
Private health insurance reforms – second wave

AMA submission to the Department of Health consultation in relation to options for further reforms to private health insurance.

Consultation 1: Increasing the age of dependents to encourage younger people and also people with a disability to maintain private health insurance.

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The AMA supports the policy intent of changing the dependent age on family policies. In the *AMA Prescription for Private Health Insurance* we highlighted that private health insurance (PHI) policy settings are not “set and forget”. As demographics, chronic disease, technology and health care change, so to do the policy setting. However, we also highlighted how the myriad of policy levers currently in play are interrelated and should not be considered in isolation.

We called for a review of the Lifetime Health Cover (LHC) loading and penalties – especially the starting age to make it an easy choice for Australians to stay in PHI for life. The purpose of LHC is to counter the incentive for entrants to join later in life and pay premiums just before they are most likely to claim. However, what was intended to be a price signal to buy PHI at 30 may now be acting as a barrier. Low wages growth and longer higher education means many young people are not in a position to buy PHI until age 35. However, at this age they face significant penalties under LHC at a time when many young people are also saving to buy a house, repaying Higher Education Loan Program (HELP) (formerly known as the Higher Education Contribution Scheme - HECS) debt and raising children. Given this, it is not surprising that younger people are questioning the value of private health insurance.

As part of this discussion, we also posed the question of whether it was time to change the dependent age for family policies.

The AMA believes that the work done to date by the Government begins this process but there are flaws in the proposed changes we would like to see addressed. We would also like to take this opportunity to again call for a concerted approach to the policy settings for PHI. Whilst changing the dependent age now is a positive step forward, should the Government change other settings (such as the ages set for LHC and youth discount) then the dependent age should be adjusted as well.

The AMA calls on the Government to ensure that in implementing this second wave of reforms it doesn't undermine the key principles of PHI and the first wave of reforms:

- maintaining the integrity of community rating;
- ensuring a no surprises approach to health insurance¹; and
- simplifying the health insurance².

In this submission we have outlined a series of issues and possible solutions we believe will achieve this result for the Government's proposed changes.

Is it time to change the dependent age on family policies?

The proportion of young adults living in the parental home has been growing over time. In 2001, 47.2% of men aged 18 to 29 and 36.5% of women aged 18 to 29 were living with their parents, while in 2017, 56.4% of men and 53.9% of women in this age range were living with their parents. All these results suggest that young adults in Australia today are taking more time before leaving education and entering living and working arrangements that have long defined adulthood. If we look at raising both the LHC and the youth discount age, it would make sense to also consider changing the dependent age on family policies which currently covers dependent children until they turn 25.

Health insurers themselves have recently flagged this as an idea as well calling for this age to be raised to 30.

The AMA believes that the Government should undertake detailed modelling on this policy setting to determine what the best age defining a dependent on a family policy is.

Ref: <https://ama.com.au/articles/ama-prescription-private-health> p16

Introduction

Currently PHI funds may choose to insure one or more adults aged under 25 who do not have a "partner" under their parent(s)' PHI policies:

- at no additional fee – if they otherwise fall within the fund's definition of a "dependent child"; and
- for an additional premium (generally less than single's cover) – if they fall within the fund's definition of a "dependent child non-student".

There are several definitional and policy issues in relation to the existing definition of "dependent child" including:

- no definitions for key concepts such as "partner" and "full-time";
- the use of the term "dependent child" to describe persons who are over 18 and may be employed or receive income support payments;

¹ <https://www.greghunt.com.au/making-private-health-insurance-simpler-and-boosting-coverage-for-women/>

² <https://www.greghunt.com.au/the-lowest-private-health-insurance-premium-change-in-18-years/>

- differing approaches across funds to defining whether a person is a “dependent child”, a “dependent child student”, “a dependent adult” or an “adult”; and
- inconsistencies between fund definitions of a “dependent child” and who is legally a “dependant”³ for the purposes of the Medicare Levy surcharge.

This leads to misunderstandings and disputes, including situations where parents do not appreciate that their child is no longer covered by their policy.

These issues need to be addressed as part of the current reforms as persons over 24 are:

- more likely to have a “partner” (or an ex-partner);
- less likely to be studying “full-time”;
- more likely to be employed or receive income support payments;
- more likely to be living away from home (and potentially in a different risk equalisation jurisdiction);
- more likely to legally have a different address (eg to vote or register a car); and
- more likely to have a child.

