Australian Government
Department of Health

Private Health Insurance - increasing the age of dependants– questions and answers

March 2022

What is the purpose of this measure?

This measure will increase the maximum allowable age of dependants for private health insurance from 24 to 31 years and remove the age limit for dependants with a disability.

Increasing the age of dependants for private health insurance was a measure from the 2020-21 Budget.

Are insurers required to implement these changes?

When do the changes start?

The changes are voluntary for insurers; not mandatory.

Some of the more than 30 private health insurers operating in Australia have indicated they intend to offer products that incorporate some, or all, of this measure.

These insurers have indicated products with increased age cover for dependants will be released during the course of 2022.

Are insurers required to offer coverage for dependent people with a disability?

No, the changes do not require insurers to offer coverage for dependent people with a disability. The offer to cover dependent people with a disability is voluntary for an insurer. An insurer covering for this type of dependent it needs to abide by following relevant advice.

What legislation supports this measure?

To enable this measure the *Private Health Insurance Legislation Amendment (Age of Dependants) Act 2021* amended the *Private Health Insurance Act 2007* and the *Private Health Insurance (Complying Product)(Age of Dependants) Amendment Rules 2021* amended the *Private Health Insurance (Complying Product) Rules 2015*.

What are the different types of dependants?

There are six different types of dependent person. These are:

1. dependent child (0-17 years old and does not have a partner)
2. dependent student (18-31 years old, does not have a partner, is receiving a full-time education and as defined in the rules of their private health insurer)
3. dependent non-student (18-31 years old, does not have a partner, is not receiving a full-time education and as defined in the rules of their private health insurer)
4. conditional dependent non-student (a dependent non-student that has their own general treatment policy with the same insurer covering them for hospital cover)
5. non-classified dependent person (18-24 years old, does not have a partner, is not a dependent student or non-student by the rules of their private health insurer)
6. dependent person with a disability (18 years old and over, may have a partner and is a participant in the National Disability Insurance Scheme or is a 'person with a disability' as defined by the rules of their private health insurer).

The complete description of allowed dependent persons is contained in Schedule 1 - Dictionary of the *Private Health Insurance Act 2007* and Rule 5 of the *Private Health Insurance (Complying Product) Rules 2015*.

How are dependants covered by insurers?

There are 11 insured groups that insurers may use for each product they offer. These groups are commonly known as:

- Singles (one person) for insured group (a)
- Couples (two adults) for insured group (b)
- Children only (two or more dependent people and no adults) for insured group (c)
- Single parent family (only one adult and at least one dependent child, dependent student or non-classified dependent person) for insured group (d)
- Extended single parent family (only one adult and at least one dependent non-student) for insured group (e)
- Single parent family with a person with a disability (only one adult and at least one dependent person with a disability) for insured group (g)
- Family (two adults and at least one dependent child, dependent student or non-classified dependent person) for insured group (h)
- Extended family (two adults and at least one dependent non-student) for insured group (i)
- Family with a person with a disability (only one adult and at least one dependent person with a disability) for insured group (k)
- insured groups (f) and (j) are rarely used and have no common name.

It is up to insurers to decide which insured groups they cover. Most insurers cover the insured groups of singles, couples, single parent families and families for most of their products.
If insurers chose to cover dependent non-students, conditional dependent non-students or dependent people with a disability for particular products they need offer cover for the relevant insured group under that product.

The complete technical description of allowed insured groups is contained in Rule 5 (2) of the *Private Health Insurance (Complying Product) Rules 2015*.

Why do the insured groups for families include more than one type of dependant?

This recognises families may contain different types of dependants at different points in time. For example, a family may consist of two adults and three dependent children, then it may consist of two adults, one dependent child, one dependent student and one dependent non-student and later it may consist of one adult, one dependent person with a disability and two dependent non-students. An insurer covering this family would first cover the family as an insured group family (h), then extended family (i) and finally single parent family with a person with a disability (g).

Can an insurer charge different premiums for the same product if it covers different types of dependants?

Within a product, premium rates can only vary by the insured groups covered by the product, i.e. by product subgroups, within each jurisdication. (A product subgroup is all the policies for an insured group for a particular product.) For example, for product Gold in NSW an insurer may offer product subgroups for singles, families, single parent families, extended families and extended single parent families. Each of these product subgroups can have a different premium rate.

