

Key Facts and Figures

Name of Measure: Private Health Insurance Rebate: Better Targeting Through (Means-Testing)
Commences: 1 July 2010
Funding: \$1.8 billion Private Health Insurance Rebate savings over 4 years

What will the measure do?

The Government will introduce three new Private Health Incentive Tiers – where it will gradually phase out the Private Health Insurance Rebate and increase the Private Health Insurance Surcharge (formerly known as the Medicare levy surcharge).

The Private Health Insurance Rebate will be reduced by 10 percentage points for people earning from \$75,001 to \$90,000 per annum for singles and from \$150,001 to \$180,000 for families/couples (ie. 20% for aged under 65, 25% for 65-69, 30% for 70 and over).

The Private Health Insurance Rebate will be reduced by 20 percentage points for people earning from \$90,001 to \$120,000 per annum for singles and from \$180,001 to \$240,000 for families/couples (ie. 10% for aged under 65, 15% for 65-69, 20% for 70 and over). The Private Health Insurance Surcharge will increase to 1.25% for people in these income ranges that do not have private health insurance.

There will be no Private Health Insurance Rebate available to people earning \$120,001 or more per annum for singles and \$240,001 or more for families/couples. The Private Health Insurance Surcharge will increase to 1.5% for people in these income ranges that do not have private health insurance.

The existing level of rebates will remain for people earning \$75,000 or less per annum for singles and \$150,000 or less per annum for families/couples (ie. 30% for aged under 65, 35% for 65-69, 40% for 70 and over).

Private Health Insurance Incentive Tiers

Private Health Insurance Rebate

Singles	\$75,000 or less	\$75,001-\$90,000	\$90,001-\$120,000	\$120,001 or more
Couples	\$150,000 or less	\$150,001-\$180,000	\$180,001-\$240,000	\$240,001 or more
Age under 65	30%	20%	10%	0%
Age 65-69	35%	25%	15%	0%
Age 70+	40%	30%	20%	0%

Private Health Insurance Surcharge

Singles	\$75,000 or less	\$75,001-\$90,000	\$90,001-\$120,000	\$120,001 or more
Couples	\$150,000 or less	\$150,001-\$180,000	\$180,001-\$240,000	\$240,001 or more
All ages	0.0%	1.0%	1.25%	1.5%

The income thresholds will be indexed annually according to average weekly earnings in a similar manner to indexation of the Private Health Insurance Surcharge income thresholds.

How many people/organisations are affected?

The approximately 2.3 million Australians¹ who have private health insurance and earn \$75,001 or more as singles or \$150,001 or more as families/couples in 2009-10 will be affected. These people will receive a reduced Private Health Insurance Rebate or no Private Health Insurance Rebate and in some circumstances be liable for a higher Private Health Insurance Surcharge if they do not have appropriate private health insurance.

Around 630,000 singles² and 490,000 couples³ will receive less of subsidy for their private health insurance. Based on average premiums, affected individuals will remain better off as a result of tax cuts in July 2009 and 2010.⁴

The 37 private health insurers⁵ may have to implement system changes.

Funding Splits

Nil

Rebuttals to Criticisms

The 37⁶ private health insurers may be concerned about a fall in private health insurance membership. It is estimated that approximately 25,000 people⁷ will drop out of private health insurance as a result of the combined changes. Although some people may consider dropping their private health insurance as a result of the introduction of the Private Health Insurance Incentive Tiers, the increase in the rate of the Private Health Insurance Surcharge will encourage most to retain their private health insurance.

These changes will not have a significant impact on private health insurance participation, as 99.8 per cent of insured people will remain in private health insurance⁸ – with only 6,500 singles⁹ and 5,500 couples¹⁰ estimated to drop out).

Some may argue that the changes will lead to increases in private health insurance premiums, which will affect all people with private health insurance, not just higher income earners. Premium increases sought by each private health insurer are assessed taking into account a number of factors including anticipated benefit payments and membership changes. As the overall impact of this measure will result in private health insurance coverage remaining relatively stable, the impact on premiums is anticipated to be minimal. For lower and middle income earners, the existing 30%, 35%, and 40% Private Health Insurance Rebates will remain in place, and ensure they can continue to afford private health insurance.

¹ Treasury and Department of Health and Ageing forecasting and costing model

² Treasury

³ Treasury

⁴ Treasury

⁵ Private Health Insurance Administration Council, Private Health Insurers Registered Under the Private Health Insurance Act 2007, <http://www.phiac.gov.au/healthfunds/reglist.htm>

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⁹ Treasury

¹⁰ Treasury

Other useful information

The measure will be implemented jointly by the Department of Health and Ageing, Medicare Australia, the Australian Taxation Office and the Treasury.

