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Who benefits from private health insurance in Australia?

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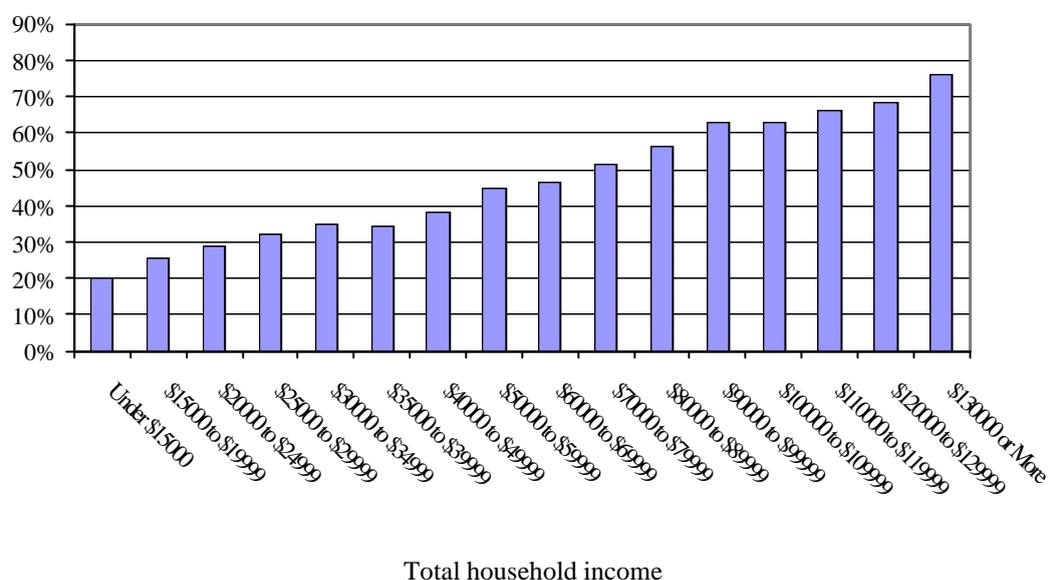
The Federal Government strongly encourages increased reliance on private health insurance to improve healthcare outcomes and relieve budgetary pressures, an approach it has maintained despite the continuing growth in premium prices and declines in health insurance memberships among the young. The 30 per cent rebate substantially reduces the cost of private health insurance for those who decide to have it but the cost of this policy to taxpayers is estimated to be in excess of \$2.5 billion per year.

Concerns have been raised about the equity impacts of the private health insurance rebate (Smith 2000, Butler 2001), although data on the distribution of income of those with private health insurance have been incomplete. This paper draws on data collected by Roy Morgan Research from 56,344 respondents aged 14 and over across Australia. The data were collected by face-to-face interviews during the period October 2003 to September 2004.

Distribution of private health insurance by income and wealth

Figure 1 shows the relationship between household income and private health insurance coverage. While only 24 per cent of Australians who live in households with incomes below \$25,000 per year are covered by private health insurance, the proportion rises steadily with household income; 69 per cent of those in households with incomes over \$100,000 per year have private health cover.

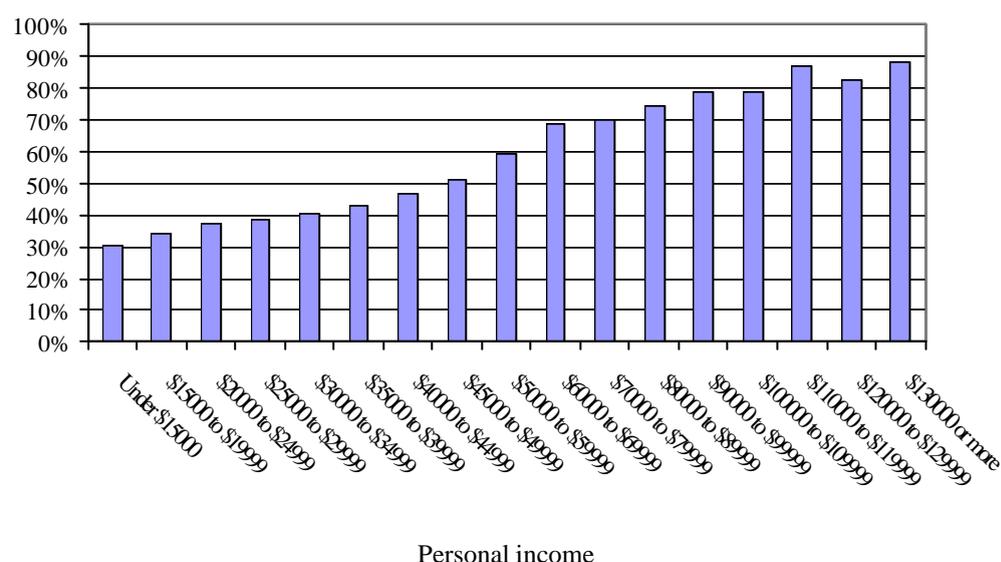
Figure 1 Percentage of Australians with private health insurance, by household income, 2004