Can a person with a disability be covered as a dependant under other insured groups apart from insured groups (g) and (k)?

Yes. A person who meets the definition of a dependent person with a disability may also meet the definitional requirements for another dependant type. For example, if an insurer covered insured groups single parent (d) and family (h) for a product it would probably be cheaper for the family of a dependent person with a disability to be covered by the insured group (d) or (h), if they met the definitional requirements of a dependant contained in these insured groups.

Do insurers have to cover all types of dependants?

No, it is up to each insurer as to the types of dependants it will cover for each of its products.

Most insurers cover the insured groups for singles, couples, families and single parent families. This means most insurers offer cover for dependent children, non-classified dependent people and dependent students on most of their products.

While the increase to the age of dependants' measure has increased the number of insured groups available to insurers it does not affect an insurer's ability to choose which insured groups it will cover for each of its products. For example, in NSW an insurer may offer product Gold and product Silver. The insurer may decide to cover the insured groups (a), singles, and (h), family, for product Gold, i.e. it has two product Gold subgroups in NSW. The insurer may also decide to cover the insured groups (a), singles, (h), family, and (d), single-parent family, for product Silver, i.e. it has three product Silver subgroups in NSW.

Allowed insured groups are contained in Rule 5 (2) of the *Private Health Insurance (Complying Product) Rules 2015*.

Can an insurer define dependant types differently for different products?

No. An insurer can only have one definition for each type of dependant it covers. The definition of dependant type will be the same for all products (including closed products) covering that dependant type. For example, if an insurer increases the maximum age of a dependent non-student from 24 to 31 then all products that cover dependent non-students will need to cover dependent non-students to the age of 31. An insurer should not have one definition of dependent non-student used for one product and a different definition of dependent non-student for another product.

Why is there a non-classified dependent person type of dependant?

A non-classified dependent person is a person aged 18 to 24 years old who has not been defined in the insurer’s rules as either a dependent student or dependent non-student. The non-classified dependent people definition allows insurers to maintain the *status quo* in relation to the dependants they covered before this measure. For example, an insurer may have previously defined a dependent child as being aged 0 to 20 years, a dependent non-student as being aged 21 to 24 years and defined a dependent student as being aged 21 to 24 years. With the changes to dependant types resulting from this measure the insurer would now define dependent children (0-17), non-classified dependent people (18-20), dependent students (21-24) and dependent non-students (21-24).

How is dependency defined?

While some aspects of the dependent people are defined in legislation, such as age ranges and partner status, insurers have historically defined the nature of the dependency in their insurer rules. This has not changed. Insurers can apply dependency criteria to all types of dependent people except where articulated in legislation (for example, insurers cannot define partner status).

Which dependent person age ranges can an insurer set in its rules?

Insurers can set the minimum and maximum ages within the allowable ranges for dependent students, dependent non-students, conditional dependent non-students and non-classified dependent people but not for dependent children or dependent people with a disability.

Are insurers compelled to increase the maximum age of dependent students and non-students to 31 years?

No. An insurer can choose to implement their own age range for dependent student and non-students from 18 years up to 31 years. For example, an insurer that currently has a maximum age for dependent non-students of 24 years in their insurer rules, may choose to increase the maximum age to 30 years rather than 31 years.

How is disability defined?

The standard definition for a 'person with a disability' is a person who is a participant in the National Disability Insurance Scheme (NDIS). Additionally, insurers have the flexibility to be more expansive in their definition of a 'person with disability' in their insurer rules and can, if they chose, offer cover to people with a disability beyond those who are NDIS participants.

What happens if a person with a disability is no longer a participant in the National Disability Insurance Scheme (NDIS)?

When an insurer offers coverage for dependent people with a disability, they should inform the family covered of the timeframe in which they need to inform the insurer of this event. It is recommended a six-month period be adopted and the insurer incorporates this condition into its definition of a dependent person with a disability. It recommended the insurer continue to cover the dependent person with a disability during the notification period.

How will Lifetime Health Cover affect a dependent person with a disability?

A dependent person with a disability is treated as an adult for the purposes of Lifetime Health Cover (LHC). If they are covered by hospital cover on their LHC base day they will avoid paying a LHC loading. If a dependent person with a disability joins their family hospital cover for the first time after their LHC base day, a loading of 2% will apply for every year they are aged over 30, based on their age on the 1 July prior to joining.

