



# FUNDING OUR HOSPITALS

## Investing in our health

Accessible. Affordable. Universal.

The Greens see health as an investment, not a cost. Ensuring that our health system will always be accessible, affordable and universal is our priority. The Greens will invest in our hospitals and lock in a long-term funding formula to prevent reckless cuts in the future and stop cost-shifting between governments.

As our population ages, and as new tests and treatments become available, the cost of operating public hospitals is going to continue to rise. We have to spend efficiently, but maintaining quality healthcare should be a national priority.

Instead the Abbott/Turnbull Government has taken Australia's hospitals to the edge of a funding cliff that will decimate the health system and leave patients out in the cold. The Greens want to restore funding and prevent such short-sighted cuts in the future.

### > FUNDING CERTAINTY

The Greens will reform hospital spending as follows:

- **Sharing the costs:** Restore the funding model where the Commonwealth and the states share the rising costs in delivering hospital services evenly. The Commonwealth will increase its funding to match 50% of the efficient growth in hospital costs from the next budget cycle.
- **Provide certainty:** Put the funding formula into law, so that the states have some certainty, and so that future governments will require the Parliament's approval to reduce the Commonwealth's share of hospital funding.
- **Spend efficiently:** Phase out the wasteful private health insurance (PHI) rebate, freeing up \$10 billion in the next four years and tens of billions over the next decade, to be re-invested into health and hospitals.

### > THE FALSE ECONOMY OF SUBSIDISING PRIVATE INSURANCE

Since the introduction of Medicare in the 1970s, Australians' use of private health insurance (PHI) started a long decline. The Howard government introduced a range of measures that included lifetime health cover loading, the Medicare levy surcharge and the 30% private health insurance rebate, promising that increasing private health insurance coverage would take the pressure off our public hospital system. As a

result, more people did take out PHI, but almost entirely due to the introduction of lifetime health cover loading while the rebate had little effect.

Despite attempts to slow its growth, the rising costs of PHI mean this rebate has now blown out to well over \$5 billion a year.<sup>1</sup> Research shows that this huge expenditure has done little to reduce pressure on public hospitals. People with PHI continue to use services at public hospitals because they are of high quality and specialise in complex and urgent care that many private hospitals cannot (or will not) perform.<sup>2</sup> In fact, many people purchase the policy with the lowest coverage they can – relying on public hospitals to treat them if they get sick or injured.

The costs of the rebate far outweigh the benefits – by a factor 2.5 to one according to an academic analysis.<sup>3</sup> At the time the Howard government introduced the rebate in 1998, Labor's health spokeswoman Jenny Macklin called it "the worst example of public policy ever seen in this parliament"<sup>4</sup>. Because of the many problems, most experts agree that the rebate has been a public policy failure.

The rebate has also served to redirect public money to assist the people most able to afford health insurance to get better health care, while starving the public system of billions of dollars. This is unfair no matter how you look at it. Instead of a two-tier health system, we should aim for one that is universal and provides good care to all.

People should still have a choice to use PHI for themselves and their families if they wish to do so. But public money has to be spent where it's most needed and gets the best results, and that's our public health system.

<sup>1</sup> Budget 2015-16

<sup>2</sup> Terence C. Cheng, "Does Reducing Rebates for Private Health Insurance Generate Cost Savings?" 2013

<sup>3</sup> Ibid.

<sup>4</sup> Mike Steketee, "Health rebate a very unfair plan", *The Australian*, 11 February, 2012, accessed 30 March 2016

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## > ENDING THE SUBSIDY

The Greens will phase out the private health insurance rebate starting from July 1, 2016 and reinvest the savings into the public health system. The rebate in each tier will reduce by 10% each year, meaning that by 2019 the rebate will be zero for all policyholders.

This policy has been costed by the Parliamentary Budget Office and is expected to increase the Commonwealth's fiscal balance by \$10.1 billion by mid 2019 and over \$50 billion over the next decade.

