

Research Insights

Who is ditching private health insurance during the pandemic?

Many private health insurers increased their premiums in October, and have scheduled another price rise for April 2021. As people struggle financially amid the pandemic, many may wonder whether they should drop their private health insurance altogether.

Dropping and downgrading private health insurance during the COVID-19 pandemic

The aim of this Research Insight is to examine how Australians change their enrolment in private health insurance (PHI) during the pandemic. Specifically, we examined who has dropped, downgraded or upgraded their PHI since March 2020.

Most private health insurers increased their premiums in October 2020, and have scheduled another price rise for April 2021 (Zhang 2020). At the same time, during the pandemic, one in four Australians have reported that they have been financially stressed in 2020 (Melbourne Institute: Applied Economic & Social Research 2020). This number is even higher among the young: for example, 35 per cent of those aged 18-44 reported they are financially stressed (Melbourne Institute: Applied Economic & Social Research 2020).

Because private health costs account for an increasingly larger percentage of monthly expenses, many may wonder if they should downgrade or drop their PHI altogether.

During 19-23 October 2020, the *Taking the Pulse of the Nation* survey asked respondents whether they currently have private health insurance: if not, whether they have dropped their private health insurance since March 2020; if so, whether they downgraded or upgraded their existing private health insurance since March 2020.

Key Insights

1 About 15 per cent of PHI members downgraded or dropped their private health insurance during the pandemic

Overall, 60 per cent of our respondents reported they currently have private health insurance. Since March 2020, 4 per cent of those with PHI have dropped their cover entirely and another 11 per cent have downgraded their existing PHI cover.

On the other hand, 6 per cent of the members have upgraded their PHI to a more expensive plan, likely due to anticipated use of private care.

2 People in financial stress are three times more likely to drop or downgrade their private health insurance than those making ends meet

People in financial stress were more likely to drop their PHI (7 per cent) than those making ends meet (4 per cent) and those financially comfortable (2 per cent) since March 2020 (Figure 1). A similar pattern was observed for the proportion of people downgrading: 23 per cent, 5 per cent, and 8 per cent respectively.

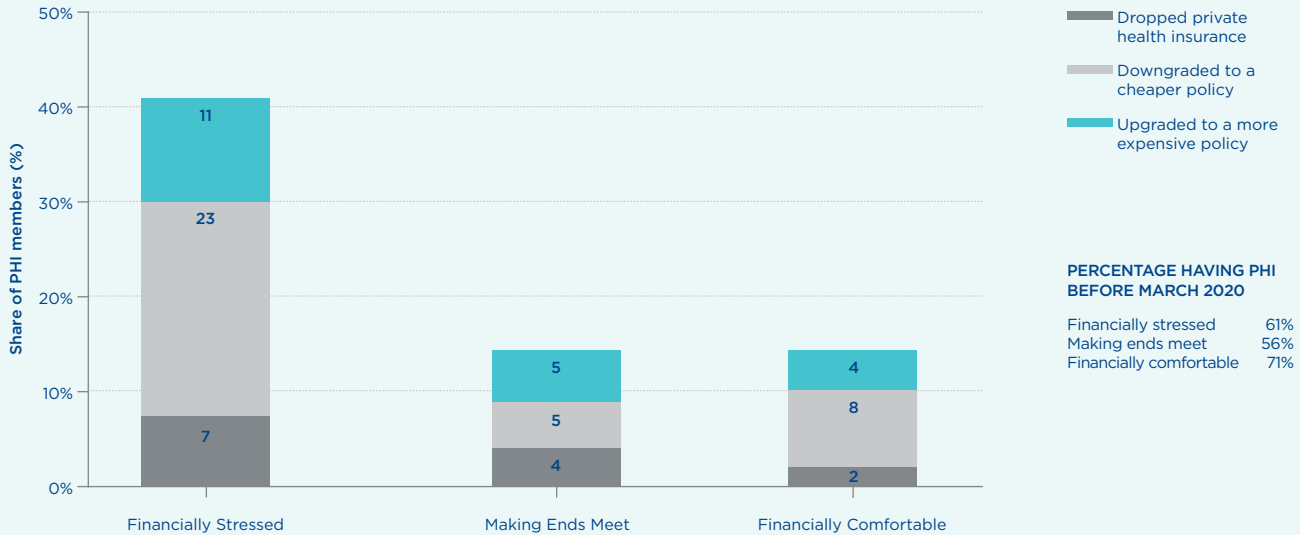
Overall, people with financial stress are three times more likely to drop or downgrade their plans than those making ends meet or who are financially comfortable. On the other hand, they are also twice as likely as non-financially stressed people to upgrade their PHI; this is primarily driven by those living with children aged under 18.

