Members Health
FUND ALLIANCE

13 August 2026

Mr Brian Kelleher
Assistant Secretary,
Private Hospitals Branch
Department of Health, Disability and Aged Care
CANBERRA ACT 2601

By email: Private.Hospitals@health.gov.au

Dear Mr Kelleher

Re: Private Health Sector Reform Consultation – Tranche 1

Members Health Fund Alliance (Members Health) welcomes the opportunity to provide feedback on the Department of Health, Disability and Ageing's *Private Health Sector Reform Consultation – Tranche 1*. Members Health welcomes the Government's focus on strengthening Australia's private health sector and improving outcomes for healthcare consumers.

Contents

About Members Health

Members Health is the national peak body representing more than 20 not-for-profit and member-owned, regional and community-based private health insurance funds. All Members Health funds share a common ethic of putting their members' health before profits. Members Health funds serve more than 5.4 million Australians and exist to serve their policyholders, not generate profits.

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Executive Summary

Members Health supports reform that demonstrably improves access, affordability, quality, safety and value for consumers. However, significant structural reforms should be supported by transparent modelling, robust impact assessment and realistic implementation pathways before final decisions are made.

Members Health recommends that Government:

- Prioritise private hospital transparency, including comprehensive and mandatory reporting of hospital costs, activity, financial performance, quality and outcomes.
- Continue prostheses reform, recognising that reducing unnecessary prostheses costs represents one of the largest opportunities to improve affordability and value for privately insured consumers.
- Support contemporary models of care, including clinically appropriate community-based, multidisciplinary, digital, virtual and hospital-avoidance care.
- Retain existing maternity waiting periods and avoid mandating pregnancy and birth cover below Gold without compelling evidence that benefits outweigh impacts on affordability, participation and consumer choice.
- Strengthen governance and evidence requirements for Hospital in the Home, including admitted-patient status, clear accountability arrangements, transparent funding methodologies and post-implementation evaluation.
- Target regional hospital support to demonstrated access needs, supported by modelling, evaluation and safeguards that preserve incentives for negotiated contracting.
- Preserve product flexibility, competition and consumer choice, including Basic and Plus products, flexible excess arrangements and insurer discretion in product design.
- Adopt a strategic approach to Risk Equalisation reform, including clear long-term objectives, a published reform roadmap, transparent modelling, shadow implementation and appropriate transition arrangements.
- Recognise participation in private health insurance as a key policy objective, ensuring reforms do not inadvertently discourage younger Australians from entering or remaining in the system.
- Adopt realistic implementation timeframes, recognising the cumulative impact of multiple concurrent reform initiatives, systems changes and premium-round obligations.

This submission has been informed by extensive consultation with all Members Health member funds and other industry stakeholders. While there is broad alignment across the membership on many issues, individual funds may also elect to make separate submissions reflecting their own circumstances and priorities.

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Introduction

Australia's private health system is a critical pillar of one of the world's strongest healthcare systems. Private health insurance covers more than half of the Australian population and plays a vital role in preserving consumer choice, supporting timely access to care and reducing pressure on Australia's public hospital system. More than 12 million Australians continue to choose private hospital cover, and private hospitals provide around five million episodes of care annually. Members Health therefore welcomes the Government's reform agenda and supports the objective of improving affordability, sustainability and consumer value.

Members Health supports ongoing reform and continuous improvement. Advances in technology, evolving consumer expectations, workforce pressures and the emergence of new models of care all require the private health sector to adapt and innovate. Reform should be welcomed where it improves access, enhances affordability, strengthens sustainability and delivers better outcomes for consumers.

At the same time, it is important to acknowledge that Australia is not approaching reform from a position of systemic failure. Australia's mixed public and private healthcare system continues to deliver strong outcomes by international standards and remains a fundamental strength of the broader health system. The challenge for policymakers is therefore not whether reform should occur, but how reform can build on the strengths of the current system while preserving the factors that have contributed to its success.

Throughout this submission, Members Health approaches the proposed reforms through a simple lens:

Will the proposed reforms improve the health system and deliver better outcomes and better value for consumers?

In assessing the reforms proposed throughout this consultation, Members Health encourages Government to ask four simple questions:

- Will the proposal improve access to care?
- Will the proposal improve consumer affordability?
- Will the proposal improve quality and safety?
- Will the proposal improve value for money?

These questions should guide decision-making across all reform streams and provide an important framework for evaluating both the benefits and potential unintended consequences of reform proposals.

