



OUTCOME 08

CHOICE THROUGH PRIVATE HEALTH

A viable private health industry to improve the choice of health services for Australians.

OUTCOME 8: CHOICE THROUGH PRIVATE HEALTH

PART 1: OUTCOME PERFORMANCE REPORT

Outcome 8 was managed in 2004-05 by the Acute Care Division. The Private Health Insurance Administration Council (PHIAC) and the Private Health Insurance Ombudsman (PHIO) also worked towards the achievement of the outcome. Both produce their own annual reports.

Major Achievements

- Implemented increases to the Private Health Insurance Rebate for people aged 65 and over.
- Continued implementation of new prostheses arrangements including activities to assist the passage of legislation to support the new arrangements.
- Completion of the Informed Financial Consent consumer survey. The survey measured the extent to which health fund members were receiving informed financial consent.
- Enabled health funds to pay benefits for hospital accommodation and nursing care associated with surgical procedures performed by accredited podiatrists.
- Implemented regime for monitoring the performance of health funds against performance indicators following the commencement of reforms included in the *Health Legislation Amendment (Private Health Insurance Reform) Act 2004*.

KEY STRATEGIC DIRECTIONS FOR 2004-05

Affordability of Private Health Care

The *Private Health Insurance Incentives Amendment Act 2005* received Royal Assent on 22 February 2005 and increased the Private Health Insurance Rebate from 30 per cent to 35 per cent for people aged 65 to 69 years, and to 40 per cent for people aged 70 years and over. The change applies to both new and existing members of private health insurance funds. The Department worked closely with

the Health Insurance Commission (HIC), the Australian Taxation Office (ATO) and health funds to manage the implementation of the new higher rebates to ensure that the higher rebates were available from 1 April 2005.

In 2004-05, the Department commissioned a consumer survey to measure the extent to which Informed Financial Consent (IFC) was being obtained from health fund members being treated in hospital as private patients. IFC is closely linked to the development of no gap and known gap health insurance and occurs when patients are clear about which doctors will be involved in their care and are given accurate estimates of the overall medical and hospital costs and gaps. The report was released by the Minister on 25 July 2005.¹

The Department and the HIC also worked closely together during 2004-05 to progress the introduction of an electronic system to encourage IFC and simplified billing. The HIC's simplified Electronic Claim Lodgement and Information Processing System will enable medical practitioners to send a claim directly to the HIC rather than via the health fund. This will simplify claiming, payment and eligibility checking processes, to the benefit of consumers, health service providers and health funds.

During 2004-05, the Department continued to consult with industry on the proposed changes to private health insurance. The Government decided to defer the introduction of changes to the reinsurance arrangements in private health insurance to July 2006 to allow further time to consider the shape of the proposed reforms.

Access to Private Health Services

Private outreach services has been one of the most important developments for the health insurance and private hospitals sectors in recent years. Treatment provided through an outreach service, commonly known as 'Hospital in the Home', is a direct substitute for the treatment that would have been provided for the patient in a hospital or day facility. Private hospitals wishing to deliver services on an outreach basis must go through a rigorous application and assessment process to ensure appropriate quality

¹ Accessible online at <www.health.gov.au/internet/wcms/publishing.nsf/Content/informed-financial-consent-1>.

controls are in place. The Department continued to work with the Private Sector Outreach Services Working Party to assess 16 new and 23 renewed applications to provide outreach services.

Consumer Understanding and Awareness

In 2004-05, the Department continued to ensure that private health insurance products meet the needs of consumers and that consumers have access to useful information and are aware of what is included in their private health insurance product.

In October 2004, the Department commissioned research to determine consumers' needs in relation to private health insurance information and their attitude toward information that is currently available. The findings of this work indicated existing brochures were valuable, but that consumer access to this material could be improved. In 2004-05, the Department, with the private health care sector, the PHIO and the PHIAC commenced work developing initiatives to improve consumer access to information about private health insurance.

One such publication is the first *State of Health Funds* report,² released by the PHIO in February 2005. The report provides comparative ratings and statistical information for all health insurers in Australia on a range of indicators and issues including membership retention and growth, fund finances and administrative expenses, as well as general information about hospital and extras covers. The aim of the report is to provide more useful comparative information on funds and their products.