3 Those with high mental distress are five times more likely to change their private health insurance than those without mental distress

People with high mental distress are nearly five times more likely to change their PHI than those with low mental distress (Figure 2). For example, 30 per cent of those with PHI and with high mental distress downgraded their PHI, while only around 6 per cent and 8 per cent of those with low or medium mental distress did so.

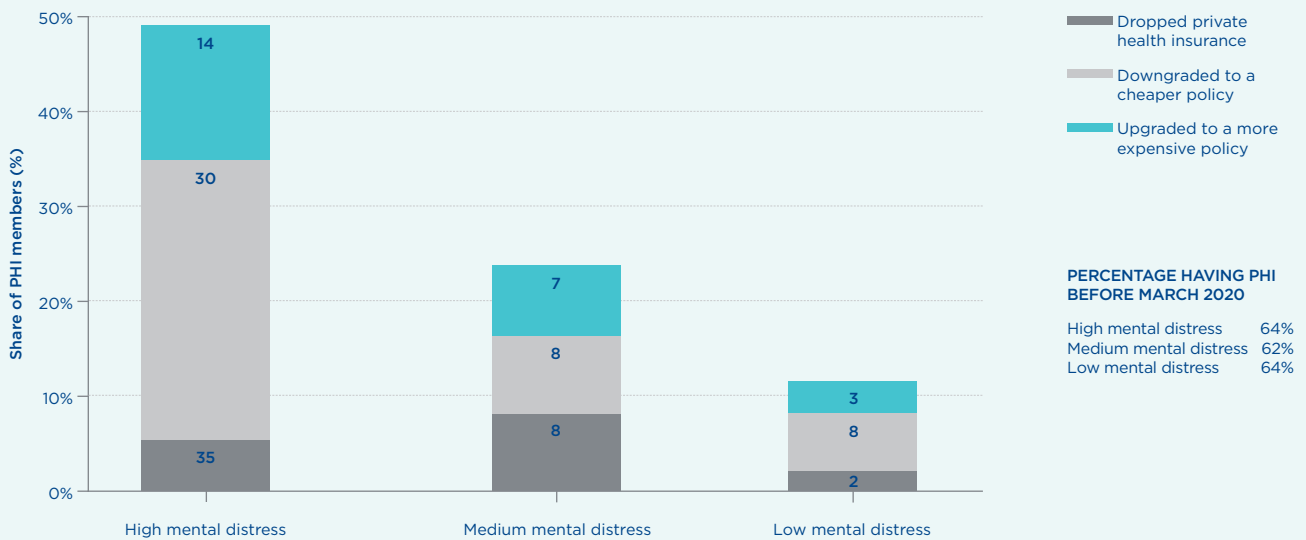
Additionally, 14 per cent of PHI members with high mental distress upgraded their coverage, while only 3 per cent of those with low mental distress did. Many of those upgraded policies may cover more psychiatric services.

Figure 1. Percent of people who dropped, downgraded and upgraded private health insurance since March 2020, by level of financial stress



Source: *Taking the Pulse of the Nation* wave 21 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.

Figure 2. Percent of people who dropped, downgraded and upgraded private health insurance since March 2020, by level of mental distress



Source: *Taking the Pulse of the Nation* wave 21 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.