INTERACTION OF MEDICARE LEVY SURCHARGE AND DEFINITION OF “DEPENDENT CHILD”

It is critical to consider these issues in conjunction with the Medicare Levy surcharge and PHI rebate.

Currently a taxpayer may be liable for Medicare Levy surcharge if they and their “dependants” do not have appropriate PHI. Section 251R of the *Income Tax Assessment Act 1936* (Cth) defines “dependants” for the purposes of Medicare Levy surcharge as the taxpayer’s:

- spouse (which includes persons who live together in a relationship as a couple on a genuine domestic basis)⁴;
- children under 21 years old; and
- children aged “not less than 21 years of age but less than 25 years of age and receiving full-time education at a school, college or university”,

but only where the taxpayer “contributed to their maintenance”⁵.

A taxpayer “maintains” a dependant if:

- you both lived in the same house;
- you gave them food, clothing and lodging; or
- you helped them to pay for their living, medical and educational costs⁶.

³ The spelling differences in this submission reflect the different spelling in the different legislation.

⁴ <https://www.ato.gov.au/Individuals/Medicare-levy/Medicare-levy-surcharge/Family-and-dependants-for-Medicare-levy-surcharge-purposes/>

⁵ [https://www.ato.gov.au/Individuals/Medicare-levy/Medicare-levy-surcharge/Family-and-dependants-for-Medicare-levy-surcharge-purposes and](https://www.ato.gov.au/Individuals/Medicare-levy/Medicare-levy-surcharge/Family-and-dependants-for-Medicare-levy-surcharge-purposes-and)
http://classic.austlii.edu.au/au/legis/cth/consol_act/itaa1936240/s251r.html

⁶ <https://www.ato.gov.au/Individuals/medicare-levy/medicare-levy-exemption/dependants-for-medicare-levy-exemption/>

If a taxpayer is covered by their parent(s)' PHI policy as a "dependent child", the taxpayer is not required to take out their own policy even if their personal income exceeds \$90,000.⁷ This means that neither the taxpayer nor their parents are subject to the Medicare Levy surcharge. By contrast, if a taxpayer is not covered by their parent(s)' PHI policy then the Medicare Levy surcharge is potentially payable by:

- the taxpayer – if their personal income exceeds the threshold;
- the taxpayer's parents – if the taxpayer is still their "dependant" for the purposes of the Medicare levy surcharge and the family income exceeds the threshold; and
- the taxpayer's spouse – if their combined income exceeds the threshold and they fail to ensure both spouses are covered by appropriate PHI.

A child with a "partner" currently cannot be covered by their parent(s)' PHI policy, even if their parent(s) pay an additional premium.⁸ However, during our review we did not identify a clear statement that a child with a "spouse" is no longer legally a "dependant" of their parents for the purposes of the Medicare levy surcharge legislation particularly if:

- they are under 21 or under 25 and studying full-time; and
- their parent(s) are contributing to their maintenance.

It may be that the way that this is dealt with in practice is that the ATO expects that:

- children are unlikely to be married if they are under 21 or under 25 and studying full-time;
- children under 21 or under 25 and studying full-time generally do not self-declare to the ATO and Centrelink as having a de facto partner; and
- if a child (and their spouse) identify each other on their tax returns, their parents will not include them as a dependant in their tax return even if they otherwise fall within the ATO's definition of dependent⁹.

Clearly this has the potential for misunderstandings and disputes. The financial implications of these misunderstandings may be significant particularly where they result in:

- Patients not realising until too late that they do not have PHI.
- Liability to pay Medicare Levy surcharge.

These issues are likely to be exacerbated with the increase in the age cap.

As discussed below:

- the AMA recommends that funds be required to cover "dependants" (as defined for the purposes of the Medicare levy surcharge) at no additional cost; but
- funds be entitled to charge additional premiums for covering children (including adult children) who fall outside that definition.

⁷ <https://www.ato.gov.au/individuals/medicare-levy/private-health-insurance-rebate/income-thresholds-and-rates-for-the-private-health-insurance-rebate/>

⁸ Definition of "dependent child" in Schedule 1 (Dictionary) of the *Private Health Insurance Act 2007*.

