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Demographic trends in private health insurance membership

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Private health insurance has become the cornerstone of the Federal Government's approach to the provision of health care in Australia. During the 2004 election campaign a number of announcements about the role of private health insurance were made, including that the private health insurance rebate would be increased from 30 per cent to 35 per cent for those aged over 65 and to 40 per cent for those aged over 70 (Howard 2004).

Despite the recent attention paid to older Australians, it is actually younger Australians who have demonstrated reluctance to continue with private health insurance. That is, despite the substantial increase in private health insurance membership following the introduction in 2000 of both the 30 per cent private health insurance rebate and the Lifetime Health Cover policy, there has been a steady drift of younger policyholders away from health fund membership.

An important element of the Federal Government's approach to private health insurance is the encouragement of young people to take out private health insurance. For example, in 1999 the then Minister Dr Michael Wooldridge stated that:

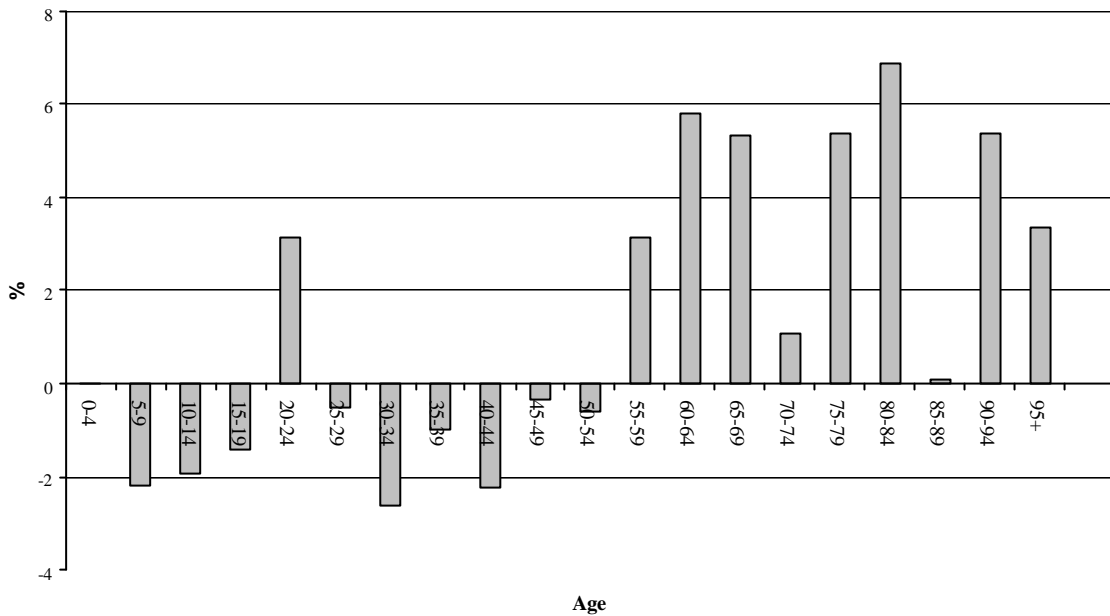
The introduction of Lifetime Health Cover, which seeks to reward people for taking out health insurance cover at a relatively young age and maintaining it over the years, will further help to ensure that Australia maintains a robust private sector into the future (Wooldridge 1999).

The strategy to attract younger members was based on the belief that they would have lower average levels of claims against their insurers, which would in turn place downward pressure on costs and premiums. However, as the number of younger Australians with private health insurance has continued to decline, the cost of private health insurance has continued to grow at rate significantly above the rate of general price inflation.

Figure 1 provides an analysis of the demographic composition of Australians joining and abandoning private health insurance over the last year. Except for a rise in the number of 20-24 year olds, the number of Australians covered by private health insurance declined in every age group up to 55 years. On the other hand, the number of people with private health insurance rose for every age group aged over 55 years. The ageing profile of people covered by private health insurance is increasing the

average cost of benefits paid per person covered, which in turn is placing even greater pressure on the cost of private health insurance premiums.

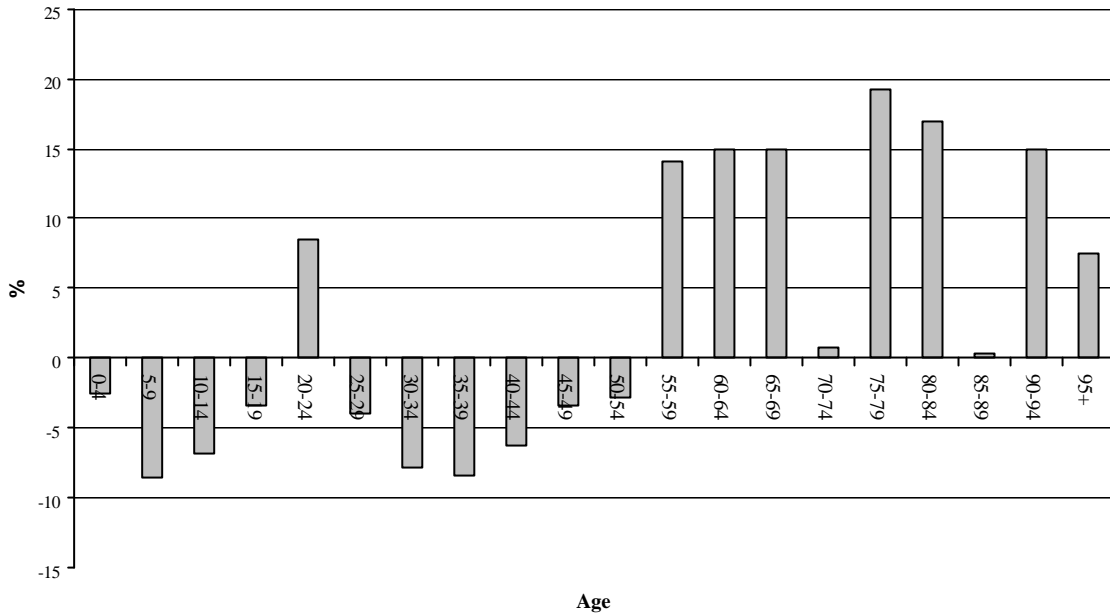
Figure 1 Percentage change in the number of people covered by private health insurance, by age, December 2003-December 2004



