**Consultation Paper – Risk Equalisation Actuarial Study**

**Background**

Finity Consulting (Finity), an independent actuarial firm with private health insurance (PHI) expertise, has completed its review of the current Risk Equalisation (RE) arrangements.

The Study identifies shortcomings with the current settings:

* the high level of sharing claims costs between insurers limits incentives for an insurer to invest in more efficient healthcare, both in terms of:
* working collaboratively with healthcare providers to lower claims costs; and
* funding preventive health and chronic disease management initiatives to reduce hospital utilisation.
* the funding insurers receive (that is, premium and RE payment) is poorly matched to expected claim costs, providing incentives to risk select and offers of lower value products to some policy holders.

The Study finds a simple hybrid RE model (relying on data already held by insurers) can outperform the current RE system. Given the importance of appropriately calibrated RE settings to consumers interests and the PHI system more broadly, the Study also notes the importance of active management of RE settings.

**Stakeholder engagement to date**

During 2021 and 2022, Finity held several stakeholder forums, workshops, interviews to contribute to the development of the Study. Attachment C of the Study includes a summary of stakeholder feedback to date. The Department thanks the stakeholders that have contributed to the Study. The Department acknowledges the detailed quantitative analysis informing the Study was made possible by insurers, for the first time, voluntarily providing access to multiple years of detailed claims data.

Throughout the consultation process stakeholders have emphasised their strong interest in commenting on the Study prior to its consideration by Government.

**Consultation**To inform Government’s consideration of the Study, stakeholders are requested to provide feedback to the Department of Health and Aged Care (the Department) on the Study by 3pm Monday  
 5 December 2022 (via email at [PHIconsultation@health.gov.au](mailto:PHIconsultation@health.gov.au)). Matters on which feedback is sought include:

1. The validity of the Study’s findings and how they relate to: (i) current and future outcomes for policyholders; and (ii) current and future performance of Australia’s private healthcare system.
2. The merits of the Study’s recommendations and how they relate to: (i) possible outcomes for policyholders; and (ii) the future performance of Australia’s private healthcare system.
3. The arrangements or mechanisms that should accompany a process to develop a detailed proposal and the major implementation issues and considerations (including transition timing) that should be considered in developing a detailed proposal.
4. What are other considerations associated with the proposed changes that the Department (and other stakeholders) should be aware of?

To continue to support stakeholder engagement the Department intends to publish responses. Respondents are asked to clearly identify any sensitive material not to be published.