

Private Health Insurance Premium Setting Reference Group PAPER FOR CONSIDERATION AND DISCUSSION

The current **Average insurer premium increase** is calculated according to the following formula.

$$\frac{(\text{FCI with premium changes} - \text{FCI without premium changes})}{\text{FCI without premium changes}}$$

Where FCI is the forecast contribution income for the insurer for the 12 month period following the implementation of the changes, excluding forecast changes in membership, and including rate protection.

A revenue based measure, such as the percentage increase in FCI has historically been considered to be the most appropriate way of reflecting the increase in premiums that will be received by an insurer (and felt by customers).

FCI is calculated by Monthly Premium * Total **number of policies**.

The current **Average industry premium increase** is the average change in premiums for each product (the percentage change) offered by every private health insurer, weighted according to the **number of people** covered. It excludes rate protection.

This is the formula as set out in Section 5A of the *Private Health Insurance (Incentives) Rules 2012 (No. 2)*. The rationale for this methodology is that this is the increase the Minister is agreeing to as part of the premium process.

If there was a significant decrease in the cost of low price policies, but a very slight impact in high cost policies, the insurer average would slightly increase, but the industry average would decline.

Issues/questions:

- Can/should the two formulas be made consistent?
- Is an average change in price for 75,000 policies helping consumers understand the real premium change?
- What parts of the reforms will impact on the 2019 average, and how should the formula (or public announcement) be adjusted to reflect this?
- Should the RAF be included in the formula and if so, how?
- Should any new methodology be backcasted?
- How to (and should we) reflect discounts / actual price / rebated price in the formula (or public announcement)?
- Can we report on quartile averages (top 25% of people will receive a 10% increase, next 25% receive a 7% increase... etc)?