⁹ <https://www.ato.gov.au/Individuals/Tax-return/2020/Tax-return/Income-test-questions-IT1-IT8/IT8-Number-of-dependent-children-2020/>

QUESTIONS FOR ALL STAKEHOLDERS: DEPENDENTS

1. Should the maximum age for child dependents be 31 or when LHC typically applies (i.e. 1 July following an individual's 31st birthday)?

In the AMA's view, the maximum age should be tied to when LHC typically applies. This way young people who choose to take up their own cover to avoid LHC will not incur any gap. References to 31 in our responses to the other questions should be read as referring to the LHC cut off.

The AMA is aware that the Department of Health is undertaking actuarial analysis of LHC. Should the Government change the LHC age, then appropriate policy adjustments should be made to any other linked policy settings, including this one.

2. Should eligibility of a dependent continue to be limited to people without a partner?

It appears that this restriction was drafted on the basis that if a child has a partner:

- their partner should be primarily responsible for their maintenance; and
- their parents are no longer primarily responsible for them – even if they are a minor (under 18).

While this has some logic, the AMA notes that:

- The word “partner” is not defined.
- The word “partner” is not the term used by Centrelink¹⁰ or the ATO, including in relation to the obligation to pay the Medicare levy surcharge¹¹.
- The term “partner” is increasingly used by young people (particularly older young people) as a gender-neutral term for boyfriend or girlfriend. In other words, it may be used to describe something that is not legally a de facto relationship.
- Funds have interpreted this term differently. Some use “partner” (undefined), some use “married”, and some expressly exclude children in de facto relationships.
- The Department has recommended that this restriction not apply to persons with a disability.

The AMA notes also that:

- A person who has a partner with health insurance will not necessarily be covered by that policy (as their partner may elect to take out a singles policy).
- The person's partner may be covered by another arrangement (such as the Australian Defence Forces) which the person cannot join.
- A person's relationship status may change during a policy period.
- This restriction is not widely publicised. Most parents would be surprised to learn that a person under 18 with a “partner” is defined as an “adult” in the Private Health Insurance Act 2007 (**the PHI Act**) and is currently not legally able to be covered by their parent(s)' PHI regardless of the health fund's rules.

¹⁰ https://www.centrelink.gov.au/onlineclaim/help/personal_dtls_help.htm#partner

¹¹ <https://www.ato.gov.au/Individuals/Medicare-levy/Medicare-levy-surcharge/Family-and-dependants-for-Medicare-levy-surcharge-purposes/>

- The exclusion of persons with “partners” from the definition of “dependent child” for the purposes of the PHI Act means that currently a person with a “partner” cannot use their parent(s)’ policy to satisfy the Medicare levy surcharge, even if their parents have paid an additional premium to list them as a “dependent child non-student”.
- There is no provision for funds to refund parents for additional premiums paid for “dependent child non-students” on the basis that the child had a partner during the policy period (and hence was not eligible for this category).

Accordingly, the AMA recommends that the reasons for this restriction be reviewed for all children (and not just persons with disability) having regard to the wider policy objectives.

One possible option would be:

- for the Medicare Levy surcharge rules to be amended to clarify that if a person (regardless of age) has a partner they are no longer a dependent of their parents for the purposes of the Medicare Levy surcharge even if their parent contributes to their maintenance (e.g. by paying for their PHI); but
- parents can choose to include children who have a partner on an extended policy (which attract higher premiums) so long as they meet the other criteria for inclusion.

Alternatively, children who have partners but who do not have their own PHI could continue to be covered by their parent(s)’ PHI where they otherwise fall within the definition of “dependent” for the purposes of the Medicare Levy surcharge rules.

In each case:

- partner should have the same meaning as it has for the Medicare Levy surcharge (section 251R of the *Income Tax Assessment Act 1936*¹²); and
- the child (and their spouse) should be able to use the parent(s)’ PHI to satisfy their own liability under the Medicare Levy surcharge rules.

These arrangements would have a natural end point as:

- unless an exception is created for disability (which is not recommended by the AMA¹³), the child could only remain on their parent(s)’ policy until age 31;
- the child’s partner would not be covered; and
- the child would need to take out their own policy if they want coverage for to cover their own children (as their parent(s)’ policy will not cover grandchildren).