As a consumer-focused organisation, Members Health will always support reforms that strengthen access, affordability, quality and value. Equally, we are cautious of reforms that merely shift costs within the system, reduce consumer choice, introduce unnecessary complexity or create unintended consequences without delivering measurable benefits for patients.

The proposals outlined in this consultation range from relatively targeted administrative reforms through to potentially significant structural reforms affecting private health insurance products, Risk Equalisation arrangements, hospital funding mechanisms and models of care. Several proposals appear to be at an early stage of policy development and have not yet been supported by detailed modelling or impact assessment. Members Health believes reforms of this scale require robust evidence, detailed modelling, transparent impact assessments and realistic implementation pathways before final decisions are made.

Members Health is also concerned that several proposals may introduce significant operational complexity. While individual reforms may appear relatively straightforward in isolation, implementation often requires substantial system changes, product redesign, claims processing changes, testing, staff training and ongoing maintenance. The cumulative impact of multiple reforms being pursued simultaneously should not be underestimated and should be considered as part of any regulatory impact assessment.

Members Health also encourages Government to consider the cumulative interaction of proposed reforms. Reforms that may appear manageable in isolation can generate significant implementation, affordability, participation and competition impacts when pursued concurrently.

One of the strongest themes emerging from this consultation is the importance of ensuring reform is supported by a robust evidence base. Members Health is concerned that several significant reforms are being proposed at a time when policymakers continue to face substantial information gaps regarding the performance, activity and financial position of parts of the private healthcare system.

Members Health has consistently advocated for greater transparency across the private hospital sector through previous consultations and remains concerned that comprehensive hospital transparency measures are absent from this first tranche of reforms. This is despite the Government's own experience identifying significant information gaps through the Private Hospital Financial Health Check process.

We note that the Government's own Private Hospital Financial Health Check highlighted the difficulties associated with relying on incomplete and voluntary data collection arrangements. As Members Health has consistently argued, successful reform is dependent on a comprehensive systemic understanding of healthcare and increased transparency is essential for good governance, public accountability and fostering better clinical outcomes and affordability for consumers.

Without a strong evidence base there is a risk of unintended consequences.

Significant reforms should only proceed once policymakers have access to the information necessary to accurately diagnose system challenges, target interventions and measure outcomes.

This issue is particularly relevant to several reforms proposed in this consultation, including Hospital in the Home funding arrangements, regional hospital support measures, mental health reforms and changes to Risk Equalisation. In each case, Members Health believes there would be considerable value in strengthening the evidence base before structural reform decisions are finalised.

Members Health notes that this consultation does not address several issues that our member funds consistently identify as significant drivers of affordability pressures for consumers.

The first is the continuing absence of meaningful reform regarding private hospital transparency and the collection of comprehensive hospital financial and performance data. Health insurers already operate under extensive public reporting, prudential oversight and transparency obligations. Comparable transparency does not currently exist across the private hospital sector despite private hospitals being significant recipients of both consumer and taxpayer funding. Members Health continues to believe that greater transparency across the private hospital system remains one of the most important reforms available to Government and should be prioritised accordingly.

The second is the lack of attention given to the ongoing cost of prostheses. Members Health remains concerned that privately insured consumers continue to pay substantially more for many prostheses than is paid elsewhere in the healthcare system. Recent analysis undertaken by Members Health suggests privately insured consumers may be paying in excess of $1 billion per annum more for prostheses than would be expected if pricing more closely reflected public sector benchmarks.[1] While outside the direct scope of this consultation, further prostheses reform remains one of the largest opportunities available to improve affordability for consumers and should continue to be prioritised as part of the Government's broader private health reform agenda.

Members Health encourages Government to continue progressing prostheses reform as a complementary component of any affordability agenda, recognising that reducing unnecessary costs within the system can create additional capacity to support consumer-focused reforms elsewhere.

Members Health also notes that opportunities remain to improve affordability and consumer value through continued attention to low-value care, unwarranted variation and interventions that do not consistently deliver demonstrable clinical benefit.

Affordability is a recurring theme throughout this consultation and should remain central to all reform discussions. Members Health encourages the Department to assess every reform proposal against its likely effect on premiums, participation and consumer value. Members

[1] NHCDC Public Sector 2023/24, AR-DRGv11 (IHACPA)
https://www.ihacpa.gov.au/resources/national-hospital-cost-data-collection-public-sector-2023-24
PHDB Benchmark Data 2023/24, AR-DRGv11 (DoHDA)
https://www.health.gov.au/resources/publications/phdb-annual-report-2023-24?language=en

Health also recognises that there remain significant opportunities to improve affordability, access and consumer outcomes through the continued adoption of contemporary models of care, greater use of technology-enabled care, improved care coordination and the removal of unnecessary regulatory barriers that impede innovation.