## > ENSHRINED IN LAW

Many government programs are implemented in legislation which details how the scheme will work and appropriates funds to pay for the services. The Greens would put the hospital funding formula in legislation, so that any changes would have the oversight of parliamentary process. Successive governments have shown they cannot be trusted. Hospital funding is too important to be left to the politics of the day.

## > MAKING HEALTH A PRIORITY

The Greens are committed to properly funding all parts of our health system. Funding services in hospitals represents good value for money. Subsidising financial services companies to provide private health insurance is a luxury we can no longer afford. We will restructure spending as follows:

- Increasing the Commonwealth share of hospital cost growth to 50%, which will cost over \$5 billion over the four years of the forward estimates (potentially over \$6 billion if growth exceeds 6.5%).
- Phasing out the PHI rebate will return \$10 billion over the forward estimates and more than \$50 billion over the next decade to be reinvested in the public health system. The rebate currently costs well over \$5 billion per year. Investing this money directly in the public health system would cover the growth in hospital costs for well over a decade and allow for a greater investment in primary care, including dental care and other allied health services.

The Greens will release a fully costed policy as part of our platform before the federal election.

## > EXPERT COMMENTARY

**In his 2013 research paper, Dr Terence Cheng found that ... 'savings from reducing spending on rebates outweigh the predicted increase in public hospital costs by roughly a factor of 2.5'<sup>5</sup>.**

**Analysis by the Grattan Institute in 2013 shows that ... removing the rebate could save governments \$3.5 billion in annual public expenditure (where \$5.5 billion in savings realised from the eliminated rebate is offset by an increase in demand for public hospital service)<sup>6</sup>.**

**The Australian Council of Social Services (ACOSS) Chief Executive, Cassandra Goldie, argued:**

*...it has failed in its promise to increase private health insurance and take pressure off public hospitals. It disproportionately benefits people on higher incomes who can afford private cover in the first place, and has been a significant factor in driving up costs without any evident gain in achieving its initial policy intent<sup>7</sup>.*

**Professor of Health Economics at the University of Technology Sydney, Elizabeth Savage, argued in the Conversation in November 2015 that:**

*...There is little evidence that private health insurance rebates take pressure off the public health system. Instead, they contribute to inequity of health care across the country, ensuring better and timely care for those who can afford it<sup>8</sup>.*

**Associate Professor Lesley Russell, of the University of Sydney, similarly emphasises the inequity of the rebate, stating:**

*...This extremely inequitable subsidy undermines the efficiency of the system. All taxpayers are subsidising the cost of premiums for those among the 47 per cent of Australians with private health insurance who qualify for the rebate<sup>9</sup>.*

**Director of the Monash Centre for Health Economics, Anthony Harris, echoed this argument for equity, stating:**

*...Our tax dollars would be better and more equitably spent on prevention, improving hospital services, and widening access to other services<sup>10</sup>.*

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<sup>5</sup> Terence C. Cheng, "Does Reducing Rebates for Private Health Insurance Generate Cost Savings?" Melbourne Institute Policy Brief no. 3/13, July 2013, accessed 17 March 2016.

<sup>6</sup> J Daley, "Balancing budgets: tough choices we need", Grattan Institute, November 2013, p. 71, accessed 18 March 2016

<sup>7</sup> S Medhora, "Australian welfare groups call for private health insurance rebate to be scrapped", *Guardian*, 16 January 2015, accessed 17 March 2016

<sup>8</sup> E Savage, "Should taxpayers subsidise extras for private health insurance?", *Conversation*, 10 November 2015, accessed 17 March 2016.

<sup>9</sup> L Russell, "Private health insurance: the unanswered questions", *Inside story*, 13 November 2015, accessed 17 March 2016.

<sup>10</sup> A Harris, "Things you should know about private health insurance rebates", *Conversation*, 1 July 2013, accessed 17 March 2016.