Submission on the National Health Amendment Prostheses Bill

February 2005

Australian Consumers' Association

About the ACA

The Australian Consumers' Association (ACA) is a non-profit, non-party-political organisation. We are completely independent. We are not a government department or agency and we receive no funding from any government. Neither do we receive subsidies from industry, manufacturers, unions or any other groups, and we don't take advertisements in any of our printed magazines or on our website. We get our income from the sale of *Choice* magazine, *Choice* Online and our other publications and products and currently have over 145,000 subscribers to our products.

We represent and act in consumers' interests. We lobby and campaign on behalf of consumers to promote their rights, to influence government policy, and to ensure consumer issues have a high profile in the public arena.

We are committed to providing information on a whole range of consumer issues including health, financial services, information technology & communications, travel, food & nutrition, computer technology and consumer policy.

The Australian Consumers' Association has long history of reviewing private health insurance products in our publications and we welcome the opportunity to make a submission to this inquiry.

The ACA has mixed feelings about the measures proposed in the discussion paper.

Better evaluation of clinical effectiveness and pricing

Firstly, we would regard the introduction of a better process for evaluating the evidence base for various protheses as being an unequivocally positive development. A committee of experts to evaluate evidence and make recommendations about pricing is a development the ACA would whole heartedly support.

However there are a range of other areas that raise concerns in terms of their possible impact on consumers.

Impact on Premium Costs

Premium costs are one of the key reasons for consumers dissatisfaction with hospital cover. (Online Health Insurance Survey May 2004). We note that the Government estimates savings of \$4.3m in 2005-6 increasing to \$20.6m in 2006-7 in terms of reduced outlays on the 30% rebate because of reduced premium growth. While the ACA recognizes that increasing protheses costs have been a significant contributor to increasing premium costs, we are a little more skeptical of the capacity of these changes to bring about a long term slow down in premium increases. We would remind the Committee of statements made by Russell Schneider, Executive Director of the Australian Health Insurance Association in the wake of the flood of new members who took out private health insurance after the introduction of Lifetime Cover.

"As prices have gone up and people dropped out, that increased the cost more and more and more in a vicious cycle" he said.

"That vicous cycle has been broken, and I think we can look forward to a long period of relatively stable prices." (ABC news 19 June 2000).

In fact there was only one year – 2001- where there was no premium growth. The last three years have seen premium growth averaging over 7% (See CHOICE Money and Rights August/ September 2004. Figures provided by Department of Health and Ageing.) While in recent years prostheses costs have been a significant driver of premium costs they are certainly not the only driver. The fact that Mr Schneider made such a statement

¹ A CHOICE online survey of 163 people noted that 87% rated premium increases as the key reason for their dissatisfaction.

would suggest that not even he has a clear understanding of exactly what drives health insurance premiums and how best they should be controlled.

Out of pocket costs for prostheses

A CHOICE survey of 689 subscribers found that 44% identified faster access to elective surgery as one of the key reasons they had purchased private health insurance (Online Health Insurance Survey). Procedures involving prosthetics comprise a significant proportion of elective procedures. If this policy is not well implemented it will have a negative impact on the considerable numbers of privately insured consumers who require prostheses.

The ACA's main concern in relation to this policy relates to its potential to increase outof pocket costs paid by consumers. We note from the discussion paper that no single
organization is responsible for informing consumers of any out of pocket costs they
might face as a result of their doctor choosing a prosthetic that is not included on the 'no
gap' list. The second reading speech mentions that "Where the patient is likely to have
an out-of pocket cost, information should be provided by the patient's fund and doctor
that will allow the patient to make an informed decision about the choice of prosthesis."
It is also worth noting that the word 'should' rather than 'will'or 'must ' is used here
implying that the government hopes that consumers will be informed of additional costs
but that there is nothing it can do to ensure that this will actually happen. With no single
player having responsibility for informing patients it appears likely that consumers will
not always be informed of these costs. This may impose financial hardship upon them
and would certainly undermine the value they get from their private health insurance.
Consumers can save for additional costs but only when they are informed of them and
don't just receive unexpected bills in the mail.

Insurance policies and exclusions

The ACA also has concerns about removing prosthetic benefits from private health insurance policies to facilitate greater consumer choice. The Private Health Insurance Ombudsman (PHIO) has a long standing concern with products that exclude certain treatments. Consumers are frequently confused about the insurance product that they have purchased and removing prostheses from a range of policies is likely to add a further layer of complexity.

Recently the Ombudsman noted that the complaints received suggested that many consumers do not understand the restrictions or exclusions applicable to their policies.

"The Ombudsman believes that funds need to provide new and prospective members with an information sheet which explains any restrictions or exclusions in greater detail and a separate document or section in the membership application requiring an additional signature as the member's acknowledgement of the restrictions or exclusions applying to the product. "(PHIO cited in ACCC 2004 "Report to the Australian Senate on anti-

competitive and other practices by health funds and providers in relation to private health insurance".)

It is the ACA's view that should this change be implemented across the industry all members affected by the change should be asked to provide a signature acknowledging the change to their policy.

There is a particular danger in exclusionary products for older people as noted in the past by PHIO and the ACCC. As people age their income may decrease and they might be tempted to purchase a cheaper insurance product. Many cheaper products have exclusions for the very things that older people may require such as cataract surgery and major joint replacement.

In April 2000 the ACCC said:

It should be noted that s. 74(2) of the Act (Trade Practices Act) requires services, including contracts of insurance to be fit for the purpose for which they are supplied. In relation to health insurance, this means that a health insurance product must be suitable for any particular purposes the consumer. Expressly or by implication, made know to the fund when arranging the purchase of the product. Therefore, if an elderly couple is purchasing health insurance for themselves it should be obvious that a product that excludes hip replacement would be unsuitable, and this fact should be drawn to the attention of consumers. If a product is sold to such consumers in these circumstances without the exclusion being drawn to their attention, then this may well constitute a breach of the Act. "(2001 "Report to the Australian Senate on anti-competitive and other practices by health funds and providers in relation to private health insurance".)

Older people are more likely to require prostheses than younger people yet because of lower incomes might be more likely to purchase products that exclude prostheses. It would seem especially important that special efforts are taken to inform older people in particular of the dangers in purchasing a product that excludes prostheses.

Concluding comments

Details on the implementation of this policy are still lacking and will need to be clarified if the policy is not to have adverse consequences for some consumers.

ACA recommends the following:

- a) Clarity on who actually makes the decision on what prosthesis is used. Ie. Is it the consumer or the doctor.
- b) Clarity on whether the health fund or the doctor must inform the consumer about out of pocket costs.
- c) The consumer should not have to meet any costs where written informed financial consent has not been obtained prior to the insertion of the prosthetic.

- d) Policy holders should be required to provide written acknowledgement where prostheses benefits in their policy are changed.
- e) Special measures should be put in place to ensure that older consumers do not mistakenly purchase products that exclude prostheses benefits.