HCF'S FORMAL RESPONSE RE:

CONSULTATION 1 – INCREASING THE AGE OF DEPENDENTS & PEOPLE WITH A DISABILITY

Friday 8 February 2021
Via email to: phiconsultation@health.gov.au

1. Introduction

HCF appreciates the Minister for Health, the Hon Greg Hunt MP and the Australian Government's continued commitment to reducing the complexity of PHI via PHI Reforms, further promoting affordability, quality, sustainability and greater choice for consumers.

HCF also welcomes this opportunity to have input into the, *Consultation paper: private health insurance reforms – second wave December 2020* (Consultation Paper). This response document relates to, ***Consultation 1 – Increasing the age of dependents to 31 and removing the age limit for dependents with a disability.***

2. Summary of HCF's position on key issues

HCF has performed a high level estimate on membership and revenue over the next five years taking into account the one-off impact on persons aged 26 to 30 who currently have their own policy and may revert to their parents' policy as well as those currently aged between 20 to 25 that may transition into the proposed new dependent categories rather than taking their own policy.

Given the complexity of determining current members with a disability and therefore accurate drawing rates of this cohort, HCF has only estimated potential member *volumes* based on NDIS data, PHI participation rates and HCF market share – estimating approx. 10,000 current HCF members aged 25-65yo living with a disability.

For the purpose of this response estimations only have been performed. And, given legislation has not been finalised, some variation to HCF's position outlined below may occur when making final recommendations to the HCF Board.

- In principle, HCF is supportive of this reform as we believe the reform will support increasing PHI participation amongst younger people and therefore increase sustainability and affordability of the PHI industry;
- HCF recommends funds retain the ability to determine certain criteria within their own Fund Rules;
- HCF is most supportive of Option 3 for both Part One and Part Two, given that this allows funds to charge in a more targeted way for the increased level of risk they are assuming through higher drawing rates (assumed for dependents with a disability), while still providing incentive to retain PHI and a logical path for dependents as they age;
- Given the consistency and avoidance of additional confusion it also makes sense to align the age of dependents with the same thresholds as Life-time Health Cover (LHC);
- In relation to defining 'disability', HCF supports an empirical approach based on eligibility for the National Disability Insurance Scheme (NDIS) or National Injury

Insurance Scheme (NIIS) that removes funds from having to make their own definitions;
- HCF requests that impacts to risk equalisation are considered. It is not clear whether 55yo+ dependents with disability who are not counted as SEUs under the reform proposal (and therefore not contributing to the risk equalisation pool) will still be able to draw upon risk equalisation when claiming;
- If they are able to draw upon risk equalisation despite not contributing, whereby creating inequities, an additional criterion of a maximum age of 55yo should be imposed, aligning to the risk equalisation factor. This is expanded upon in the response to Q8 below;
- HCF will not be able to implement these reforms on 1 April 2021, but at a later date yet to be determined.

For more detailed responses from HCF on the questions posed, refer to Section 4.

3. HCF responses to specific questions in the Consultation Paper

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)?

HCF supports aligning the maximum age with that of LHC i.e. 1 July following an individual's 31st birthday for the sake of simplicity for consumers, fund staff and for existing BAU LHC communications, and that it is more favourable to consumers as they can be covered as dependents for a longer period. This should be standardised across the industry for the same reasons.

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

HCF is supportive of funds having the ability to determine such criteria within their own Fund Rules. For HCF's current Dependant categories, not having a partner is a criterion and our intent is to apply this criterion consistently across dependant categories to reduce complexity, confusion for staff and members, and change impacts to the business.

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

HCF is supportive of funds having the ability to determine such criteria within their own Fund Rules as is currently the case for dependents under 25yo.

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

HCF is supportive of funds having the ability to determine such criteria within their own Fund Rules as is currently the case for dependents under 25yo.

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

HCF is supportive of funds having the ability to determine such criteria within their own Fund Rules. It is HCF's intent to retain existing definitions (plus add any new definitions required) in order to reduce change impacts and assist with reporting and pricing.

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

HCF supports legislation that offers flexibility for funds to set criteria within their Fund Rules, e.g. should legislation not include references to Student Dependants, HCF supports the ability to still define Student Dependants and set age limits (within permitted ranges) within the HCF Fund Rules.

