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Private eyes..., hips, etc: Health insurance benefits during the Covid crisis

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Private eyes..., hips, etc: Health insurance benefits during the Covid crisis

Abstract

Commonwealth and State use of private hospitals during the coronavirus pandemic, combined with social distancing measures, could cut benefit payments to people insured by Australia's private health insurers by 30% to 50%, or $3.5 billion to $5.5 billion. Regulators should enforce a similar reduction in premium payments. Reductions in premiums to consumers could save the Commonwealth in excess of $1 billion by reducing its Public Health Insurance Rebate Subsidy.

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Private eyes…, hips, etc

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Introduction

Actions taken by the Commonwealth Government and the National Cabinet to combat the Covid-19 virus will significantly reduce the ability of the health sector to provide services to people with private health insurance. Decisions by the National Cabinet that reduce provision of services to the privately insured include:

1. A wide range of elective surgery and non-essential hospital services will not be undertaken by private hospitals to free resources for Covid patients.
2. Dental services will be reduced following the adoption by the Australian Dental Association of level 3 restrictions on services that dentists can provide.
3. Social distancing and 'stay at home rules', especially for older Australians, will result in reductions in the use of many services by physiotherapists, chiropractors and other health related service providers.

As a result, this reduction in health service provision will reduce costs for Australia's private health insurers. Yet far from offering substantial reductions in insurance

premiums, insurers claim to be "supporting members during the COVID-19 pandemic" by "postponing this year's premium increase by six months".[1] Far greater savings should be returned to policy holders.

Estimating savings to private health insurers

Statistics on private health insurance benefit payments and premium income are published quarterly by the Australian Prudential Regulation Authority (APRA). Table 1 below summarises the payments and income in the December 2019 quarter:

Table 1: Private health insurance benefits paid, December 2019 quarter

Benefits by type of treatment	$ million
HOSPITAL AND RELATED COSTS	
Public Hospital Day and Overnight	285.0
Private hospitals, day hospitals, hospital substitute - day and overnight hospitals	2,632.7
Total Hospital benefits	**2,917.7**
Medical Benefits	625.9
Prostheses benefits	584.7
Other hospital and hospital substitute treatments	13.9
Total Hospital related benefits	**1,224.4**
TOTAL HOSPITAL AND RELATED BENEFITS	**4,142.2**
GENERAL TREATMENT BENEFITS	
Dental	734.9
Optical	275.7
Physiotherapy	96.9
Chiropractic and Osteopathic	63.9
Other General Benefits	213.3
TOTAL GENERAL BENEFITS	**1,384.7**
TOTAL HOSPITAL AND GENERAL BENEFITS	**5,530.1**

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Source: APRA (2020) *Quarterly private health insurance statistics*

[1] NIB (2020) *Text message sent to NIB members*. Similar communications have been sent by other insurers.

Table 1 shows that total benefits paid out by Australia's private health insurers in the 2019 December quarter totalled just over $5.5 billion. APRA statistics show that the industry collected around $6.2 billion in premium income over the same period.

A possible scenario, modelled in Table 2 below, assumes that in the absence of the coronavirus crisis, the same level of payouts would have been made over the following two quarters, with payments totalling just over $11 billion:

Table 2: Estimated impact of service reduction on benefit payments – scenario 1

	Expected payments over 6 months ($m)	Estimated reduction in services	Reduction in payments ($m)
TOTAL Hospital benefits	5,835.5	50%	2,917.7
Total Hospital related benefits	2,448.8	70%	1,714.2
TOTAL HOSPITAL AND RELATED BENEFITS	**8,284.3**		**4,631.9**
GENERAL TREATMENT BENEFITS			
Dental	1,469.7	40%	587.9
Optical	551.4	20%	110.3
Physiotherapy	193.8	20%	38.8
Chiropractic and Osteopathic	127.8	20%	25.6
Other General Benefits	426.7	20%	85.3
TOTAL GENERAL BENEFITS	**2,769.5**		**847.8**
TOTAL HOSPITAL AND GENERAL BENEFITS	**11,060.3**		**5,479.8**

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Source: APRA data and author calculations

Under scenario 1, shown above, over the next six months treatments in hospitals are reduced by half, hospital related benefits[2] are reduced by 70% and general treatments less affected. Under this scenario, the reduction in payments to policy holders by private health insurers will reach almost $5.5 billion – about $1,000 per policy holder.