People who wish to claim the rebate from Medicare Australia will be asked to self-assess their income for the year and nominate the level of rebate they believe they are entitled to from Medicare Australia, who will then apply that rebate as a reimbursement on their premium. People will still have the option to not claim the rebate as an upfront premium deduction, and just claim any rebate they are entitled to through their annual tax return.

The implementation of this measure will change the process of how the rebate works in three ways:

- self-assessment (the consumer). People who wish to claim the rebate up front from Medicare Australia will be asked to self-assess their income for the year and declare this to their private health insurer, who can then apply the rebate as appropriate.
- applying the rebate (private health insurers). Private health insurers will have to implement systems changes to manage consumers' income assessments and apply the appropriate rebate.
- reconciliation (the Australian Taxation Office). The Australian Taxation Office will have the additional function of reconciling people's self-assessed income thresholds against their actual taxation income and then reconciling the over/underpayments that result as a tax debit or credit.

The Australian Taxation Office will be responsible for the communication campaign about the changes and refunds/debt recovery for underpayments/overpayments due to overestimates/underestimates of adjusted taxable income.

Administrative responsibility for the Private Health Insurance Rebate and Private Health Insurance Surcharge will continue as usual. That is, the Australian Taxation Office will be responsible for Private Health Insurance Rebate and Private Health Insurance Surcharge claims via tax returns and Medicare Australia responsible for rebate claims via up front premium reductions. The Department of Health and Ageing will be responsible for policy advice (including on legislative changes) concerning the Private Health Insurance Rebate changes and Treasury responsible for policy advice concerning the Private Health Insurance Surcharge changes and legislative amendments.

The Department of Health and Ageing will communicate with insurers concerning the changes.

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Australian Government
Department of Health and Ageing

Fair and sustainable support for private health insurance

Why is this important?

- High income earners will receive less Government payments for private health insurance and face an increase in costs should they opt out of health cover.
- This is consistent with the Government's commitment to maintaining the balance between public and private health systems.
- Existing arrangements will remain unchanged for singles earning \$75,000 or less per annum and couples \$150,000 or less per annum.
- The Government will introduce three new Private Health Incentive Tiers, gradually phasing out the Private Health Insurance Rebate and increasing the Private Health Insurance Surcharge.
- Single people up to 65 years earning up to \$75,000 – and couples earning up to \$150,000 – will receive a 30 per cent Private Health Insurance Rebate. For aged 65-69, the rebate will be 35 per cent. Over 70 years, the rebate will be 40 per cent.
- Single people up to 65 years earning from \$75,001 to \$90,000 – and couples earning from \$150,001 to \$180,000 – will receive a 20 per cent rebate. For aged 65-69, the rebate will be 25 per cent. Over 70 years, the rebate will be 30 per cent.
- Single people up to 65 years earning from \$90,001 to \$120,000 – and couples earning from \$180,001 to \$240,000 – will receive a 10 per cent rebate. For aged 65-69, the rebate will be 15 per cent. Over 70 years, the rebate will be 20 per cent.
- Anyone in any age group who earns \$120,001 and over (singles) or \$240,001 and over (couples) will receive no rebate.
- To ensure high income earners continue to have an incentive to take out private health insurance, the Private Health Insurance Surcharge will be increased:
 - from 1 per cent to 1.25 per cent for singles earning from \$90,001 to \$120,000, and to 1.5 per cent for singles earning \$120,001 or more.
 - from 1 per cent to 1.25 per cent for couples earning from \$180,001 to \$240,000, and to 1.5 per cent for couples earning \$240,001 or more.

Who will benefit?

- Existing arrangements are unchanged for singles earning \$75,000 or less and couples \$150,000 or less.
- These changes will not have a significant impact on private health insurance participation, as 99.8 per cent of insured people will remain in private health insurance – with only 6,500 singles and 5,500 couples estimated to drop out.
- Around 630,000 singles and 490,000 couples will receive less subsidy for their private health insurance. Based on average premiums, affected individuals will remain better off as a result of tax cuts in July 2009 and 2010.

What funding is the Government committing to this initiative?

- These changes will result in a saving of \$1.8 billion over four years to the Private Health Insurance Rebate.

Timeframe for delivery, ie when will the initiative commence and conclude?

- This initiative will begin on 1 July 2010.

