2019-20 Federal Budget Submission

**Australian Private Hospitals Association ABN 82 008 623 809**

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# The private hospital sector

The private hospital sector makes a significant contribution to health care in Australia, providing a large number of services and taking the pressure off the already stretched public hospital system.

The private hospital sector treats 4.43 million separations a year.

In 2016–17 it delivered:

* More than a third of chemotherapy
* 60 percent of all surgery
* 79 percent of rehabilitation
* 73 percent of eye procedures
* Almost half of all heart procedures
* 73 percent of procedures on the brain, spine and nerves.

Australian private hospitals by the numbers:

* Almost half (49 percent) of all Australian hospitals are private
* 657 private hospitals made up of:
* 300 overnight hospitals
* 357 day hospitals
* 34,339 beds and chairs (31,029 in overnight hospitals and 3,310 in free-standing day surgeries)
* Employs more than 69,000 full-time equivalent staff.

## The Australian Private Hospitals Association

The Australian Private Hospitals Association (APHA) is the peak industry body representing the private hospital and day surgery sector. About 70 percent of overnight hospitals and half of all day surgeries in Australia are APHA members.

# The Private Health Insurance Rebate – relief for low income families

## Budget proposal

Freezing the rebate for Base Tier households would mean low-income households are no longer subjected to a regressive and inequitable anomaly in current policy settings which directly impact affordability of health insurance. The cost of health insurance for these families would increase by no more than the premium increases approved by the Federal Government.

## Rationale

The increasing costs of health insurance premiums mean fewer Australians are retaining their cover, and those who retain insurance are reducing their level of cover. Recent quarters have seen a net decrease in the number of people covered by health insurance coupled with an increase in exclusionary policies.

Although the Federal Government succeeded in 2018 in delivering the lowest private health insurance premium in 17 years with an average weighted premium increase of 3.95 percent, this achievement was not enough to turn the tide of people dropping private health insurance.

The percentage of the Australian population with private health insurance hospital cover has declined from a long-term plateau of around 47 percent to just 44.9 percent as at 30 September 2018. The June 2018 quarter saw the largest quarterly decline in the number of people with private health insurance in over a decade; a net loss of 57,512 people. In September 2018, there was a further net loss of 5,256 people with hospital cover insurance.

Source: APRA Private Health Insurance Statistics, multiple years.

The indexation of the private health insurance rebate to the Consumer Price Index, as opposed to the actual cost of premiums, has meant the real value of the rebate for households on low incomes has reduced from 30 percent to only 25 percent as premium increases have continued to exceed general inflation.

## What this means for Australian consumers

Falling participation in private health insurance and increasing utilisation by those who retain cover is putting upwards pressure on premiums, further driving a negative spiral of falling participation and increasing premiums.

If more Australians drop cover or choose exclusions in their cover it will mean more pressure on the public system and impact overall healthcare outcomes when consumers choose to or are forced to, delay important treatments.

Households on low incomes face a ‘double whammy’ of increased premiums and reduced rebates. When premiums increased by an average of 3.95 percent, these households experienced an increase of 5.06 percent.

In 2017–18 the full private health insurance rebate was restricted to single households with incomes of $90,000 or less and families with incomes of $180,000 or less (not including additional allowances for dependent children). For these lowest-income households, the maximum rebate for people under the age of 65 has decreased from 30 percent in 2013–14 to just 25.145 percent in 2018–19. For people on low incomes aged 65-69 the value of the rebate has fallen from 35 percent to 29.651 percent and for those aged 70 and over the rebate has reduced from 40 percent to 33.887 percent.

**Impact of Premium Increases and Rebate Reductions on Base Tier Households**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Year 1 April - 30 March** | **Base Tier Rebate** | **Industry Average Premium Increase** | **Premium before Rebate** | **Premium after Rebate** | **Increased cost to the Consumer** |
| 2013–14 | 30.00% | 5.60% | $3,892.90 | $2,725.03 | 5.60% |
| 2014–15 | 29.04% | 6.20% | $4,134.26 | $2,933.67 | 7.66% |
| 2015–16 | 27.82% | 6.18% | $4,389.76 | $3,168.53 | 8.01% |
| 2016–17 | 26.791% | 5.59% | $4,635.14 | $3,393.34 | 7.10% |
| 2017–18 | 25.934% | 4.84% | $4,859.49 | $3,599.23 | 6.07% |
| 2018–19 | 25.145% | 3.95% | $5,051.44 | $3,781.25 | 5.06% |

Source: APHA analysis using private health insurance rebates and income tiers as published by the Australian Taxation Office.

