

Memorandum

To Workshop participants

From Finitly

Date 14 April 2022

Subject MLS & Rebate workshop summary

Background

The purpose of this document is to summarise key themes from the workshop on the MLS and PHI Rebate studies. This was held via Webex on Thursday 7 April 2022. Approximately 70 people attended, from a broad range of stakeholders including insurers, hospitals, peak bodies, academics, consumer groups as well as representatives of government and regulators.

The purpose of the workshop was to:

- Update stakeholders with information on the progress of these studies
- Provide an opportunity for stakeholders to input to the projects
- Seek input on two focus questions:
 - What does success look like and how do we evaluate it?
 - What further options with potential including those that may offer step change?

The session included a section on voice of the consumer given the importance of this consideration in any system change.

For stakeholders not at the session notes will be made available.

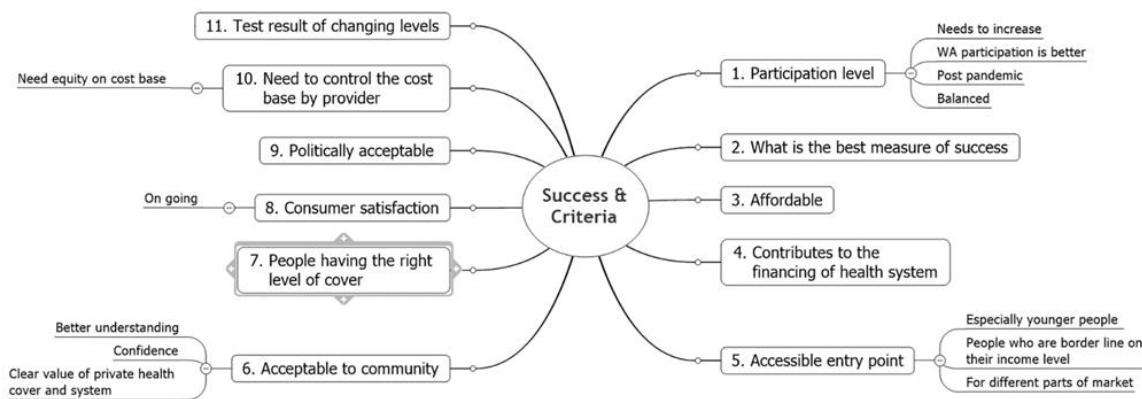
Contents of this Note

This note includes the following sections:

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| 1 | Criteria for success | How to evaluate options? What would be a material improvement? |
| 2 | Options | What options deliver? |
| 3 | Next steps & engagement | What do you need to know as the studies progress? |

1 What are the criteria and success measures for evaluating options?

During the session, the following criteria emerged:



Key thoughts which arose during the feedback and discussion:

Participation (identified as a major and very important measure)

- This is the most obvious, and frequently cited measure of success. Many believe we need to at least maintain current levels, but ideally improve. Stability is seen as important, both over time, and between cohorts. No ideal participation rate was identified.
- There was also some discussion regarding the link between affordability and participation and how this should be monitored.
- Some discussion regarding quality versus quantity (e.g. does product tier matter?) – mixed responses, some believe all growth contributes to the industry, others feel the push to higher value products has merit.
- Participation by age group and by State was mentioned.

Overall the view was that any option considered must lead to **stability** of participation. No further decline was preferred. Aspirations for increasing participation were modest. General consensus was preference for options that gave stability in participation with modest improvement.

Other comments regarding criteria for success

- 1 Contribute to financing of the Health System - Suggested measure is the impact on public hospital wait times (although it could be difficult to determine what is a result of PHI, and what is due to other factors)
- 2 Affordability, not defined

- 3 Make the entry point more attractive / Product appeal - difficult to measure other than by participation (by cohort)
- 4 Improve mental health offering to younger people
- 5 Discussion that different market segments could possibly be treated differently in terms of incentives/charges
- 6 Consumer education – increase across the board, but no objective measure proposed to determine whether the education goal has been attained
- 7 Current system is very complicated – reducing complexity is desirable
- 8 Customer Satisfaction - Ensure people have the right level of cover when they need it
- 9 Stakeholder acceptance both political and in the broader community

Many of these factors, whilst important considerations, are challenging to measure objectively, or beyond the control of the incentives. **As such, the primary measure of success should be participation.**

In addition, a number of other items were raised for consideration, but are not criteria for success:

- 1 Understand what happens if incentives weren't in place (including analysing historical impacts)
- 2 Ensure that there are no unintended consequences of any changes
- 3 The cost base needs to be controlled (beyond prostheses)

Whilst there was general agreement that increased participation was a good thing, a number of participants also highlighted that it is important to ensure that any change is worthwhile, and that the benefits exceed the costs of implementation. Age dependent discounts was a policy raised as an example in respect of this issue – was the initiative worthwhile? Did the outcomes justify the cost?

A caveat overall was raised that options that damage community rating may not be desirable.

