

File Note

Date: 30 August 2018

From: s 47F(1)

Subject Benefit categorisation – Scenarios on extending mandatory service category coverage

1 Introduction

On 16 July 2018, the Department of Health ("DoH") released the Exposure Draft subordinate legislation Private Health Insurance (Reforms) Amendment Rules 2018 wherein details of the Gold/Silver/Bronze/Basic product tiers is given ("Proposed Categorisation").

Our previous work to the DoH is documented in the report "Premium impact of benefit categorisation", dated 28 June 2018. The scenario from that report that most aligns with the Proposed Categorisation is Scenario 1.

The DoH has sought industry feedback on the Private Health Insurance (Reforms) Amendment Rules 2018 during the consultation period 16 July – 3 August 2018. As part of its preparation on the consultations, DoH has asked Deloitte to consider the impact on premiums and membership of extending some of the mandatory Gold product service categories down into the Silver and Bronze product tiers.

In particular, Deloitte examined the coverage of:

- Joint replacements and spinal fusion
- Weight loss surgery
- Insulin pumps
- Chronic pain
- Implantation of hearing devices
- Cataracts.

For the purpose of this analysis, the Proposed Categorisation is labelled as Scenario 4.

In addition to this scenario, Deloitte has been asked to analyse a few other alternative scenarios, which permit the shift of five services to lower product categories from Gold.

2 Scenarios

The following details the Proposed Categorisation i.e. Scenario 4.

Table 1 – Product Categorisation Proposed (Scenario 4)

Hospital treatments by clinical category	Basic	Bronze	Silver	Gold
Rehabilitation	✓R	✓R	✓R	✓
Hospital psychiatric services	✓R	✓R	✓	✓
Palliative care	✓R	✓R	✓R	✓
Brain	RCP	✓		✓
Eye	RCP	✓	✓	✓
Ear, nose and throat	RCP			✓
Tonsils, adenoids and grommets	RCP	✓		✓
Bone, joint and muscle	RCP	✓	✓	✓
Joint reconstructions	RCP		✓	✓
Kidney and bladder	RCP	✓	✓	✓
Male reproductive system	RCP		✓	✓
Digestive system	RCP	✓	✓	✓
Hernia and appendix	RCP		✓	✓
Gastrointestinal endoscopy	RCP		✓	✓
Gynaecology	RCP	✓	✓	✓
Miscarriage and termination of pregnancy	RCP	✓	✓	✓
Chemotherapy, radiotherapy and immunotherapy for cancer	RCP	✓	✓	✓
Skin	RCP	✓	✓	✓
Breast surgery (medically necessary)	RCP	✓	✓	✓
Diabetes	RCP	✓	✓	✓
Heart, lung and vascular system	RCP		✓	✓
Blood	RCP		✓	✓
Back, neck and spine	RCP		✓	✓
Plastic and reconstructive surgery (medically necessary)	RCP		✓	✓
Dental surgery	RCP		✓	✓
Podiatric surgery (provided by an accredited podiatric surgeon)	RCP		✓	✓
Implantation of hearing devices	RCP		✓	✓
Cataracts	RCP			✓
Joint replacements and spinal fusion	RCP			✓
Dialysis for chronic kidney disease	RCP			✓
Pregnancy, birth and neonates	RCP			✓
Assisted reproductive services	RCP			✓
Weight loss surgery	RCP			✓
Insulin pumps	RCP			✓
Chronic pain	RCP			✓
Sleep studies	RCP			✓

✓ Indicates the treatment/service is a minimum requirement of the product category. The service must be covered on an unrestricted basis.

RCP Restricted cover permitted: indicates the treatment/service is not a minimum requirement of the product category. Insurers may choose to offer these as additional services on a restricted or unrestricted basis.

✓R Indicates the treatment/service is a minimum requirement of the product category. The service may be offered on a restricted cover basis in Basic, Bronze and Silver product tiers only.

Indicates the treatment/service is not a minimum requirement of the product category. Insurers may choose to offer these as additional services; however, it must be on an unrestricted basis.

For reference, scenario 1 is as below:

Table 2

Scenario 1: Non-CHIP Restrictions allowed (Basic only); CHIP restrictions allowed in Basic/Bronze/Silver

Excesses may be payable on some hospital policies	\$	\$	\$	\$
Hospital treatments & services by product category	Basic	Bronze	Silver	Gold
Rehabilitation	✓R	✓R	✓R	
Psychiatric services	✓R	✓R	✓R	✓
Palliative care	✓R	✓R	✓R	✓
Brain and brain-related conditions and services	RCP	✓		✓
Eye and eye-related conditions (cataract listed under cataract procedures)	RCP	✓		✓
Ear, nose and throat conditions and services (hearing loss is listed separately and tonsils, adenoids and grommets listed separately)	RCP	✓		✓
Tonsils, adenoids and grommet surgery	RCP	✓	✓	✓
Bone and joint conditions and services (joint replacements, joint reconstructions listed separately and spine listed under back, neck and spine)	RCP	✓	✓	✓
Joint reconstructions	RCP	✓	✓	✓
Kidney and bladder conditions and services (dialysis listed under dialysis for chronic kidney disease)	RCP		✓	✓
Male reproductive conditions and services	RCP		✓	✓
Digestive system conditions and services (hernia, appendectomy listed separately)	RCP	✓	✓	✓
Hernia repair and appendectomy	RCP	✓	✓	✓
Gastrointestinal endoscopy	RCP	✓	✓	✓
Gynaecology	RCP	✓	✓	✓
Miscarriages and termination of pregnancy services	RCP	✓	✓	✓
Chemotherapy, radiotherapy and immunotherapy for cancer	RCP	✓	✓	✓
Surgery for skin and skin lesions	RCP	✓	✓	✓
Breast surgery	RCP	✓	✓	✓
Diabetes	RCP	✓	✓	✓
Heart, lung and vascular system conditions and services	RCP		✓	✓
Blood and blood-related conditions and services	RCP		✓	✓
Back, neck and spine conditions and services (spinal fusion listed separately under joint replacements and spinal fusion)	RCP		✓	✓
Plastic and reconstructive surgery	RCP		✓	✓
Dental surgery	RCP		✓	✓
Podiatric surgery provided by an accredited podiatric surgeon	RCP		✓	✓
Cataract procedures	RCP			✓
Implanted devices for hearing loss surgery	RCP			✓
Joint replacements and spinal fusion	RCP			✓
Dialysis for chronic kidney disease	RCP			✓
Pregnancy and birth related conditions and services (neonates are covered under this category for single parent and family policies)	RCP			✓
Assisted reproductive services	RCP			✓
Weight loss surgery or procedures	RCP			✓
Insulin pumps	RCP			✓
Management of ongoing (chronic) pain	RCP			✓
Sleep studies	RCP			✓

✓	Indicates the treatment/service is a minimum requirement of the product category. The service must be covered on an unrestricted basis.
✓R	Indicates the treatment/service is a minimum requirement of the product category. The service may be offered on a restricted cover basis in Basic, Bronze and Silver product tiers only.
RCP	Restricted cover permitted: indicates the treatment/service is not a minimum requirement of the product category. Insurers may choose to offer these as additional services on a restricted or unrestricted basis.
	A blank cell indicates that the treatment/service is not a requirement of the product category. Insurers may choose to offer these as additional services, however it must be on an unrestricted basis.