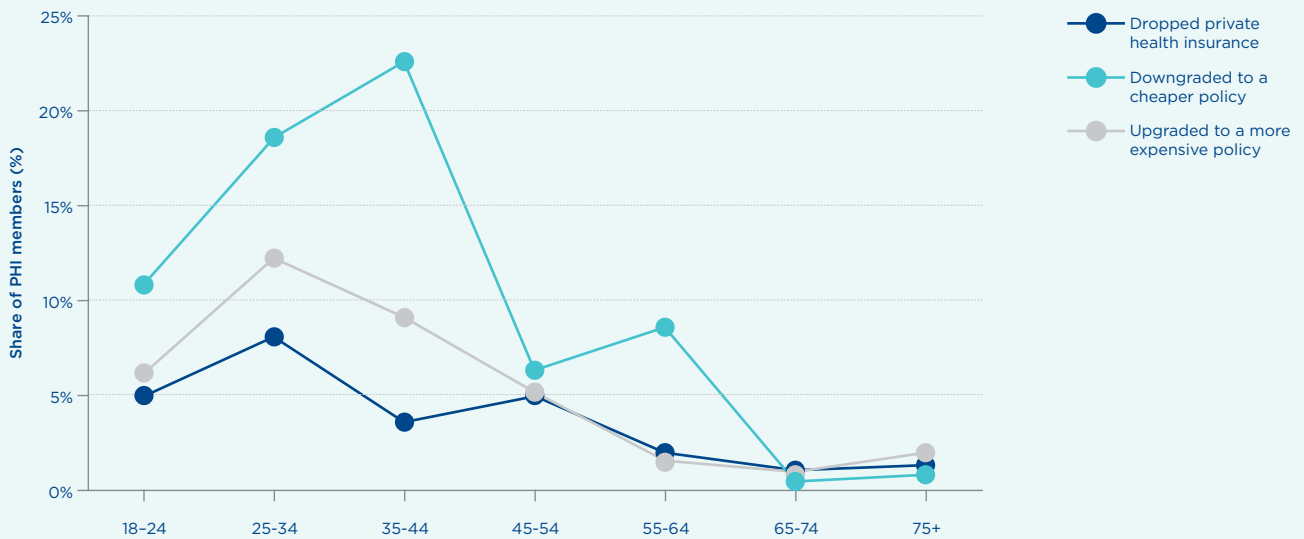
We categorized mental distress to high, medium and low levels by using answers to the question “during the past week about how often did you feel depressed or anxious?” in the survey. We define those responded with “most” to “all” the time as high mental distress, those responded with “some” of the time as medium mental distress, and those responded with “a little” or “none” of the time as low mental distress.

4 PHI members aged 18-44 are more likely to change (drop, downgrade or upgrade) their private health insurance during the pandemic

PHI members aged 18-44 years old are much more likely to change their PHI during the pandemic than older members (Figure 3). For example, 24 per cent and 18 per cent of those aged 35-44 and 25-34 respectively downgraded their insurance cover, compared to only 6 per cent of those aged 45-54, and 8 per cent of those aged 55-64; less than 1 per cent of those aged 65+ did so. Similar patterns were observed for those who dropped PHI.

Interestingly, 14 per cent of those aged 25-34 and 9 per cent of those aged 35-44 upgraded their PHI during the pandemic, likely due to their anticipated use of services such as childbirth in private hospitals. Very few people older than 65 have changed their PHI since March.

