

Research Insights

Why do Australians buy private hospital insurance?

All Australians have access to Medicare that covers free hospital treatment. So why do people still buy private hospital insurance? In April 2021, we surveyed Australians to ask them why they paid for private hospital insurance, and we found that many members purchased it for peace of mind, with this reason becoming more likely as Australians got older. Among those who do not buy private hospital insurance, two-thirds reported they did not purchase because of high premiums and out-of-pocket costs; and half cited because they are happy with public hospitals.

All Australians have access to Medicare that covers free hospital treatment, as well as subsidised medications and other medical treatment. In addition, the Australian government regulates private hospital insurance (PHI) with the aim of attracting private financing of healthcare and reducing the burden on the public hospital system. Since 1997, the government has implemented several policies to encourage people to purchase PHI, including rebates to partially refund premiums, the Medicare Levy Surcharge that charges additional tax for people who earn above a certain threshold and do not hold private hospital cover, and the Lifetime Health Cover loading for young people who do not hold private hospital insurance after they turn 31 (Zhang, 2020). Historically, these policies have been effective in increasing the uptake of PHI, but they have recently become controversial (Zhang, 2020) because they were implemented with high costs to taxpayers, and it is unclear whether they have reduced the burden on the public hospital system.

In recent years, the rate of PHI membership and use of private care have declined considerably (Bai, Méndez, Scott & Yong, 2020). For this Research Insight, we wanted to understand the reasons behind why Australians choose to buy or not to buy private health insurance and whether this has changed since 2014-15, when the Australian National Health Survey last asked this question.

During 5-11 April 2021, the *Taking the Pulse of the Nation* (TTPN) survey asked respondents whether they currently have private insurance to cover hospital treatment. If they said yes, we asked why they purchase PHI. If they said no, we asked the reasons why they do not. Because hospital cover is significantly more expensive than extras cover, and government policies only target private hospital cover, we only focus on private hospital cover in this Insight.

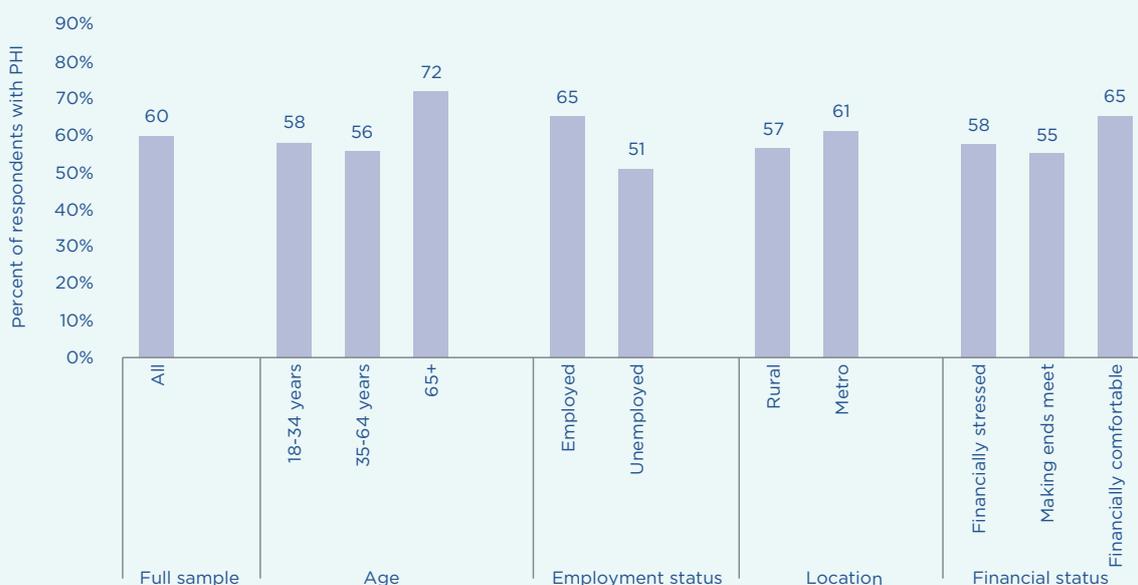
Key Insights

1 Respondents who have a job, live in metro areas and are financially comfortable are more likely to buy private health insurance.