Scenario 4 is identical to Scenario 1 except for Implantation of hearing devices being mandatory at Silver and Gold in Scenario 4 as opposed to only Gold in Scenario 1.

We have also explored the following scenarios whereby five particular services namely "Cataract procedures", "Joint replacements and spinal fusion", "Weight loss surgery", "Insulin pumps" and "Chronic pain" are mandatory in product tiers lower than Gold. The following table summarises the scenarios:

Table 3 – Description of Scenarios

	Implantation of hearing devices	Cataracts	Joint replacements and spinal fusion	Weight loss surgery	Insulin pumps	Chronic pain
Scenario 1	G	G	G	G	G	G
Scenario 4	S/G	G	G	G	G	G
Scenario 5	S/G	S/G	S/G	S/G	S/G	S/G
Scenario 6	B/S/G	B/S/G	B/S/G	B/S/G	B/S/G	B/S/G
Scenario 7	S/G	S/G	B/S/G	S/G	B/S/G	B/S/G

G = Gold, S = Silver, B = Bronze

Scenario 1 – Previously proposed design with restricted non-CHIP services in Basic, closest to Scenario 4

Scenario 4 – The Proposed Categorisation

Scenario 5 – All five identified categories and "Implantation of hearing devices" mandatory in Silver and Gold

Scenario 6 – All five identified categories and "Implantation of hearing devices" mandatory in Bronze, Silver and Gold

Scenario 7 – A combination of Scenario 5 & 6

Scenarios 5 and 6 were specifically requested by the Department. Scenario 7 was designed by Deloitte based on the following rationale:

- "Joint replacements and spinal fusion" services may potentially align with "Joint reconstruction" and "Bone and Joint conditions and services" which are mandatory from Bronze. Hence, these are also mandatory from Bronze in this scenario.
- "Insulin pumps" may align with "Diabetes" which is mandatory from Bronze. Hence "Insulin pumps" is also made mandatory from Bronze
- "Chronic Pain" could potentially align with "Back, neck and spine conditions and services" and "Heart, Lung and Vascular system conditions and services". These are only mandatory from Silver so we would minimally allocate "Chronic Pain" to Silver. However, "Chronic Pain" also potentially aligns with "Chemotherapy, radiotherapy and immunotherapy for cancer" which is mandatory from Bronze. As a result, we have selected this category for Bronze.

3 Key Results

The table below summarises the membership and premium impact compared with the current scenario (i.e. "Old Category").

Table 4 – Membership, Drawing Rate and Average Premiums by Scenario

	Persons covered (millions)			Average Drawing rate per policy (in year of change 2019/20)					Average Premium per policy (in year of change 2019/20)				
	at 31 March 2020	at 31 March 2021	at 31 March 2022	Basic	Bronze	Silver	Gold	Overall	Basic	Bronze	Silver	Gold	Overall
Baseline - Old Category	11.473	11.626	11.762	942	1,134	2,415	2,822	2,026	1,446	1,565	2,216	2,441	2,026
Scenario 4	11.447	11.590	11.717	942	978	2,652	2,891	2,020	1,444	1,472	2,346	2,480	2,020
Scenario 5	11.443	11.585	11.710	942	978	3,033	2,825	2,027	1,446	1,475	2,559	2,447	2,027
Scenario 6	11.436	11.578	11.703	942	1,080	2,886	2,825	2,054	1,453	1,547	2,488	2,457	2,054
Scenario 7	11.437	11.579	11.704	942	1,067	2,903	2,825	2,051	1,452	1,538	2,496	2,456	2,051

The next two tables compares Scenarios 4-7 against the current scenario (i.e. "Old Category"), and Scenarios 5-7 against Scenario 4 (i.e. "Proposed Categorisation") respectively.

Table 5 – Impact on Membership, Drawing Rate and Average Premiums compared with Current Scenario ("Old Category")

	Persons covered (millions)			Average Drawing rate increase per policy (in year of change 2019/20)					Average Premium Increase per policy (in year of change 2019/20)				
	at 31 March 2020	at 31 March 2021	at 31 March 2022	Basic	Bronze	Silver	Gold	Overall	Basic	Bronze	Silver	Gold	Overall
Baseline - Old Category	11.47	11.63	11.76										
Result differences relative to Old Category													
Scenario 4	-0.026	-0.036	-0.045	0.0%	-13.8%	9.8%	2.4%	-0.3%	-0.1%	-5.9%	5.9%	1.6%	-0.3%
Scenario 5	-0.030	-0.041	-0.051	0.0%	-13.8%	25.6%	0.1%	0.1%	0.0%	-5.7%	15.5%	0.2%	0.1%
Scenario 6	-0.037	-0.048	-0.058	0.0%	-4.7%	19.5%	0.1%	1.4%	0.5%	-1.2%	12.3%	0.6%	1.4%
Scenario 7	-0.036	-0.047	-0.058	0.0%	-5.8%	20.2%	0.1%	1.2%	0.4%	-1.7%	12.7%	0.6%	1.2%

Table 6 – Impact on Membership, Drawing Rate and Average Premiums compared with Proposed Categorisation ("Scenario 4")

	Persons covered (millions)			Average Drawing rate increase per policy (in year of change 2019/20)					Average Premium Increase per policy (in year of change 2019/20)				
	at 31 March 2020	at 31 March 2021	at 31 March 2022	Basic	Bronze	Silver	Gold	Overall	Basic	Bronze	Silver	Gold	Overall
Scenario 4	11.45	11.59	11.72	0.0%	-13.8%	9.8%	2.4%	-0.3%	-0.1%	-5.9%	5.9%	1.6%	-0.3%
Result differences relative to Scenario 4													
Scenario 5	-0.004	-0.005	-0.006	0.0%	0.0%	14.4%	-2.3%	0.4%	0.1%	0.3%	9.1%	-1.3%	0.4%
Scenario 6	-0.010	-0.012	-0.013	0.0%	10.5%	8.8%	-2.3%	1.7%	0.6%	5.1%	6.0%	-0.9%	1.7%
Scenario 7	-0.010	-0.011	-0.012	0.0%	9.2%	9.5%	-2.3%	1.5%	0.5%	4.5%	6.4%	-1.0%	1.5%

Note: In Table 6, the "Average Drawing rate increase per policy" and "Average Premium increase per policy" differences are those compared to the proposed categorisation (i.e. Scenario 4).

