Defence Health response to Consultation paper: private health insurance reforms – second wave

Defence Health has prepared this response to assist the Department of Health to finalize and implement the reforms to increase the maximum age of dependants for private health insurance (PHI) policies and remove the age limit for dependants with a disability (Consultation 1). Our overarching preference is for flexible, non-mandatory policy framework.

Part One: increase the maximum allowable age for dependants in PHI from the current 24 years to 31 years

1. Defence Health recognizes the intent of the age-related reform is to encourage younger people to take out and maintain private health insurance. However, there is no certainty that these reforms will increase participation to requisite levels, nor is there any certainty that these reforms will improve the affordability of PHI. The adoption of this reform by insurers will result in the consolidation of single memberships (age 25-31) back into family memberships, and therefore increase the average family premium. Given the sustainability challenges facing our industry, the reform must therefore allow funds to provide affordable products for young adults (25-31), without requiring substantial cross subsidization of other age groups to do so.

2. The mechanism used to deliver this reform will have obvious ramifications on its success. The Department has proposed three options to increase the age of dependants. These options are shown in Table Three of the Consultation Paper. Defence Health believes the option that provides funds the most flexibility to appropriately price policies and differentiate within the market, whilst encouraging retention at the crucial age of 31, will have the greatest chance of delivering the intent of the reform.

3. Although Option One[1] is simple, it does not support flexibility for funds to price products sustainably. Currently, the distinction between student and non-student provides a mechanism to apply a loading to families with non-student dependants, which reflects their ability to earn an income and contribute to the cost of the policy. If the distinction were removed, families with student dependants would likely also pay a loading, thereby decreasing the affordability of PHI for these families. If the Government's objectives for PHI 'are to promote affordability, quality, sustainability and greater choice for consumers' this 'one size fits all' approach will undoubtedly drive the opposite outcome.

4. Furthermore, the first option would prevent Defence Health from operating certain product sub-groups that it already has in market. These product sub-groups are designed and proven to increase the participation of young people in PHI. Specifically, Defence Health uses two insured groups (Rule Reference 5(1)(c)(i) and 5(1)(c)(ii))[2] to offer a Young Adult Support Plan (YASP) product construct as a mechanism to increase participation and conversion of young adults in PHI. This plan has been

[1] Option One increases the allowable age of infant dependants to 31 and removes the distinction between student and non-student dependants

[2] For the purposes of this response, we will refer to Rule Reference 5(1)(c)(i) and 5(1)(c)(ii) as 'single parent non-student compulsory general treatment (GT)' and 'family non-student compulsory GT' respectively.

extremely successful in retaining young people as they transition from being on their parents' policy to holding their own policy.[3]

5. Given the two points above, we advocate for the creation of two new categories of dependent child, to allow for the distinction of student/non-student, and the continuation of our YASP. The age range for these dependent child categories should be 25-LHC age[4]. This is closest to Option Three in the Department's consultation paper (noting that we are also advocating for the continuation of the student/non-student distinction). We believe this proposal best supports flexible pricing across different dependant categories and age ranges/'steps'.

6. This proposal of two new categories of dependent child will result in six new applicable insured groups. For the avoidance of doubt, we propose:

Dependent Child Category	Age Range	Partnered	Applicable Insured Groups (SEU)
infant	0-17	N	Single Parent Family Kids only
student dependant	0-24	N	Single Parent Family
non-student dependant	18-24[5]	N	Single Parent Non-Student Family Non-Student Single Parent Non-Student Compulsory GT[6] Family Non-Student Compulsory GT[6]
"older" student dependant (new)	25-LHC age	N	Single Parent Older Student (new) Family Older Student (new)
"older" non-student dependant (new)	25-LHC age	N	Single Parent Older Non-Student (new) Family Older Non-Student (new) Single Parent Older Non-Student Compulsory GT (new) Family Older Non-Student Compulsory GT (new)

7. Our preferred approach does not add to the complexity of PHI for consumers. It is simply adding another option for insurers to insert a pricing step before an individual reaches LHC age, reflecting both the changing health requirements of young adults, and allowing for a smoother transition towards adult independent pricing.