The distinction is important at the fund level for pricing and reporting purposes, especially where different premiums apply to non-student dependants vs student dependants.

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

Yes, to reduce complexity, especially as new categories may be created and the redundant categories are not being used.

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

The simplest and fairest method for determining eligibility of people with a disability is an empirical method whereby funds need to verify if a person is eligible for the National Disability Insurance Scheme (NDIS) or alternatively, the National Injury Insurance Scheme (NIIS).

If 55yo dependent claims are entitled to draw from the risk equalisation pool, then a maximum age cap aligning to the commencement of risk equalisation, i.e. age 55 should be imposed.

HCF suggests the age cap in the above instance to prevent inequities with risk equalisation. Under the reform proposal in the Consultation Paper it is not clear whether 55yo+ claims will draw from the risk equalisation pool, although it stated that these dependents will not be classified as an SEU (and therefore won't contribute to the pool).

So, under HCF's recommendation if a person is eligible for the NDIS or NIIS and is under 55yo [and can draw on the risk equalisation pool], then they would be eligible for the funds' new family scale category for dependents with a disability (if offered). If they are not eligible for the NDIS or NIIS or they are eligible but over the age of 55, then they would not be eligible to remain on the family policy under the new scale category. And, this method should be standard across the industry.

The above approach is preferred by HCF because: funds are not experts at defining disability (by default, funds will accept the NDIS or NIIS definition); if funds do set their own definitions there will be greater consumer confusion and potential negative experience for impacted members who switch funds; it will avoid adverse selection (if funds have variant eligibility criteria) and minimise inequity with risk equalisation.

Further, the suggested approach aligns with the spirit of earlier reforms that aimed to reduce complexity of PHI as it is a simple Yes / No eligibility system that draws upon existing Government infrastructure.

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?

Yes, there should be standardised arrangements. Refer to response to Question 8 above.

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

HCF supports legislation that offers flexibility for funds to set criteria within their Fund Rules. For HCF's current dependant categories, not having a partner is a criterion and our intent is to apply this criterion consistently across dependant categories to reduce complexity, confusion for staff and members and change impacts to the business.

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

The main objective of this change is to provide continuity of care for younger people and to encourage them to continue with private health insurance when they reach the age of 31 (aligning with LHC thresholds).

At an industry level, appropriate metrics to measure the impact are participation rates and volumes of the 25-29 and 30-34 age cohorts (as reported in the HRF 601 statistical data series).

Fund level metrics include earned contributions, claims, membership retention and conversion of dependants to individual policies.

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

Additional APRA reporting, the incorporation of additional Fund Rules, creation of and maintenance of new PHIS types for all eligible products, ensuring staff are adequately trained and monitoring of NDIS criteria to ensure they remain fit for purpose (if adopted by default to assist with eligibility). Should funds have to create their own definitions for disability, there will be an additional burden on funds to implement knowledge systems and training for staff.

INSURER SPECIFIC QUESTIONS

1. In the context of this proposal, what changes do you intend to make to your current arrangements for dependents and the timing of these changes?

In principle, HCF is supportive of Part 1 and Part 2 of the dependent reforms.

For Part 1, 'Increasing the age of dependents to 31' the preferred option presented within the Consultation Paper is Option 3, which permits funds to charge a higher premium. Dependants in the 26 to 31 years of age cohort have a higher drawing rate than younger dependants and a higher premium is necessary to cover the increased costs.

In relation to 'Removing the age limit for dependents with a disability', the preferred option is Option 3, which is the "category of adult dependent which is limited to people with a disability and who are over 31 years old and create two new insured groups which contain at least one adult dependent", which also permits funds to charge a higher premium.

The permission to charge a higher premium provides flexibility to vary price in line with claim costs. For example, covering 25-31yo's will result in additional claims costs (pregnancy, mental health etc). Under Option 3 premium increases can be targeted at the appropriate groups, rather than impacting all families, which is not aligned with the spirit of Reforms promoting affordability. It permits a progression of pricing as people move through the categories, encouraging people to purchase their own policies when they approach age 31, where generally, they may be more financially stable when compared to when they were 25yo.