Many of the reforms proposed within this paper involve redistributing existing funding within the private health system rather than creating new funding. This is particularly evident in discussions relating to Risk Equalisation, maternity reforms and hospital funding. While redistribution may sometimes be justified, it is important to recognise that such changes create winners and losers and may have unintended affordability impacts for some consumer cohorts. Reforms should therefore be assessed not only on whether they solve an identified policy challenge, but also on whether they materially improve affordability and value for consumers overall.

Members Health encourages Government to consider how reforms may alter the balance of care delivered between the public and private systems, and whether broader policy settings remain aligned with the objectives those reforms seek to achieve.

Members Health also notes that affordability pressures cannot be considered in isolation from broader policy settings. Our member funds remain concerned about the long-term decline in the value of Government support provided through the Private Health Insurance Rebate and the impact this has had on affordability, particularly for older Australians and consumers facing broader cost-of-living pressures. Members Health also notes that a number of policy settings affecting participation and affordability, including thresholds associated with the Medicare Levy Surcharge framework, have not kept pace with changes in premiums and healthcare costs over time. While outside the direct scope of this consultation, these issues remain important contextual considerations when assessing reforms intended to improve participation, affordability and value.

Structural reform alone cannot fully address affordability challenges if broader policy settings continue to place upward pressure on consumer costs.

Members Health also notes that several reforms proposed throughout this consultation may involve significant redistribution of costs, benefits or risk between different consumer groups, products and market participants. In such circumstances, the rationale for reform, the expected benefits and the likely consequences should be clearly articulated and supported by transparent modelling. This is particularly relevant to proposals relating to maternity, Risk Equalisation and hospital funding arrangements.

Members Health encourages Government to consider whether targeted interventions may in some circumstances achieve policy objectives more effectively and with fewer unintended consequences than broad system-wide reform.

Competition, innovation and consumer choice are fundamental strengths of Australia's private health system and should be carefully protected throughout the reform process. Several proposals outlined in this consultation contemplate greater standardisation of products, benefits and market settings. Members Health supports reforms that improve consumer understanding, enhance transparency and reduce unnecessary complexity. However, simplification should not come at the expense of genuine consumer choice, product innovation or competition. Members Health also encourages Government to consider how reforms may affect different types of market participants. Smaller, regional and community-based not-for-profit and member owned insurers play an important role in maintaining competition, innovation and consumer choice. Reform proposals should therefore be assessed for their impacts not only on consumers, but also on market diversity and competitive dynamics.

Consumers have diverse needs and preferences. Australia's private health insurance system works best when consumers can select products that reflect their own circumstances and when insurers retain the flexibility to design products that meet those needs. Reforms that inadvertently remove affordable entry-level products, diminish insurer flexibility or encourage consumers to leave the private health system altogether may ultimately undermine the objectives they seek to achieve. Reduced product flexibility may also place greater pressure on smaller and regional insurers, increasing industry consolidation and reducing competition over time. As previous reforms have demonstrated, well-intentioned changes can sometimes generate unintended market consequences if broader system interactions are not fully considered.

When independently surveyed by Ipsos, Members Health funds achieve a close to 90% overall customer satisfaction score across more than 20 thousand respondents. This suggests that there is strong consumer support for Members Health funds, who are doing an outstanding job caring for their policyholders and it is essential that any reform recognise that.

Members Health also believes there is an important distinction between preserving access to care and preserving individual providers. Throughout this consultation, we encourage Government to remain focused on consumer outcomes rather than the interests of any individual stakeholder group. The objective of reform should be ensuring consumers have access to safe, high-quality and affordable healthcare services. That objective will not always require maintaining existing funding arrangements, provider structures or service delivery models unchanged. Reform should encourage innovation, support contemporary models of care and ensure resources are directed toward areas that deliver the greatest value for consumers.

We also note that sustainability pressures are being felt across multiple parts of the private health system and are not confined to private hospitals. Recent years have seen significant consolidation within the health insurance sector, with a number of insurers either exiting the market or merging with larger organisations. These developments highlight the broader

structural pressures facing the private health system and reinforce the importance of considering reforms through a whole-of-system lens that supports competition and choice.

While the consultation paper rightly identifies challenges facing some private hospitals, Members Health encourages Government to recognise that affordability pressures, changing utilisation patterns, escalating healthcare costs and broader market dynamics are affecting participants across the entire sector. Future reforms should therefore seek to strengthen the sustainability of the overall system rather than focus narrowly on any single stakeholder group.