High Quality Private Health Services

A comprehensive regulatory framework exists under the *National Health Act 1953* to protect the interests of people who take out health insurance and ensure the viability of the health funds. The Department regulates the operations of the private health insurance funds consistent with this Act.

The Australian Council for Safety and Quality in Health Care recognises the importance of linkages with the private health sector and has discussed ways to work together and support safety and quality with representatives

of the sector. In late 2004, the Department requested contributions to the Review of Future Governance Arrangements for Safety and Quality in Health Care in written correspondence with private health sector organisations. Private health sector bodies provided written submissions to the Review and participated in a national workshop and consultation meetings. See Outcome 9 for further discussion on the Review.

Improving Ongoing Industry Relationships

The Department works with the PHIAC and the PHIO on improving relationships with industry. The Department also works with private health insurance stakeholders that include representatives of the health funds, health care service providers, suppliers and consumer groups. One major initiative during 2004-05 that was the focus of activities to improve ongoing industry relationships was the development of the *National Health Amendment (Prostheses) Act 2005* which was passed on 9 March 2005 and supports the new prostheses arrangements. The Act is a culmination of extensive stakeholder consultation throughout 2004-05. The new arrangements were developed in agreement with key peak bodies, including the Australian Private Hospitals Association, the Australian Health Insurance Association, the Medical Industry Association of Australia, Catholic Health Australia, the Australian Medical Association, and the Consumers Health Forum.

The reforms to prostheses arrangements mean that private health insurance funds will be required to provide a no gap range of prostheses (i.e. provided at no charge to patients). Several stakeholder groups incorporating administrative, industry and clinical advised the Minister on policy issues arising from the new arrangements and on the technical structure of prosthesis listings and benefits. The new arrangements for the listing and setting of benefit levels for prostheses are scheduled to begin in October 2005, following the expected release in August of the first schedule developed under the new arrangements.

Appropriate Private Health Products

During 2004-05, the Department provided input to the House of Representatives Standing Committee on Health and Ageing Inquiry into

² Accessible online at <www.phio.org.au/publication.php?mediaid=130>.

health funding as it related to private health insurance issues. Key factors addressed included contracting, patient election, gaps and Informed Financial Consent, the impact on consumers of complexity of product choice, portability, limited cover for episodes of care, reinsurance, billing arrangements and nursing home type patients.

The *Health Legislation Amendment (Podiatric Surgery and Other Matters) Act 2004* received Royal Assent on 13 July 2004 and took effect on 13 January 2005. The Department must now ensure that health funds are able to pay benefits for hospital accommodation and nursing care associated with surgical procedures performed by Australian Government accredited podiatrists. To be accredited, a podiatrist must meet certain criteria specified in Ministerial guidelines. As at 30 June 2005, there were 14 accredited podiatrists. These new arrangements mean that health funds now have the opportunity to offer benefits for these services.

The portability provisions under the *National Health Act 1953* allow consumers to transfer from one fund to another without having to re-serve waiting periods, unless they transfer to a higher level of cover. During early 2005, the Department met with industry stakeholders to develop options to ensure that there are no barriers to consumers

transferring freely between funds following concerns being raised about the use of benefit limitation periods by some health funds.

The meeting followed unsuccessful attempts by the industry to develop an agreed response to stakeholder concerns about the benefit limitation periods. These concerns arose from a decision by a health fund to impose a benefit limitation period that the stakeholders regarded as discriminatory and had the potential to undermine portability arrangements for private health insurance. The Department is developing advice for the Minister. It is expected that an announcement about revised portability arrangements will be made in late 2005.

From 1 July 2004, health funds no longer need to submit product rule changes for approval. The Department has implemented industry monitoring arrangements. The activities of the industry are analysed by the Department to ensure that funds support community rating and that they do not discriminate against consumers. The process involves the Department assessing industry activities against performance indicators detailed in regulations. These indicators enable the Department to undertake long term monitoring of industry trends that may impact on consumer take-up or utilisation of private health insurance and private health care services.

