



Australian Government

Australian Institute of
Health and Welfare

infocus

Health Expenditure

Private health insurance expenditure 2015–16

Published March 2018

This report looks at how health expenditure in Australia is paid for by individuals through private health insurance. Individuals use private health insurance to fund healthcare not funded by the public health system, and offset some of their out-of-pocket costs. This report includes an overview of:

- what private health insurance is
- who has private health insurance
- how much was spent on rebates
- what services private health insurance and individuals funded in 2015–16
- how this has changed in the past decade.



Health insurers funded
8.8% of all health
expenditure



46% of the population
has some form of
private hospital cover



Almost half of the
\$14.9 billion paid out
by private health insurers
went to
private hospitals



The Australian
Government spent
\$5.7 billion on the private
health insurance rebate

AIHW

Health expenditure in Australia

Australia's health system is a complex network of public and private providers, settings, services and supporting mechanisms. In 2015–16, a total of \$170.4 billion was spent on health across Australia. About 67.3% of this came from government expenditure, 17.3% from individuals directly, 8.8% from private health insurance funds, and most of the remainder from injury compensation insurers.

What is private health insurance?

Private health insurance is a voluntary insurance policy available for those who wish to fully or partly cover the costs of hospital admission as a private patient and/or the costs of other general treatment health services (PHA 2015). It is designed to assist with the costs of health services that individuals pay for out-of-pocket, and is not 'risk-rated'. This means that insurance cannot be refused to any person, regardless of their risk profile (such as having pre-existing conditions or smoking) and likely usage of health services (DoH 2017a).

Private health insurance does not cover medical health-care services outside of a hospital admission which are listed on the Medicare Benefits Schedule (MBS) for those eligible, such as those provided by general practitioners or medical specialists, or diagnostic testing (see Box 1: *Australia's health system*) (DoH 2017a).

Box 1: Australia's health system

Australia's health system involves coordination and regulation from all levels of government, while the delivery of services is split between the government (public) and non-government (private) sectors.

Australia's public health system provides access to a range of free or subsidised health services provided by the Commonwealth, state and territory and local governments, often referred to as 'Medicare'. Public hospital services, such as emergency departments and hospital admissions, are free for eligible public patients, and funded by arrangements between the Australian and state and territory governments (NHFB 2017).

Medical services (including treatment by health professionals such as doctors and specialists) are subsidised on a fee-for-service basis, according to the prices listed in the Medicare Benefits Schedule (MBS). These are funded by taxpayers who, in addition to general income tax, pay a levy of 2.0% of their taxable income, and a further surcharge if they are high income earners who choose not to take out private hospital insurance cover (ATO 2017).

Many prescription pharmaceuticals are funded through the Pharmaceutical Benefits Scheme (PBS) with individuals paying a copayment (DoH 2017b).

Individuals can pay for the services not funded by the arrangements above out-of-pocket, and some can be covered through private health insurance.

Private health insurance policies generally offer cover for two broad categories of health-care services:

- hospital treatment—the cost of treatment in hospital as an admitted patient, such as accommodation and theatre fees
- general treatment—benefits for non-medical health services such as physiotherapy, dental and optical therapies (see Box 2: *General treatment*)
- combined—for both hospital and general treatment.

Health insurance funds will generally offer various levels of coverage in each category, involving different levels of copayments or excess. People can mix and match the levels and type of cover to suit their individual circumstances.

