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

One of the key drivers for ensuring the affordability of private health insurance ('PHI') is encouraging more younger people into the PHI market to help subsidise our ageing population.

The proposal to increase the maximum age of dependents for PHI policies from 24 to 31 years and remove the age limit for dependents with a disability does just that. As such, we are supportive of this reform.

nib analysis

nib agrees with the Government's reform of allowing dependents to remain on the family policy until the start of Lifetime Health Cover. This reform allows dependents to maintain their PHI for a longer period, increasing overall value and appeal of the PHI value proposition, thus keeping younger members in the industry for longer to help offset the cost of an ageing population.

Our analysis of nib policies that covered dependents aged 24 during financial year (FY20) showed 35% went on to purchase their own cover during the year, however, the cover selected was typically at a lower tier than when they were covered as a dependent.

Following the increase of the maximum age of dependents to 31, we believe the percentage of retained dependents will rise as dependents will have the choice to stay on their parents' cover past the age of 25.

We anticipate an increase in policy lapses and a reduction in policy sales following implementation of this reform, as members aged 25-30 years may return to their parents' higher levels of cover as a dependent or defer purchasing their own cover until later in life. However, conversely, there is likely to be an increase in persons covered as dependents as many people who previously lapsed when they turned 25 and did not purchase their own cover will seek to re-join their parent's policies.

We further estimate that increasing the maximum age of dependents to 31 on nib-branded products would result in additional members being covered on Gold-tier products. Pregnancy and in-hospital psychiatric treatment are the most commonly claimed Gold-tier hospital services for members aged 25-29. This supports a recommendation to allow private health insurers to have the flexibility to introduce new scales for dependents aged 25-31 and disabled dependents to allow separate pricing based on claiming experience.

Overall, we expect the cost impacts to the fund of increasing the age of dependents to 31 to be minimal and we believe any potential impact described above can be mitigated. Should an adverse experience emerge, we believe this could be addressed during the annual premium application round.

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)?***

   nib recommends that the maximum age for child dependents is when LHC would typically apply. This approach would simplify information provided for members and minimise confusion over two differing dates related to age.

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

   nib believes that the decision of whether the eligibility of a dependent be limited to people without a partner should be at the discretion of each health fund as defined within their fund rules. This will allow for flexibility for individual health funds to define a definition of a dependent with or without a partner.

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

   It is recommended that health funds be allowed to individually define the age ranges for each of the different categories for child dependents as defined in their fund rules.

   This would allow health funds to personalise product offerings and determine an appropriate price based on claiming behaviour.

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

   nib suggests that the conditions of dependence for the different categories of child dependents be at the discretion of each health fund as defined within their rules. This will allow for flexibility for individual health funds to define a definition of a dependent.

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

   nib does not recommend any changes to the current definition of dependent child. The current categories for 'dependent child' allow flexibility for insurers to manage this definition within their own fund rules. We recommend that this flexibility be retained in addition to relevant updates of 'dependent child' for the proposed changes as per this reform.

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

   A student dependent forms part of family policy at no additional cost. An adult dependent forms part of an extended family policy which allows insurers to charge an extra premium for these dependents. nib currently charges a higher premium for adult dependent policies and recommends that this distinction be retained.

   We estimate that increasing the maximum age of dependents to 31 will result in additional members being covered on higher levels of cover, including on Gold tier. As pregnancy and in-hospital psychiatric treatment are the most commonly claimed gold-tier hospital services for members aged 25-29, it supports a recommendation to allow private health insurers the flexibility to charge a higher premium for dependents aged 25-31 and disabled dependents.

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

   nib backs the reduction of the number of groups through removing groups that are not currently being used by insurers.

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

   nib agrees with the proposal to align this definition with the National Disability Insurance Scheme ('NDIS'). However, we recommend alignment to the definition only occurs where the member has been assessed and approved by the NDIS as disabled.

   We also recommend that health funds be provided with the flexibility to assign an additional definition for members to be covered under this category within their own fund rules. E.g. that the eligibility of a disabled dependent is also determined based on the disabled dependent being classified as 'fully dependent' on a family member/carer as verified by documentation from a medical professional/GP. We suggest allowing health funds to introduce additional criteria in addition to the NDIS definition within their own fund rules.

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?***

   See response to question 8 above.

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

    nib recommends that whether the eligibility of a dependent be limited to people without a partner should be at the discretion of each health fund as defined within their fund rules. This will allow for flexibility for individual health funds to define a definition of a dependent with or without a partner.

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

    Given the stated objectives of the proposal, we believe that a reasonable measurement is the change in number of persons aged 25-31 that are covered by a complying health insurance product pre- and post-implementation. Data could also be collected on the number of disabled members the fund has on an adult dependent's policy.

    APRA's current Reporting Standard HRS 605.0 form could be modified to include additional relevant data from funds outlined above to be used by the Department of Health in assessing the impacts the reforms are having on stated policy objectives of improving affordability and sustainability.

    It is also recommended that reporting on claims utilisation for this cohort is considered with this age group having a higher risk of pregnancy and mental health claims.

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

    There is no regulatory burden from nib's perspective.

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?***

   nib is currently targeting a 1 July 2021 implementation for extending the age of dependents on a policy, including the reform on disabled dependents. We are working through the below points for implementation of the proposed reform.

   - Student dependents, as defined in the nib fund rules, can remain on their parents' policy until the age of 25 and will not incur any additional premium (as per current process).
   - If a student dependent aged 25 and over wishes to remain on their parents' policy until the defined cut-off date for dependents turning 31, the dependent's status will be changed to an adult dependent (as per the nib fund rules) and the policy will be charged an additional premium.
   - Adult dependents, as defined in the nib fund rules can remain on their parent's policy for an additional premium until the defined cut-off date for dependents up to 31 years of age or when LHC would typically apply.

   At this early stage we are unable to confirm if the changes will apply to all of our whitelabel partnerships and GU Health.

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

   nib will utilise existing member data for members aged between 25 and 31 to determine the potential impact of increasing the age of dependents, however it is more difficult to forecast the impact of disabled dependents. Our pricing strategy will be refined during the annual premium application round.

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

   nib does not anticipate there will be a material change in premium revenue from implementation of this proposal.

   We anticipate the revenue decline from members aged 25-31 who lapse off their own policy in order to return to their parents' cover to approximately offset the additional revenue generated from policy scale upgrades to allow for coverage of adult dependents and those with a disability who were previously required to purchase their own cover.

   There is uncertainty around what policy migration experience will emerge however, and nib currently has no plans to modify premiums in response to this proposal. If adverse experience does emerge, it is likely that we would look to remediate during our next premium application, as we would for any product where pricing has become unsustainable.

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

   In the few months following implementation, nib assumes a reduction in policyholders of approximately 3,000 due to members aged 25-31 years lapsing to re-join their parents' cover. Despite additional lapses we expect the net number of persons covered by the fund to increase by approximately 1,500 as dependents aged 25-31 who were previously required to purchase their own cover but chose not to do so join their parents' cover as an adult dependent.

However, this is based on high-level assumptions using existing lapse, migration and member data. There is a high level of uncertainty around how members will respond to the proposed changes following implementation. It is possible that experience will deviate from these assumptions leading to significantly different policy and person outcomes.

Please don't hesitate to contact me on 0428 903 824 or e.close@nib.com.au if you have any further questions.

Yours sincerely,

Ed Close
Chief Executive – Australian Residents Health Insurance