PERFORMANCE INDICATORS (EFFECTIVENESS INDICATORS)

Indicator 1. Affordability of private health care

Target:

- a. Trends in private health insurance membership and coverage.
- b. Proportion of in-hospital services covered by no/known gap arrangements.
- c. Trends in age profile of people with private health insurance.

Information source/reporting frequency:

- a. The Private Health Insurance Administration Council (PHIAC) Quarterly Report A.
- b. PHIAC Quarterly Report on gap arrangements.
- c. PHIAC Quarterly Report A.

The Department supports the Australian Government's objective of giving Australians a choice in health services through improving affordability, access and quality in private health care.

The 2004-05 year has again seen continued stability in the rates of participation in private health insurance. At 30 June 2005, 8.7 million people or 42.8 per cent of the Australian population were covered by private health insurance. This is comparable with 30 June 2004 where 8.6 million Australians had private health insurance cover, or 42.9 per cent of the population.

At 30 June 2005, 70.9 per cent of insured in-hospital episodes were covered by a no or known gap arrangement, up from 70.6 per cent at 30 June 2004 and 1 per cent at 30 June 1998.

The number of people over the age of 65 with private health insurance was 1.1 million in June 2005 compared with 1.05 million in June 2004.

Indicator 2. Choice for consumers between private and public health care

Target:

- a. Consumer awareness of private health care services.
- b. Proportion of in-hospital episodes delivered to private patients in public and private hospitals.

Information source/reporting frequency:

- a. Surveys published by the Australian Bureau of Statistics and others.
- b. Australian Hospital Statistics.
- c. Private hospital administrative data.

Private health services complement publicly funded services, and the partnership between the public and private sectors is a key feature of the Australian health system. Almost half the population chose private health insurance in addition to the security offered by the Medicare system of universal health insurance. The Department supports consumer awareness through improving consumer access to information regarding private health care services.

The proportion of in-hospital episodes delivered to private patients has increased from 32.8 per cent in 2001-02 to 33.3 per cent in 2002-03 to 34.0 per cent in 2003-04.

Indicator 3. Complaints regarding access to appropriate private health care services

Target:

Fall in proportion of member complaints to PHIO that proceed to 'dispute' level.

Information source/reporting frequency:

Private Health Insurance Ombudsman Annual Report.

The number of complaints received by the PHIO in 2004-05 was 2,485, a decrease of approximately 12.7 per cent from the 2,845 complaints in 2003-04.

PART 2: PERFORMANCE INFORMATION

Performance Information for Administered Items

Administered Item 1. Federal Government 30% Rebate:

Target: *Quantity:* Percentage of in-hospital episodes (both in private and public hospitals) delivered to private patients. Percentage change from last financial year.

Result: No target percentage specified in 2004-05 PBS. 34.0% in 2003-04, an increase of approximately 0.7% from 33.3% in 2002-03.

Target: *Quantity:* Number of private health insurance policies. Percentage change from previous financial year.

Result: No target percentage specified in 2004-05 PBS. 4.12 million in 2004-05, an increase of approximately 1.1% from 4.07 million in 2003-04.

Target:	<i>Quantity:</i> Number of people covered by private health insurance. Percentage change from previous financial year.	
Result:	No target percentage specified in 2004-05 PBS.	8.70 million in 2004-05, an increase of approximately 0.8% from 8.62 million in 2003-04.
Target:	<i>Quantity:</i> Proportion of the population covered by private health insurance. Percentage change from previous financial year.	
Result:	No target percentage specified in 2004-05 PBS.	42.8% in 2004-05, a decrease of approximately 0.1% from 42.9% in 2003-04.

Performance Information for Departmental Outputs

Output Group 1. Policy advice regarding health industry and related hospital issues, including:

- development of policy initiatives to make private health insurance more attractive to consumers and thereby support the ongoing viability of the private health industry sector.