HCFs approach to these reforms will mean HCF will maintain 5 categories of Dependants, the two new categories for dependents will be added to the existing three categories HCF maintains. This is shown in the table below. Our preference is to not have to alter existing Dependant categories to minimise confusion for our customer base and staff and minimise change impacts.

Table 2: HCF's Proposed Future Arrangements for Dependants up to age 31 & Dependents with a Disability

Dependent Child Categories (Per Consultation Paper)	Age Range	HCF's Dependant Categories (Per HCF Fund Rules)	Age Range	Additional Loading Currently Charged	Additional Loading to be Charged
Infant dependent	0-17	Dependant Child	0-21	N	N
Student dependent	0-24	Student Dependant	22-24	N	N
Non student dependent	18-24	Adult Dependant	22-24	Y	Y
NEW Category	25-31	N/A	25-31*	N/A	Y Intend to charge a greater loading than Adult Dependants
NEW Category (only for dependents with a disability)	Over the age of 31	N/A	Over the age of 31*	N/A	Y May incur a greater loading than 25-31yo category.

*Refer to response to Q1 re LHC in *Questions for all stakeholders*.

Given that further assessments, internal approval processes, our 1 April 2021 Rate Change project will soon be mailing members from 23rd February, legislation has not been finalised and IT availability needs to be secured, HCF will not be implementing these reforms on 1 April 2021. Further internal consultation and approval is required to determine an implementation date within 2021.

2. What will be your likely approach to pricing products with dependents?

The preferred Option for both Part 1 and Part 2 is Option 3 which permits a loading to be charged, which provides flexibility to vary price in line with claim costs.

Premium increases can be targeted at the appropriate groups, rather than impacting all families, which is not aligned with the spirit of Reforms promoting affordability. Also refer to our response to Insurer Specific Questions, Q1, inclusive of Table 2.

3. What is the anticipated impact on your overall premium revenue if you implement this proposal?

If Option 3, where we can charge an additional premium to cover higher drawing rates is adopted, our estimates suggest the expected revenue over the next 5 years to be approximately +$4M per year (based on the up to 31yo cohort).

As part of this response, HCF did not estimate for dependents with a disability as we were not able to satisfactorily quantify drawing rates for this cohort.

4. What will be the expected impact on the number of people and/or policies covered if you implement this proposal?

HCF's estimates considered those youth that will transition through to the new categories under a family membership over the next 5 years (as opposed to an individual policy) and those that will cancel their existing individual policies in order to re-join their parents' policies.

For the former group, HCF estimates approximately 5K (single) policies on average per year and 5.6K (single) policies as a once-off for the latter group.

4. Concluding statement

HCF is supportive of the proposed wave 2 reforms outlined in the Consultation Paper, *Consultation 1 – Increasing the age of dependents to 31 and removing the age limit for dependents with a disability.* HCF believes this reform will assist in achieving higher PHI participation rates amongst younger people and therefore improve the sustainability of PHI and will be more effective at doing so than the Age Based Discount.

HCF opts for implementing Option 3 in both parts, which allows funds to charge an additional premium to cover higher drawing rates of these cohorts, while still permitting a more affordable option when compared to the cost of a family plus singles policy and not adversely impacting affordability for all family types.

The preferred legislation is that which permits flexibility to set certain criteria in fund rules, while key criteria should be standardised across industry, particularly how dependents with disability are defined. To this end, HCF suggests that eligibility for the NDIS or NIIS become the eligibility criteria for funds to adopt. This is inclusive of setting a maximum age of 55yo for dependents with a disability, aligning with the commencement of risk equalisation (should 55yo dependent claims attract risk equalisation despite no contributions to the risk equalisation pool due to not being counted as an SEU). HCF requests the Department to consider the impacts of this reform to risk equalisation.

The maximum age for dependents in Part 1 should align with the LHC thresholds and that should be standard across industry.

HCF will not be able to implement these reforms on 1 April 2021 given timeframes and the imminent 1 April 2021 Rate Change communications.

Thank you again for the opportunity to provide input into this worthy reform.

Kind regards,

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Chief Executive Officer and Managing Director, HCF

5. Contacts at HCF

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