Overall, 60 per cent of our respondents reported they currently have private hospital insurance coverage. This is higher than the 44 per cent result of the Australian population as reported in December 2020 (The Australian Prudential Regulation Authority, 2021), partially because our data only cover adults,

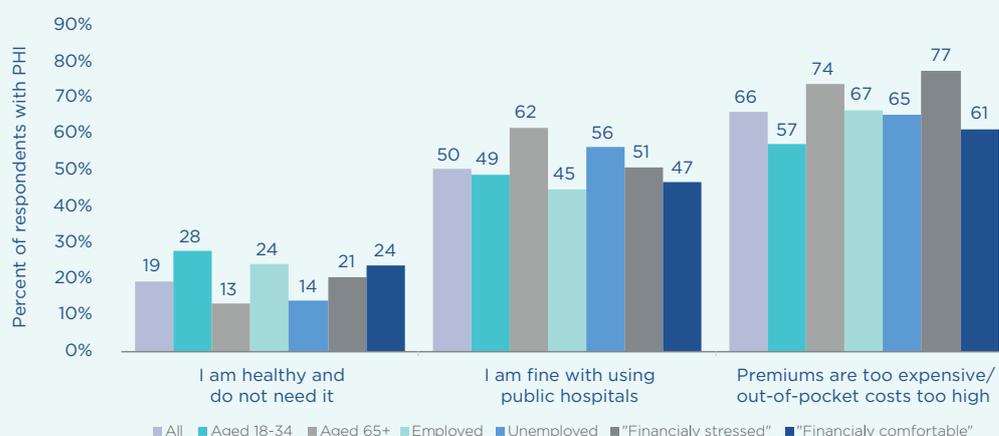
not the general population. Levels of PHI membership varies by age and other demographic characteristics including employment status, financial status, and location (Figure 1). Our data show that the Australians most likely to hold PHI are employed, living in metro areas, and are not in any kind of financial distress.

Figure 1: Percent of people who have private health insurance



Source: *Taking the Pulse of the Nation* wave 30 survey data, with 1,200 respondents in each wave. The sample is stratified by gender, age and location to be representative of the Australian population. The vertical axis indicates the proportions (%) based on weighted responses. Survey question: Do you currently have private health insurance to cover hospital treatment? Y/N.

Figure 2: Reasons for not having private hospital insurance



Source: *Taking the Pulse of the Nation* wave 30 survey data, with 1,200 respondents in each wave. The sample is stratified by gender, age and location to be representative of the Australian population. The vertical axis indicates the proportions (%) based on weighted responses. Among those who don't have private hospital cover, we asked them reasons why they don't have:

- I am healthy and do not need it Y/N
- Premiums too expensive and/or out of pocket costs of private treatment would be too high Y/N
- I am fine with using public hospitals Y/N
- Don't know
- Other (a handful; no explanations provided, although a few said they were covered under a veteran scheme)

2 High insurance premiums and out-of-pocket costs are the most common reasons given for not having private health insurance.

Among those who do not have PHI, 66 per cent reported they did not purchase because of high premiums and out-of-pocket costs. The proportion

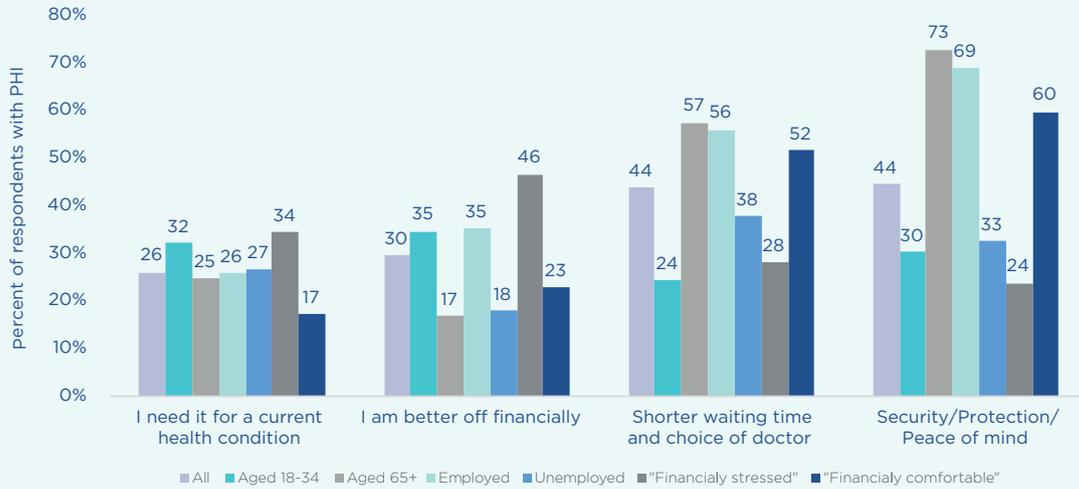
of individuals citing this reason is particularly high among aged 65+ (74 per cent) or among those financially distressed (77 per cent) (Figure 2).

