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

Outcome 9 was managed in 2006–07 by the Acute Care Division.

PART 1: OUTCOME PERFORMANCE REPORT

Major Achievements

• Introduced consolidated and simplified legislation to regulate private health insurance in Australia.
• Enabled health insurers to expand their hospital products to cover a broader range of out-of-hospital health care services such as chronic disease management and healthy lifestyle programs.
• Helped consumers to make informed choices about private health insurance through the implementation of standard product information requirements. Also assisted with the development of a private health insurance website which consumers can use to compare insurance products.
• Developed two Prostheses Lists, regulating private health insurance benefits for more than 9,500 surgically-implanted prostheses and human tissue products. These arrangements benefit the community by controlling growth in the cost of privately insured prostheses.

Key Strategic Directions for 2006–07

Improvements to Private Health Insurance

Private Health Insurance Reform

Private health insurance has continued to increase its coverage of the population. More than nine million people were covered by private health insurance as at March 2007. This is the highest number of people insured since December 1983.

The Department worked closely with stakeholders during 2006–07 to improve the value and sustainability of private health insurance, and to cover a broader range of care and treatment, such as hospital-substitute treatment programs to manage and prevent chronic diseases, and self-management programs for healthier lifestyles. The Department worked with health insurers, consumers and health care providers through the release of a discussion paper, consultation forums, a directions paper and the release of an exposure draft of major legislation reform.

New legislation passed by Parliament in April 2007 now allows health insurers to partner with doctors and other health care practitioners to provide treatment that best suits the needs of the patient, such as chemotherapy and palliative care in the home, and to reduce the growing burden of disease through targeted prevention and disease management programs. These more flexible arrangements also allow health insurers to better manage their members’ rising health care costs to ensure private health insurance remains affordable.

Legislative Reform for Private Health Insurance

To further protect the interests of private health consumers, new legislation to regulate private health insurance was developed. The Private Health Insurance Act 2007 and the Private Health Insurance Rules 2007 commenced operation on 1 April 2007. This legislation provides a simplified regulatory framework to minimise compliance requirements for the private health industry.

Risk Equalisation Arrangements

As a result of a 2005–06 review of risk equalisation arrangements, the Department worked closely with stakeholders to improve arrangements to support community rating. Risk equalisation and community rating allow everyone to pay the same premium for the same health insurance product regardless of health status or age. The sharing of financial risk between private health insurers was improved with the introduction of a high cost claimant’s pool. Health funds contributed to this pool which was distributed to funds with high cost members so that they are not financially disadvantaged. The Department also modified the age based pool for risk equalisation so that some costs associated with prevention and management programs for chronic disease will now be equalised between insurers. Single parent families
will also be treated more equitably under the new arrangements.

Safety and Quality Assurance

The Department commenced work during the year on developing quality assurance requirements for privately insured health services. From 1 July 2008, no private health insurance benefits will be payable for services that do not meet the new quality assurance requirements. The requirements will eventually incorporate the current work of the Australian Commission on Safety and Quality to improve quality assurance of health services in Australia.

Prostheses Arrangements

During 2006–07, the Department continued to implement and refine the arrangements for listing and setting private health insurance benefits for prostheses. The Department worked with industry to develop two Prostheses Lists, which took effect in August 2006 and June 2007 respectively. This included providing secretariat support to the Prostheses and Devices Committee and its subcommittees, including eight Clinical Advisory Groups, the Panel of Clinical Experts and the Prostheses and Devices Negotiating Group. The prostheses list is a legislative list of more than 9,500 prosthetic devices for which private health insurers are required to pay minimum benefits.

To ensure that prostheses with the same clinical effectiveness were provided with comparable benefits, the Department provided secretariat support to the Prostheses and Devices Committee’s review of benefits for all products in the hip, knee, vascular, urogenital, spinal, lens, cardiac and cardiothoracic groups. This review process is designed to improve equity for prostheses sponsors, and help keep the costs of private health insurance down.