Under Scenario 4 (Proposed Design), there is an estimated price difference between Silver (\$2,346) and Gold (\$2,480) of \$134 or around 5% of the Gold premium. For Bronze and Basic, a \$36 difference per policy per year is equivalent to around 4% of the Bronze premium. Hence, the premium relativities are already quite close and further reducing the distinctiveness of benefit service coverage between Gold and Silver, leads to the price difference narrowing even more. The closer the product tiers become, the less clear the relevance or value proposition of that product tier.

For scenarios 5 to 7, we offer the following observations:

- For Gold, there would be a reduction in drawing rate and premium for all three scenarios. While the drawing rate is identical across the three scenarios, the eventual premium varies because the overall benefit costs is different depending on how many of the categories become mandatory at Bronze or Silver.
- For Silver, there would be a significant increase in drawing rate and premium. As Silver mandatory cover moves closer to that offered on Gold, once again we observe the perverse outcome where Silver's premiums are greater than Gold's. This arises because Silver becomes a more attractive proposition that offers many of the categories in Gold but at a cheaper initial price.
- We note in particular that the perverse outcome is dominated by the shift of "Joint replacements and spinal fusion" services out of Gold.
- For Bronze, there is a significant increase in drawing rate and premium for Scenarios 6 and 7 only.
- Overall, drawing rates (and hence average industry premiums) for all three scenarios are less than 2% higher than the Proposed Categorisation.
- Shifting all six services into Bronze (Scenario 6) leads to a higher industry drawing rate than shifting all of them into Silver (Scenario 5). This is because there are greater benefits across the industry.
- Scenario 7 is a mix of Scenario 5 and 6. Hence, the expected impact is also between those two scenarios, leaning closer to Scenario 6 since it has three services in Bronze and only two services in Silver.
- Movements in memberships are marginal for all three scenarios.

4 Insurer Response

As with all the previous modelling, these scenarios reflect insurers responding by only offering the minimum level of cover at Gold, Silver and Bronze and minimising disruption to consumers at Basic.

As discussed in our report, our hypothesis is that insurers that offer products with benefits above the minimum requirements in those scenarios will expose themselves to severe anti-selection. This is because consumers are likely to target benefits and choose products that may have some of the benefits they need over the expensive products with mandated requirements that also include the benefits they need.

For those product tiers where restricted benefits are permitted, insurers will respond by minimising disruption for consumers by maintaining existing product designs as far as possible.

5 Impact on Claims

The following table gives a detailed breakdown of the increase in drawing rate by scenario, from the starting point of Scenario 4.

Tables 7, 8 and 9 – Breakdown of Change in the Drawing Rate

Increase in Drawing Rate					
Scenario 5					
	Basic*	Bronze*	Silver	Gold	Total
Removal of restrictions	0.0%	0.0%	0.0%	0.0%	0.0%
New categorisation	0.0%	0.0%	9.9%	0.0%	1.3%
Total (before anti-selection)	0.0%	0.0%	9.9%	0.0%	1.3%
Anti-selection	0.0%	0.0%	4.5%	-2.3%	-0.9%
Total (after anti-selection)	0.0%	0.0%	14.4%	-2.3%	0.4%
Increase in Drawing Rate					
Scenario 6					
	Basic*	Bronze*	Silver	Gold	Total
Removal of restrictions	0.0%	0.0%	0.0%	0.0%	0.0%
New categorisation	0.0%	11.9%	9.9%	0.0%	3.3%
Total (before anti-selection)	0.0%	11.9%	9.9%	0.0%	3.3%
Anti-selection	0.0%	-1.4%	-1.0%	-2.3%	-1.6%
Total (after anti-selection)	0.0%	10.5%	8.8%	-2.3%	1.7%
Increase in Drawing Rate					
Scenario 7					
	Basic*	Bronze*	Silver	Gold	Total
Removal of restrictions	0.0%	0.0%	0.0%	0.0%	0.0%
New categorisation	0.0%	10.5%	9.9%	0.0%	3.1%
Total (before anti-selection)	0.0%	10.5%	9.9%	0.0%	3.1%
Anti-selection	0.0%	-1.3%	-0.4%	-2.3%	-1.5%
Total (after anti-selection)	0.0%	9.2%	9.5%	-2.3%	1.5%

* Reflects the results for products that end up in the Basic and Bronze categories respectively.

Key observations:

- Similar to previous modelling, the results above reflect the impact to the drawing rate for products that are re-labelled from Bronze to Basic in the new world (i.e. post 1 April 2019 benefit categorisation).
- As Scenario 4 itself has no restrictions for non-CHIP services (other than Basic), the only impact from changing from Scenario 4 arises from new categorisation and anti-selection.
- The drawing rate is greatest for Scenario 6 as all six benefits originally from Gold become mandatory from Bronze.
- The reduction in the drawing rate for Gold arises because of anti-selection as some members move into lower product tiers. The aggregate reduction in drawing rate for Gold is 2.3% for all three scenarios.

It is important to note that by moving out six benefits from Gold, the gap between Gold and Silver narrows. This causes a perverse situation where Silver has higher drawing rates compared to Gold for scenarios 5-7.

6 Impact on Premiums

The tables below show the premiums of Scenario 5 – 7 versus Scenario 4.

Table 10 – Premium comparison in 2019/20 (Scenario 5)

Hospital Contribution per SEU per annum 2019/20					
Scenario 5	Basic*	Bronze*	Silver	Gold	Total
Raw Claims	\$942	\$978	\$3,033	\$2,825	\$2,027
Net Impact of RE	\$504	\$498	-\$474	-\$378	\$0
Hospital Prem	\$1,446	\$1,475	\$2,559	\$2,447	\$2,027
Scenario 4	Basic	Bronze	Silver	Gold	Total
Raw Claims	\$942	\$978	\$2,652	\$2,891	\$2,020
Net Impact of RE	\$502	\$494	-\$306	-\$411	\$0
Hospital Prem	\$1,444	\$1,472	\$2,346	\$2,480	\$2,020
Difference					
Raw Claims	\$0	\$0	\$382	-\$65	\$8
Net Impact of RE	\$2	\$4	-\$169	\$33	\$0
Hospital Prem (\$)	\$2	\$4	\$213	-\$32	\$8
Hospital Prem (%)	0.1%	0.3%	9.1%	-1.3%	0.4%

* Reflects the results for products that end up in the Basic and Bronze categories respectively.

