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

Bupa Submission

Contact:

Amanda Lean
Director, Public Affairs
Bupa Australia
L 13, 33 Exhibition Street, Melbourne, 3000
T: +61 (0)418 108 507
E: Amanda.Lean@bupa.com.au
W: www.bupa.com.au/healthandcaring

Problem Definition

As Australia's largest health insurer, Bupa is acutely aware of the complex challenges our private health system faces to remain sustainable and affordable for Australians into the future. When Lifetime Health Cover was introduced in 2000, there were 8.5 private health insurance (PHI) members aged under 65 for every member aged 65 or older. By 2019 the figure was just 4.3 members. Between June 2019 and June 2020 the number of people aged over 65 with hospital treatment policies increased by 71,496 or 0.71%. The 60+ insured aged cohort overtook the 20-39-year-old cohort around four years ago and on current trends the 60+ age group will also overtake 40-59 year-olds in the foreseeable future.

Our community rating systems relies on the participation of young people in health insurance, as they are net contributors. As such, we welcome initiatives to increase participation in private health insurance, particularly among young people. However, we do not believe this policy will have a significant impact on improving the affordability of PHI or the sustainability of the sector. Increases in the number of lives covered is likely to be one-off and occur at the expense of policies held, which will also impact fund revenue.

It is anticipated that premiums will increase to offset the decline in revenue brought about by young people shifting from stand-alone policies back to their family policies.

While we support providing funds with the flexibility to determine whether and how they will implement this change, we note that inconsistency in the way different funds implement such changes could potentially lead to customer confusion.

Part One: Increase the maximum allowable age for dependents in PHI from 24 years to 31 years

We support option two in order to:

- Minimise the potential for customer confusion and allow us to deliver great value for customers with simplicity and frictionless experiences; and
- Responsibly manage potential risk, aiming for cost neutrality and financial sustainability.

Option two – increasing the allowable age of student and non-student dependents to 31 – facilitates the simplest transition for both customers and funds, while maintaining the ability to manage pricing risks through existing product offerings, scales and price differentiation.

Distinguishing between older "non-student" and "student" dependents is important as student dependents could continue to be covered under family or single parent covers, while non-student dependents continue to be covered under extended family or extended single parent covers. Differential pricing is appropriate, acknowledging that students are not expected to be earning an income, whereas non-student dependents may be earning a full time wage and have greater health risk.

Option one – increasing the allowable age of infant dependents to 31 and removing student and non-student dependent categories – is not supported. Removing the ability to differentiate between student and non-student dependents would introduce much greater pricing risks and result in increasing prices for all families. As noted above, it is important to differentiate between these two categories at a pricing level given their income generating capacity.

Option three – creating a new category of dependent child and two new insured groups – is not preferred. The introduction of additional transition points for dependents adds customer and administrative complexity to the scale options, as well as additional pricing risks.

Other recommendations

- To promote simplicity for customers we recommend the maximum age be defined as occurring at 30 June following an individual's 31st birthday, so there is no gap with the application of Lifetime Health Cover.
- The eligibility of dependents should continue to be limited to individuals without a partner, consistent with current policy.
- Financial dependence on the parent/s should also be a condition of eligibility. Individual funds should retain the ability to define this in their fund rules, for example through the application of income thresholds or means testing.
- We support making the definition of 'dependent child' more specific by standardising the conditions of dependence to the two listed above.
- Where insurers offer the age-based discount, it is applied based only on the adults on a policy, not dependents. This ensures young people can benefit from an age-based discount when holding their own cover, or from remaining on a parent or family policy, but not both.
- We note this measure will create a definition and age band of dependents that is different from that contained in the *Income Tax Assessment Act 1936* as it relates to the Medicare Levy Surcharge. Consistency and alignment should be created where possible and guidance provided on the interaction between the two Acts and potential customer taxation liability. For example, because financial dependence on the parent/s should be a condition of eligibility, an individual who is a dependent on a policy should not be considered to have held health insurance for the purposes of assessing their individual liability for the Medicare Levy Surcharge.

Part Two: Remove the age limit for dependents with a disability

We support option three – creating a new category of 'adult' dependent aged 31 and over, limited to people with a disability, and creating two new insured groups which contain at least one adult dependent – for achieving this part of the measure.

We strongly support a standardised definition of disability and eligibility for coverage for all private health insurers to ensure equity and simplicity for consumers and remove potential discrimination concerns from individual funds.

We strongly recommend aligning the definition with that of the National Disability Insurance Scheme (NDIS), and eligibility be aligned to NDIS registration to make use of an existing mechanism widely used in the community, independent of insurers, which prevents the need for individual funds to perform disability assessments and validations.

It is essential that the assessment of eligibility should not be burdensome for customers or for funds and allow for discretionary positive exceptions, for example where a fund can accept eligibility outside the criteria on compassionate grounds but cannot reject the eligibility of anyone meeting the criteria.

TABLE 1: CONSULTATION QUESTIONS REFERENCE SUMMARY	
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)?	To promote simplicity for customers we recommend the maximum age be defined as occurring at 30 June following an individual's 31st birthday, so there is no gap with the application of Lifetime Health Cover.
2. Should eligibility of a dependent continue to be limited to people without a partner?	Yes. The eligibility of dependents should continue to be limited to individuals without a partner, consistent with current policy.
3. Should the age ranges of different categories of child dependents be standardised for all private health insurers?	No. Funds should retain the ability to differentiate based on age requirements.
4. Should the conditions of dependence for the different categories of child dependents be standardised for all private health insurers?	Yes. Financial dependence on the parent/s and excluding those who are partnered should be standardised conditions of dependence for all private health insurers. Individual funds should retain the ability to define financial dependence in their fund rules, for example through the application of income thresholds or means testing.
5. Should the definition of 'dependent child' be simplified?	No. The definition of dependent should not be simplified. It should be made more specific by by including the two conditions of dependence given in answer to question 4.
6. What purpose does the distinction between non-student and student dependents serve and should this be retained?	Yes, the distinction between non-student and student dependents should be retained. This distinction is important as student dependents may continue to be covered under family or single parent covers, while continued coverage of non-student dependents may be offered under extended family or extended single parent covers. Differential pricing is appropriate, acknowledging that students are not expected to be earning an income, whereas non-student dependents may be earning a full time wage and have greater health risk.
7. Should the current 10 insured groups be rationalised by removing groups not being used by insurers?	Yes. We support removing groups not being used by insurers. For example "3 or more people, at least 3 of whom are adults".
8. What is the preferred criteria and mechanism for determining eligibility of people with a disability?	We strongly recommend using the definition used by the National Disability Insurance Scheme (NDIS), and that eligibility requires NDIS registration. This makes use of an existing mechanism widely understood and used in the community, which is independent of insurers, prevents the need for individual funds to perform disability assessments and validations, which will reduce consumer confusion and complaints. In addition to NDIS registration, conditions of dependence must also apply to eligibility, including financial dependence on the parent/s (with the same discretion for funds to assess this via income or means testing), and limited to individuals without a partner, consistent with the conditions for other dependents.