Target:	<i>Quality:</i> A high level of satisfaction of the Ministers, Parliamentary Secretary and Ministers' Offices with the relevance, quality and timeliness of policy advice.	
Result:	Target met.	The Minister and Minister's Office were satisfied with the relevance, quality and timeliness of policy advice, Question Time Briefs, Parliamentary Questions on Notice and briefings.
Target:	<i>Quality:</i> Timely production of evidence-based policy research.	
Result:	Target met.	The Department continued to provide, within requested timeframes, high quality and timely evidence-based research and analysis to inform the Australian Government, and to use in consultation with stakeholders.
Target:	<i>Quality:</i> Opportunity for stakeholders to participate in policy and program development.	
Result:	Target met.	Health funds, private hospitals, day facilities and consumer representatives have indicated their satisfaction with the quality and timeliness of Departmental inputs to a range of policy and program environments. The Department regularly seeks input and feedback from key stakeholders through formal consultation, committee and working group processes as well as informally through day to day liaison.

Output Group 2. Program management, including:

- managing the Federal Government 30% Rebate estimates;
- making payments to the Australian Taxation Office (ATO) under the Service Level Agreement;
- financial management and reporting on Outcome 8;
- successful implementation of regulation review and Budget initiatives;
- developing and implementing strategies to improve quality and cost-effectiveness of care in the private sector;
- implementing more effective arrangements for rehabilitation care in the private sector;

Target:	<i>Quality:</i> A high level of stakeholder satisfaction with the timely development and implementation of national strategies.	
Result:	Target met.	Health funds, private hospitals, day facilities and consumer representatives expressed their satisfaction through informal feedback with respect to their involvement with the Department in the development and implementation of a range of private health insurance strategies, including changes to prostheses and reinsurance, the portability industry consultations and the loyalty bonus review.
Target:	<i>Quality:</i> Budget predictions are met and actual expenses vary less than 5% from budgeted expenses.	
Result:	Target met.	Budget predictions and actual cash flows varied by less than 0.5%.
Target:	<i>Quality:</i> 100% of payments are made accurately and in accordance with negotiated service standards.	
Result:	Target met.	All payments were made accurately, on time and within agreed service standards.
Target:	<i>Quality:</i> A high level of stakeholder satisfaction with relevance, quality and timeliness of information and education services.	
Result:	Target met.	Through informal feedback, stakeholders indicated a high level of support and satisfaction with the timeliness, quality and relevance of information and education services, including changes to prostheses and reinsurance, the portability industry consultations and the loyalty bonus review.
Target:	<i>Quality:</i> A high level of stakeholder participation in system-wide improvement activities.	
Result:	Target met.	Stakeholders participated in formal and informal processes to improve several areas of private health, including changes to prostheses and reinsurance, the portability industry consultations and the loyalty bonus review.
Target:	<i>Quality:</i> Increased standardisation of data collections between public and private sectors.	
Result:	Target met.	The management of private and public acute care data collections has been centralised supporting standardisation shown on various data collections, including in the annual reporting of data.

- recognition of hospital and day hospital facilities and special care nurseries for payment of health insurance benefits; and

Target:	<i>Quality:</i> Timely recognition of hospital, day hospital and special care nurseries for payment benefits.	
Result:	Target met.	During 2004-05, the Private Sector Outreach Services Working Party considered 16 new and 23 renewal outreach services applications covering 53 hospital facilities nationally. The approval process for these services takes about three to four weeks from the time the Private Sector Outreach Services Working Party meets to assess and make recommendations to the Minister's Delegate for approval, or otherwise, of the applications.

- regulation of the default table and prostheses list for benefits payable by funds to public and private hospitals and day hospital facilities.

Target:	<i>Quality:</i> Decisions made within legislated timeframes.	
Result:	Target met.	Health funds submitted notification for premium increases in January 2005. These increases were scrutinised in conjunction with the Private Health Insurance Administration Council and advice was within the required timeframe.
Target:	<i>Quality:</i> Public and industry inquiries on the administration of Acts dealt with promptly. Possible breaches of the Acts investigated and appropriate action taken.	
Result:	Target met.	All public and industry inquiries in relation to the administration of the Acts were dealt with as soon as possible. All alleged breaches of the <i>National Health Act 1953</i> were investigated and have either been resolved to the satisfaction of the Department or are currently being actioned.
Target:	<i>Quality:</i> Timely amendments to the default table and prostheses list.	
Result:	Target met.	Updates for the basic default table were performed in a timely manner as required. Prostheses list updates occurred in August 2004 and February 2005.
Target:	<i>Quantity:</i> 25-30 applications for recognition of facilities for health insurance business processed per year.	
Result:	Target not met.	10 applications for private day hospital facilities, 2 applications for private hospitals and 1 public hospital were processed for health insurance benefit purposes. In addition, 21 Special Care Nurseries in public and private hospitals were processed for payment of health insurance benefit purpose.
Target:	<i>Quantity:</i> 10-20 contracts administered.	
Result:	Target met.	10 contracts were administered during 2004-05.