This measure is regressive impacting lower income households more severely than high income households. As shown in the table below, households in the lowest income tier experienced an increase of 5.06 percent while households in the highest income tier (zero rebate) experienced an increase of 3.95 percent.

It is totally inequitable that those who can least afford it have the biggest premium increases in real-terms due to current policy settings.

**Premium increases, Rebates and Cost Increases for Each Income Tier, 1 April 2018**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Industry average premium increase** | **Base Tier**  | **Tier 1** | **Tier 2** | **Tier 3** |
| **Rebate** | **Average****increased cost** | **Rebate** | **Average****increased cost** | **Rebate** | **Average****increased cost** | **Average****increased cost** |
| 3.95% | 25.145% | 5.06% | 16.943% | 4.38% | 8.471% | 4.15% | 3.95% |

Source: APHA analysis using private health insurance rebates and income tiers as published by the Australian Taxation Office.

Furthermore, households on the Base Tier are not liable for the Medicare Levy Surcharge therefore there is no tax advantage for them to hold private health insurance.

# Private health insurance reform - communication campaign

## Budget proposal

A structured government led communication campaign is needed to support the implementation reforms aimed at providing clarity for consumers. This information campaign needs to be led by government and extend throughout the full implementation period (i.e. to Wednesday 1 April 2020). The campaign needs to highlight:

* The importance of consumers seeking information as to why their premiums have increases and how their policies may change at 1 April.
* The importance of notifications provided by health insurers regarding detrimental changes to health insurance cover.
* Consumer’s right to switch policies without loss of cover
* The availability of independent and impartial advice from privatehealth.gov.au

## Rationale

Consumers are increasingly concerned about finding affordable and appropriate private health insurance products. They struggle to obtain the information they need to make the right decision for their family.

Consumers often find health a difficult area in which to exercise informed choice. The Australian Competition and Consumer Commission (ACCC) has repeatedly cited concerns consumers are at a disadvantage when it comes to choosing private health insurance.

The cost to family budgets from increasing premiums often means Australians are choosing products with ‘exclusions’. Australians often buy these health insurance products with little or no understanding of what they can and cannot access through their cover.

The significant reforms announced by the Federal Government are intended to provide clarity to consumers by ensuring private health insurance policies are consistently branded as “Gold”, “Silver” or “Bronze” and coverage is described using a clinical terminology. These reforms are welcome however the implementation period will be one of heightened risk for consumers as health insurers adjust their policies to fit the new requirements.

## What this means for Australian consumers

Too often, consumers are unaware of important gaps in their health insurance cover until seeking treatment and/or making a claim. Consumers may find they are not covered at all for the treatment required, or face significant and unexpected out-of-pocket costs. The resultant ‘bill shock’ can lead to:

* Consumers’ inability to afford access to timely treatment
* Consumers’ inability to access the doctor or facility of their choice
* Financial stress and hardship at a time of ill-health
* Consumers falling back to reliance on already overstretched public hospitals.

APHA’s 2017 consumer survey shows Australians’ know very little about the restrictions on their private health insurance cover. For example, 32 percent do not know if they have exclusions in their policies. Of those who say they do know there are exclusions, 22 percent of them are unsure what services are excluded.

Even though private health insurers are required to notify members of any detrimental change to their cover, experience shows consumers’ comprehension of these changes is low.

The implementation of Federal Government reforms introduces an increased level of risk for consumers in the short term.

* High numbers of consumers will receive notification of significant changes to their existing policies. They will have a fixed period in which to decide whether to accept the changes to their existing coverage or move to an alternative policy. Failure to do so will result in waiting times being imposed as if the consumer were upgrading their cover. Furthermore the implementation period of 12 months means not all consumers will receive their notifications at the same time.
* In some instances, consumers may find the premiums for their existing policies (or the equivalent level of cover offered by insurers) increase by significantly more than the industry average if health insurers have added to the extent of coverage provided. This may prompt a strong negative reaction with the risk consumers will drop their cover.