Forecasting the decline in service provision is difficult, with no published estimates yet available. The reductions used in scenario 1 above could be conservative based on a scan of literature relating to changes during the 2003 SARS outbreak.[3]

[2] Hospital related benefits include prostheses and payments for medical services over and above the Commonwealth Benefits schedule.

[3] See for example Schull et al (2007) *Effect of widespread restrictions on the use of hospital services during an outbreak of severe acute respiratory syndrome*, https://www.ncbi.nlm.nih.gov/pmc/articles/PMC1891122/

Scenarios 2 and 3 below use still more conservative assumptions to estimate likely minimum savings to the private health insurers.

Table 3: Estimated impact of service reduction on benefit payments, reduced impact – scenarios 2 and 3.

	Expected payments over 6 months ($m)	Scenario 2	Reduction in payments	Scenario 3	Reduction in payments
Total Hospital benefits	5,835.5	50%	2,917.7	30%	1,750.6
Total Hospital related benefits	2,448.8	50%	1,224.4	50%	1,224.4
TOTAL HOSPITAL AND RELATED BENEFITS	8,284.3		4,142.2		2,975.1
GENERAL TREATMENT BENEFITS					
Dental	1,469.7	30%	440.9	30%	440.9
Optical	551.4	10%	55.1	10%	55.1
Physiotherapy	193.8	10%	19.4	10%	19.4
Chiropractic and Osteopathic	127.8	10%	12.8	10%	12.8
Other General Benefits	426.7	10%	42.7	10%	42.7
TOTAL GENERAL BENEFITS	2,769.5		570.9		570.9
TOTAL HOSPITAL AND GENERAL BENEFITS	11,060.3		4,713.1		3,546.0

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Source: APRA data and author calculations

Scenario 2 shows assumes a 50% reduction in hospital benefits payments, 50% for payments for hospital related services, 30% for dentistry and 10% for other general service types. These assumptions see a $4.7 billion reduction in benefit payments. Scenario 3 uses even lower reductions in hospital benefit payments, at just 30% reduction, resulting in a $3.5 billion reduction in benefit payments. In per policy holder terms, this equates to $858 per policy in scenario 2 and $645 under scenario 3.

These savings should be passed on to policy holders via reduced premiums and the roughly 25% covered by the Private Health Insurance Rebate should be a saving to the Commonwealth. Under Scenario 1 around $750 per policy would be returned to the

policy holders, $645 under scenario 2 and $485 under scenario 3. The reduction in rebate payments would save the Commonwealth from $1 billion to $1.5 billion.

These savings represent from 44% to 29% of the industry's expected $12.4 billion in premium income, respectively.

Conclusion and recommendations

Private health insurance funds could have their benefit payout reduced by 30–50% in the coming months. From an ethical standpoint these savings should be returned to private health insurance policy holders, which would also assist with economic recovery post crisis. Funds would still have very much the same reserves at the end of the crisis as they do now.

The Commonwealth Government and the National Cabinet should direct the Productivity Commission, in consultation with the private health insurance funds, to undertake an urgent review of the likely reduction in private health insurance fund payments. It should then calculate the consequent reduction in premiums needed. A preliminary review should be conducted within two weeks and funds should be directed to adopt the new premiums as of 1 May.

The Productivity Commission, in conjunction with the APRA, should establish a real-time monitoring system so that the appropriateness of the health insurance premiums can be monitored on a monthly basis. If there are differences between the initial premiums recommended by the Productivity Commission and the actual experience of funds the premiums should be adjusted accordingly. The Commonwealth should undertake to make good any losses to funds resulting from the rapid implementation of the initial premiums.