Source: PHIA (2005a) and PHIA (2005b)

As shown in Figure 2, the trend away from private health insurance by younger people is not a short-term aberration. The pattern is the same over the four-year period from December 2001 to December 2004. Over that period the number of Australians under 55 with private health insurance has fallen by 4.8 per cent. The number of privately insured Australians over 55 has risen by 13.7 per cent. This trend, and the consequent pressure on private health insurance premiums, is likely to continue.

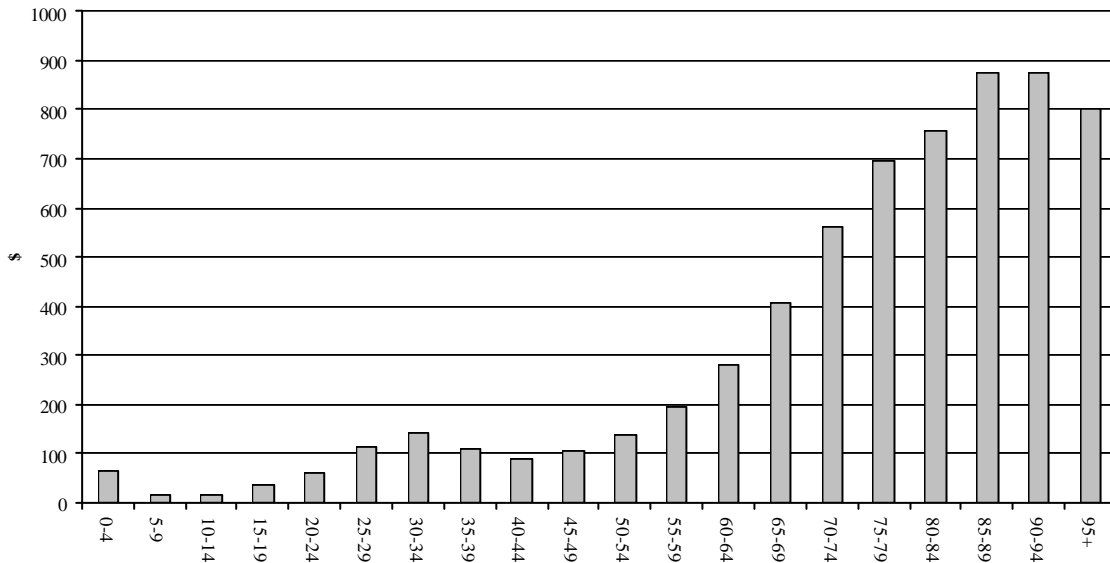
Figure 2 Percentage change in the number of people covered by private health insurance, by age, December 2001-December 2004



Source: PHIA (2005a) and PHIA (2005b)

Figure 3 shows the average cost to private health insurers of the hospital benefits paid to members of varying ages. As would be expected these costs rise substantially for older members, with the average cost of hospital benefits paid to an 80 year old being nearly eight times the average cost for a 40 year old.

Figure 3 Average costs of hospital benefits paid out by private health insurers, by age of person covered, December quarter, 2004



Source: PHIA A Report, December 2004

Implications

The objective of the introduction of both the 30 per cent private health insurance rebate and the Lifetime Health Cover policy was to encourage greater participation in private health insurance, particularly among younger Australians. As shown above, over the past four years there has been a steady decline in the number of young people with private health cover, and steady growth among older Australians. This compositional change is helping to drive up the cost of health insurance premiums due to the substantially higher average cost of claims by older Australians. The increasing cost of premiums is continually driving up the cost to the Commonwealth of the 30 per cent health insurance rebate.

The announcement during the election campaign of new measures to encourage participation in private health insurance by older Australians appears to have been both misguided and unnecessary. To the extent that the objective of the Commonwealth Government's policy is to reduce the cost of private health insurance by increasing the proportion of younger Australians with cover it is failing. The \$445 million dollar cost of the increase in the private health insurance rebate (Howard 2004), if it is to have any effect on the health system at all, is likely to increase the cost of private health insurance.

The objective of the Commonwealth Government's assistance to the private health insurance industry was to make private health insurance both more affordable and attractive for younger members. As demonstrated above, there is now a steady flow of younger members out of private health insurance and an inflow of older members. Such a shift in the demographic composition of private health insurance members will inevitably result in higher health insurance premiums, which in turn are likely to encourage more young members to abandon their cover.

References

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