Members Health also notes with concern that these pressures are occurring in the context of a long-term decline in the relative value of Government support delivered through the Private Health Insurance Rebate, which continues to influence affordability and participation across the system. We also note concerns by the AMA and other provider peak organisations about the importance of MBS payments reflecting the true cost of medicine.

Finally, Members Health is concerned that the implementation timetable contemplated throughout this consultation appears highly ambitious.

The consultation paper outlines reforms that may require legislative amendment, extensive consultation, detailed actuarial modelling, significant system changes, claims processing modifications, product redesign, operational process changes, staff training and transitional arrangements. At the same time, additional reform tranches remain under development and are yet to be released. Members Health notes that insurers are already required to undertake substantial Premium Round, prudential, operational and compliance activities within existing timeframes. It would be imprudent for insurers to assume implementation of reforms that remain subject to consultation, Government consideration and, in some cases, legislative amendment.

Meaningful reform requires thorough consultation, robust evidence and realistic implementation planning. Premature implementation risks creating unintended consequences for consumers, insurers and the broader health system. Members Health also encourages Government to carefully consider whether proposed reforms create disproportionate administrative burden, system complexity or ongoing compliance costs that may ultimately be borne by consumers through higher premiums. Well-intentioned reforms should avoid introducing implementation costs that outweigh their intended benefits.

While Members Health supports many of the objectives underpinning the consultation, we encourage Government to ensure reforms remain focused on consumer outcomes, affordability, competition, transparency, evidence-based policymaking and the long-term sustainability of Australia's private health system.

Against this broader context, this submission will now provide feedback on the specific reform proposals contained within Tranche 1 of the Government's Private Health Sector Reform Consultation.

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1. Prioritising Contemporary Models of Care

1.1 Mental Health

Overseas-trained psychiatrists

Members Health supports measures to improve access to mental health services, including targeted reforms that increase psychiatrist workforce supply.

We support exemptions that allow overseas-trained psychiatrists to provide services in private hospitals, provided appropriate safeguards are implemented and the reforms do not adversely affect access to services in regional and rural communities.

In particular, Members Health:

- supports workforce expansion initiatives;
- does not support arbitrary caps on exemptions applied at individual hospitals;
- does not support mandatory public-private time-sharing requirements;
- encourages ongoing monitoring of workforce impacts and patient outcomes.

Members Health considers any exemption arrangements should facilitate long-term workforce participation across both hospital and community settings rather than creating artificial barriers to practice.

Contemporary models of care

Members Health supports reforms that facilitate multidisciplinary mental health care and contemporary models of treatment.

We support amending MBS arrangements to allow multiple psychiatric case conferences during a patient's admission where clinically justified.

However, new funding arrangements should:

- be linked to genuine clinical need;
- avoid creating unintended incentives;
- support multidisciplinary care;
- complement community-based treatment where appropriate.

Mental health reform should not focus exclusively on inpatient services. Contemporary mental health care requires stronger integration between community services, outpatient treatment and hospital-based care.

Members Health encourages Government to review whether existing private health insurance funding rules continue to support contemporary mental health care, including multidisciplinary, community-based and hospital avoidance models where these are clinically appropriate. Members Health also supports continued exploration of regulatory reforms that enable insurers, clinicians and providers to develop innovative and community-based models of care where these improve consumer outcomes.

Members Health encourages Government to ensure mental health reforms are guided by the principle of supporting the right care in the right setting. While inpatient services remain an important component of the mental health system, reforms should also recognise the growing importance of community-based, outpatient, digital and hybrid models of care where these are clinically appropriate and deliver improved outcomes for consumers.

Members Health supports the appropriate use of telehealth and other virtual models of care where they improve access and consumer outcomes. However, some elements of mental health assessment and treatment may continue to benefit from face-to-face clinical engagement, particularly where clinical complexity, risk assessment or patient safety considerations are involved. Reforms should therefore preserve flexibility for clinicians to determine the most appropriate mode of care based on individual patient circumstances.

Private Mental Health Alliance

Members Health supports re-establishing the Private Mental Health Alliance (PMHA).

Members Health understands that the previous PMHA played an important role in facilitating constructive and sometimes difficult discussions between stakeholders, supporting guideline development and informing policy. Any future PMHA should build on these strengths while ensuring balanced and independent governance arrangements.

A re-established PMHA could play an important role in:

- reviewing and maintaining sector guidelines;
- encouraging collaboration across stakeholders;
- promoting contemporary models of care;
- supporting integration across inpatient, community-based and virtual mental health services;
- identifying barriers to access regardless of care settings and service issues; and
- encouraging routine evaluation of consumer outcomes and service effectiveness.