Table 11 – Premium comparison in 2019/20 (Scenario 6)

Hospital Contribution per SEU per annum 2019/20					
Scenario 6	Basic*	Bronze*	Silver	Gold	Total
Raw Claims	\$942	\$1,080	\$2,886	\$2,825	\$2,054
Net Impact of RE	\$510	\$467	-\$398	-\$368	\$0
Hospital Prem	\$1,453	\$1,547	\$2,488	\$2,457	\$2,054
Scenario 4	Basic	Bronze	Silver	Gold	Total
Raw Claims	\$942	\$978	\$2,652	\$2,891	\$2,020
Net Impact of RE	\$502	\$494	-\$306	-\$411	\$0
Hospital Prem	\$1,444	\$1,472	\$2,346	\$2,480	\$2,020
Difference					
Raw Claims	\$0	\$102	\$234	-\$65	\$34
Net Impact of RE	\$9	-\$27	-\$92	\$43	\$0
Hospital Prem (\$)	\$9	\$75	\$142	-\$22	\$34
Hospital Prem (%)	0.6%	5.1%	6.0%	-0.9%	1.7%

Table 12 – Premium comparison in 2019/20 (Scenario 7)

Hospital Contribution per SEU per annum 2019/20					
Scenario 7	Basic*	Bronze*	Silver	Gold	Total
Raw Claims	\$942	\$1,067	\$2,903	\$2,825	\$2,051
Net Impact of RE	\$510	\$470	-\$407	-\$369	\$0
Hospital Prem	\$1,452	\$1,538	\$2,496	\$2,456	\$2,051
Scenario 4	Basic	Bronze	Silver	Gold	Total
Raw Claims	\$942	\$978	\$2,652	\$2,891	\$2,020
Net Impact of RE	\$502	\$494	-\$306	-\$411	\$0
Hospital Prem	\$1,444	\$1,472	\$2,346	\$2,480	\$2,020
Difference					
Raw Claims	\$0	\$90	\$252	-\$65	\$31
Net Impact of RE	\$8	-\$24	-\$101	\$42	\$0
Hospital Prem (\$)	\$8	\$66	\$150	-\$24	\$31
Hospital Prem (%)	0.5%	4.5%	6.4%	-1.0%	1.5%

* Reflects the results for products that end up in the Basic and Bronze categories respectively.

Key observations:

- Similar to what we have noted in the drawing rate, shifting six benefits from Gold into Bronze or Silver drives up the drawing rate and hence also the premium. Under all three scenarios, Silver is expected to need a higher premium compared with Gold.
- None of scenarios 5-7 are sustainable in terms of maintaining Silver as a valid category.

7 Impact on Membership

With the premium changes shown in the previous section, there is an impact on membership.

The table below shows the impact of Scenario 5 to 7 compared with Scenario 4.

Table 13 – Rate of Change in persons covered (Scenarios 5, 6, 7 vs Scenario 4 – Proposed Design)

	2019/20	2020/21	2021/22
Scenario 5 vs Scenario 4			
New to PHI Rate	0.00%	0.00%	0.00%
Ext Rate	0.03%	0.01%	0.01%
Net Growth Rate	-0.03%	-0.04%	-0.05%
Scenario 6 vs Scenario 4			
New to PHI Rate	0.00%	0.00%	0.00%
Ext Rate	0.09%	0.01%	0.01%
Net Growth Rate	-0.09%	-0.10%	-0.11%
Scenario 7 vs Scenario 4			
New to PHI Rate	0.00%	0.00%	0.00%
Ext Rate	0.08%	0.01%	0.01%
Net Growth Rate	-0.08%	-0.09%	-0.11%

As the overall impact on premium is less than 2% (compared with Scenario 4), our modelling suggests that there would not be significant membership impacts. Note that the membership impacts are based on the membership dynamics observed and calibrated to the baseline for April 2018 rate submission forecasts. The period since late 2017 when these submissions were made has seen further exits of members from private health insurance. This latest industry experience and their implied consumer perception of the value of

private health insurance and their sensitivities to pricing are not reflected in our model. The results above are more likely to be understating than overstating the membership impacts.

Comparing the three scenarios in the table above, we can see that the largest impact corresponds with the highest premium impact i.e. Scenario 6.

8 Market considerations and challenges

Silver premiums being higher than Gold premiums:

In all scenarios (other than the Proposed Design) modelled in this file note, the definition of Silver is too close to Gold resulting in Silver premiums being greater than Gold. Therefore, individual insurers have a decision to make – they need to consider whether it is viable for them to offer a Silver product.

It may be commercially more sensible to only offer a Gold product (as well as Bronze and Bronze Plus Products) and not Silver and thus maintain more sensible premium relativities and achieve the right market price signals.

Alternatively, if they choose to offer a Silver product, they may be actively deciding to cross subsidise Silver with other products in order to get an appropriate premium differentiation between Gold and Silver. To support this, an insurer may also consider actively encouraging new and existing low claiming Gold members to migrate to its Silver product (this is the concept of "favourable migration" and did not come up in the 2018 analyses but which was relevant for the earlier designs explored as part of our 2017 analyses).

For the scenarios analysed in this file note, such insurer responses have not been factored into the modelling. However, they highlight the difficulty of making the classification systems workable in scenarios 5, 6 and 7.

Induced demand for services:

Our modelling of claims, premium and membership impacts are based on the current demand and utilisation of services in the PHI market. We have made allowance for consumers shifting use of services in the existing market between product tiers and for demand shifting from the public to private setting.

However, there is potential for further shifting from the public to private setting for elective surgeries, which has not been modelled or costed. In particular, the risk arises for those surgeries where the waiting lists in the public system is sufficiently longer than the waiting periods they would otherwise serve when they newly purchase private health insurance.

Such consumers may warm to the option of purchasing a product for a particular service to avoid the public hospital waiting list. This option is made more attractive if the financial cost of the treatment far exceeds that of the cost of insurance. We believe that the anti-selection effect is a particularly strong risk for some of the six categories identified in this file note. Already, we have the unsustainable situation of Silver premiums being higher than Gold. Such anti-selection effects, if they were to play out, would only make Silver premiums even more unsustainable.

We capture in Appendix E some of the waiting times for cataract, hip replacement and knee replacement from 2012-13 to 2016-17 (as reported by the AIHW on Elective Surgery Waiting times in public hospitals). The data shows that waiting lists can be quite long with up to 90% of people on these lists waiting for close to a year for both hip and knee replacements. In addition, we note from the Hospital Casemix Protocol data in 2016-17 that the average charge for a hip replacement was \$27,070 and \$24,599 for a knee replacement.

Hence, both hip and knee replacements are good examples of treatments which have both long public waiting lists and treatment charges that are multiple times the typical cost of a single year's premium. Both of these effects will make private health insurance particularly appealing, and there may even be people who adversely select against the industry by dropping their cover again once they have received their treatment. The financial sustainability of the private health insurance system is best managed by minimising such opportunities for gaming the system.

9 Reliances and Limitations

This file note is prepared solely and confidentially for the use of the Commonwealth Government only, under the contract between Deloitte and the Department of Health. Without the context of this relationship our note may be misinterpreted by other parties. We accept no duty of care to any other person or entity.