3 More people are happy to use public hospitals instead of purchasing private cover compared to six years ago.

Another common reason for not having PHI is that people are happy to use public hospitals: about half of the Australians that we surveyed cited this as their reason not to purchase PHI. This number has increased substantially since 2014-2015 when as part of the Australian National Health Survey, respondents

were asked why they bought or did not buy PHI (Australian Bureau of Statistics, 2017). Only 29 per cent said they did not buy PHI because they believe Medicare cover is sufficient (Australian Bureau of Statistics, 2017).

Figure 3: Private hospital insurance members' reasons for buying private insurance



Source: *Taking the Pulse of the Nation* wave 30 survey data, with 1,200 respondents in each wave. The sample is stratified by gender, age and location to be representative of the Australian population. The vertical axis indicates the proportions (%) based on weighted responses. Among those who currently have private health insurance to cover hospital treatment, we asked them the reasons why they buy private health insurance:

- I am better off financially (e.g. avoid higher Medicare Levy Surcharges or gain rebates) Y/N
- I need it for a current health condition Y/N
- Shorter waiting times and choice of doctor Y/N
- Security and/or protection and/or peace of mind Y/N
- Always had it and/or someone else pays for it (e.g. parents or employer) Y/N
- Don't know

4 Reasons to buy private hospital insurance differ substantially by age, employment and financial statuses.

Overall, 44 per cent of PHI members said that they purchased insurance for a sense of security, protection or peace of mind (Figure 3). However, 73 per cent of those older than 65, and 69 per cent of those employed cited this as their reasons to buy PHI, while only 30 per cent of those aged 18-34 and 24 per cent of those financially stressed cited this reason.

Another common reason relates to the benefits of being treated as private patients in Australia: shorter waiting times for care compared to waiting times in public hospitals and a greater ability to choose one's own doctor. Individuals citing this reason are more likely to be older or financially comfortable.

Among those aged 18-34, the most common reasons are 'I am better off financially' due to savings on the Medicare Levy Surcharge or gains from government rebates, or 'I need it for a current health condition'.

Tailored strategies to target different subgroups

The most common reason given for purchasing PHI is peace of mind, which is suggestive of risk aversion. This is surprising given all Australians have free access to public hospitals, so people are protected from high financial risk of catastrophic health costs. In Australia, the main benefit of having private cover is not protection from catastrophic health costs, but to reduce wait times in public hospitals. Thus, private health insurance is quite different from other insurance industries (e.g., car, property), but many people fail to understand this difference. The government could provide more materials to educate individuals.

One common concern with the voluntary private insurance market is adverse selection. That is, individuals know more about their health status than insurers and purchase insurance to cover their needs. But in the Australian PHI market, this does not seem like a major issue. Only 26 per cent of PHI members cited this as a reason to buy PHI. Compared to those aged 65+, people aged 18-34 are more likely to buy PHI for their foreseeable health conditions (32 per cent in 18-34 years old vs 25 per cent in 65+). The most common reason for the young to buy PHI is to respond to government financial incentives – either avoiding the Medicare Levy Surcharge or gaining rebates. The Australian government is currently evaluating ways to encourage more young people to buy PHI. Providing higher rebates or increasing the value of PHI for the young may be useful strategies.

Another main predictor to buy private hospital insurance is an individual's financial situation – for example, those financially comfortable are a lot more likely to buy PHI than those financially stressed.

Some subpopulations are more price-sensitive, such as the old and the financially stressed. Thus, government financial incentives (e.g. increasing rebates) targeting these subgroups would be more effective.

It is encouraging to see that people are happier to use public hospitals compared to five years ago. This may partially explain the recent decline in the rate of PHI and use of private hospitals. The Australian government pays \$6 billion per year in rebates to encourage Australians to purchase private insurance and an additional \$3 billion to cover private inpatient medical services (Duckett & Nemet, 2019). What is the justification for large government subsidies to a private industry when all Australians already have Medicare coverage? Previous policies mainly focus on increasing the uptake of PHI, but it may be time to evaluate alternative policies. For example, if taxpayers' money currently used to subsidise PHI is used to support public hospital system directly, it may improve the efficiency of the entire Australian healthcare system.

Further Information

Datasets and methods

This analysis uses data from the *Taking the Pulse of the Nation* – Melbourne Institute's survey of the impact of COVID-19. The aim of the weekly survey is to track changes in the economic and social wellbeing of Australians living through the effects of the coronavirus pandemic whilst adapting to various changes in Federal and State government policies. The survey contains responses from 1,200 persons, aged 18 years and over. The sample is stratified by gender, age and location to be representative of the Australian population. The current analysis draws on survey responses collected from wave 30 in 5-11 April 2021.

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