Members Health recommends that any future PMHA include:

- consumer representatives;
- clinicians;
- hospital representatives;
- health insurers;
- AHSA;
- ARHG;
- Members Health; and
- an independent chair.

A balanced governance structure will strengthen stakeholder confidence and support effective collaboration across the sector.

1.2 Maternity Care

Innovative models of care

Members Health supports greater adoption of innovative maternity care models.

There is significant opportunity to expand:

- midwife-obstetrician partnership models;
- shared-care arrangements;
- continuity-of-care models;
- multidisciplinary maternity pathways.

The private maternity sector should continue to explore opportunities that improve consumer choice, increase accessibility and reflect contemporary clinical practice.

Members Health also notes that out-of-pocket costs remain a significant consideration for consumers when making decisions regarding maternity care. Improving affordability and reducing financial barriers should remain central objectives of any maternity reform agenda.

Members Health supports Government-led education and awareness initiatives to encourage adoption of innovative maternity models. Any future models should seek to preserve continuity of care, recognising the importance many women place on having a consistent care team throughout pregnancy, birth and the postnatal period.

Waiting periods

Members Health does not support reducing the maximum waiting period for pregnancy and birth services.

Waiting periods exist to protect the integrity of a community-rated insurance system. Reducing waiting periods may increase utilisation, adverse selection and affordability pressures unless accompanied by offsetting measures elsewhere in the system.

The current waiting period reflects fundamental insurance principles and helps prevent adverse selection.

Reducing waiting periods would increase incentives for "hit-and-run" participation, whereby consumers join shortly before requiring maternity services and leave shortly afterwards. This would increase costs that are ultimately borne by all policyholders.

Members Health notes that the consultation paper provides limited evidence supporting shorter waiting periods and does not model the potential impacts on participation, affordability or adverse selection. Before considering reforms that fundamentally alter established insurance principles, Government should clearly demonstrate how the benefits outweigh the associated affordability risks.

Importantly, insurers already retain the flexibility to reduce waiting periods at their discretion where appropriate.

Product tiers

Members Health does not support mandating pregnancy and birth cover as a required element of product tiers below Gold.

The existing product tier framework already allows insurers to offer maternity cover through Plus products where there is consumer demand.

Expanding mandatory maternity coverage into lower tiers would:

- increase premiums for consumers who do not require maternity cover;
- reduce product flexibility;
- diminish consumer choice; and
- potentially encourage downgrading or discontinuation of cover.

The consultation paper provides limited analysis of the likely impacts on premiums, participation or consumer behaviour. Members Health considers further modelling would be required before significant changes to the existing product-tier architecture could be considered.

Members Health notes that insurers already have the flexibility to offer pregnancy and birth cover through Silver Plus products where there is consumer demand. Government intervention should therefore be carefully justified where the existing framework is already supporting product innovation and consumer choice.

Consumers should continue to have the ability to purchase products that reflect their individual needs and circumstances.

Members Health also notes that proposals designed to expand access to maternity benefits do not, of themselves, address the underlying cost of maternity care. Without corresponding reforms that improve value and reduce the cost of service delivery, expanded access measures are likely to increase utilisation and affordability pressures without resolving the underlying challenge.

Paediatric attendance after birth

Members Health supports further examination of MBS arrangements relating to neonatal paediatric attendances following birth.

Particular attention should be given to:

- transparency of costs;
- informed financial consent;
- reducing unexpected out-of-pocket expenses for families.

Risk Equalisation and maternity

Members Health supports further exploration of Risk Equalisation reforms intended to address maternity affordability.

However, any proposals must be supported by detailed modelling and should recognise that Risk Equalisation redistributes existing funding rather than creating new funding for the system.

1.3 Hospital in the Home (HITH)

Members Health supports expansion of Hospital in the Home where it improves consumer outcomes, enhances convenience and provides high-quality substitutive care.

However, Members Health believes the key issue is not simply the proposed $360 minimum benefit but ensuring that HITH remains genuine hospital treatment supported by appropriate governance arrangements. Reforms should facilitate access to clinically appropriate care in the most suitable setting for patients rather than prioritising particular provider models.

Governance and accountability

Members Health strongly supports maintaining the principle that HITH constitutes admitted hospital treatment.

Any HITH framework should ensure:

- patients remain admitted patients;
- care is delivered under appropriate clinical governance;
- accountability resides with the treating hospital;
- where HITH services are delivered through subcontracted arrangements, accountability, clinical governance and service oversight should remain clearly defined and transparent throughout the service delivery chain; and
- quality and safety requirements are clearly maintained.