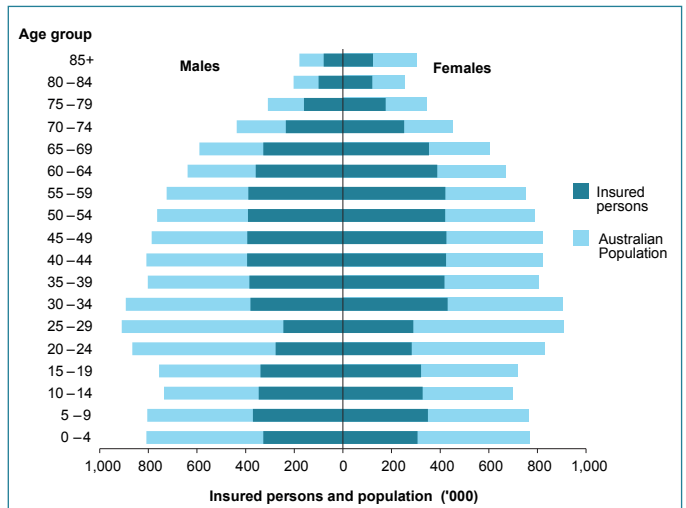
Box 2: General treatment

General treatment (also known as ancillary services or extras) refers to health-care services that are not listed on the MBS. These include services such as dental treatments, physiotherapy, prostheses, home nursing and chiropractors (PHIO 2017).

Who has private health insurance?

- As at March 2017, 11.4 million Australians (46% of the population) had some form of private patient hospital cover, and 13.5 million (55%) had some form of general treatment cover (APRA 2018).
- The proportion of the population covered by private health insurance increases from age 30, when lifetime health cover loadings apply (Figure 1).

Lifetime health cover is an initiative introduced by the Australian Government on 1 July 2000 to encourage Australians to purchase private hospital insurance when they are younger and healthier, by enforcing higher premiums for every year people remain without cover after age 30.



Sources: Australian Prudential Regulation Authority, ABS estimated resident population.

Figure 1: Demographics of the Australian estimated resident population at June 2017 and all insured persons at March 2017

Private health insurance rebates

The Australian Government provides an income-tested rebate to help people meet the cost of private health insurance. An income threshold is used to determine the Australian Government rebate on private health insurance.

The nature of this rebate has changed over time:

- In January 1999, a non-income-tested rebate on private health insurance premiums replaced the Private Health Insurance Incentives Scheme subsidy.
- From 1 July 2012, the private health insurance rebate became income tested.
- From 1 April 2014, all rebate percentages are adjusted annually by a rebate adjustment factor—the rebate has gradually been reducing since 2014. The rebate is scaled in tiers, and varies depending on income and age.

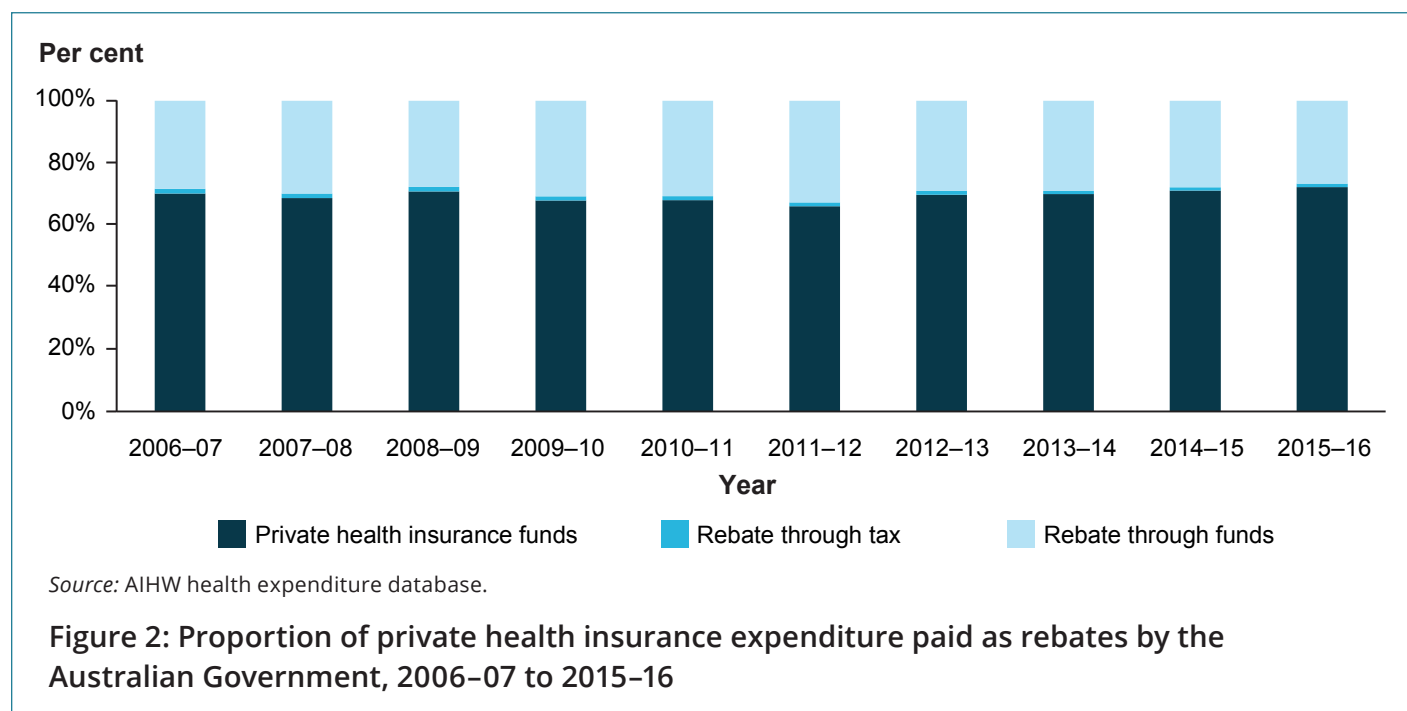
There are 2 ways to obtain the rebate on private health insurance premiums:

