

1 April 2019

Hon Catherine King MP
Shadow Minister for Health
Parliament House
Canberra ACT 2600

Dear Ms King,

PROPOSED PRODUCTIVITY COMMISSION INQUIRY INTO THE PRIVATE HEALTH SECTOR

I am writing to you in response to the Australian Labor Party proposal to task the Productivity Commission with a comprehensive inquiry into the private health sector.

The Australian Healthcare and Hospitals Association (AHHA) is Australia's national peak body for public hospitals and healthcare providers. Our membership includes state and territory health departments, Local Hospital Networks and public hospitals, community health services, Primary Health Networks and primary healthcare providers, aged care providers, universities, individual health professionals and academics. As such, we are uniquely placed to be an independent, national voice for universal high-quality healthcare to benefit the whole community.

AHHA recognises that the Australian health system is a mixed public and private system and that our current health system arrangements are a result of historical, constitutional and political circumstances. However, universal health care is a core feature of the Australian healthcare system and should not be compromised through increased out-of-pocket expenses or inequitable access to needed services.

AHHA strongly supports universal healthcare with all Australians having timely access to high-quality health care services regardless of their ability to pay. While AHHA supports consumer choice and practitioners' right to private practice, we also support having a healthcare system that is effective, accessible, equitable, sustainable and which provides patient-centred care with a focus on quality outcomes for all Australians. AHHA is particularly concerned with the level of out-of-pocket costs faced by consumers with around one quarter of total health expenditure paid by individuals either directly or through private health insurance premiums.

AHHA considers that the following measures should underpin the provision of all health-related services, and that these should be taken into account as the ALP pursues its proposed health reform agenda, including the review of private health and private health insurance:

1. To improve health outcomes – apply a value-based health care model to achieve the best outcomes at the lowest cost.
2. To improve quality – all services providing healthcare must be accredited and report clinical quality indicators.

3. To improve equity – funding must be based on a universal health care principle.
4. To improve efficiency – apply a funding model that is measurable by health outcome indicators and that applies risk adjusted funding, determined transparently and independently, that supports service delivery to populations that have access issues.
5. To improve accountability and responsiveness – ensure timely public reporting of health outcome indicators that are meaningful both clinically and to consumers.
6. Any provider of health services that receives government funding for that service should be required to report to a central authority a minimum set of defined data related to the service provided and the patient outcomes achieved.

PRINCIPLES FOR REFORM

We endorse the key principles outlined in the ALP paper as underpinning any potential reform of the private health sector, including the concept of affordability. We recommend that the principles also include acknowledgement that the cost of providing care changes over time (both upwards and downwards) and that the reimbursements available through Medicare and private health insurance should accurately reflect the cost of providing and accessing care. With regard to the principle related to competition and choice, any review process must also acknowledge that the range of services provided in the public health system includes both services which may be of greater complexity or offered in locations and parts of the system where private providers are unavailable. We therefore contend that the principles must include a requirement that any reforms should be cognisant of the sustainability of the public hospital sector and the possible consequences of cherry-picking by private providers aimed at avoiding more complex patients and procedures to meet profit and other business goals.

TERMS OF REFERENCE FOR A PRODUCTIVITY COMMISSION INQUIRY

AHHA supports a Productivity Commission inquiry to examine the costs and benefits of private health insurance within the overall health sector. The terms of reference must include consideration as to whether the more than \$6 billion Australian Government subsidy for private health insurance could be more effectively used in other parts of the health system. We also recommend consideration should be given to whether ancillary cover should be out of scope for the private health insurance rebate, particularly noting the 25% gross margins that insurers make on these products. The terms of reference should seek guidance on the potential savings from the abolition or scaling back of the private health insurance rebate and how this might be redirected to public health system funding, including for public hospitals and the Medicare Benefits Schedule. If the rebate is retained, the Productivity Commission should provide guidance on private health insurance arrangements which will support equity, accessibility and sustainability of the broader Australian health system to benefit the whole community.