Introduced Requirements for Health Funds to Provide Comparable Standard Product Information

In 2006–07 the Department worked to help consumers more easily compare products offered by different private health insurers. As a result of departmental initiatives to assist consumers (outlined below) insurers are now required to provide a standard information statement for each private health insurance product. These statements contain key information in a standard format, and give consumers the tools to compare products and make informed choices. The statements were developed with consumer focus groups to ensure the standard information statements are provided in a simple, user-friendly format.

Consumers can now access standard information statements directly from the new private health insurance consumer website at www.PrivateHealth.gov.au. The Department assisted the Private Health Insurance Ombudsman to develop the site, which went online in April 2007. It provides consumers with basic information on private health insurance and has a search engine to allow consumers to search for and compare private health insurance products. In addition, the Department ran an accompanying communication campaign.

Conduct of a Consumer Survey to Assess the Provision of Informed Financial Consent

During 2006–07, the Department worked to promote informed financial consent in advance of treatment for private patients, and conducted a survey from November to December 2006 to measure the rate of informed financial consent. Compared with a similar survey conducted in 2004, the 2006 Informed Financial Consent Consumer Survey showed a five per cent reduction in the proportion of consumers facing a surprise ‘gap’ (out-of-pocket expense) as part of an episode of hospital treatment. The full report is available on the Department’s website at www.health.gov.au.

Prior to the survey, the Department increased doctor and consumer awareness of the incidence and amounts of medical gaps by funding an educational campaign for doctors conducted by the Australian Medical Association. Both parties are now using the survey’s results to target education activities at those medical specialist...
areas with lower than average rates for the provision of informed financial consent.

**Private Health Insurance Rebates for Older Australians**

During 2006-07, the Department conducted a review of the operation of the higher private health insurance rebates for older Australians. The review examined a number of issues, including the legislative framework that supports the higher rebates, the number of people and policies affected by the higher rebates and whether the delivery of the higher rebates could be improved. As part of the review, the Department sought submissions from industry stakeholders. Thirteen submissions were received and considered.

The review found that the provision of higher rebates support has been effective in assisting older people to retain their private health insurance. In the first two years of operation of the higher rebates, there was an increase in membership of 15,850 for people aged 65 years and over.

**PART 2: PERFORMANCE INFORMATION**

**Performance Information for Administered Items**

*Administered Funding – Private Health Program:*
- Private Health Insurance.

<table>
<thead>
<tr>
<th>Indicator</th>
<th>Measured by</th>
<th>Reference Point or Target</th>
</tr>
</thead>
<tbody>
<tr>
<td>Maintain number of people covered by private health insurance.</td>
<td>Percentage change from previous year.</td>
<td>Maintain number of people covered (43.1% or 8.8 million people in December 2005).</td>
</tr>
<tr>
<td>Indicator met.</td>
<td>9.1 million (43.5%) people had private health insurance for hospital treatment in June 2007 compared to 8.9 million in December 2005. This is an increase of 0.8 of a percentage point from June 2006.</td>
<td></td>
</tr>
<tr>
<td>Increase in the proportion of in-hospital episodes delivered to private patients in public and private hospitals.</td>
<td>Percentage change from previous year.</td>
<td>Increased proportion compared with 34.0% in 2003-04.</td>
</tr>
<tr>
<td>Indicator met.</td>
<td>The proportion of in-hospital episodes delivered to private patients in public and private hospitals in 2005-06 was 34.8%. This is the latest available data. Figures for 2006-07 will not be available until May 2008.</td>
<td></td>
</tr>
</tbody>
</table>
Performance Information for Departmental Outputs

**Output Group 1. Policy Advice**, including:
- Private Health Insurance; and
- 2006-07 Budget measures.

<table>
<thead>
<tr>
<th>Indicator</th>
<th>Measured by</th>
<th>Reference Point or Target</th>
</tr>
</thead>
<tbody>
<tr>
<td>Quality, relevant and timely advice for Government decision-making.</td>
<td>Ministerial satisfaction.</td>
<td>Maintain or increase from previous year.</td>
</tr>
<tr>
<td>Indicator met.</td>
<td>Ministers were satisfied with the quality, relevance and timeliness of advice provided for Government decision-making.</td>
<td></td>
</tr>
<tr>
<td>Relevant and timely evidence-based policy research.</td>
<td>Production of relevant and timely evidence-based policy research.</td>
<td>Relevant evidence-based policy research produced in a timely manner.</td>
</tr>
<tr>
<td>Indicator met.</td>
<td>The Department provided high quality and timely evidence-based research and analysis to inform the Government within the timeframes required. This policy research was used to implement the improvements to private health insurance. Private health insurance arrangements cover a broader range of care and treatment such as management programs for healthier lifestyles.</td>
<td></td>
</tr>
</tbody>
</table>

**Output Group 2. Program Management**, including:
- financial management and reporting;
- development and management of grants and contracts; and
- administration and revision of legislation as required.