- The first is to claim this as a reduction in the amount of private health insurance premium paid to the insurer (with the private health fund claiming reimbursement directly from the Australian Government).
- The second is as a refundable tax offset when people with private health insurance lodge a tax return.

Expenditure on rebates

The majority of the Australian Government's private health insurance rebate is claimed through private health insurance funds as a reduction in premiums paid by individuals. In 2015–16, the Australian Government spent \$5.7 billion on the private health insurance rebate. Of this rebate, \$5.5 billion was paid out through funds as a reduction in premiums, after accounting for non-health-related overhead expenses. Rebates claimed through tax totalled \$231 million. Private health insurance rebates account for 27.8% of expenditure paid out by private health insurers, which has decreased since the introduction of income testing in 2012 (Figure 2). Expenditure figures for private health insurance in this report are net of the rebate amount.

Including expenditure from rebates, total expenditure relating to private health insurance-funded services in 2015–16 was \$20.7 billion.



What services did private health insurers and individuals fund?

Individuals use private health insurance to assist them paying for healthcare services. In 2015–16, more than half (57.0% or \$8.5 billion) of the \$14.9 billion spent by private health insurance funds was paid to hospitals—private hospitals accounted for the majority of this (86.6% or \$7.4 billion) (Table 1).

Primary health care received \$2.6 billion in expenditure from private health insurance funds, accounting for 17.8% of all expenditure by funds. This includes \$1.8 billion, or 12% of the total, on dental services. Other health practitioners, such as physiotherapists and psychologists, received \$812 million (5.4% of total).

Individuals spent a total of \$29.5 billion out-of-pocket. This includes direct expenditure items such as medical fees and copayments for medical services and pharmaceuticals, but excludes premiums for health insurance. Primary health care was the largest component, accounting for 68.0% (\$20.0 billion) of expenditure. This includes \$5.7 billion on dental services (19.5% of the total), \$1.4 billion for benefit-paid pharmaceuticals and \$9.4 billion on all other medications (a combined 36.7% of the total).

Expenditure on hospitals accounted for a low proportion of individual expenditure (\$3.3 billion, or 11.1%) compared with private health insurance funds (\$8.5 billion, 57%). Expenditure on dental services by individuals was higher as a proportion of the total than for private health insurance funds (19.5% compared with 12.0%).