The Department should clarify the meaning of "direct involvement" by a private hospital as this concept may create uncertainty regarding accountability and oversight.

Funding arrangements

Members Health is not currently convinced sufficient data exists to determine the appropriate minimum benefit for HITH services. The proposed minimum benefit may have implications for provider behaviour, contracting arrangements and premium costs. Additional evidence and analysis should be undertaken before permanent funding settings are established.

Members Health notes that the consultation paper proposes a specific minimum benefit amount but provides limited explanation of how that figure was determined. Greater transparency regarding the underlying methodology and supporting evidence would assist stakeholders to assess the proposal and any potential alternatives.

Before establishing permanent funding settings, Government should:

- collect robust data regarding service delivery costs;
- evaluate utilisation patterns;
- assess premium impacts;
- monitor provider behaviour.

The proposed evaluation framework should be strengthened through mandatory reporting requirements.

Telehealth

Members Health does not currently support extending telehealth arrangements within the proposed HITH reforms without further evidence regarding costs, outcomes and impacts.

Evaluation

Members Health supports a formal post-implementation review after two years and considers comprehensive hospital reporting essential to any meaningful evaluation. Such a review should assess impacts on consumer access, provider participation, hospital sustainability, contracting behaviour and premiums.

1.4 Type C Certification

Members Health supports initiatives that reduce unnecessary administrative burden. However, any exemption-based reforms should be supported by clear evidence demonstrating that they address a material administrative burden while maintaining appropriate safeguards regarding admission appropriateness, consumer value and system integrity. Changes should remain clinically justified and avoid creating unintended behavioural incentives or cost pressures.

Proposed exemption criteria

Members Health is broadly supportive of exemptions linked to:

- general anaesthesia;
- clinically significant regional anaesthesia; and

- clinically significant IV sedation.

Members Health notes that the proposed exemption criteria require greater clarity regarding their intended scope and operation. In particular, Government should ensure that any exemptions are sufficiently precise to avoid creating unintended incentives for increased hospital utilisation where clinically appropriate non-admitted alternatives exist.

However, Members Health considers the proposed age-based exemption requires further examination.

Age alone may not be an appropriate proxy for clinical complexity or admission appropriateness and may create unintended incentives while reducing oversight. The Department should clearly explain the rationale for any age-based threshold and provide supporting evidence that demonstrates the proposed exemption is proportionate and justified.

The Department should:

- clarify whether proposed exemption criteria operate individually or collectively;
- provide further evidence supporting age-based exemptions;
- model impacts on utilisation and premiums; and
- assess whether the proposed exemptions may create unintended behavioural responses or shift services into admitted settings unnecessarily.

Financial impacts

The consultation paper provides limited discussion regarding the expected premium impacts of the proposed reforms.

Members Health encourages Government to undertake additional analysis before implementation.

2. Delivering Better Value for Consumers

2.1 Improving Access to Regional Private Hospitals

Members Health supports maintaining access to healthcare services for consumers in regional communities. However, reforms should be assessed primarily on their contribution to consumer access and outcomes rather than the viability of any individual provider or model.

Government should also consider the operational and systems complexity associated with introducing additional default-benefit categories, differential calculation methodologies, hospital categorisation processes or region-specific payment arrangements. The administrative costs associated with implementing and maintaining more complex arrangements will ultimately be borne by consumers through premiums.

Second-tier default benefits

Members Health acknowledges the challenges facing some regional hospitals.

However, we are not persuaded that increasing second-tier default benefits from 85 per cent to 100 per cent should proceed without additional analysis.

The Department should provide:

- detailed modelling of premium impacts;
- evidence regarding expected behavioural responses;
- assessment of impacts on contracting incentives;
- evidence that the proposed increase is proportionate to regional cost differences.

Members Health is concerned that a 100 per cent default benefit may reduce incentives for negotiated contracting arrangements and could lead to unintended market consequences.

In some markets, setting second-tier benefits at or very close to contracted rates may substantially reduce incentives for providers to enter into negotiated agreements. This risk should be carefully examined as part of any reform process.

Contracting arrangements remain an important mechanism for promoting efficiency, service quality, innovation, accountability and value for consumers. In many cases, negotiated agreements also support lower out-of-pocket costs and stronger collaboration on quality improvement initiatives. Setting default benefits at or very near contracted rates risks weakening incentives for providers and insurers to negotiate arrangements that deliver value and innovation.