Figure 3. Percent of people who dropped, downgraded and upgraded private health insurance since March 2020, by level of financial stress



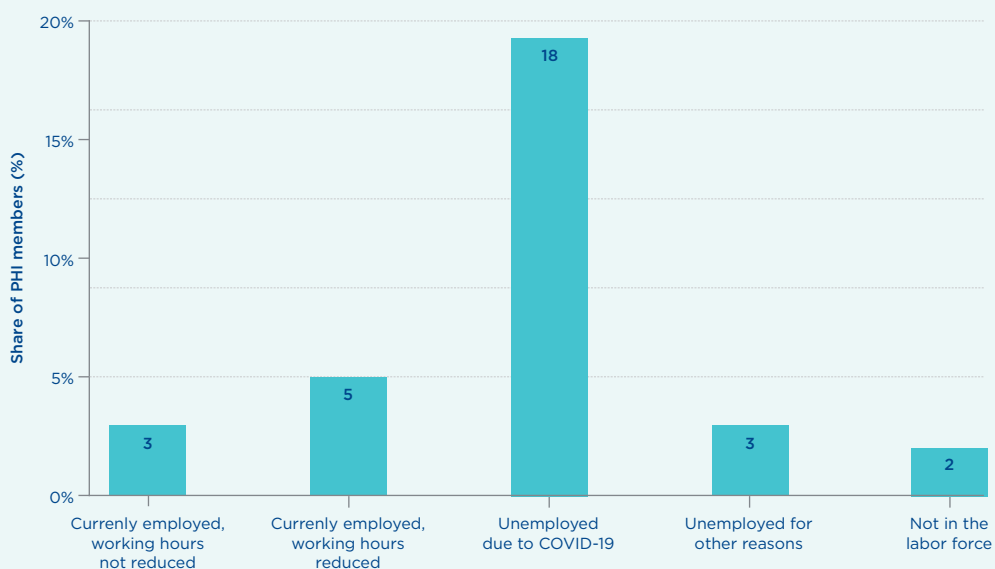
Source: *Taking the Pulse of the Nation* wave 21 survey data, with 1,200 respondents in each wave. The sample is stratified by gender, age and location to be representative of the Australian population. The vertical axis indicates the proportions (%) based on weighted responses.

5 Over one in six PHI members who became unemployed due to COVID-19 dropped their private health insurance

Among those holding PHI who have become unemployed due to COVID-19, 18 per cent of them have dropped their PHI since March (Figure 4). In comparison, only 3.3 per cent of those who are unemployed for other reasons dropped PHI during the pandemic (Kabátek 2020). This is striking since both groups report similar rates of PHI (47 per cent for the former and 45 per cent for the later).

The rates of dropping PHI are much lower among those who are currently employed with same working hours (3 per cent), currently employed with reduced hours (5 per cent), or not in the labor force (e.g. retired – 2 per cent).

Figure 4. Percent of people who dropped private health insurance since March 2020, by employment status



Source: *Taking the Pulse of the Nation* wave 21 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.

Re-evaluating private health insurance options as your situation changes

The potential value of purchasing private health insurance consists of two components: protection from potentially very high health costs (protection against financial risks), and expected use of private hospital care.

First, value from risk protection is arguably small given Medicare covers Australians' health needs in public hospitals. People are therefore protected from the financial risk of catastrophic health problems (Zhang 2020). Second, there is value in buying private health insurance if people expect to use private hospital care; this could be for reasons such as reduced waiting times for certain elective surgeries, or having a choice of doctors (Zhang 2020).

As the expected use of private hospital care and financial situation changes, re-evaluating one's needs for private health insurance in situations such as a pandemic is generally recommended. Our data suggest that people are doing so in response to COVID-19.

Many non-urgent elective surgeries and some routine healthcare procedures (e.g. dental care) were delayed or suspended due to COVID-19. In response, people may downgrade or drop their PHI. In the period March to October 2020, among those who had PHI, 11 per cent downgraded their existing private health insurance, and 4 per cent dropped their PHI.

Since March, only 6 per cent of Australians upgraded their PHI, but they were concentrated among child-bearing young adults, with 14 per cent of those aged 25-34 and 9 per cent of 35-44 upgrading their PHI. For both of these age groups, most do not need private care for chronic elective surgeries such as hip/knee replacement. More likely, they upgraded their PHI because they are planning to have children.

