Themes from Stakeholder Engagement

Phase 1 – MLS and Rebate Effectiveness Study

January 2022

finity

Background

- Finity was engaged by the Department of Health (DoH) in October 2021 to review the effectiveness of the Medicare Levy Surcharge (MLS) and Private Health Insurance Rebate (Rebate).
- During Phase 1 of the study (October 2021 to January 2022), Finity engaged with various stakeholders on their views of the current MLS and Rebate settings, as well as potential options to improve the effectiveness of these settings for the purposes of encouraging participation and promotion of equity amongst members.
- 20 interviews and 5 workshops were held. We would like to thank all stakeholders for their time and input.
- This presentation summarises the key themes that we have observed through the stakeholder engagement process to date.

Key themes – review of current settings

Themes	Description
Impact on PHI participation	• General agreement that the MLS and Rebate help to support participation in the industry
Some elements can be confusing for members	For example: • Members not realising extras products are not eligible for MLS exemption until they file their tax returns • Members facing a price increase due to rebate indexation, even if the product itself has a zero-rate increase • Income definition not consistent with taxable income or other social benefits

The return on investment to the government on the support provided	• Different views amongst participants on the value of the Rebate to the overall health system
	  • Rebate together with MLS encourages participation in health insurance and as a result should alleviate pressure on the public system
	  • Others question whether the Rebate provides value for money to government and the overall health system

Operational and Administrative issues	Some members can be disadvantaged by the current settings including: • People covered under the reciprocal Medicare arrangements • ADF personnel who are not singles and family income exceeds the income thresholds

Key themes – improvements

- The interviews revolved around potential options for MLS and Rebate changes
- Key themes that stakeholders have raised include:
  - Impact on premiums
  - Impact on members
  - (Higher/Increased) level of support
  - Promote PHI purchase
  - Impact on different age groups
  - Participation of younger cohorts
  - The need for change

Potential options collated to date

The table below summarises the options collated to date. This list is not exhaustive or conclusive, and we have not assessed the impacts of any options. Further consultation and assessment will be carried out during the study.

Change Category	Ideas
Modification to current scheme - Rebate	• Suspend indexation (i.e. Rebate Adjustment Factor) of the rebate • Index the rebate every 3 years, rather than annually • Round the rebate to the nearest decimal point for easier communication with members • Apply the rebate to LHC loadings component of the hospital premium • Restore the rebate back to 30% (Note some stakeholders suggest the rebate should never go back to 30%) • Remove the rebate from extras (Note there is also support for maintaining the rebate on extras) • Introduce a floor on the rebate (e.g. a minimum 25% for members in base tier) • Adjust the current age and income rebate levels (e.g. higher rebate for younger participants) • Higher rebate on higher tier hospital products to encourage purchase of more comprehensive coverage • Lower rebate for members with certain health behavioural attributes (e.g. smokers, unvaccinated) • Require minimum coverage level to be eligible for the rebate (e.g. Bronze) • A tapering rebate - rebate reduces in line with increasing income, similar to arrangements in childcare benefits

Potential options collated to date

Change Category	Ideas
Modification to current scheme - MLS	• Increase the MLS rate so MLS amount payable matches at least the premium of a Basic hospital insurance product in every state (consider in conjunction with income threshold) • Set the MLS and rebate income definition the same as taxable income only, or align it with other government social benefits • Revise the MLS and rebate income definition to capture wealth • Require a higher level of hospital insurance to get exemption from MLS. This can also link to the income tiers (e.g. Basic Plus for Tier 1, Bronze for Tier 2 and Silver or Gold for Tier 3). In conjunction, consider allowing a higher maximum level of excess to make Silver/Gold cover more affordable. • Remove the MLS altogether • Remove or provide reduced liability on MLS payable for the full financial year if the member purchases hospital insurance anytime during the year (e.g. purchase in January 2022 and waive MLS for the full FY2021-22)
Other Modifications	• Changes to the indexation of income thresholds (e.g. frequency of indexation, allowance for dependents, threshold levels and number of tiers)

Potential options collated to date

Change Category	Ideas
Modifications that may require more significant legislative change	• Divert the rebate to public sector • A mandate that health insurers must spend a fixed amount of revenue on health prevention and management of its members in return for the rebate • Divert all or part of the Rebate to Risk Equalisation (RE) pool • Apply different rates of rebate erosion to different segments of the population • MLS reflect both income and product tier • Deregulate premiums for people aged below 55 and charge everyone above age 55 the same premium • Adapt rebate to replace LHC • Replace MLS and rebate by a health savings account • Replace MLS with default PHI policy purchase for those who do not have PHI already

Potential options collated to date

There are also a number of other reform ideas not related to MLS or the Rebate that were raised, including:

- Reduce/remove Fringe Benefit Tax (FBT) on employer subsidised health insurance benefit, and promotion of employer funding for PHI more generally
- Allow salary sacrifice on health insurance premiums
- Allow PHI premiums to be paid through superannuation (as per life insurance)
- Align the rate change (and change in premiums) with the start of financial year (i.e. 1 July)
- Provide vouchers to purchase PHI as opposed to insurers receiving the subsidy on the consumers behalf
- Allow policies with higher excess levels to provide MLS exemption to the policyholder
- Bundling of life and health insurance products to increase penetration
- Better leverage employers to fund and distribute health insurance products to employees

Throughout the consultation, stakeholders also raised the importance of transition and communication if changes are made.

What's next?

During January and February 2022 (Phase 2 of the study):

- Assess each option against the guiding framework developed during Phase 1 of the study
- Determine appropriate metrics to measure the impact of options
- Seek further stakeholder feedback
- Compile a shortlist of options and proceed with modelling these alternative policy settings

Please contact us if:

- There are additional options you think should be considered.
- You would like to share any insights on the possible impacts of these options.