



# Hospital safety net

## Health insurance chiefs explain why the cost of cover keeps rising

**T**he price of health has risen again, with the Federal Government approving an average 5.57 per cent increase in private health insurance premiums — including some rises above 7 per cent.

But with the average increase around twice the rate of inflation, what is driving the policies so high — and how much further can they go?

HBF managing director Rob Bransby says insurers are shouldering a big rise in demand for hospital services as well as increasingly costly health services as technology improves and procedures become more expensive.

HBF, where premiums are set to rise by 5.85 per cent, has an estimated 62 per cent of WA's hospital insurance share and says that on any given day, roughly 520 of its members are in hospital, costing \$1.7 million a day, with a quarter of members going to hospital each year.

Another 11,769 members are using ancillary benefits each day, with an average 12 claims per policy a year.

"Across Australia, benefit payments grew about 9 per cent; at HBF it was 12 per cent. When you have a cost base growing around 10 per cent annually, you have to have increases somewhere to offset the massive growth," Mr Bransby said.

"Utilisation is up — if you look at this year, it is the first year the baby boomers have started turning 65, which is the age where people typically start to claim.

"That means more people in hospitals and more cost for the whole health system, not just

insurers. The second issue is technology. It is getting better and people want the newest and the best. The third issue is people are living longer and wanting quality of life."

Part of the problem for insurers is that while the number of members is growing — despite fears people would leave the system due to recent Federal Government law changes — many of those entering the system are in high-claiming brackets.

Changes in 2008 raised the income thresholds at which people without health insurance began to pay the Medicare Levy Surcharge (an extra 1 per cent of tax). It is now \$77,000 for singles and

community rated — so any walk of life, at any age, smokers, non-smokers, obese, chronically ill, can walk into any health insurer and buy a premium at the same price as anybody else," Mr Bransby said.

"The only differentiator will be the penalty you pay if you join over the age of 30."

HIF managing director Graeme Gibson sees similar pressures, but says his company is working to contain costs.

HIF had kept its price rise below 5 per cent but he pointed to significant increases by some of the larger funds, saying there was more they could do to pass efficiency savings to members in

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\$154,000 for couples.

Despite the concerns, the number of people insured rose 2.17 per cent in 2009 and by a further 2.55 per cent in 2010, peaking above 10 million policy-holders for the first time.

But the age of policy-holders also crept higher.

In the last quarter of 2010, six out of 10 new policy holders were aged 60-plus and one out of 10 was over 80.

Mr Bransby said the insurance system had "risk equalisation" built in, so insurers shared the cost of high-claiming policy-holders.

Under the system, a 22-year-old single man with excellent health pays the same premium as an 82-year-old single man with a history of chronic illness and heart trouble.

"We don't discriminate — it is

the form of lower premiums.

Mr Gibson said HIF was also working to offer products that would bolster its ranks of younger members and had recently increased membership by just under 14 per cent.

"HIF is taking advantage of the attraction we have for the younger demographic to build our base and to invest in our future as a health insurer," he said.

"Obviously a younger person is typically healthier than an older person, so we are providing a good match between what we are offering and what they are seeking. One of the biggest challenges for any health insurer is to get the balance right between your pricing solution and your benefits solution.

"The attractiveness of our products for our younger demographic means we are



getting a strong inflow so we are getting our revenue, and since the younger demographic are not disposed to the same claiming behaviour as older demographics, we can take advantage of that as well.”

Premiums are likely to keep rising steadily but Mr Bransby says the biggest threat to health insurers — and, by extension, the cost of policies — is the suggestion that the Federal Government might means test the 30 per cent private health insurance rebate, phasing it out for singles earning more than \$75,000 and families earning more than \$150,000.

“What it will do is mean a lot of people will drop certain covers and a lot of them will down-sell and start to take more exclusionary products to make it affordable,” Mr Bransby said.

“It won’t be the people that are unhealthy, it will be the people who are well who do that.

“You need to have full participation for a robust system and if anything upsets that balance by people either leaving the sector or down-selling products or dropping some cover it will just make it more difficult for us to be innovative with our products.”

He said private insurers were part of the health system and alleviated the pressure on public hospitals — even if there was still an impression that insurers were big companies out to make a buck

“There seems to be this thought in the community that insurers are these massive commercial conglomerates but HBF and other local ones are not-for-profits,” he said.