Table 1: Recurrent health expenditure by private health insurance funds and individuals, current prices, by area of expenditure, 2015–16

Area of expenditure	Private health insurance funds		Individuals	
	Amount (\$ million)	Proportion (%)	Amount (\$ million)	Proportion (%)
Hospitals	8,505	57.0	3,274	11.1
Public hospital services ^(a)	1,136	7.6	1,419	4.8
Private hospitals	7,368	49.4	1,855	6.3
Primary health care	2,648	17.8	20,026	68.0
Unreferred medical services	..	..	741	2.5
Dental services	1,791	12.0	5,740	19.5
Other health practitioners	812	5.4	2,464	8.4
Community health and other ^(b)	1	–	242	0.8
Public health	..	..	22	–
Benefit paid pharmaceuticals	..	..	1,407	4.8
All other medications	44	0.3	9,410	32.0
Referred medical services	1,564	10.5	2,932	10.0
Other services	2,200	14.7	3,216	10.9
Patient transport services	212	1.4	397	1.3
Aids and appliances	656	4.4	2,811	9.5
Administration	1,332	8.9	7	–
Research	..	..	2	–
Total	14,917	100	29,451	100

— = nil or rounded to zero; .. = not applicable.

(a) Public hospital services exclude certain services provided in hospitals, and can include services provided off site, such as hospital in the home and dialysis.

(b) 'Other' includes recurrent health expenditure that could not be allocated to a specific area of expenditure; for example, expenditure by substance abuse treatment centres, providers of general health administration, or providers of regional health services not further defined.

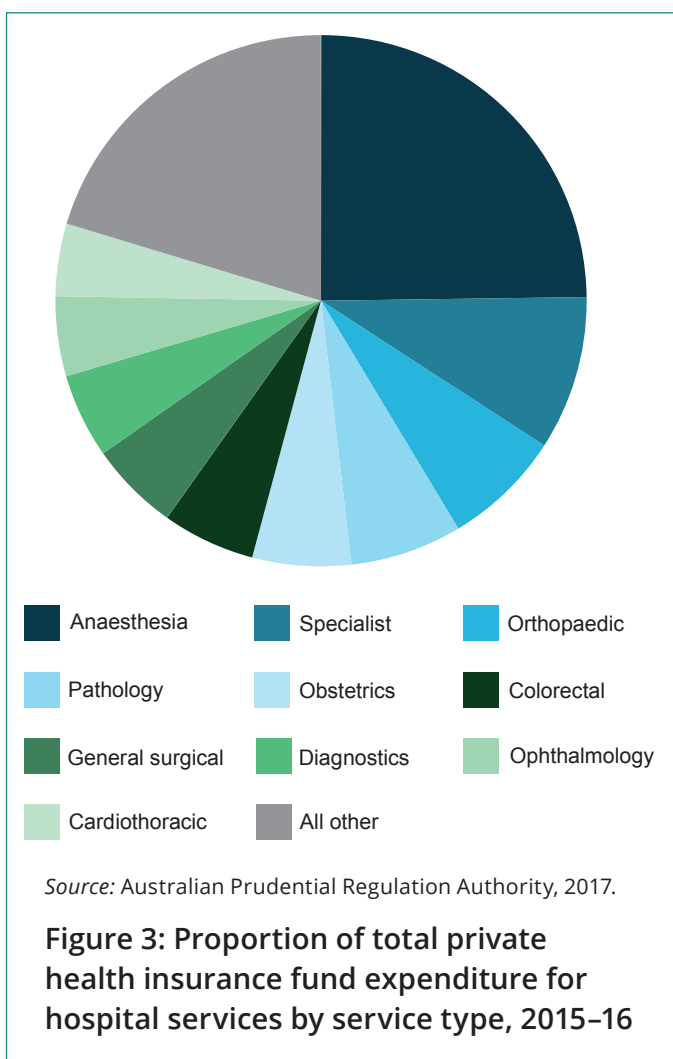
Note: Components may not add to totals due to rounding.

Source: AIHW health expenditure database.