Members Health also notes that the consultation paper provides limited evidence supporting the proposed shift from 85 per cent to 100 per cent and limited analysis of the likely impacts on premiums, contracting behaviour and consumer affordability. Before proceeding, Government should undertake detailed modelling and clearly articulate how the proposed settings would improve consumer outcomes.

Targeted support

If Government wishes to strengthen support for regional hospitals, arrangements should be:

- targeted;
- evidence-based;
- regularly reviewed;
- linked to demonstrated access needs.

The Department should also examine existing public-sector approaches to regional cost recognition when determining appropriate funding differentials.

Members Health encourages Government to ensure any regional hospital support measures are directed towards addressing genuine access gaps and demonstrated community need, rather than applying broad funding increases across highly diverse regional markets.

Members Health also considers that any regional hospital support measures should be accompanied by a formal post-implementation review. This review should assess impacts on consumer access, hospital sustainability, premiums, utilisation and contracting behaviour, and should be informed by baseline data collected prior to implementation.

2.2 Product Simplification

Members Health supports efforts to improve transparency and consumer understanding of private health insurance products. However, simplification should not come at the expense of affordability, participation, competition or consumer choice.

Members Health is concerned that proposals which restrict insurers' ability to price products according to their underlying risk profile may create unintended consequences for consumers.

Different products often have materially different membership demographics, utilisation profiles and claims experience. Requiring all products to be priced identically regardless of these differences may create unintended cross-subsidies between cohorts of consumers and undermine prudent product management. Regulatory settings should allow insurers sufficient flexibility to manage these differences prudently while complying with existing prudential requirements.

Members Health notes that many of the proposals under consideration involve a trade-off between standardisation and consumer choice. Members Health also notes that the private health insurance market has been subject to successive regulatory reforms over many years, including the introduction of product tiers and standardised clinical categories. While these reforms have improved transparency and comparability, they have also reduced insurer flexibility in some areas. Further standardisation should therefore be approached cautiously and supported by clear evidence that the benefits outweigh the potential impacts on affordability, participation, innovation and competition.

It is our strong view that participation in private health insurance should remain a central consideration when assessing product reforms. Basic, Bronze and Plus products play an important role in maintaining participation, particularly among younger Australians and consumers seeking lower-cost entry points into private health insurance.

While standardisation may improve consistency, it may also reduce affordability, limit flexibility and discourage participation. Members Health is not aware of evidence demonstrating that significant reduction in product diversity would increase participation. On the contrary, reducing consumer choice may encourage some consumers to leave private health insurance altogether, increasing pressure on the public health system and ultimately increasing costs to government.

Product structure

Members Health does not support:

- removing Basic products;
- removing Plus products;
- substantially reducing insurer flexibility in product design.

These products exist because consumers value choice and affordability.

Basic products provide an important entry point for younger and lower-income consumers who may otherwise leave the system entirely.

Plus products allow insurers to meet diverse consumer needs without requiring consumers to purchase unnecessary cover.

Members Health notes that many insurers already utilise the flexibility available within the existing tier structure to offer products that meet consumer demand. For example, maternity cover is already available through a range of Silver Plus products. Where the market is already providing consumer choice and innovation, Government should carefully consider whether additional regulation is necessary.

Members Health notes that previous product reforms have already significantly shaped and constrained product design. Further standardisation should therefore be supported by clear evidence demonstrating improved consumer outcomes. Government may want to seriously consider relaxing requirements around product design, given the mixed success of the 2019 reforms and impact on adverse selection, particularly for Gold cover.

Dependants and disability

Members Health supports maintaining flexibility in relation to dependant arrangements.

The existing framework was introduced to provide insurers with greater flexibility rather than create mandatory obligations. Members Health does not support reforms that would require all insurers to adopt identical dependant eligibility arrangements, including mandatory disability dependant coverage.

Different insurers serve different membership cohorts and should retain flexibility to design arrangements that best meet the needs of their members while remaining compliant with community rating and other regulatory requirements.

While Members Health supports ongoing consideration of measures that improve consumer understanding, portability and access to appropriate cover, the consultation paper has not demonstrated that moving from an optional framework to a mandatory industry-wide requirement would materially improve consumer outcomes.

Excesses and co-payments

Members Health does not support standardisation of excesses and co-payments.

Excesses are:

- widely understood by consumers;
- common across insurance markets;
- an important mechanism for improving premium affordability.

Members Health has seen limited evidence that greater standardisation would improve consumer outcomes.

We do however support discussion to allow higher excesses, as this will provide insurers with a further opportunity to lower premiums and assist with in addressing affordability pressures.

Premium structures and discounts

Members Health supports transparency and consistency.