Our file note should not be disclosed to any other party nor quoted, referred to or cited in any material without prior discussion with us. In carrying out our modelling and analyses, we sourced data directly from the Department of Health and sourced publicly available information. We have relied on the accuracy and completeness of this data in arriving at the results of our analyses. While we have conducted reasonableness checks regarding the accuracy of the information, we have not independently verified it. If for any reason, there is any material error or omission in the information provided or obtained, then this may materially impact our conclusions.

It is not possible to quantify future membership and premium changes in the Private Health Industry with certainty. The estimation of changes in the industry is inherently imprecise, particularly in view of limited data availability and performing a projection over a period of time using a limited model of the industry. Although we have prepared estimates in conformity with what we believe to be the likely future experience, there is the potential for the experience to vary considerably from our estimates. Deviations are normal and to be expected.

While due care has been taken in preparation of this analysis, Deloitte therefore accepts no responsibility for any action which may be taken based on these results. The purpose of this file note is to provide analysis of premium and membership impacts of additional scenarios requested by the Department. It is not intended for any other purpose. The file note should be considered as a whole. Consultants from Deloitte are available to answer any queries, and the reader should seek such advice before drawing conclusions on any issue in doubt.

Appendix A – Scenario 4 Detailed Results

Table A.1 – Estimated Marginal Impact to Hospital Benefits by Product by Service Category in 2015-16 due to anti-selection SCENARIO 4 (% of Benefits in Current Environment)

Service Category	% of Total Hospital Benefits				Total
	Basic	Bronze	Silver	Gold	
Rehabilitation	0.0%	0.0%	0.0%	0.0%	0.0%
Psychiatric services	0.0%	0.0%	0.0%	0.0%	0.0%
Palliative care	0.0%	0.0%	0.0%	0.0%	0.0%
Brain and brain-related conditions and services	0.0%	0.0%	0.0%	0.0%	0.0%
Eye and eye-related conditions	0.0%	0.0%	0.0%	0.0%	0.0%
Ear, nose and throat conditions and services	0.0%	0.0%	0.0%	0.0%	0.0%
Tonsils, adenoids and grommet surgery	0.0%	0.0%	0.0%	0.0%	0.0%
Bone and joint conditions and services	0.0%	0.0%	0.0%	0.0%	0.0%
Joint reconstructions	0.0%	0.0%	0.0%	0.0%	0.0%
Kidney, bladder and male reproductive conditions and services	0.0%	0.0%	0.0%	0.0%	0.0%
Digestive system conditions and services	0.0%	0.0%	0.0%	0.0%	0.0%
Hernia and appendectomy	0.0%	0.0%	0.0%	0.0%	0.0%
Endoscopy	0.0%	0.0%	0.0%	0.0%	0.0%
Miscarriages and termination of pregnancy services	0.0%	0.0%	0.0%	0.0%	0.0%
Chemotherapy, radiotherapy and immunotherapy for cancer	0.0%	0.0%	0.0%	0.0%	0.0%
Surgery for skin and skin lesions	0.0%	0.0%	0.0%	0.0%	0.0%
Heart and heart-related conditions and services	0.0%	0.0%	0.2%	0.0%	0.2%
Lung and lung-related conditions and services	0.1%	0.0%	0.5%	0.0%	0.6%
Vascular and vascular-related conditions and services	0.1%	0.0%	0.4%	0.0%	0.5%
Blood and blood-related conditions and services	0.0%	0.0%	0.2%	0.0%	0.2%
Back, neck and spine conditions and services	0.1%	0.0%	0.1%	0.0%	0.2%
Female reproductive conditions and services	0.0%	0.0%	0.0%	0.0%	0.0%
Breast surgery	0.0%	0.0%	0.0%	0.0%	0.0%
Plastic and reconstructive surgery	0.1%	0.0%	0.2%	0.0%	0.3%
Plastic and reconstructive surgery of congenital defects and conditions	0.0%	0.0%	0.0%	0.0%	0.0%
Dental surgery	0.0%	0.0%	0.0%	0.0%	0.0%
Podiatric surgery provided by an accredited podiatric surgeon	0.0%	0.0%	0.0%	0.0%	0.0%
Cataract procedures	0.0%	0.0%	0.0%	0.3%	0.3%
Hearing loss surgery	0.0%	0.0%	0.0%	0.0%	0.0%
Joint replacements and spinal fusion	0.2%	0.0%	0.0%	1.1%	1.3%
Dialysis for chronic kidney disease	0.0%	0.0%	0.0%	0.1%	0.1%
Pregnancy and birth related conditions and services	0.0%	0.0%	0.0%	0.1%	0.1%
Assisted reproductive services	0.0%	0.0%	0.0%	0.0%	0.0%
Weight loss surgery	0.0%	0.0%	0.0%	0.2%	0.2%
Insulin pumps	0.0%	0.0%	0.0%	0.0%	0.0%
Management of ongoing (chronic) pain	0.0%	0.0%	0.0%	0.2%	0.2%
Sleep studies	0.0%	0.0%	0.0%	0.1%	0.1%
Total	0.7%	0.0%	1.6%	2.1%	4.4%

	Minimum requirement on a restricted basis
	Restricted basis benefits permitted
	Minimum requirement on an unrestricted basis
x%	Not a requirement but must be offered on an unrestricted basis

The following tables are compared with the Current Design (or pre April 2019 proposed benefit design).

Table A.2 – Breakdown of Change in the Drawing Rate (compared with the Current Design)

Increase in Drawing Rate Scenario 4	Basic*	Bronze*	Silver	Gold	Total
Removal of restrictions	0.0%	12.9%	8.8%	0.0%	3.5%
New categorisation	0.0%	-31.8%	-12.6%	0.0%	-7.6%
Total (before anti-selection)	0.0%	-18.9%	-3.8%	0.0%	-4.1%
Anti-selection	0.0%	5.1%	13.6%	2.4%	3.8%
Total (after anti-selection)	0.0%	-13.8%	9.8%	2.4%	-0.3%

Table A.3 – Premium comparison in 2019/20 Scenario 4 (compared with the Current Design)

Hospital Contribution per SEU per annum 2019/20					
Scenario 4	Basic*	Bronze*	Silver	Gold	Total
Raw Claims	\$942	\$978	\$2,652	\$2,891	\$2,020
Net Impact of RE	\$502	\$494	-\$306	-\$411	\$0
Hospital Prem	\$1,444	\$1,472	\$2,346	\$2,480	\$2,020
Pre April 2019 benefit design	Basic	Bronze	Silver	Gold	Total
Raw Claims	\$942	\$1,134	\$2,415	\$2,822	\$2,026
Net Impact of RE	\$504	\$431	-\$199	-\$380	\$0
Hospital Prem	\$1,446	\$1,565	\$2,216	\$2,441	\$2,026
Difference					
Raw Claims	\$0	-\$156	\$237	\$69	-\$6
Net Impact of RE	-\$2	\$63	-\$107	-\$31	\$0
Hospital Prem (\$)	-\$2	-\$93	\$130	\$38	-\$6
Hospital Prem (%)	-0.1%	-5.9%	5.9%	1.6%	-0.3%
Hospital Prem Change (inc. Inflation)	5.7%	0.1%	12.6%	8.0%	5.9%

* Reflects the results for products that end up in the Basic and Bronze categories respectively.