Medical services in hospitals

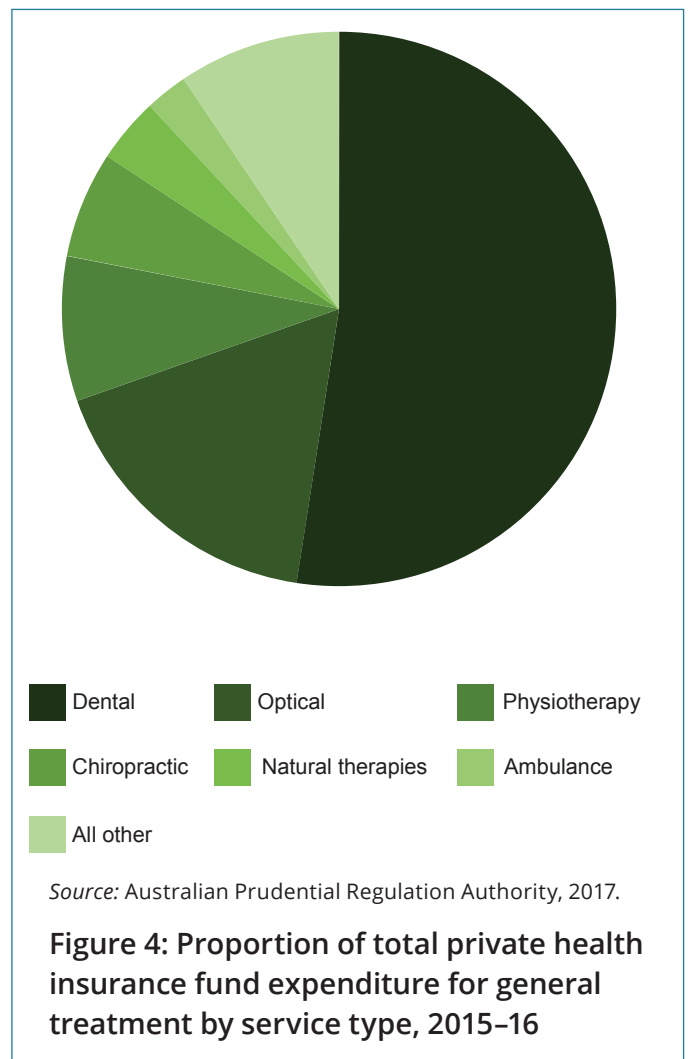
Private health insurance can be used to cover medical services that are provided through Medicare when the services are provided during hospital inpatient care. This can occur in a private hospital or in a public hospital for private patients.

In 2015–16, 85.4% of services in hospitals did not incur a gap or out-of-pocket payment for the patient (APRA 2017). Of those that did, the average payment was \$136.10. The distribution of private health insurance funding for hospital services is shown in Figure 3. The category 'specialist' refers to medical specialists, including consultant physicians and psychiatrists.



General treatment

General treatment private health insurance cannot cover private or public hospital services, or services provided through Medicare which occur outside of a hospital admission. In 2015–16, the benefits paid by private health insurance funds covered 53.1% of the fees charged for those using private health insurance. The largest components of expenditure for general treatment were dental services (52.4%), optical (17.2%) and physiotherapy (8.4%) (Figure 4).