# Workforce – meeting clinical skill shortages now and for the future

## Budget proposal

* **Government needs to continue to work with the private sector to provide training opportunities which would otherwise not be available.** Government support to continue and expand for training opportunities including:
	+ Medical internships and junior doctor placements
	+ Specialist registrar training
	+ Student placements for medical, nursing and allied health undergraduates.
* **Skilled migration regulations need to be reformed to reduce the cost and complexity** involved in recruiting skilled and experienced clinicians to positions which cannot be filled by Australian graduates.
	+ The charges to employers need to reduced.
	+ Pathways to permanent residency for highly skilled employees need to be restored
	+ Government investment in training and workforce development needs to align with skill shortages.

## Rationale

**Training Australia’s future clinical workforce**

Australia’s future medical workforce faces four challenges:

* Retention of Australian trained graduates and provision of adequate opportunities for junior doctors to complete internships and acquire relevant experience
* Attraction and retention of doctors to regional areas
* Attraction and retention of trainees to specialties in shortage.
* Provision of opportunities to equip trainees with the skills they need for their future careers, including exposure to procedures and practices in the private sector.

University and vocational education and training enrolments are at an all-time high for medical, nursing and allied health professions. However, these graduates will be unable to enter their intended professions without adequate access to clinical placements.

The private hospital sector has a vital role in meeting all these challenges by:

* Providing placements for university and vocational education and training students
* Providing graduate placements for nurses and allied health professionals
* Providing internships and junior doctor positions for medical graduates
* Providing registrar positions to train future medical specialists
* Supporting staff to acquire postgraduate and research qualifications.

In 2015, the private hospital sector spent an estimated $167 million on training of medical, nursing, midwifery and allied health staff. In fact, the private sector plays a unique role in providing training in health areas not readily available in the public sector including many areas of surgery, mental health and rehabilitation.

If the private sector is to pay an even greater role in meeting these future challenges at time when it is also committed to keeping the cost of hospital care as affordable as possible, it will need financial support from Government to provide additional quality clinical training opportunities.

**Skill shortages**

National data shows in aggregate there has been no evident shortage of registered nurses since 2011 and since 2012 for enrolled nurses. Shortages in mid-wifery have been “patchy” and regional. However, the Department of Jobs and Small Business reports internet vacancies are now at an all-time high and APHA member hospitals already experience persistent difficulties in recruiting experienced nurses to take on specialised roles including:

* Surgical
* Critical care
* Peri-operative
* Cancer care
* Mental health
* Midwifery
* Nursing manager roles.

The Department of Employment found nearly 80 percent of all qualified registered nurse applicants in NSW were considered by employers (all sectors) as either lacking the minimum level of experience required or lacking experience in the modality required[[1]](#footnote-1).

The Department of Jobs and Small Business has said employment in the health care and social assistance industry (a major employer of health professions) is projected to expand at double the pace of all industries over the five years to May 2023[[2]](#footnote-2).

Migration remains an essential strategy for employers in recruiting to roles which require specialised skills and experience particularly, registered nurses and midwives. As at 30 September there were 2,270 registered nurses on skilled worker visas. They included 1,632 working in specialist areas relevant to private hospitals as summarised in the table following.

**Registered nurses in selected areas relevant to the private hospital sector**

|  |  |
| --- | --- |
|  | Australia |
| Critical Care | 296 |
| Medical | 432 |
| Mental Health | 195 |
| Peri-operative | 215 |
| Surgical | 261 |
| Paediatrics | 54 |
| Total | 1,632 |

Source: Department of Home Affairs: Temporary resident (skilled) visa holders
<https://data.gov.au/dataset/visa-temporary-work-skilled/resource/2134083a-c0f0-4961-a70e-dc215bf20fe5>

Reforms to skilled migration in 2018 dramatically increased the cost to employers of sponsoring the migration of skilled employees. While acknowledging the Federal Government needed to act to address damaging unintended consequences in some sectors, APHA contends the impact on the health sector has been detrimental:

* There is no longer the possibility of retaining skilled and valued employees beyond the initial visa period. Consequently, not only employers, but the health sector as a whole loses the benefit of several years’ investment in these individuals; personnel essential to the provision of high quality health care.
* The loss of highly skilled and experienced employees also reduces the capacity of private hospitals to train the next generation of Australian health care professionals.
* The Skilling Australia Fund provides no benefit to the health sector because it does not provide funding for university and post-graduate level programs of the type needed to address current skill shortages. It does nothing to reduce reliance of skilled migration or develop the Australian health sector workforce.