The point where parents must take out family coverage for their baby to be covered post birth varies widely between funds¹⁴. This is something that could also be standardised as part of this review.

¹² http://classic.austlii.edu.au/au/legis/cth/consol_act/itaa1936240/s251r.html

¹³ See our response to Question 9.

¹⁴ <https://www.ombudsman.gov.au/publications/brochures-and-fact-sheets/factsheets/all-fact-sheets/phio/obstetrics>

While it would be possible to exclude children who have partners from relying on their parent(s)' policy where their combined income exceeds the relevant threshold for the Medicare levy surcharge:

- The PHI rebate is calculated based on the income of the primary policy holders rather than the beneficiaries.
- A single person who is covered by their parent(s)' PHI policy as a "dependent child" is not required to take out their own policy even if their personal income exceeds \$90,000¹⁵.
- Financial years do not necessarily align with policy years.
- A person may not know until after the end of their financial year what their spouse's income is.
- A person who names a spouse in their tax return (or who is named in another person's tax return) may retrospectively lose cover for that financial year.
- Funds could potentially seek to recover monies paid to doctors, hospitals or the policy holder on the basis that a child was not covered.
- Alternatively, there would need to be provision for funds to refund parents for additional premiums paid for children who had retrospectively lost coverage.

3. Should the age ranges of different categories of child dependents be standardised for all private health insurers?

While the current structure allows differentiation in the market, it is confusing for policy holders and can lead to instances where parents do not realise that their child is not covered until it is too late (e.g., after they need knee surgery).

As was the case for Bronze, Silver and Gold, the AMA recommends that the age ranges be standardised.

A good illustration of the wide range of existing Fund rules is the summary at <https://www.finder.com.au/leaving-your-family-health-policy>.

These differences are not currently included in the comparison reports generated by <https://www.privatehealth.gov.au/> and it is likely that many parents are not aware of them and/or do not consider them when comparing policies.

Most policies cover a child at no extra cost until they turn 21 (subject to the partner restrictions). However, a few policies only cover non-students until they turn 18. There are also some policies with a higher age (under 22 or 23). For example, HBF currently covers children under 25 at no additional premium if they are either full-time students or earning less than \$24,500 per annum¹⁶.

Accordingly, one option would be to require all funds to cover dependent children until at least 21 (whether or not they live with their parents). This would align with:

¹⁵ <https://www.ato.gov.au/individuals/medicare-levy/private-health-insurance-rebate/income-thresholds-and-rates-for-the-private-health-insurance-rebate/>

¹⁶ <https://www.hbf.com.au/health-insurance/explained/how-does-hospital-insurance-work>

- the definition of dependent child used for the purposes of the Medicare levy surcharge¹⁷; and
- the definition of dependent child used by the vast majority of funds.

Funds could still differentiate themselves by covering older children (i.e. 21 or above) at no additional cost. Funds may also charge a lower premium for a couples' policy than a family policy¹⁸.

4. Should the conditions of dependence for the different categories of child dependents be standardised for all private health insurers?

Currently the PHI Act allows an adult under 25 (who does not have a partner) to be insured as a "dependent child" if they are:

*a dependent child under the *rules of the private health insurer that insures the person.*

A fund may also choose to offer PHI at an additional premium to a "dependent child non-student" being a:

*a *dependent child who:*

- (a) is aged between 18 and 24 (inclusive); and*
- (b) is not receiving full-time education at a school, college or university.*

This concept broadly aligns with the definition of "dependant" for the purposes of the Medicare Levy surcharge. As noted above, it defines children aged 21-24 as "dependant" if they are "receiving full-time education at a school, college or university", but only where the taxpayer "contributed to their maintenance".

Currently most policies:

- do not impose a study requirement on children under 21; and
- allow children under 21-24 to be covered at no additional charge if they are receiving full-time education.

However, few funds define "full-time education". This term is not defined in either the PHI Act or the *Income Tax Assessment Act*. For the purposes of Austudy and Youth Allowance, "full-time" is defined as studying at least a three-quarter load¹⁹.