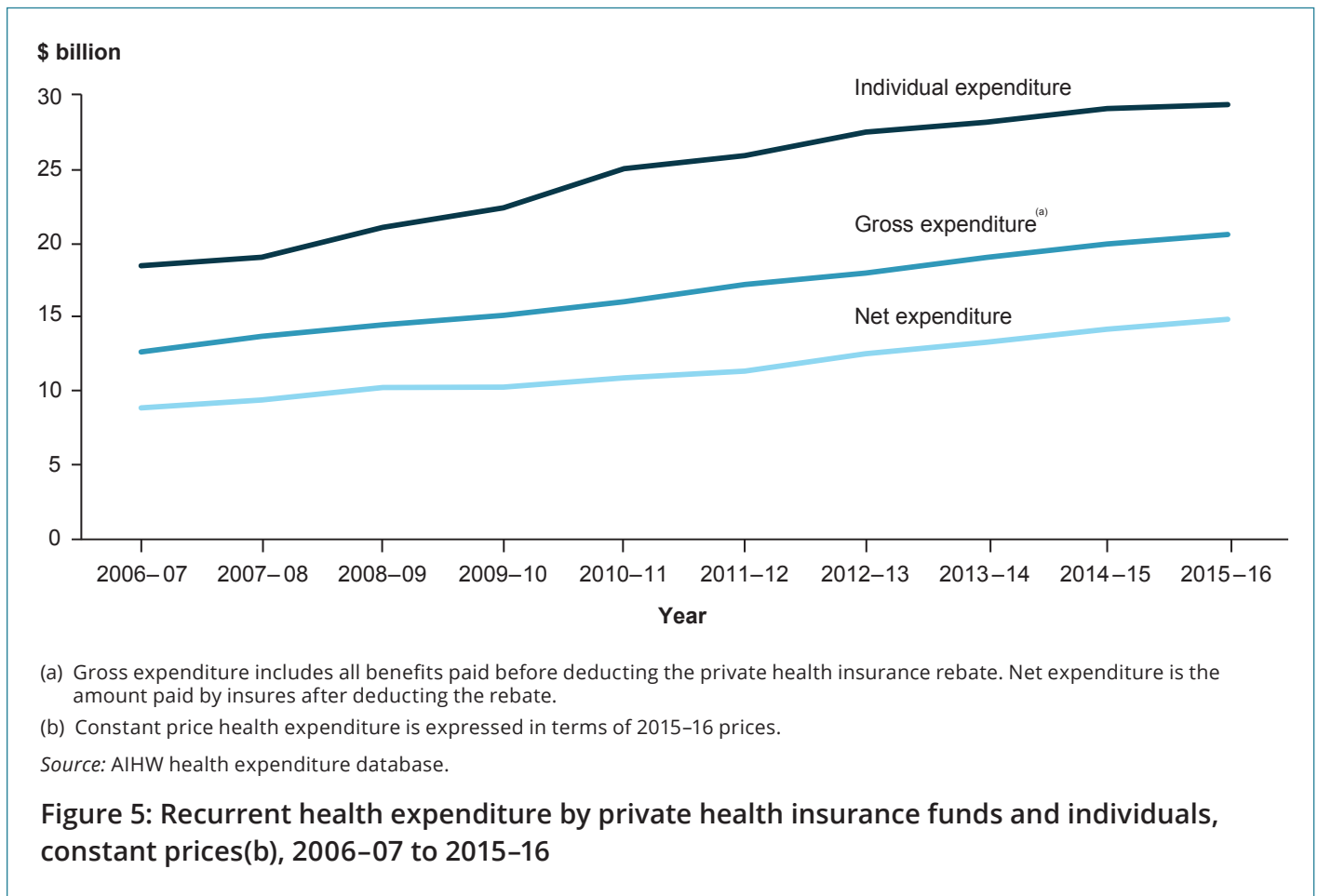


Changes over time

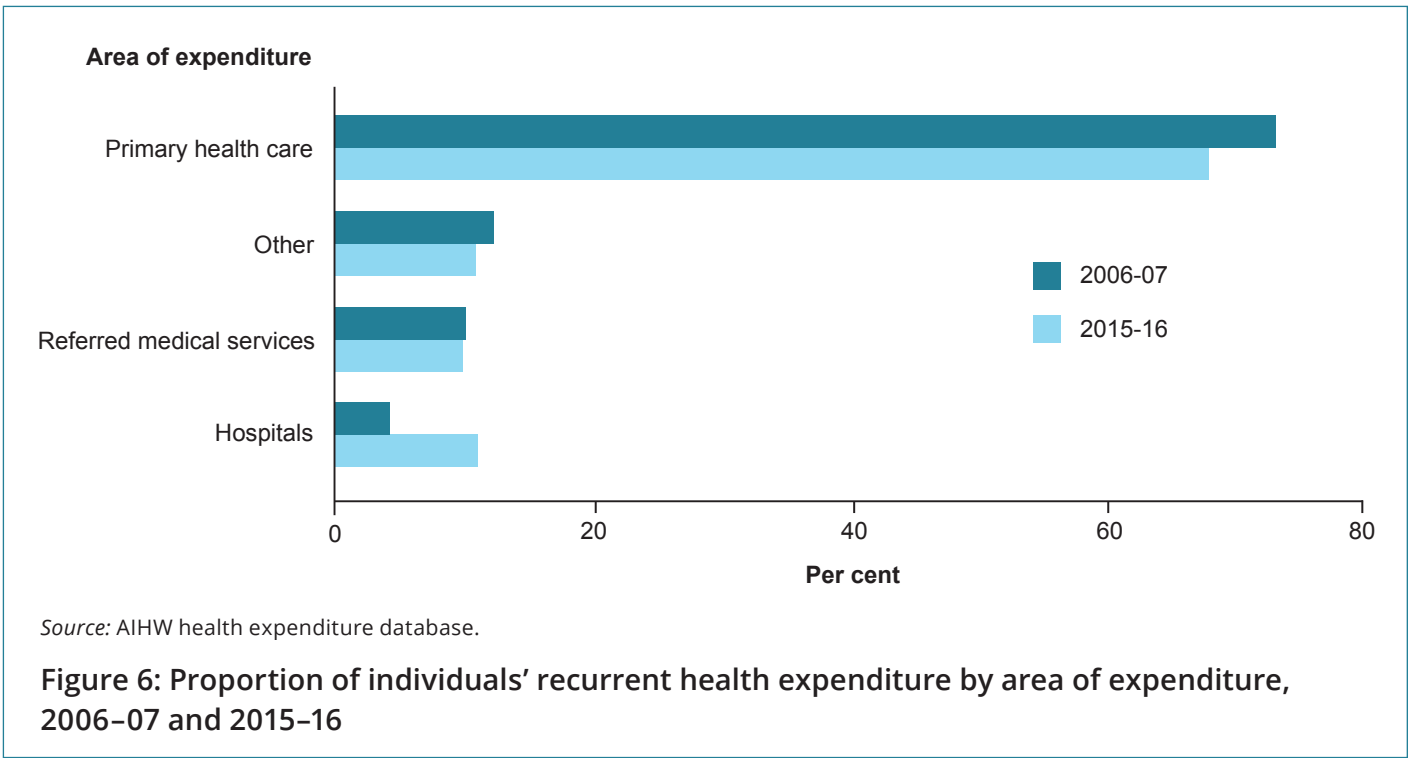
Net expenditure by private health insurance funds grew from \$14.0 billion in 2014–15 to \$14.9 billion in 2015–16. This represents a growth of 6.3% in benefits paid. After adjusting for inflation in health-care costs, this was a real increase of 4.6% (Figure 5). Increases in benefits paid are generally funded by increases in premiums charged to consumers for private health insurance products, which can only occur when approved by the Australian Government Minister for Health. The industry average premium increase was about 6.0% (DoH 2017c) over the same period.

Private health insurance premium rebates claimed through funds have not increased in nominal terms (\$5.5 billion in 2014–15 and 2015–16). After accounting for inflation, this represents a drop of 0.8% between 2014–15 and 2015–16. Rebates claimed through tax increased from \$204 million to \$231 million: a growth of 13.6% (11.8% after accounting for inflation).