Example 1: Lucy turned 31 in January 2019, so her LHC base day is 1 July 2019. In November 2021 at the age of 33, Lucy joins her family's hospital cover as a dependent person with a disability. As Lucy had no hospital cover on her LHC base day Lucy's LHC loading is 6%. Lucy is the only adult on the policy that has a LHC loading. The average LHC loading on the family cover is 2%.

If a person has their own singles hospital policy with a loading, then transfers to a family or single parent policy as a dependent person with a disability, they will carry their loading with them.

Example 2: Archie takes out a singles hospital cover for himself in February 2018 at the age of 32. His LHC loading is 4%. In December 2021, Archie transfers to his mother's single parent hospital cover as a dependent person with a disability. Archie's individual loading is 4% and his mother has a loading of 0%. The average LHC loading on the single parent cover is 2%. Archie will be eligible to have his loading removed after he has held a hospital cover for ten continuous years.

How many decimal places should the average Lifetime Health Cover loading for a policy contain?

Prior to the introduction of dependent people with a disability average Lifetime Health Cover (LHC) loading percentages for a policy were usually always a natural number (did not result in decimal places).

If an average policy loading does not result in a natural number, the percentage loading should be calculated and rounded to two decimal places.

Example 1: Adult 1 (A1) and Adult 2 (A2) are covered by a family hospital policy with a base rate of $1000 per year. Both A1 and A2 have a LHC loading of 10%. The LHC loading on the policy is $100 or a policy average LHC loading percentage of 10%.

Entity	Portion of base rate	LHC loading percentage	LHC loading amount
A1	$500	10%	$50
A2	$500	10%	$50
Policy	$1000	10%	$100

If a dependent person with a disability (A3) with no LHC loading joined A1 and A2 on a family policy that covers dependent people with a disability and the base rate for that policy is $1200, the LHC loading on the policy is $80 or a policy average LHC loading percentage of 6.67%.

Entity	Portion of base rate	LHC loading percentage	LHC loading amount
A1	$400	10%	$40
A2	$400	10%	$40
A3	$400	0%	$0
Policy	$1200	6.67%	$80

Example 2: Adult 4 (A4) and Adult 5 (A5) are covered by a family policy with a base rate of $1000 per year. Both A4 and A5 have a LHC loading of 10%. The LHC loading on the policy is $100 or a policy average LHC loading percentage of 10%.

Entity	Portion of base rate	LHC loading percentage	LHC loading amount
A4	$500	10%	$50
A5	$500	10%	$50
Policy	$1000	10%	$100

If a dependent person with a disability (A6) with an 8% loading joined A4 and A5 on a family policy that covers dependent people with a disability and the base rate for that policy is $1200, the LHC loading on the policy is $112 or a policy average LHC loading percentage of 9.33%.

Entity	Portion of base rate	LHC loading percentage	LHC loading amount
A4	$400	10%	$40
A5	$400	10%	$40
A6	$400	8%	$32
Policy	$1200	9.33%	$112

The examples above are calculated in accordance with section 37-20 of the *Private Health Insurance Act 2007* dealing with joint hospital cover for LHC.

How are dependent students and dependent non-students with hospital cover on 1 July after they turn 31 treated for the purposes of Lifetime Health Cover?

For the purposes of Lifetime Health Cover (LHC) people in this situation should be considered as having had hospital cover on their LHC base day and will have access to permitted days without hospital cover once they cease to be a dependant, if they are not covered by their own hospital cover.

Example 1: Dani's parents have hospital cover with an insurer covering dependent students to the age of 31. Dani was a dependent student on her parents' hospital policy on 1 July when she was 31. She ceased to be a dependent student when she turned 32 and was no longer covered under her parents' policy. Dani purchases hospital cover two years later. Her insurer does not need to add a LHC loading to her premium because: she had hospital coverage on her LHC base day; and has not exceeded the number of permitted days without hospital cover.

Example 2: Oliver's parents have general treatment (extras) cover with an insurer covering dependent students to the age of 31. Oliver was a dependent student on his parents' extras policy on 1 July when he was 31. He ceased to be a dependent student when he turned 32 and was no longer covered under his parents' policy. Oliver purchases hospital cover two years later. His insurer adds a LHC loading to his premium because he did not have hospital coverage on his LHC base day.