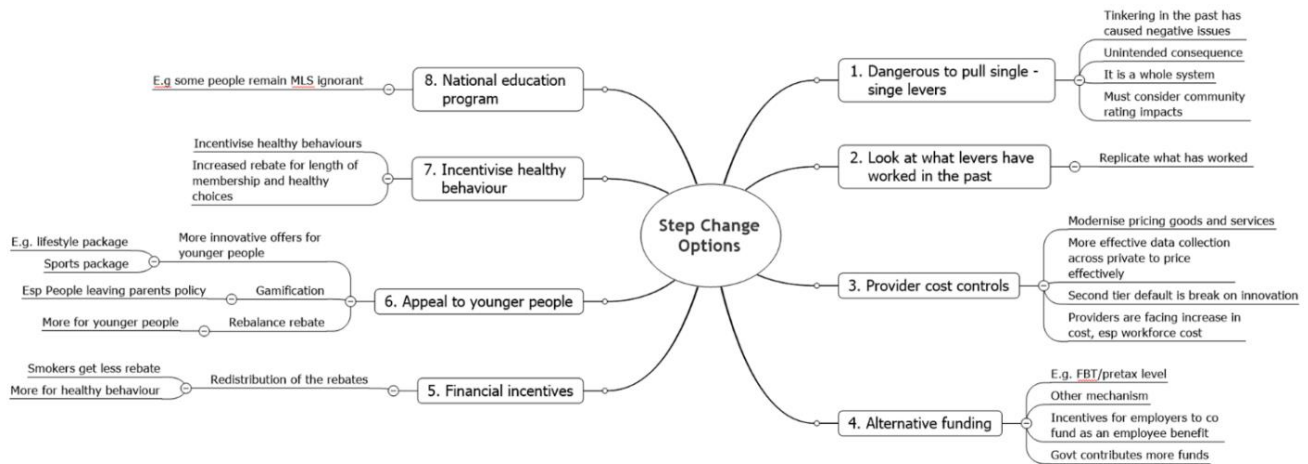
An observation raised was that success could be defined as a “health spiral” in the health care system in Australia, i.e. sufficient participation in PHI leads to less stress on public system, which leads to stable or reduced Medicare Levy and MLS.

2 What are options with potential?

Whilst complex, the current incentive/charges structure in the industry adds value, but is likely not optimal.

Tinkering with the existing policies could lead to positive change, however thinking more broadly could lead to better outcomes (with respect to the above criteria). As an example of potential wider options, a brief introduction was provided regarding a possible “Foundation” product, for under 40s. This did raise concerns regarding community rating, however participants were encouraged to think broadly.

The following mind-map was created after the break-out sessions discussing options that could lead to a step change in the industry.



Overarching feedback, consistent with the LHC/RE review findings, is that the incentives have to be considered as a package, and it could be detrimental to make changes in one area in isolation.

An important note is that while initially all options will be considered there is a clear objective to maintain community rating in any option adopted.

A range of ideas were discussed, including:

- 1 Changing incentives/charges by cohort:
 - a Higher rebates for healthy lifestyles - questions around how this would be defined/monitored
 - b Increased rebate/lower loading with increased tenure
- 2 Gamification of policies to encourage specified behaviours
- 3 Provider cost controls
 - a Sharing knowledge and outcomes could lead to improved practices
 - b Improve chronic disease care
 - c Remove second tier default benefits
- 4 National education program
- 5 Alternate funding models
 - a Through superannuation
 - b Remove Fringe Benefits Tax
 - c Incentivise employers to make an employee benefit
- 6 Reconsider which products the incentives/charges are linked to – is basic cover the right level?

- 7 Redistribute the PHI Rebate to attract younger and/or healthier people
- 8 Remove PHI Rebate and regulation from extras to encourage more innovative offerings
- 9 Assess the value for money from rebate against alternatives.
- 10 Options relating to rebate were raised including increasing the rebate to previous levels and redirection of the rebate
- 11 Government funding to reduce RE “flagfall” (could be a re-allocation of PHI Rebate)

There was some discussion around how far it is appropriate to stretch community rating principles to achieve a given outcome.

Any change will require a clearly specified transition period, with appropriate communication.

No significant new options emerged relative to the list circulated prior to the meeting.

A range of options will be considered including maintaining the status quo, and removing the incentives / charges. Links to tenure will also be examined.

Options that stretch community rating (such as links to health status) will be identified, and where significant participation gains are projected, may be recommended for further investigation.

Some options are beyond the scope of the project, but will be raised with the Department for further consideration.

3 Next Steps

Over the next five months we will continue to evaluate shortlisted potential options, taking into consideration the issues and suggestions raised above.

Where appropriate, we will also hold further meetings with key stakeholders to discuss findings and potential outcomes. This may involve some smaller group meeting with stakeholders to explore further the options for enhancing PHI.

Following this, our report will be submitted to the Department.

You can share thoughts or ideas with the project by contacting a Finity team member or emailing: health@finity.com.au

Alternatively, you can reach the Department at phi@health.gov.au