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[3] Further details are shown in Appendix One (confidential).
[4] LHC age – the age when LHC typically applies (i.e. 1 July following an individual's 31st birthday).
[5] The fund can choose a different starting age within the guidelines of the legislation, and this discretion should remain.
[6] Omitted erroneously from the consultation paper.

8. Despite the detailed reasoning above, should the Department choose to use another approach to enact these reforms, **the two insured groups Rule Reference 5(1)(c)(i) and 5(1)(c)(ii) cannot be removed from the list of insured groups**. These insured groups are described erroneously as "not in use" within the Consultation Paper, however, we explicitly state **they are currently in use by Defence Health and at least one other insurer**. Given the success and the quantity of policy holders on YASP policies, **these groups must be preserved in the updated Rules so that we can continue to operate these policies post the effective date of these reforms**.

9. For ease of implementation and interpretation, the maximum age for child dependants must align to the Lifetime Health Cover (LHC) age, rather than 31.

10. Eligibility must be limited to people without a partner to limit high cost claims exposure to couple/family specific claims, particularly pregnancy. Removing this rule would likely mean higher loadings on policies and would thereby negate the intent of the reforms.

11. Defence Health notes an interaction and conflict between this proposed reform and the age-based discount. The application of an age-based discount to individuals who transition from being a dependant to holding their own policy should be at the discretion of each fund. No age-based discount can or should be applied to dependants in any reforms.

12. The choice to act on this reform and to provide additional products with greater coverage for dependants must be at the sole discretion of the funds.

13. It is likely that many funds will not be able to implement these reforms immediately, given the extremely tight time frames between the consultation phase and the proposed effective date. The effective date must give funds sufficient time to prepare for and comply with the changes in legislation.

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

14. Defence Health has advocated for over five years to the Department of Health to allow people with a disability to remain on their parents' or guardians' policy. We are pleased that the potential reforms will allow us to support our most vulnerable members, and therefore express in-principle support to removing the dependent age limit for people with a disability.

15. Of the proposed definitions of disability, the most relevant is likely the NDIS definition. However, the NDIS definition does not define *dependency*. Without an additional definition of *dependency,* the NDIS definition is wider than the intent of the reforms and will need to be supplemented to ensure that the reform truly targets the most vulnerable.

16. Our preference is to allow each fund to set its own eligibility criteria in its fund rules. We acknowledge that this preference will impact portability. However, given that each fund will have the discretion to act on this reform, the relevance of portability is low.

17. Our preference is to identify a dependant with a disability over 17 years old as an 'adult dependant' and to create two new insured groups which contain at least one adult dependant (single parent + adult dependant, family + adult dependant). Insurers should have the flexibility to define the age from when they cover adult dependants. For example, an insurer may cover adult dependants from the age of 25, to complement current policies in market, and the outcomes of Part One of this reform.

18. The adult dependant should not be counted as an additional SEU for risk equalisation purposes.

19. The proposed reform only covers adult dependants on their *parents'* policy. We advocate strongly for this reform to include dependent adults with a disability on a *parents' or guardian's* policy. This allows

for a more inclusive and realistic situation, where adult dependants with a disability may survive their parents and be cared for by a sibling or another relative.

20. The legislation must ensure adult dependants are not detrimentally affected under this reform. One obvious concern, although not the only concern, is the interaction of this reform with Lifetime Health Cover (LHC) loadings. For example, adult dependants who have been covered under their parents' policy should not incur a LHC loading, should they need to take out an independent policy in the future (owing to the death of both parents), and there must be a mechanism that allows portability between funds in this regard. The LHC loading should only apply to the adults on the policy.