Output Group 3. Agency specific service delivery, including:

- make payments to the Health Insurance Commission (HIC) and the ATO for the administration of the Federal Government 30% Rebate on private health insurance; and
- ensure that participants have effective and efficient access to the 30% Rebate scheme through appropriate monitoring of HIC's and ATO's legislated service delivery functions in accordance with agreed protocols.

Target:	<i>Quality:</i> High level of client satisfaction with services provided by the HIC and the ATO as reported by each agency against their respective standards.	
Result:	Target met.	The HIC has advised that feedback received from health funds indicates clients were pleased with the services provided by HIC. The ATO advised that the taxpayers' Charter standards for taxpayer enquiries were achieved. This, combined with an analysis of reporting mechanisms for disputed tax assessments, indicates that claimants of the 30% Rebate through the tax system are satisfied.
Target:	<i>Quality:</i> Accurate and prompt processing of claims as reported by the HIC and the ATO against each agency's respective standards.	
Result:	Target met.	The HIC advised that it has processed all payments for the Federal Government 30% Rebate in the legislated time frames. The ATO advised that it aims to process 95% of electronic claims within 14 days and 90% of paper claims within 42 days as stated in the taxpayers' Charter. The ATO processed 97% of electronic claims within 14 days and 94% of paper claims within 42 days.
Target:	<i>Quantity:</i> 4.5 to 5 million policy holders claim the Rebate either as a direct payment or as a premium reduction.	
Result:	Target met.	In 2004-05, 4.5 million policy holders claimed the 30% Rebate as a premium reduction or a direct payment.
Target:	<i>Quantity:</i> The number of policy holders that claim the Rebate through the taxation system.	
Result:	Target met.	In 2004-05, the ATO processed 297,981 claims relating to the year ended 30 June 2004.

Outcome 8 - Financial Resources Summary

	(A) Budget Estimate 2004-05 \$'000 ¹	(B) Actual 2004-05 \$'000	Variation (Column B minus Column A) \$'000
Administered Expenses			
Administered Item 1: Federal Government 30% Rebate			
Private Health Insurance Rebate	2,598,290	2,702,882	104,592
Special Appropriations	2,598,290	2,702,882	104,592
Total Administered Expenses	2,598,290	2,702,882	104,592
Departmental Appropriations			
Output Group 1 - Policy Advice	3,239	7,777	4,538
Output Group 2 - Program Management	9,717	1,461	(8,256)
Output Group 3 - Agency Specific Service Delivery	0	0	0
Total price of departmental outputs <i>(total revenue from Government & other sources)</i>	12,956	9,238	(3,718)
Total revenue from Government (appropriations) contributing to price of departmental outputs	8,138	8,311	173
Total revenue from other sources	4,818	927	(3,891)
Total price of departmental outputs <i>(total revenue from Government & other sources)</i>	12,956	9,238	(3,718)
Total estimated resourcing for Outcome 8 <i>(total price of outputs & admin expenses)</i>	2,611,246	2,712,120	100,874
Average Staffing Level (Number)			
Department	60.0	58.0	-2.0

The 2005-06 budget has not been provided. The Department of Health and Ageing has moved to a new Outcome structure for 2005-06 and is no longer appropriated under the 2004-05 Outcome structure. Accurate allocation of 2005-06 funding against the 2004-05 Outcome structure is not available and inclusion of notional allocations could be misleading to the reader.

1. Budgets taken from 2005-06 PBS and re-aligned to 2004-05 Outcome Structure.