We recommend the terms of reference also consider the management efficiency of private health insurance funds, and specifically consider the appropriate level of risk adjusted returns that private health insurers should be able to earn given the significant de-risking of industry revenue due to government policies that underpin the take-up of private health insurance in Australia.

We are concerned with the statement in the discussion paper that there are no plans to make further changes to the rebate. The review and evaluation should give due consideration to the cost-effectiveness of the rebate in achieving objectives related to the take up of private health insurance, and in managing demand for public hospital services, relative to the cost benefits of investing similar amounts directly into the public health system (including both hospitals and primary care). Without such consideration, the proposed Productivity Commission review will be of limited value.

The Productivity Commission must examine the costs and benefits of private health insurance and the role it plays in the overall health sector, not just in supporting access to the private health system. This should then inform the extent to which annual premium increases should be permitted and to identify if private health insurers are earning excess risk-adjusted returns.

The terms of reference for the Productivity Commission inquiry could also include a requirement that they give consideration to: alternative funding models such as payments for outcomes, not funding low-value care such as unnecessary hospitalisations and readmissions; bundled packages of care for certain conditions such as maternity and some cancer care; and funding some care which has previously been provided in hospitals but is now more appropriately provided in outpatient services such as some cancer therapies, dialysis etc.

MATTERS RELEVANT TO THE PROPOSED INQUIRY

AHHA understands the importance of private health insurers being prudentially and financially sound. But this should not be due to consumers paying excessively high premiums. Government subsidies and consumer out-of-pocket costs should not be used to support inefficient business practices or industry profits that exceed the commercial risk being faced.

AHHA supports community rating in the setting of private health insurance premiums as contributing to equity in health.

AHHA does not support the creation of health savings accounts, eg for ancillary cover, as suggested by some professional groups as this would adversely impact on equity.

People covered by private health insurance and being treated in a public hospital should continue to have the choice to be treated as a private patient. This should be in a setting where the patient is able to make an informed choice. Under current arrangements, private health insurance supports choice for people living in rural and remote Australia, or requiring long-term management of multiple comorbidities, or requiring highly specialised care only available in public hospitals (particularly paediatric care). Consideration must be given to this in the proposed review.

AHHA supports innovation in the delivery of primary healthcare and initiatives that promote prevention, early intervention and improve the coordination of care. However, if private health insurers are to have an increased role in primary healthcare, there must be policy arrangements in place to ensure there is no reduction in access and equity, nor increased costs for non-insured consumers.

AHHA considers that there is a need to review contracting arrangements between private health insurers, and hospitals and preferred providers. We note that there are many examples where this has not worked satisfactorily either for providers (who have either been excluded or have had difficulty reaching agreement with insurers) or for consumers (who have difficulty obtaining information on no gap and known gap arrangements, and who are not able to fully exercise choice despite purchasing insurance for this reason). We also note the moves towards vertical integration by some insurers who also deliver services (eg dental) and preference their own services over other providers.

AHHA supports greater transparency in the public reporting of quality, outcomes, waiting times and fees by private health providers. This is to assist consumers to make more informed choices in receiving their health care and to reveal those practitioners that charge excessively high fees relative to their peers. Information should also be made publicly available on the out-of-pocket cost to consumers of the full cycle of care. This would contribute to consumers being better informed and could facilitate the development of innovative models of care. The Productivity Commission should also consider and report on the impact of the Medicare rebate freeze in pushing up out-of-pocket costs. In making this information public, an oversight function should also be established to monitor clinicians' pricing practices. This is to avoid the potential of lower fee charging practitioners excessively raising fees due to being able to observe the pricing practices of peer providers. This could be supported by agreements with relevant professional bodies to abide by agreed codes of conduct relating to pricing practices.

Thank you for the opportunity to consider the proposal for a Productivity Commission inquiry into private health and private health insurance. This is a timely initiative, and should be prioritised if the ALP is elected to form government in the forthcoming election.

Yours sincerely



Alison Verhoeven
Chief Executive
Australian Healthcare and Hospitals Association