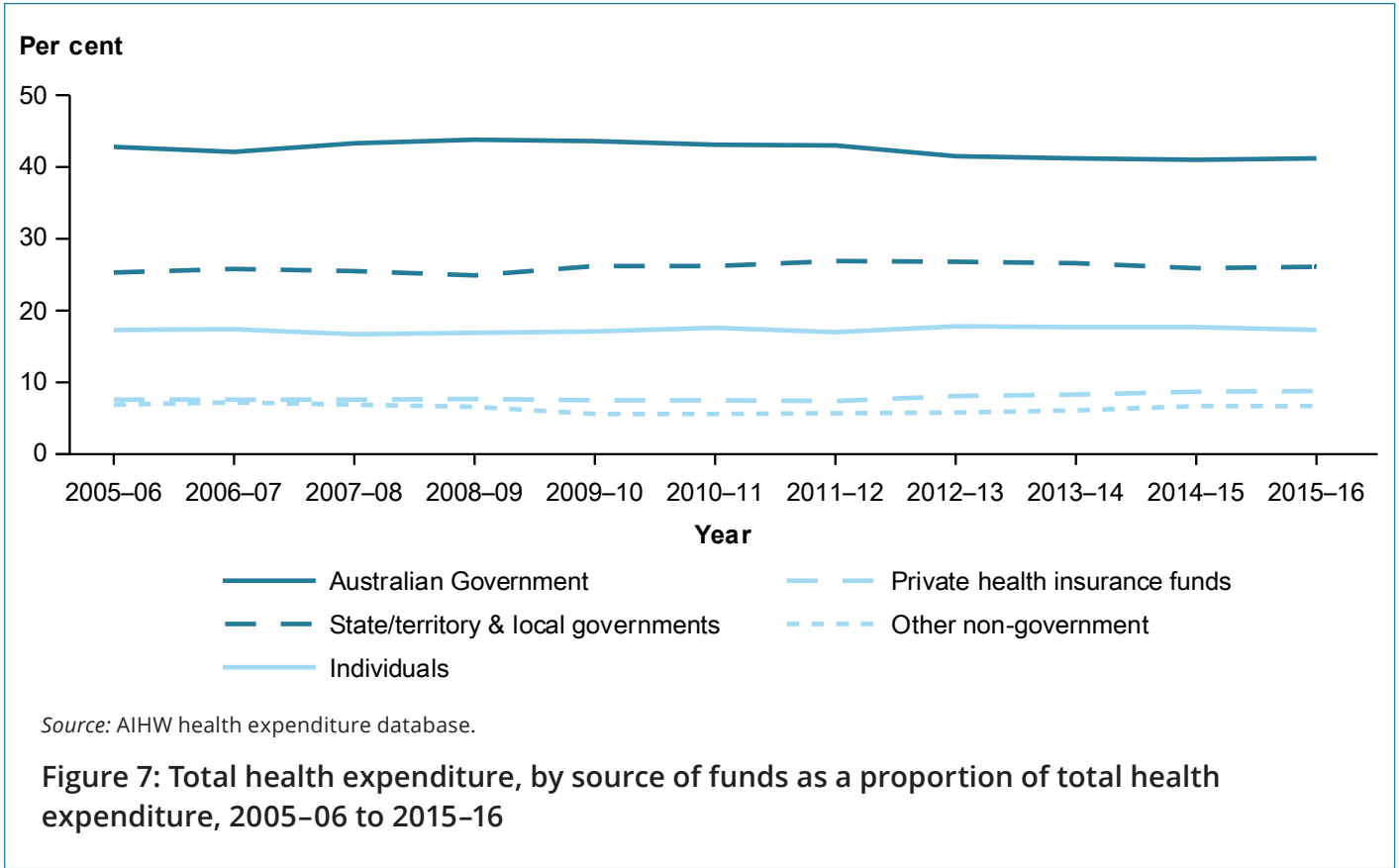
The proportion of total private health insurance fund expenditure for each area of expenditure has not changed significantly over the past decade.



Expenditure by individuals increased from \$28.7 billion in 2014–15 to \$29.4 billion 2015–16: a growth of 2.6%. After adjusting for inflation, the expenditure by individuals grew by 1.3%. In the past decade, the proportion of individual expenditure on hospitals more than doubled, from 4.3% of total individual expenditure in 2006–07 to 11.1% in 2015–16. Over the same period, expenditure on primary health care has decreased from 73.2% to 68.0% of total expenditure (Figure 6).



The share of total health expenditure contributed by private health insurance funds rose between 2011-12 and 2015-16, from 7.4% to 8.8%. Over the same time, the Australian Government share reduced by 1.8 percentage points, coinciding with the introduction of income testing of the private health insurance rebate in July 2012. In 2015-16, expenditure on health care by individuals accounted for 17.3%. In 2014-15, private health insurance funds contributed 8.7% of all health care spending in Australia, while individuals contributed 17.7% out-of-pocket (Figure 7).



Further information

Australian Institute of Health and Welfare 2017. Health expenditure Australia 2015–16. Health and welfare expenditure series no. 58. Cat. no. HWE 68. Canberra: AIHW.

Data visualisation of the AIHW health expenditure data is at <<https://www.aihw.gov.au/reports/health-welfare-expenditure/health-expenditure-australia-2015-16/contents/data-visualisations#>>.

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