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Appendix B – Scenario 5 Detailed Results

Table B.1 - Estimated Marginal Impact to Hospital Benefits by Product by Service Category in 2015-16 due to anti-selection SCENARIO 5 (% of Benefits in Current Environment)

Service Category	% of Total Hospital Benefits				
	Basic	Bronze	Silver	Gold	Total
Rehabilitation	0.0%	0.0%	0.0%	0.0%	0.0%
Psychiatric services	0.0%	0.0%	0.0%	0.0%	0.0%
Palliative care	0.0%	0.0%	0.0%	0.0%	0.0%
Brain and brain-related conditions and services	0.0%	0.0%	0.0%	0.0%	0.0%
Eye and eye-related conditions	0.0%	0.0%	0.0%	0.0%	0.0%
Ear, nose and throat conditions and services	0.0%	0.0%	0.0%	0.0%	0.0%
Tonsils, adenoids and grommet surgery	0.0%	0.0%	0.0%	0.0%	0.0%
Bone and joint conditions and services	0.0%	0.0%	0.0%	0.0%	0.0%
Joint reconstructions	0.0%	0.0%	0.0%	0.0%	0.0%
Kidney, bladder and male reproductive conditions and services	0.0%	0.0%	0.0%	0.0%	0.0%
Digestive system conditions and services	0.0%	0.0%	0.0%	0.0%	0.0%
Hernia and appendectomy	0.0%	0.0%	0.0%	0.0%	0.0%
Endoscopy	0.0%	0.0%	0.0%	0.0%	0.0%
Miscarriages and termination of pregnancy services	0.0%	0.0%	0.0%	0.0%	0.0%
Chemotherapy, radiotherapy and immunotherapy for cancer	0.0%	0.0%	0.0%	0.0%	0.0%
Surgery for skin and skin lesions	0.0%	0.0%	0.0%	0.0%	0.0%
Heart and heart-related conditions and services	0.0%	0.0%	0.2%	0.0%	0.2%
Lung and lung-related conditions and services	0.1%	0.0%	0.5%	0.0%	0.6%
Vascular and vascular-related conditions and services	0.1%	0.0%	0.4%	0.0%	0.5%
Blood and blood-related conditions and services	0.0%	0.0%	0.2%	0.0%	0.2%
Back, neck and spine conditions and services	0.1%	0.0%	0.1%	0.0%	0.2%
Female reproductive conditions and services	0.0%	0.0%	0.0%	0.0%	0.0%
Breast surgery	0.0%	0.0%	0.0%	0.0%	0.0%
Plastic and reconstructive surgery	0.1%	0.0%	0.2%	0.0%	0.3%
Plastic and reconstructive surgery of congenital defects and conditions	0.0%	0.0%	0.0%	0.0%	0.0%
Dental surgery	0.0%	0.0%	0.0%	0.0%	0.0%
Podiatric surgery provided by an accredited podiatric surgeon	0.0%	0.0%	0.0%	0.0%	0.0%
Cataract procedures	0.0%	0.0%	0.0%	0.0%	0.0%
Hearing loss surgery	0.0%	0.0%	0.0%	0.0%	0.0%
Joint replacements and spinal fusion	0.2%	0.0%	0.6%	0.0%	0.8%
Dialysis for chronic kidney disease	0.0%	0.0%	0.0%	0.1%	0.1%
Pregnancy and birth related conditions and services	0.0%	0.0%	0.0%	0.1%	0.1%
Assisted reproductive services	0.0%	0.0%	0.0%	0.0%	0.0%
Weight loss surgery	0.0%	0.0%	0.0%	0.0%	0.1%
Insulin pumps	0.0%	0.0%	0.0%	0.0%	0.0%
Management of ongoing (chronic) pain	0.0%	0.0%	0.1%	0.0%	0.1%
Sleep studies	0.0%	0.0%	0.0%	0.1%	0.1%
Total	0.7%	0.0%	2.4%	0.3%	3.5%

Minimum requirement on a restricted basis
 Restricted basis benefits permitted
 Minimum requirement on an unrestricted basis
 Not a requirement but must be offered on an unrestricted basis

The following tables are compared with the Current Design.

Table B.2 - Breakdown of Change in the Drawing Rate (compared with the Current Design)

Increase in Drawing Rate Scenario 5	Basic*	Bronze*	Silver	Gold	Total
Removal of restrictions	0.0%	12.9%	8.8%	0.0%	3.5%
New categorisation	0.0%	-31.8%	-1.8%	0.0%	-6.3%
Total (before anti-selection)	0.0%	-18.9%	7.0%	0.0%	-2.8%
Anti-selection	0.0%	5.1%	18.6%	0.1%	2.8%
Total (after anti-selection)	0.0%	-13.8%	25.6%	0.1%	0.1%

Table B.3 - Premium comparison in 2019/20 Scenario 5 (compared with the Current Design)

Hospital Contribution per SEU per annum 2019/20					
Scenario 5	Basic*	Bronze*	Silver	Gold	Total
Raw Claims	\$942	\$978	\$3,033	\$2,825	\$2,027
Net Impact of RE	\$504	\$498	-\$474	-\$378	\$0
Hospital Prem	\$1,446	\$1,475	\$2,559	\$2,447	\$2,027
Pre April 2019 benefit design	Basic	Bronze	Silver	Gold	Total
Raw Claims	\$942	\$1,134	\$2,415	\$2,822	\$2,026
Net Impact of RE	\$504	\$431	-\$199	-\$380	\$0
Hospital Prem	\$1,446	\$1,565	\$2,216	\$2,441	\$2,026
Difference					
Raw Claims	\$0	-\$156	\$619	\$3	\$1
Net Impact of RE	\$0	\$67	-\$275	\$2	\$0
Hospital Prem (\$)	\$0	-\$89	\$343	\$6	\$1
Hospital Prem (%)	0.0%	-5.7%	15.5%	0.2%	0.1%
Hospital Prem Change (inc. Inflation)	5.8%	0.3%	22.8%	6.6%	6.3%

* Reflects the results for products that end up in the Basic and Bronze categories respectively.

