be a welcomed outcome for employers who subsidise employee plans and, importantly, will also have a positive effect on payable Fringe Benefits Tax (FBT).

In line with current practice, health funds will provide base rates for each product before calculating specific premiums for policyholders based on their situation.

While the new discounting for under 30s will add to the complexity in calculating the cost of the health plan for each employee and/or family, health funds will manage this change through significant system enhancements before 1 April 2018.

Mercer Marsh Benefits is currently working with insurers to understand how employer invoices paid prior to 1 April 2018 might be impacted after this date. At this point, we expect employer premiums paid in advance of 1 April for employees enrolling before the age of 30 will become eligible for a pro rata refund based on their age at commencement.

Mercer Marsh Benefits will provide further advice on this matter once greater clarity from health funds and the government is offered.

IMPACT TO ORGANISATIONS OFFERING VOLUNTARY PLANS TO EMPLOYEES

Mercer Marsh Benefits views the proposed introduction of the Bronze, Silver and Gold categories as a helpful mechanism to reduce the confusion that currently surrounds the coverage selection process. The tiered structure will simplify the search by allowing consumers to compare products only in their specified cover range. As a result, new members and members looking to switch health funds will have confidence they are comparing products within the same category tier.

However with no identical products across the health funds currently on offer, and no compulsory product matching proposed, individuals will still need to work through a number of coverage options across the funds in order to properly compare the range of products available.

LOOKING AHEAD

The long-awaited reforms are likely to achieve the federal government's intended aim of slowing the pace of premium increases in the immediate years ahead.

In particular, the incentives being introduced for younger people to purchase private health cover, combined with lower prices for medical devices, will address both sides of the equation for insurers by improving premium revenue at one end and reducing costs at the other.

As more detail and greater clarity around the announced changes is provided, Mercer Marsh Benefits will keep you informed of relevant details. If you have any questions regarding these changes, please contact your Mercer Marsh Benefits Relationship Manager or Darren Downie on +61 3 9623 5351 or at darren.downie@mercermarshbenefits.com.

marsh.com.au

Marsh Pty Ltd (ABN 86 004 651 512) trading as Mercer Marsh Benefits. The information contained in this article provides only a general overview of subjects covered, is not intended to be taken as advice regarding any individual situation and should not be relied upon as such. Insureds should consult their insurance and legal advisors regarding specific coverage issues. All insurance coverage is subject to the terms, conditions, and exclusions of the applicable individual policies. Marsh cannot provide any assurance that insurance can be obtained for any particular client or for any particular risk. Statements concerning legal matters should be understood to be general observations based solely on our experience as insurance brokers and risk consultants and should not be relied upon as legal advice, which we are not authorised to provide. All such matters should be reviewed with your own qualified legal advisors. LCPA 17/0110

Copyright 2017 Marsh Pty Ltd. All rights reserved.