Funds also vary in their approach to what kind of study is covered. For example, some funds use the term "enrolled in an approved course". This is broader than "school, college or university" as it may include TAFE or registered training organisations (RTOs). Centrelink also provides income

¹⁷ Children under 21 are considered dependents so long as the taxpayer contributed to their maintenance.

¹⁸ <https://www.canstar.com.au/health-insurance/young-adults-health-insurance/>

¹⁹ <https://www.servicesaustralia.gov.au/individuals/services/centrelink/austudy/who-can-get-it/study-loads>

support for other types of education, including apprenticeship²⁰. Children undertaking apprenticeships are generally not covered free of charge.

Some policies impose additional restrictions. For example, they may require that:

- parents confirm annually that older children are still engaged in full-time study. If parents fail to provide confirmation, their children are no longer covered (even if they are actually full-time students and their parent(s) are required by the Medicare levy surcharge rules to ensure that they are covered);
- student dependents earn less than a specified amount; or
- students be “fully dependent” or “financially dependent” on their parents.

Funds can charge a higher premium for extended family policies. These policies cover one or more children (up to 25) who are no longer full-time students. The increase varies between funds but is commonly calculated as a percentage. Not all funds offer extended policies, and some impose additional conditions (e.g., that the child is “dependent”). Currently extended family policies can only include children who do not have a partner. Funds vary in how they describe this restriction.

The AMA recommends that the definition of “dependency” be standardised. One option would be to:

- require all funds to cover all students (under 25) who fall within the definition of “dependant” under the Medicare levy surcharge rules at no additional premium;
- define “full-time” study; and
- prohibit funds from using administrative processes (such as annual verification requirements) to deny coverage to children under 25 who are engaged in “full-time education”. (Funds could still remind parents that if their children are not engaged in “full-time” study they will not be covered unless an additional premium is paid.)

As noted above, the definition of “dependant” under the Medicare levy surcharge rules requires that parents “contribute to maintenance”. This could potentially be replaced by a rule that a child is no longer covered when their income exceeds a particular amount per annum. However, as noted above, rules can create some practical issues (such as retrospective loss of coverage) and most parents will be contributing towards the costs of children under 25 who are studying full-time.

Again, funds could differentiate themselves by covering students in additional circumstances. For example, they could cover children (up to an age cap) who are:

- undertaking apprenticeships or studying at a TAFE or registered training organisations (RTOs);
- studying less than a 75% load; or
- not studying but earning under a specified amount.

²⁰ <https://www.servicesaustralia.gov.au/individuals/services/centrelink/austudy/who-can-get-it/approved-courses-and-education-providers>

5. Should the definition of 'dependent child' be simplified?

The definition of 'dependent child' will depend on the approach taken in relation to the issues above.

There may also be some changes required to the definition of 'adult'. Currently the definitions of "adult" and "dependent child" are mutually exclusive. This means that, for example, a minor with a partner is deemed to be an "adult". Some funds use the term "dependent adult" to describe a person who is legally a "dependent child non-student".

Under the reforms there will be a population of persons who can either:

- opt to purchase their own policy (in which case they will be "adult"); or
- be insured under their parent(s)' policy (in which case they will not be an "adult").

More neutral terms would be "primary policy holder" and "beneficiary".

We note also that older children are more likely to be living away from home temporarily (e.g. for study) or permanently. This address may be in a different risk equalisation jurisdiction. One option would be to use the risk equalisation jurisdiction where the parents are located, even if the child is in a different risk equalisation jurisdiction.

6. What purpose does the distinction between non student and student dependents serve and should this be retained?

As discussed above:

- this definition broadly aligns with the definition of "dependant" for the purposes of the Medicare levy surcharge;
- the AMA recommends that funds be required to cover "dependants" (as defined for the purposes of the Medicare levy surcharge) at no additional cost; but
- funds be entitled to charge additional premiums for covering children (including adult children) who fall outside that definition. This flexibility was added in 2009 at the request of health funds.

The Department has suggested three options. As detailed below, each of these options provides health funds with a large amount of power to set their own rules.

Option	Beneficiaries	Determined by funds
1	<p>Funds may cover children under 31 (who do not have a partner) under family/ single parent policies.</p> <p>The concept of student dependent would be removed. This means that funds could no longer charge a higher premium for extended family policies.</p>	Which categories of children under 31 are covered under family/ single parent policies.