Appendix C – Scenario 6 Detailed Results

Table C.1 Estimated Marginal Impact to Hospital Benefits by Product by Service Category in 2015-16 due to anti-selection SCENARIO 6 (% of Benefits in Current Environment)

Service Category	% of Total Hospital Benefits				
	Basic	Bronze	Silver	Gold	Total
Rehabilitation	0.0%	0.0%	0.0%	0.0%	0.0%
Psychiatric services	0.0%	0.0%	0.0%	0.0%	0.0%
Palliative care	0.0%	0.0%	0.0%	0.0%	0.0%
Brain and brain-related conditions and services	0.0%	0.0%	0.0%	0.0%	0.0%
Eye and eye-related conditions	0.0%	0.0%	0.0%	0.0%	0.0%
Ear, nose and throat conditions and services	0.0%	0.0%	0.0%	0.0%	0.0%
Tonsils, adenoids and grommet surgery	0.0%	0.0%	0.0%	0.0%	0.0%
Bone and joint conditions and services	0.0%	0.0%	0.0%	0.0%	0.0%
Joint reconstructions	0.0%	0.0%	0.0%	0.0%	0.0%
Kidney, bladder and male reproductive conditions and services	0.0%	0.0%	0.0%	0.0%	0.0%
Digestive system conditions and services	0.0%	0.0%	0.0%	0.0%	0.0%
Hernia and appendicectomy	0.0%	0.0%	0.0%	0.0%	0.0%
Endoscopy	0.0%	0.0%	0.0%	0.0%	0.0%
Miscarriages and termination of pregnancy services	0.0%	0.0%	0.0%	0.0%	0.0%
Chemotherapy, radiotherapy and immunotherapy for cancer	0.0%	0.0%	0.0%	0.0%	0.0%
Surgery for skin and skin lesions	0.0%	0.0%	0.0%	0.0%	0.0%
Heart and heart-related conditions and services	0.0%	0.0%	0.2%	0.0%	0.2%
Lung and lung-related conditions and services	0.1%	0.0%	0.5%	0.0%	0.6%
Vascular and vascular-related conditions and services	0.1%	0.0%	0.4%	0.0%	0.5%
Blood and blood-related conditions and services	0.0%	0.0%	0.2%	0.0%	0.2%
Back, neck and spine conditions and services	0.1%	0.0%	0.1%	0.0%	0.2%
Female reproductive conditions and services	0.0%	0.0%	0.0%	0.0%	0.0%
Breast surgery	0.0%	0.0%	0.0%	0.0%	0.0%
Plastic and reconstructive surgery	0.1%	0.0%	0.2%	0.0%	0.3%
Plastic and reconstructive surgery of congenital defects and conditions	0.0%	0.0%	0.0%	0.0%	0.0%
Dental surgery	0.0%	0.0%	0.0%	0.0%	0.0%
Podiatric surgery provided by an accredited podiatric surgeon	0.0%	0.0%	0.0%	0.0%	0.0%
Cataract procedures	0.0%	0.0%	0.0%	0.0%	0.0%
Hearing loss surgery	0.0%	0.0%	0.0%	0.0%	0.0%
Joint replacements and spinal fusion	0.0%	0.0%	0.0%	0.0%	0.0%
Dialysis for chronic kidney disease	0.0%	0.0%	0.0%	0.1%	0.1%
Pregnancy and birth related conditions and services	0.0%	0.0%	0.0%	0.1%	0.1%
Assisted reproductive services	0.0%	0.0%	0.0%	0.0%	0.0%
Weight loss surgery	0.0%	0.0%	0.0%	0.0%	0.0%
Insulin pumps	0.0%	0.0%	0.0%	0.0%	0.0%
Management of ongoing (chronic) pain	0.0%	0.0%	0.0%	0.0%	0.0%
Sleep studies	0.0%	0.0%	0.0%	0.1%	0.1%
Total	0.5%	0.0%	1.6%	0.3%	2.4%

	Minimum requirement on a restricted basis
	Restricted basis benefits permitted
	Minimum requirement on an unrestricted basis
x%	Not a requirement but must be offered on an unrestricted basis

The following tables are compared with the Current Design.

Table C.2 - Breakdown of Change in the Drawing Rate (compared with the Current Design)

Increase in Drawing Rate Scenario 6	Basic*	Bronze*	Silver	Gold	Total
Removal of restrictions	0.0%	12.9%	8.8%	0.0%	3.5%
New categorisation	0.0%	-21.5%	-1.8%	0.0%	-4.4%
Total (before anti-selection)	0.0%	-8.6%	7.0%	0.0%	-0.8%
Anti-selection	0.0%	3.9%	12.5%	0.1%	2.2%
Total (after anti-selection)	0.0%	-4.7%	19.5%	0.1%	1.4%

Table C.3 - Premium comparison in 2019/20 Scenario 6 (compared with the Current Design)

Hospital Contribution per SEU per annum 2019/20					
Scenario 6	Basic*	Bronze*	Silver	Gold	Total
Raw Claims	\$942	\$1,080	\$2,886	\$2,825	\$2,054
Net Impact of RE	\$510	\$467	-\$298	-\$368	\$0
Hospital Prem	\$1,453	\$1,547	\$2,488	\$2,457	\$2,054
Pre April 2019 benefit design	Basic	Bronze	Silver	Gold	Total
Raw Claims	\$942	\$1,134	\$2,415	\$2,822	\$2,026
Net Impact of RE	\$504	\$431	-\$199	-\$380	\$0
Hospital Prem	\$1,446	\$1,565	\$2,216	\$2,441	\$2,026
Difference					
Raw Claims	\$0	-\$54	\$471	\$3	\$28
Net Impact of RE	\$7	\$36	-\$199	\$12	\$0
Hospital Prem (\$)	\$7	-\$18	\$272	\$16	\$28
Hospital Prem (%)	0.5%	-1.2%	12.3%	0.6%	1.4%
Hospital Prem Change (inc. Inflation)	6.3%	5.2%	19.4%	7.0%	7.7%

* Reflects the results for products that end up in the Basic and Bronze categories respectively.

Appendix D – Scenario 7 Detailed Results

Table D.1 Estimated Marginal Impact to Hospital Benefits by Product by Service Category in 2015-16 due to anti-selection SCENARIO 7 (% of Benefits in Current Environment)