## What this means for Australian consumers

Without a ready supply of well trained and experienced clinicians, consumers will inevitably face challenges in accessing timely and affordable high quality care.

# Pharmacy – PBS Special Pricing Arrangements

## Budget proposal

The Federal Government needs to commit funding to support the added administrative costs to supply chain participants as a consequence of the PBS Special Pricing Arrangements (SPAs) reform announced as part of the 2018/19 Federal Budget. These costs include the establishment of an escrow agent to handle the required transactions and reconciliations between manufacturers, whole-sellers, compounding pharmacies and dispensing pharmacists (both hospital and community based) and the Department of Human Services.

Independent analysis estimates the full cost to the Federal Government at $50 million per annum (on the basis of drugs currently funded through SPAs).

## Rationale

In the 2018/19 Federal Budget, the Australian Government announced its intention to implement changes to administration arrangements for high cost Pharmaceutical Benefits Scheme (PBS) listed medicines with the stated aim:

* Increasing consumers’ access to high-cost medicines through community pharmacy
* Continuing to support a viable community pharmacy network by addressing cash flow concerns raised by pharmacists and wholesalers, and
* Addressing the financial risks associated with the payment of large rebates from medicines companies to Government for some high cost medicine.

Although not consulted prior to this announcement, APHA accepted the Department of Health’s invitation to engage in detailed conversations in an attempt to develop a workable model for the implementation of this measure. Our conclusion is this reform imposes substantial and additional transactional costs on the sector and a high level of complexity with respect to the collection and reconciliation of data across multiple supply-chain participants.

APHA is appreciative of the fact the Federal Government has agreed to defer full implementation until 1 July 2020 for compounded drugs however it has stated the intent to commence with a trial implementation from 1 July 2019. In order for the trial proceed, it is essential a workable solution is found and a commitment made to a financially supporting model scalable to SPA arrangements as a whole.

## What this means for Australian consumers

A significant number of the drugs currently listed on the PBS under Special Pricing Arrangements are used in the delivery of chemotherapy to cancer patients. The supply chains involved in the delivery of these drugs to both private and public sectors are highly specialised. If the imposition of additional administrative overheads were to cause any part of this supply chain to withdraw there would be an immediate impact on the availability of chemotherapy services in Australia.

# Key statistics

## Industry statistics

* 49 percent of Australia’s hospitals are private
* There are 657 private hospitals – 300 overnight hospitals and 357 day surgeries
* There are 34,339 beds and chairs (31,029 in overnight hospitals and 3,310 in free-standing day surgeries)

Private hospitals are significant contributors to Australia’s health care system performing:

* More than a third of chemotherapy
* 60 percent of all surgery
* 79 percent of rehabilitation
* 73 percent of all eye procedures
* Almost half of all heart procedures
* 73 percent of procedures on the brain, spine and nerves.

Private patients in public hospitals:

* 14.0 percent of all public hospital patients are admitted as private patients (i.e. funded by private health insurance)
* This is up from 8.9 percent a decade ago
* Private patient recruitment by public hospitals is increasing wait times on public waiting lists.

Growth in private health insurance products with exclusions:

* Less than half of all private health insurance hospital cover products offer full cover (41.7 percent)
* The number of policies with exclusions has grown explosively, increasing 325 percent in in the past ten years.
* The proportion of Australians whose policies have exclusions is now 43.3 percent, compared to 6.5 percent in 2007 and 25.5 percent in June 2012.
* This number is increasing year-on-year.

Australians’ understanding of their cover:

* 32 percent are unsure whether they have exclusions in their policies
* Of those who say they do know there are exclusions, 22 percent of them do not know which services are excluded.
1. Department of Employment – Registered Nursing June 2017 (<https://docs.jobs.gov.au/system/files/doc/other/2544registerednursesnsw_2.pdf> [↑](#footnote-ref-1)
2. Labour Market Research, Health Professions, Australia, 2017–18, September 2018 https://docs.jobs.gov.au/documents/health-professions-australia [↑](#footnote-ref-2)