Option	Beneficiaries	Determined by funds
2	<p>Funds must cover children under 18 (who do not have a partner) on family/ single parent policies.</p> <p>Funds may cover children aged 18 – 31 (who do not have a partner) under either family/ single parent policies or extended family/ single parent policies.</p> <p>The age cap for student dependents would increase to 31. Funds would still determine who is a student dependent.</p>	<p>Which categories of children aged 18 – 31 are covered by family/ single parent policies.</p> <p>Which categories of children aged 18 – 31 can be covered by extended family/ single parent policies</p>
3	<p>Funds must cover children under 18 (who do not have a partner) on family/ single parent policies.</p> <p>Funds may cover children under 31 (provided that they do not have a partner) either at no additional cost or for an additional premium.</p> <p>The age cap for student dependents would remain at 25. Funds would still determine who is a student dependent.</p> <p>Funds may charge a different premium depending on whether the child is 18-24 or 25-31.</p>	<p>Which categories of children aged 18 – 31 are covered by family/ single parent policies.</p> <p>Which categories of children aged 18 – 31 can be covered by extended family/ single parent policies</p> <p>Whether to charge a higher additional premium for 25 – 31 year old children and what this additional premium is.</p>

The AMA does not support any of these options as:

- members of the public will need to closely review the fund rules to determine whether their children are covered;
- funds could substantially reduce existing coverage. For example, under Option 1 a fund may theoretically define a dependent child as a child under 13 so that it does not have to cover teenagers;
- funds could circumvent community rating by imposing higher premiums or decline coverage for categories of persons that it perceives as higher risk. For example, it could exclude (or charge higher premiums) for children over 18 who are neither working nor studying; and
- all of these options exclude children with “partners”. As discussed above, this exclusion is problematic and needs to be reviewed as part of the increase in the age cap.

We have set out some alternative options in our response to Question 9.

The AMA also notes that Option 1 unwinds the 2009 reforms (which allowed funds to offer extended family policies for a higher premium) and the existing concessions for student dependents. As discussed in our response to Question 4, the AMA recommends that funds be required to cover all students (under 25) who fall within the definition of “dependant” under the Medicare levy surcharge rules at no additional premium. This is consistent with the approach currently taken by most funds. Removing this concept would be a major change in the PHI landscape as:

- higher income taxpayers with student dependents aged between 18 and 25 would need to pay an additional premium to avoid paying the Medicare Levy surcharge; and
- lower income taxpayers with student dependents in this age group may choose not to insure them.

We note that Option 3 involves splitting non-students into two age groups (18-24 and 25-31). The concept of increasingly fragmented risk groups is not consistent with community rating. We recommend that funds that choose to extend policies to young persons (under 31) who fall outside the definition of “dependant” under the Medicare levy surcharge rules be required to apply the same rules to all members of this group. In particular, funds that choose to offer extended policies to this group should be required to cover all persons up to 31 who wish to purchase coverage. Allowing funds to set a lower age is contrary to the policy objective of encouraging young people to maintain continuous coverage until LHC kicks in.

Allowing funds to set their own age cut off or charge higher premiums for 25 – 31-year old’s also allows funds to exclude or price out of the market classes of beneficiaries that are perceived as higher risk. For example, a fund may decide not to offer extended family policies to any children aged over 26 on the basis that it has assessed that parents are more likely to want to purchase these policies if their children are persons with disability, unemployed or have high health needs. Alternatively, it could charge a significant premium on the basis that it has assessed that this group is a higher risk than persons under 31 who choose to buy their own policy or self-insure.

7. Should the current 10 insured groups be rationalised by removing groups not being used by insurers?

The AMA does not have a view on this.

8. What is the preferred criteria and mechanism for determining eligibility of people with a disability?

The AMA prefers the definition in section 24 of the *National Disability Insurance Scheme Act 2013* because:

- it would make use of an existing mechanism that is in wide use in the community;
- it is at arms’ length from insurers; and
- parent(s) are likely to know whether their child is considered by NDIS to be disabled.

However, in our response to Question 9 we have suggested a model that does not require different policies for persons with disability (including where they have a partner).

9. Should there be standardised arrangements for determining eligibility of people with a disability, or is it preferable to allow each insurer to determine its eligibility criteria?