Example 3: Ella's parents have combined (hospital and general treatment) cover with an insurer covering dependent students to the age of 31. Ella was a dependent student on her parents' combined policy on 1 July when she was 31. For the two months before her 32nd birthday, her parents dropped their hospital cover but retained general treatment (extras) policy. She ceased to be a dependent student when she turned 32 and was no longer covered under her parents' policy. Ella purchases hospital cover two years later. Her insurer does not need to add a LHC loading to her premium because: she had hospital coverage on her LHC base day; and has not exceeded the number of permitted days without hospital cover.

Example 4: Henry's parents have general treatment (extras) cover with an insurer covering dependent students to the age of 31. Henry's birthday falls on 1 May and he was a dependent student on his parents' general treatment (extras) policy on 1 July when he was 31. For the last two months before his 32nd birthday, his parents added hospital cover and retained general treatment (extras) cover. He does not yet incur a loading as he is still a dependent student. He ceased to be a dependent student when he turned 32 and was no longer covered under his parents' policy. Henry purchases hospital cover two years later. His insurer adds a LHC loading to his premium because he did not have hospital coverage on his LHC base day.

How does this measure interact with age-based discounts?

A person will either have their own policy and be eligible for an age-based discount, or be covered as a dependant; but not both. When age-based discounts were introduced, it was on the basis the person eligible for the discount would not be a dependant. If a person had an age-based discount and decides to join a family or single parent policy as a dependant, they will no longer be able to access their age-based discount.

How do these changes affect Private Health Information Statements and Privatehealth.gov.au?

Information on Privatehealth.gov.au has been updated to reflect the changes from this measure. Consumers will be able to search Privatehealth.gov.au for the new policies and Private Health Information Statements (PHIS) when insurers introduce the changes.

How does the definition of a dependant for private health insurance align with the definition of a dependant for taxation purposes?

The definition of dependant for private health insurance purposes (dependent person) is different from that used for taxation purposes (Medicare levy surcharge dependent child). The definition for a dependant for taxation purposes is used for both the Medicare Levy Surcharge and the Private Health Insurance Rebate Tiers. Taxation information is available at Income thresholds and rates for the private health insurance rebate | Australian Taxation Office (ato.gov.au) and Family and dependants for Medicare levy surcharge purposes | Australian Taxation Office (ato.gov.au).

The income tests for Medicare Levy Surcharge and Private Health Insurance Rebate are not affected by this measure. The Australian Taxation Office definition of dependent child is used to adjust the family income thresholds, i.e. the family income threshold is increased by $1,500 for each Medicare levy surcharge dependent child after the first child. Neither Medicare levy surcharge dependent children nor dependent person's income are included in the calculation of the family's income.

How does this measure affect:

• the excess levels for policies?

It has no affect. For the purposes of the Medicare levy surcharge, the maximum excess for policies that cover more than one person remains at $1,500.

• the Standard Equivalent Unit (SEU) for polices?

It has no affect. A hospital policy insuring: only one person; two or more people, none of whom is an adult; or two or more people, only one of whom is an adult is one SEU. All other policies are two SEU. Information about single equivalent units can be found in rule 4 at Private Health Insurance (Risk Equalisation Policy) Rules 2015 (legislation.gov.au).

• Australian Prudential Regulation Authority (APRA) reporting requirements?

These are matters for APRA, however preliminary discussions with APRA indicated the new insured groups are unlikely to require amendments to the APRA data collection.

- ### who can be a Private Health Insurance Beneficiary?

It has no impact. No dependent person was, or can now be, a Private Health Insurance Beneficiary.

- ### transfer certificates?

The rule for the Saving Provision Entitlement (SPE) for the transfer certificate will be amended so the SPE will only apply to a Private Health Insurance Incentive Beneficiary (PHIIB) i.e. an SPE entitlement will be granted to the remaining PHIIB on the cessation of the entitling PHIIB.

- ### the insured group for 3 or more people, at least 3 of whom are adults?

This insured group no longer exists. The introduction of the insured groups for dependent people with a disability makes it redundant.

This insured group is defined in the previous version of the *Private Health Insurance (Complying Product) Rules 2015*.