<table>
<thead>
<tr>
<th>Indicator</th>
<th>Measured by</th>
<th>Reference Point or Target</th>
</tr>
</thead>
<tbody>
<tr>
<td>Administered budget predictions are met and actual expenses vary less than 0.5% from budgeted expenses.</td>
<td>Percentage that actual expenses vary from budgeted expenses.</td>
<td>0.5% variance from budgeted expenses.</td>
</tr>
<tr>
<td>Indicator met.</td>
<td>Actual expenses varied by 0.2% from budgeted expenses in 2006-07.</td>
<td></td>
</tr>
<tr>
<td>Stakeholders to participate in program development.</td>
<td>Opportunities for stakeholder participation through a range of avenues, such as surveys, conferences and meetings.</td>
<td>Stakeholders participated in program development eg. through surveys, conferences and meetings.</td>
</tr>
<tr>
<td>Indicator met.</td>
<td>The Department liaised with health funds, private hospitals, day facilities and consumer representatives regularly through a discussion paper, consultation forums and a directions paper.</td>
<td>Industry stakeholders have indicated a high level of satisfaction with the quality and timeliness of communications with the Department particularly around the development of the new private health insurance legislation. This has allowed the Department to foster and enhance stakeholder relationships across the industry.</td>
</tr>
</tbody>
</table>
Performance Assessment: Reviews

**Review:**

**Review of Health Fund Performance Indicators**

**Timeframe:**
Commencement date: 9 November 2005
End date: 30 September 2006

**Related Key Strategic Direction:**
Improvements to Private Health Insurance

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**Outcome 9 - Financial Resources Summary**

<table>
<thead>
<tr>
<th>Administrative Expenses</th>
<th>(A) Budget Estimate 2006-07 $’000</th>
<th>(B) Actual 2006-07 $’000</th>
<th>Variation (Column B minus Column A) $’000</th>
<th>Budget Estimate 2007-08 $’000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Program 9.1: Private Health Insurance</td>
<td>3,328,826</td>
<td>3,321,799</td>
<td>(7,027)</td>
<td>3,464,250</td>
</tr>
<tr>
<td>Total Special Appropriations</td>
<td>3,328,826</td>
<td>3,321,799</td>
<td>(7,027)</td>
<td>3,464,250</td>
</tr>
<tr>
<td>Appropriation Bill 1/3/5</td>
<td>7,865</td>
<td>7,886</td>
<td>21</td>
<td>11,840</td>
</tr>
<tr>
<td>Total</td>
<td>3,336,691</td>
<td>3,329,685</td>
<td>(7,006)</td>
<td>3,476,090</td>
</tr>
</tbody>
</table>

**Departmental Appropriations**

- Output Group 1 - Policy Advice | 7,882 | 8,368 | 486 | 7,251 |
- Output Group 2 - Program Management | 3,132 | 3,325 | 193 | 2,881 |

**Total price of departmental outputs**

(Total revenue from Government & other sources) | 11,014 | 11,693 | 679 | 10,132 |

**Total revenue from Government (appropriations) contributing to price of departmental outputs** | 10,039 | 10,806 | 767 | 8,197 |

**Total revenue from other sources** | 975 | 887 | (88) | 1,935 |

**Total price of departmental outputs**

(Total revenue from Government & other sources) | 11,014 | 11,693 | 679 | 10,132 |

**Total estimated resourcing for Outcome 9**

(Total price of outputs & administered expenses) | 3,347,705 | 3,341,378 | (6,327) | 3,486,222 |

**Average Staffing Level (Number)**
Department | 69 | 71 | 2 | 65