



Medibank Private

Submission to the Financial System Inquiry

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Contact: James Connors

Head of Government and Industry Affairs

Phone: 03 8622 5163

james.connors@medibank.com.au

Introduction

Medibank welcomes the opportunity to provide a submission to the Australian Government's Financial System Inquiry (FSI).

Medibank acknowledges that due to its unique characteristics the Inquiry considers private health insurance regulation to be out of scope. However we also note the FSI Interim Report identified managing longevity risk as a gap in Australia's financial system. Given the key role PHI plays in funding health services for older people it is clear there are issues around maintaining affordability of private health insurance that should be considered by the inquiry.

Despite the protective effects of community rating which shields older people from paying a premium that reflects their full risk, there is little doubt that for this cohort private health insurance represents a substantial portion of their disposable income. This can lead to older people making the difficult decision to drop their private health insurance and forcing them to rely on Government funded healthcare services.

Medibank suggests that the Inquiry consider the potential benefits of immediate and deferred lifetime annuities aimed at funding private health insurance in later life. Such protection could be provided or underwritten by a life office with a registered private health insurance company providing the health insurance component.

About Medibank

At Medibank, we stand For Better Health.

These three simple words sit at the heart of everything we do. They define why we exist and what we stand for. For Better Health means seeing every interaction with our customers as an opportunity to build a relationship. It means we promise three things:

- Better Choices – we help people make positive health decisions and feel in control of their health
- Better Confidence – we ensure people feel confident about their health and offer genuine peace-of-mind
- Better Outcomes – we advocate for an improved health system that produces quality health outcomes but also contain health costs.

Medibank is Australia's largest provider of private health insurance and health solutions. Each year, we pay billions of dollars worth of hospital and allied health claims and directly deliver almost 600,000 clinical services, helping millions of Australians live healthier, fuller lives. With a large and diverse customer base, Medibank is one of the best recognised brands in Australia. We are proud of the position of trust we have established and of our integral role in Australia's health system.

Protecting health and wellbeing

With Medibank and ahm amongst Australia's most trusted private health insurance brands, we are the private health insurer of choice for over 3.8 million people Australia wide, including over 200,000 overseas visitors and students. Our size allows us to offer value for money products for customers at all life stages across all states and territories and to secure sustainable pricing when purchasing health services on their behalf. They

also rely on Medibank health insurance products for access to our nationwide network of partner hospitals and ancillary service providers.

Further bringing our Vision to life, Medibank has deliberately chosen to go beyond the standard health insurance with a strong value proposition that ensures peace of mind and the best in healthcare, including:

- Immediate access and treatment.
- Doctor of choice or preferred treatment pathway.
- Access to a national network of hospitals and ancillary provider.
- Nurse & health advice 24/7 every day.
- Care coordination and integrated care for complex patients.

We also draw on the strength of our brand to offer complementary insurance products, including Medibank Travel Insurance, Medibank Life Insurance and Medibank Pet Insurance. These products are strongly aligned to our core insurance business, extending peace of mind to all members of the family, including those who are overseas and much-loved family pets.

Virtual and face to face healthcare

Delivering on our commitment to support health and wellbeing, Medibank Health Solutions has become Australia's largest provider of telephone health coaching, nurse advice and triage, telephone chronic disease management and web-based health and wellness advice. As the service provider for publicly funded and available services including *healthdirect Australia*, *after hours GP helpline* and *NURSE-ON-CALL*, our expertise is experienced everyday by thousands of Australians.

We are also responsible for providing access to on- and off-base healthcare services for the Australian Defence Force. Applying from point of injury or illness through to recovery, our services connect Australian Defence Force personnel with on- and off-base health professionals, radiology, pathology and optometry services across Australia. We also provide the Australian Defence Force with a world class telehealth service delivering triage, health advice and referral services 24 hours a day, seven days a week.

Longevity insurance for private health insurance.