The AMA recommends a standard approach apply.

The Department has suggested three options:

- Option 1: new category of child dependent which is limited to people with a disability and who are over 17 years old; and
- Options 2 and 3: new category of adult dependent which is limited to people with a disability and who are over 17 (option 2) or 31 (option 3) and create two new insured groups which contain at least one adult dependent.

Under all three options the dependent with a disability may have a partner.

The AMA notes also that insurers are only required to apply the same premium to persons within the same group (and the same risk equalisation jurisdiction). Accordingly, funds could charge a higher premium for options 2 and 3. Depending on the overall risk of this group, this premium may be higher than the premium charged for a single adult. It is unclear how “adult dependents” would be treated for the purpose of PHI rebate as this terminology is not used in the PHI Act. Currently, all “adults” covered by the policy are considered to have equal shares in the premium and their income is considered for the purpose of calculating PHI rebates.²¹ The definition of “adult” does not include persons insured as a “child dependent”.

An alternative option would be:

Insured group	Beneficiaries
single parent	<p>All children who are “dependants” (as defined for the purposes of the Medicare levy surcharge)</p> <p>Option A: Children with a partner are covered so long as they do not have their own PHI and otherwise meet the definition of “dependant”; OR</p> <p>Option B: The fund may require that the policy holder purchase an extended policy if they want to cover a child who has a partner.</p>
family	
single parent (extended)	<p>All children under 31 who do not fall within the categories above.</p> <p>The child may have a partner, but their partner and any grandchildren will not be covered (post-birth).</p> <p>Insurers who choose to offer extended policies cannot exclude categories of children or set a lower age cut off.</p>
family (extended)	

²¹ <https://www.ato.gov.au/individuals/medicare-levy/private-health-insurance-rebate/private-health-insurance-rebate-eligibility/>

Under this option, persons with disability over 31 would purchase singles (or couples) policies. Eligibility for a PHI rebate for persons in this category would be assessed using only their income (unless they purchased a couples' policy), even if the policy is actually paid for by their parents.

This option effectively separates persons with disability into two age-based risk groups (under 31 and over 31) without creating separate groups for persons with disability. As noted above, any group that consists solely of persons with disability may be assessed by fund actuaries as having a higher risk rating (and premium) than an equivalent singles policy. If so, creating this category would not be in the best interests of persons with disability.

10. Should eligibility of a dependent with a disability be limited to people without a partner?

The Department has proposed that the definition of dependent child:

- continue to exclude children with a partner (page 8); unless
- the child is a person with a disability (page 11).

The partner of the child with a disability would not be covered by the dependent's family policy (page 11).

The policy rationale for this distinction is unclear. As discussed above, given that insurers are entitled to charge differential premiums for different groups, generally having less groups is more consistent with community rating.

As noted above, we have suggested two options to reforming the existing exclusion on persons with partners. We have included these options in the table in our response to Question 9 as Options A and B. In both cases we recommend clarifying that:

- Partner has the same definition as for the Medicare Levy Surcharge.
- If a person (regardless of age) has a partner, they are no longer a dependent of their parents for the purposes of the Medicare Levy surcharge even if their parent contributes to their maintenance (e.g., by paying for their PHI).
- A person with a partner who is covered by their parent(s)' policy (under the proposed reforms) can use that policy to satisfy their obligations to purchase PHI (and their spouse's obligations to ensure that they have PHI).

11. What are appropriate metrics for measuring the impact of this proposal?

The key metrics are:

- Premiums for single parent/ family policies, including any widening of the gap with couples' policies.
- Premiums for extended single parent/ family policies.
- Number of insurers offering each type of policy.
- Take up of PHI including:
 - Take up of single or couples by persons hitting the LHC threshold.
 - Any decline in take up of PHI by single or couples, particularly by persons who would otherwise be subject to the Medicare levy surcharge.

- Improved outcomes for persons with disability (take up of PHI and average premiums paid).

12. What is the regulatory burden associated with this proposal?

Amendments would be required to both the PHI Act and the Income Tax Assessment Act. Some changes would be required to the instructions for completing tax returns.

Insurers would need to update their fund rules and review their pricing.

15 FEBRUARY 2021

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