Making private health insurance more valuable to the young

The Australian private hospital insurance sector is in trouble, with young people abandoning memberships; remaining members tend to be older and more likely to use health care. As a result, insurance premiums have been driven up further, which likely leads to even more young people dropping out (Zhang 2020). The June 2020 issue of the Australian Prudential Regulation Authority (APRA)'s private health insurance statistics report showed that 44 per cent of all Australians held PHI, but uptake rates vary substantially by age, ranging from 22 per cent among those aged 25-29 years to 56 per cent among those aged 70-74 years (APRA 2020).¹

Our data also show that young people aged 25-44 were most likely to change their PHI during the pandemic, with 28 per cent of those aged 35-44 and 25 per cent of the 25-34 age group dropping or downgrading their PHI, and with downgrades more likely than upgrades.

People drop PHI when they do not feel they are getting value from purchasing it. On average, the potential value from PHI is much lower than premium costs young people have to pay (Zhang 2020). In response to this, starting from April 2019, the government allowed insurers to provide young people aged 18-29 years discounts of up to 10 per cent of their premiums. However, this policy has not been effective so far and is unlikely to solve the problem, because premium discounts are very small compared with the large difference between expected benefits and premiums for those in the younger age group (Zhang 2020).

Three main policies were implemented in 1997-2000 in Australia to encourage people to sign up for PHI: 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). These policies were implemented with high costs to taxpayers, were ineffective in reducing the burden on the public system, and have been controversial (Zhang 2020). It may be possible to implement a new policy that makes PHI valuable for all Australians by allowing premiums to align more closely with expected benefits (Zhang 2020).

The government has been tinkering with the rules with the PHI sector since 2017, trying to maintain coverage. This has been made more difficult during COVID-19 with households under significant financial pressure, and with the length of the current recession unclear. Current government subsidies to the sector will fall as memberships decrease, and the use of private healthcare continues to decline (Bai, Méndez, Scott & Yong 2020). Repurposing these subsidies to support higher value healthcare for the population should be a key objective for government going forward.

Further Information

Datasets

This analysis uses data from *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 21 in 19-23 October 2020.

Authors

Professor Yuting Zhang, Dr. Judith Liu, and Professor Anthony Scott

Melbourne Institute: Applied Economic & Social Research, University of Melbourne

Research Insights produced by the Melbourne Institute provide a clear and practical understanding of contemporary economic and social issues in Australia.

melbourneinstitute.unimelb.edu.au

References

- The Australian Prudential Regulation Authority (APRA). 2020. Quarterly private health insurance statistics. <https://www.apra.gov.au/quarterly-private-health-insurance-statistics>. Accessed 18 August, 2020.
- Bai, T, Méndez, S, Scott, A & Yong, J. 2020. The falling growth in the use of private hospitals in Australia. Melbourne Institute: Applied Economic & Social Research Working Paper 18/20. <https://melbourneinstitute.unimelb.edu.au/publications/working-papers/search/result?paper=3501222>.
- Kabátek, J. 2020. Jobless and distressed: the disproportionate effects of COVID-19 on young Australians. Melbourne Institute: Applied Economic & Social Research, Research Insight 26/20. <https://melbourneinstitute.unimelb.edu.au/publications/research-insights/search/result?paper=3504613>.
- Melbourne Institute: Applied Economic & Social Research. 2020. Taking the Pulse of the Nation tracker. <https://melbourneinstitute.unimelb.edu.au/data/covid-19-tracker>. Accessed 26 October, 2020.
- Zhang, Y. 2020. Thinking of ditching private health insurance in the pandemic? Here’s how to calculate if it’s worth it for you. The Conversation. https://theconversation.com/thinking-of-ditching-private-health-insurance-in-the-pandemic-heres-how-to-calculate-if-its-worth-it-for-you-148191#comment_2368115. Accessed 26 October, 2020.
- Zhang, Y. 2020. Private hospital insurance premiums should vary by age. MJA Insight+. (5 Oct 2020).