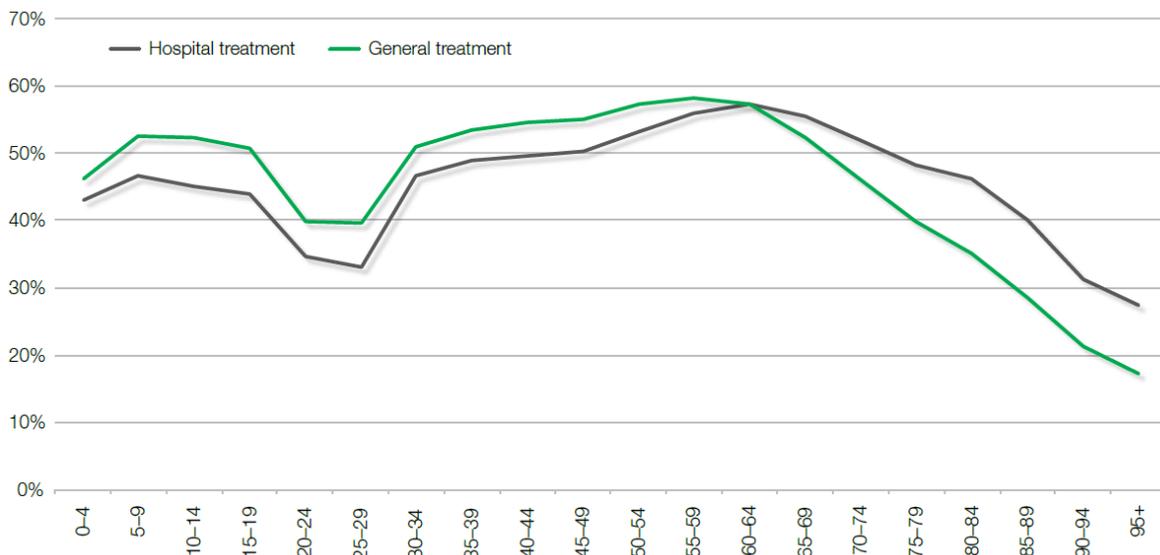
The FSI Interim Report identified managing longevity risk as a gap in Australia's financial system. Longevity risk manifests in the drivers of the costs of ageing, principally health care, aged care and retirement incomes and these costs are shared between individuals and government.

Where an individual has private health insurance, the health longevity risk to government is lessened. This is because privately insured people are less likely to rely on publically funded health services for the entirety of their healthcare, thereby lowering government health expenditures.

On the other hand private health insurance increases longevity risk to individuals in the form of premiums. While the heightened health risks associated with ageing mean premiums represent good value for money for older people, fixed or declining incomes is a challenge to affordability. As a result, many older people are forced to drop their cover at the very time it is of most value to them.

The chart below is produced by the Private Health Insurance Administration Council (PHIAC) and tracks the proportion of the population covered by hospital and general treatment policies by age. As can be seen, there is a dramatic drop in the proportion of people covered after the age of 65, suggesting that affordability plays a substantial role in decisions to cease cover post retirement.

The proportion of the population covered by hospital and general treatment policies¹



Supporting PHI participation

There is significant scope to enhance the welfare of individuals who choose private health insurance. Allowing pooling of longevity risk will make it more affordable, resulting in

¹ Private Health Insurance Administration Council, *The Operations of Private Health Insurers Annual Report 2012-13*, 2013, page 22.

older people having greater capacity to pay for and therefore maintaining their private health insurance cover.

This longevity protection could be provided using immediate lifetime annuities or deferred lifetime annuities to fund a stream of payments sufficient to provide private health insurance cover for life.

Premiums for this longevity protection would be based on the expected escalating annual cost of private health insurance, the age and sex of the insured, and appropriate mortality assumptions. This longevity protection would be provided or underwritten by a life office with a registered private health insurance company providing the health insurance component.

Alternatively, longevity protection could be provided via superannuation, with part of employee benefits upon retirement being reserved to fund private health insurance. This could be done either directly from the benefits as they are drawn down, or by taking a lump sum and using it to purchase an annuity product of the type noted above.

Regulatory restrictions

Presently there are impediments to offering these two conceptually different products together as a package. Key issues that would need to be considered and settled by policy makers include:

- The need to have pricing for the longevity component which discriminates on the basis of age and gender when providing longevity protection.
- How to treat longevity protection for the purposes of the private health insurance rebate.
- The ability for policyholders to vary their product according to need and for PHI funds to make changes to the product.
- Whether the PHI component of such a combined offering must also be available on its own as retail product, as would be required under current regulations.
- How to ensure regulatory stability over the long term.

Resolving these detailed issues is out of scope for an inquiry as broad ranging as the FSI. However, as managing individuals' and governments' longevity risk is a systemic issue, we suggest the FSI recommend Government establish a process led by appropriate government agencies to examine the issues and regulatory barriers that may impede the development of a market for longevity protection products for private health insurance.