Source: Roy Morgan Research (survey of people aged 14 and over taken between October 2003 and September 2004)

The relationship between the personal income of the survey respondent (rather than the income of the household in which the respondent lives) and private health insurance coverage is shown in Figure 2. Once again, there is a steady rise in the proportion of respondents with private cover as income rises. Eighty eight per cent of individuals earning over \$130,000 per year report having private health insurance.

Figure 2 Percentage of Australians with private health insurance, by personal income, 2004



Source: Roy Morgan Research (survey of people aged 14 and over taken between October 2003 and September 2004)

The level of private health insurance coverage by people's lifestyle is shown in Table 1. Based on this segmentation, young single parents are least likely to have private health insurance (13 per cent). Amongst young people living as couples with children, where the household income is less than \$40,000 just 20 per cent have private health insurance compared to 48 per cent where the household income is more than \$40,000.

Within this categorisation, the people most likely to have private health insurance are older couples with a household income of over \$40,000 (amongst whom 68 per cent of those with no children and 65 per cent of those with children are privately covered). It is worth noting that, during the 2004 election campaign, it was this group of older Australians who were promised even greater incentives, in the form of a rebate of up to 40 per cent for those aged over 70 (Howard 2004), to retain private health insurance. This is despite the fact that it is young, low-income families with children who appear to need the greatest assistance with meeting the cost of private health insurance.

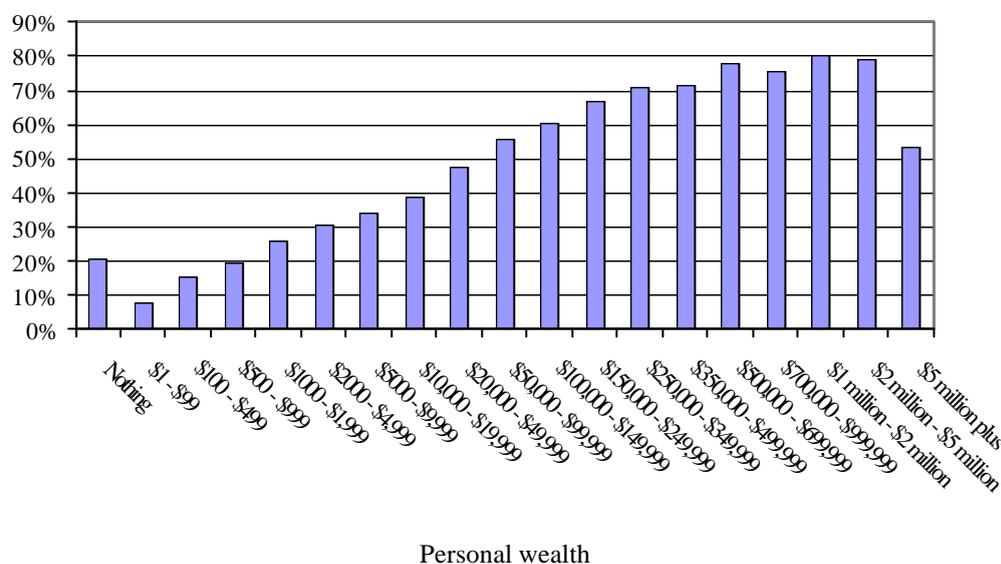
Table 1 Distribution of private health insurance cover by life-stage, 2004

Lifestage	Percentage of individuals with private health insurance
Dependent Youth	9
Young Single Parent	13
Young Worker At Home	20
Young Married Children earning less than \$40,000	20
Young Married No Children earning less than \$40,000	22
Older Single Non Worker	26
Young Single Left Home	31
Older Married Children earning less than \$40,000	33
Older Single Parent	33
Older Married No Children earning less than \$40,000	43
Older Single Working	43
Young Married No Children earning more than \$40,000	44
Young Married Children earning more than \$40,000	48
Older Married Children earning more than \$40,000	65
Older Married No Children earning more than \$40,000	68
Average	41

Source: Roy Morgan Research (survey of people aged 14 and over taken between October 2003 and September 2004) [Note: In this table 'young' means 14-39 and 'older' means 40 and over].