Service Category	% of Total Hospital Benefits				
	Basic	Bronze	Silver	Gold	Total
Rehabilitation	0.0%	0.0%	0.0%	0.0%	0.0%
Psychiatric services	0.0%	0.0%	0.0%	0.0%	0.0%
Palliative care	0.0%	0.0%	0.0%	0.0%	0.0%
Brain and brain-related conditions and services	0.0%	0.0%	0.0%	0.0%	0.0%
Eye and eye-related conditions	0.0%	0.0%	0.0%	0.0%	0.0%
Ear, nose and throat conditions and services	0.0%	0.0%	0.0%	0.0%	0.0%
Tonsils, adenoids and grommet surgery	0.0%	0.0%	0.0%	0.0%	0.0%
Bone and joint conditions and services	0.0%	0.0%	0.0%	0.0%	0.0%
Joint reconstructions	0.0%	0.0%	0.0%	0.0%	0.0%
Kidney, bladder and male reproductive conditions and services	0.0%	0.0%	0.0%	0.0%	0.0%
Digestive system conditions and services	0.0%	0.0%	0.0%	0.0%	0.0%
Hernia and appendectomy	0.0%	0.0%	0.0%	0.0%	0.0%
Endoscopy	0.0%	0.0%	0.0%	0.0%	0.0%
Miscarriages and termination of pregnancy services	0.0%	0.0%	0.0%	0.0%	0.0%
Chemotherapy, radiotherapy and immunotherapy for cancer	0.0%	0.0%	0.0%	0.0%	0.0%
Surgery for skin and skin lesions	0.0%	0.0%	0.0%	0.0%	0.0%
Heart and heart-related conditions and services	0.0%	0.0%	0.2%	0.0%	0.2%
Lung and lung-related conditions and services	0.1%	0.0%	0.5%	0.0%	0.6%
Vascular and vascular-related conditions and services	0.1%	0.0%	0.4%	0.0%	0.5%
Blood and blood-related conditions and services	0.0%	0.0%	0.2%	0.0%	0.2%
Back, neck and spine conditions and services	0.1%	0.0%	0.1%	0.0%	0.2%
Female reproductive conditions and services	0.0%	0.0%	0.0%	0.0%	0.0%
Breast surgery	0.0%	0.0%	0.0%	0.0%	0.0%
Plastic and reconstructive surgery	0.1%	0.0%	0.2%	0.0%	0.3%
Plastic and reconstructive surgery of congenital defects and conditions	0.0%	0.0%	0.0%	0.0%	0.0%
Dental surgery	0.0%	0.0%	0.0%	0.0%	0.0%
Podiatric surgery provided by an accredited podiatric surgeon	0.0%	0.0%	0.0%	0.0%	0.0%
Cataract procedures	0.0%	0.0%	0.0%	0.0%	0.0%
Hearing loss surgery	0.0%	0.0%	0.0%	0.0%	0.0%
Joint replacements and spinal fusion	0.0%	0.0%	0.0%	0.0%	0.0%
Dialysis for chronic kidney disease	0.0%	0.0%	0.0%	0.1%	0.1%
Pregnancy and birth related conditions and services	0.0%	0.0%	0.0%	0.1%	0.1%
Assisted reproductive services	0.0%	0.0%	0.0%	0.0%	0.0%
Weight loss surgery	0.0%	0.0%	0.0%	0.0%	0.1%
Insulin pumps	0.0%	0.0%	0.0%	0.0%	0.0%
Management of ongoing (chronic) pain	0.0%	0.0%	0.0%	0.0%	0.0%
Sleep studies	0.0%	0.0%	0.0%	0.1%	0.1%
Total	0.5%	0.0%	1.7%	0.3%	2.5%

Minimum requirement on a restricted basis
 Restricted basis benefits permitted
 Minimum requirement on an unrestricted basis
 Not a requirement but must be offered on an unrestricted basis

The following tables are compared with the Current Design.

Table D.2 Breakdown of Change in the Drawing Rate (compared with the Current Design)

Increase in Drawing Rate Scenario 7	Basic*	Bronze*	Silver	Gold	Total
Removal of restrictions	0.0%	12.9%	8.8%	0.0%	3.5%
New categorisation	0.0%	-22.7%	-1.8%	0.0%	-4.6%
Total (before anti-selection)	0.0%	-9.9%	7.0%	0.0%	-1.0%
Anti-selection	0.0%	4.0%	13.2%	0.1%	2.3%
Total (after anti-selection)	0.0%	-5.8%	20.2%	0.1%	1.2%

Table D.3 Premium comparison in 2019/20 Scenario 7 (compared with the Current Design)

Hospital Contribution per SEU per annum 2019/20					
Scenario 7	Basic*	Bronze*	Silver	Gold	Total
Raw Claims	\$942	\$1,067	\$2,903	\$2,825	\$2,051
Net Impact of RE	\$510	\$470	-\$407	-\$369	\$0
Hospital Prem	\$1,452	\$1,538	\$2,496	\$2,456	\$2,051
Pre April 2019 benefit design	Basic	Bronze	Silver	Gold	Total
Raw Claims	\$942	\$1,134	\$2,415	\$2,822	\$2,026
Net Impact of RE	\$504	\$431	-\$199	-\$380	\$0
Hospital Prem	\$1,446	\$1,565	\$2,216	\$2,441	\$2,026
Difference					
Raw Claims	\$0	-\$66	\$489	\$3	\$25
Net Impact of RE	\$6	\$39	-\$208	\$11	\$0
Hospital Prem (\$)	\$6	-\$27	\$281	\$15	\$25
Hospital Prem (%)	0.4%	-1.7%	12.7%	0.6%	1.2%
Hospital Prem Change (inc. Inflation)	6.2%	4.6%	19.8%	6.9%	7.5%

* Reflects the results for products that end up in the Basic and Bronze categories respectively.

Appendix E: Extract of surgery wait times from the report by the Australian Institute of Health and Welfare titled, "Elective Surgery Waiting times 2016-2017 Australian Hospital Statistics"

Table 4.6: Waiting time statistics for admissions from public hospital elective surgery waiting lists, by intended surgical procedure, 2012–13 to 2016–17^(a)

Intended surgical procedure	2012–13	2013–14	2014–15	2015–16 ^(b)	2016–17 ^(c)
Cataract extraction					
Days waited at 50th percentile	89	79	83	93	85
Days waited at 90th percentile	339	333	331	334	330
Percentage waited more than 365 days	3.1	2.4	1.8	2.5	1.4
Total hip replacement					
Days waited at 50th percentile	116	106	109	114	110
Days waited at 90th percentile	357	354	344	348	344
Percentage waited more than 365 days	7.5	6.5	4.4	4.8	3.9
Total knee replacement					
Days waited at 50th percentile	196	194	191	188	195
Days waited at 90th percentile	374	365	359	361	358
Percentage waited more than 365 days	12.1	9.9	6.6	7.5	6.1

Source: page 43 and page 44 of AIHW report

The AIHW report on Elective Surgery Waiting times in public hospitals states that in 2016-17, 748,000 patients were admitted to Australian public hospitals from elective surgery waiting lists and 15% were for Orthopaedic surgery (surgery on bones, joints, ligaments and tendons, including knee and hip replacements). The most common intended surgical procedure was Cataract Extraction (9.5%).

The average wait time across Australia for total knee replacement is 195 days and 90% of people wait less than 358 days. Waiting times differ by State and Territory. For Cataract Extraction, the average wait time across Australia is 85 days and 90% of people wait less than 330 days. Similarly, waiting times differ by State and Territory and have increased since 2012-13.

The waiting times show that they are sufficiently long enough that some people will be attracted to purchase private health insurance and opt for treatment in the private system. In addition, if they dropped their insurance cover after their surgery, they may end up receiving more in fund benefits than contributions paid to the fund. Such an adverse selection effect would undermine the financial sustainability of the entire sector, and would be arguably inequitable to other long-term paying fund members.