However, reforms should not unnecessarily restrict competition, product innovation or legitimate discounting practices that benefit consumers.

Members Health also encourages Government to carefully consider the impacts of reform on existing policyholders, particularly older Australians who may have retained long-standing products that continue to meet their needs. Reforms should avoid creating circumstances where consumers are effectively forced onto more expensive products without clear evidence of corresponding consumer benefit. Particular caution should be exercised where proposals may result in substantial premium increases for members on closed or legacy products, increasing affordability pressures and potentially encouraging policy lapses.

2.3 Risk Equalisation

A strategic approach to reform

Members Health welcomes further consultation regarding Risk Equalisation (RE) reform.

However, RE should be considered within a broader strategic framework rather than through isolated technical reforms. Any near-term reforms should be assessed not only on

their immediate effects, but also on whether they support the longer-term evolution of Australia's Risk Equalisation system.

Members Health notes that Australia's RE arrangements have remained largely unchanged for almost two decades despite significant shifts in healthcare delivery, utilisation patterns and demographics. Periodic review and refinement should therefore be expected.

We are concerned that this consultation largely focuses on potential mechanisms for reform before clearly establishing the long-term objectives of Australia's RE system. In our view, the first question should not be "How should RE be changed?" but rather "What do we want Australia's RE system to achieve in the future?"

As noted by Finity, successful international RE systems are characterised by clear objectives, transparent governance and ongoing refinement rather than infrequent large-scale redesign.

Members Health recommends that Government clearly articulate the long-term objectives of Australia's RE system before implementing significant structural reform. Members Health also encourages Government to develop and communicate a longer-term roadmap for RE reform, providing greater clarity regarding future priorities, sequencing and the relationship between individual reform initiatives.

Should reform of RE be considered, we would also suggest operating a shadow RE system to test its operation and impact before implementation.

Reform principles

Members Health broadly supports the principles outlined in the consultation paper. In discussion with members funds we would include:

- supporting community rating;
- addressing maternity and mental health challenges;
- minimising unintended consequences;
- maintaining affordability.

We also recommend the following additional principles:

- Maintain incentives for efficient best practice healthcare, preventative health initiatives, innovation in healthcare; and
- Avoid creating disincentives for younger Australians to enter and remain in private health insurance.

Maternity and mental health pools

Members Health supports further analysis of dedicated maternity and mental health Risk Equalisation pools.

However, implementation should depend upon evidence demonstrating:

- improved affordability;
- improved sustainability;
- reduced risk-selection incentives;
- manageable implementation complexity.

Recalibration proposals

Members Health supports further investigation of proposals affecting younger Gold-tier members and SEU calculations. Participation by younger Australians remains critical to the long-term sustainability of Australia's community-rated private health insurance system. Any reforms should therefore be assessed for their potential impact on younger member participation and retention.

However, insurer-level impacts, premium consequences and behavioural responses must be fully modelled and understood.

Shadow model recommendation

Members Health strongly encourages Government to consider operation of a shadow model prior to implementing major RE reforms. This would allow impacts to be observed, assumptions tested, and implementation risks and unintended consequences to be identified before permanent changes take effect.

Implementation

Given the complexity of RE reform, Members Health supports:

- staged implementation;
- transparent modelling;
- insurer impact assessments;
- appropriate transition periods;
- post-implementation evaluation.

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Members Health supports the Government's desire to strengthen Australia's private health sector and improve value for consumers.

The private health system remains a vital component of Australia's healthcare landscape and continues to make an important contribution to consumer choice, timely access to care and broader health system capacity.

While Members Health supports many of the reform objectives outlined in this consultation, successful reform requires:

- a consumer-centred focus;
- robust evidence and data;
- realistic implementation timeframes;
- preservation of affordability, participation, competition and consumer choice;
- transparent evaluation.

Members Health also encourages Government to continue engaging closely with the sector as proposals mature and further modelling becomes available. Several proposals contained in this consultation raise important questions regarding affordability, participation,

contracting behaviour and consumer outcomes that warrant additional analysis before implementation decisions are made.

Most importantly, Members Health believes stronger transparency regarding private hospital costs, performance and activity, together with continued reform of prostheses pricing and affordability, should be prioritised as foundational elements of future private health sector reform.

Well-designed reform can strengthen the private health sector. To achieve this objective, Government should ensure changes are evidence-based, proportionate and focused on delivering better outcomes for Australian consumers.

We look forward to continuing this dialogue with the Department and contributing practical solutions that ensure healthcare consumers are always at the forefront of healthcare reform.

Yours sincerely,

MATTHEW KOCE
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