Private health insurance membership increases steadily with personal and household income but, as shown in Figure 3, it increases even more rapidly with personal wealth. While only 13 per cent of people with less than \$1,000 in savings or investments are covered by private health insurance, 77 per cent of people with investments over \$500,000 have cover.

Figure 3 Percentage of Australians with private health insurance by personal wealth*, 2004



* Defined as total amount held in either bank balances or financial investments, excluding home ownership.

Source: Roy Morgan Research (survey of people aged 14 and over taken between October 2003 and September 2004)

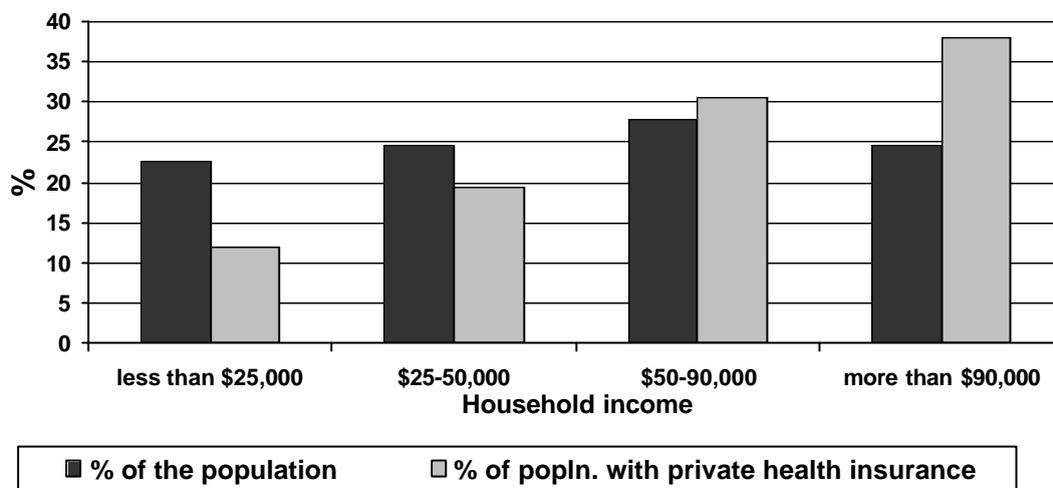
Distribution of the benefits of the 30 per cent private health insurance rebate

The distribution of income and private health insurance cover across households can be used to estimate the proportion of the \$2.5 billion dollars spent on the 30 per cent private health insurance rebate that accrues to low, middle and high income earners. Figure 4 charts the percentage of the population in four income groups together with the extent of private health insurance coverage among those groups for respondents who stated their income. For example, 22 per cent of the population live in households with an income of less than \$25,000 per year, but they account for only 12 per cent of people with private health insurance cover. Individuals living in households with incomes greater than \$90,000 per year account for 25 per cent of the population but 38 per cent of those with private health insurance.

Assuming that the cost of private health insurance premiums is equal across income groups, 69 per cent of the benefits of the private health insurance rebate accrue to the 53 per cent of the population living in households earning more than \$50,000 per year. Similarly, 53 per cent of the benefits of the 30 per cent rebate accrue to households earning more than \$70,000 per year.

This is likely to be an underestimate as higher income households tend to purchase more expensive health insurance and therefore receive a larger rebate.

Figure 4 Percentage of the population by household income group and private health insurance coverage, 2004



Source: Roy Morgan Research (survey of people aged 14 and over taken between October 2003 and September 2004)

Conclusions

The Federal Government's reliance on private health insurance as a tool of public policy is delivering a disproportionate benefit to high-income earners and those who reside in high-income households. And as private health insurance premiums continue to rise, so too will the cost to the Federal Government of the open-ended 30 per cent private health insurance rebate. The announcement in March 2005 of an average eight per cent increase in the price of private health insurance, for example, will cost the Federal Government in excess of \$200 million per year.

Income is a major factor in the decision to take out private health insurance. Health Minister Tony Abbott's recognition that, for those who do not have private health insurance something as fundamental as dental care has become a 'nightmare', is an admission that the current system is failing many low-income earners who cannot afford private health cover (Abbott cited in Pearlman and Ryan 2005).

In the lead up to the 2004 Federal election the broad demographic trends illustrated in this paper should have been clear to the Government. Despite the fact that low-income earners in general, and low-income families with young children in particular, are the groups with the lowest private health insurance coverage, the Prime Minister announced policies to increase the affordability of private health insurance among older Australians. Given that affordability appears to be a more pressing problem for younger families, the decision to increase assistance to older households is unlikely to improve the efficiency or equity of the Australian health system.

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