

## Research Insights

# Why do some wealthy people leave money on the table by not buying private hospital insurance?

One in three high-income earners choose not to take out private hospital insurance, even though they could save money by avoiding the Medicare Levy Surcharge. A reason behind this decision is that these individuals are happy to use public hospitals. This suggests that people may be unaware that they are being financially penalised on their taxes, or that the incentives for purchasing private insurance are not working.

# What is the purpose of the Medicare Levy Surcharge and how effective is it?

The Medicare levy surcharge (MLS) was introduced on 1 July 1997 to charge extra taxes to Australian taxpayers who earn above a certain income (\$90,000 for individuals and \$180,000 for families) and do not have private health insurance for their hospital cover (Australian Taxation Office, 2021). The purpose of the MLS is to encourage middle- and high-income earners to buy private hospital insurance (PHI) in the hope that this will lead to greater use of private hospitals and reduce demand on the public system.

Initially, the MLS, together with two other policies (rebates to partially fund PHI and Lifetime Health Cover to encourage people to buy PHI earlier) implemented between 1999 and 2000, were effective in increasing the take-up rates of PHI. But recently, these policies have become controversial (Zhang, 2020) because they are implemented with high costs to taxpayers and it is unclear how effective they have become. In the past decade, PHI premiums have risen much faster than wage growth (Duckett, 2019). More people find buying PHI is not worth it and have dropped their insurances.

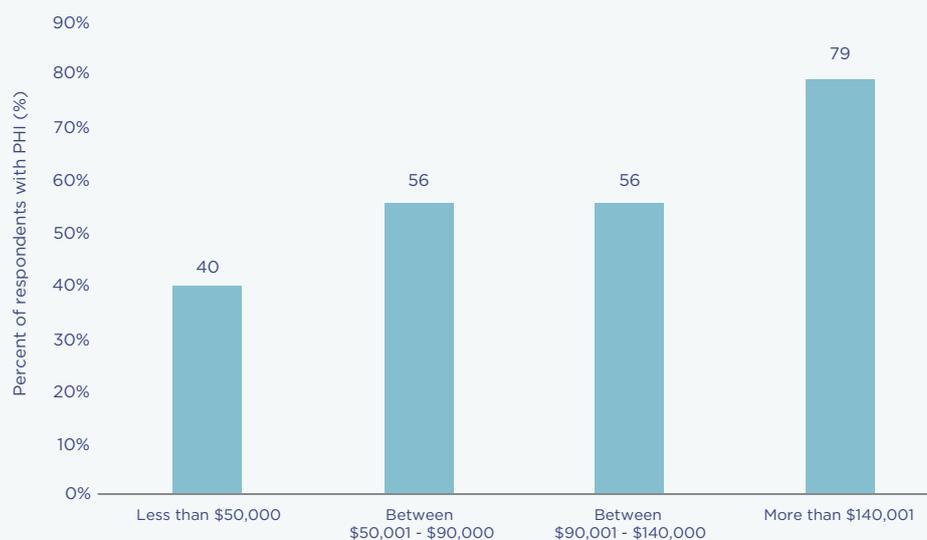
The MLS was designed to penalise high-income earners who do not take out private hospital cover. As of now, individuals earning between \$90,001-\$105,000 pay 1 per cent of taxable income as additional levy surcharge, on top of 2 per cent of

income as Medicare tax that everyone must pay (Zhang, 2020). The MLS rates increase to 1.25 per cent of taxable income for those earning \$105,001-\$140,000 and 1.5 per cent for those earning \$140,001 or more (Australian Taxation Office, 2021). For example, someone who makes \$120,000 a year would pay \$1,500 (=1.25%\*\$120,000) additional tax if they do not purchase private hospital cover. To avoid MLS, they could find a basic plan that costs as low as \$97 per month (or \$1,164 per year) (one can use this website to compare plans: <https://www.privatehealth.gov.au/dynamic/Search/>). This way, they could save money even if they do not plan to use private hospital treatment and continue to rely on the public system.

In this Research Insight, we study how income is associated with the take-up rate of PHI. We examine the proportion of high-income individuals who could have saved money (avoided MLS) by purchasing PHI. Among those who do not purchase PHI even though they could save money, we investigate reasons that influenced their decision.

We use data collected during 4-25 April 2021 from the *Taking the Pulse of the Nation* (TTPN) survey, conducted by the Melbourne Institute (see more details in the Data section below).

Figure 1: Percent of households who have private hospital insurance, by income



Source: *Taking the Pulse of the Nation* wave 30 and wave 31 survey data, with combined 2,400 respondents. 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? Yes/No. The responses are based on the question which asked respondents to report their combined household pre-tax income.

# Key Insights

## 1 High income is associated with higher take-up rates of private hospital insurance.

Households who earn more are more likely to buy private hospital cover (Figure 1). In our sample, rates of PHI increase with income: 40 per cent of Australian households earning less than \$50,000, 56 per cent

of those earning between \$50,001-\$140,000, and 79 per cent of those earning above \$141,000 have private hospital insurance.

## 2 Singles earning more than \$105,001 could save money by buying private hospital cover to avoid paying the Medicare Levy Surcharge.

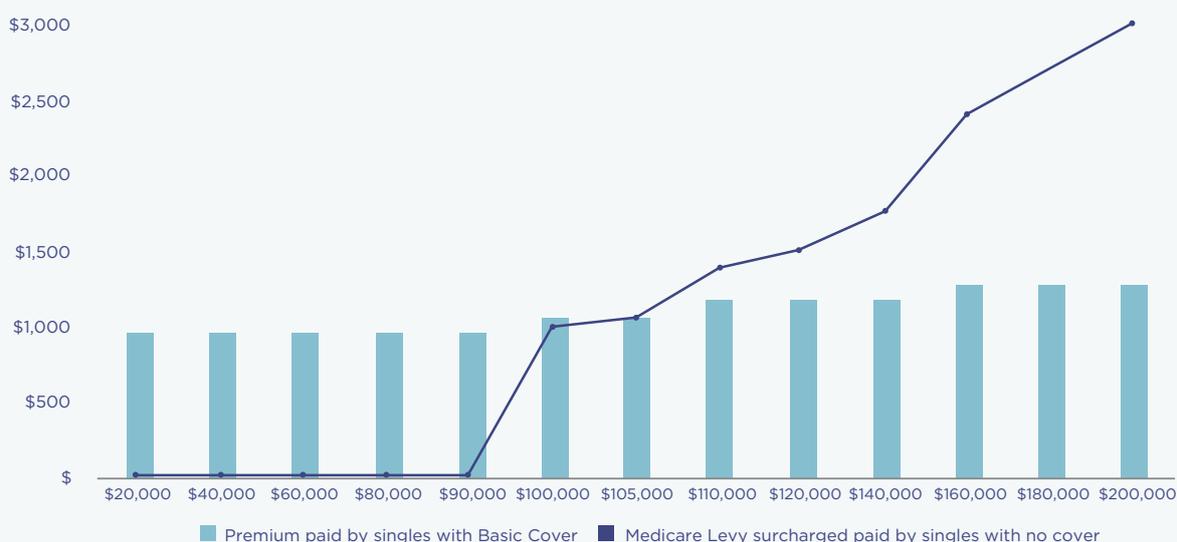
We searched the privatehealth.gov.au website to find the cheapest private hospital cover for singles in Victoria (<https://www.privatehealth.gov.au/dynamic/Search/>). For someone with an annual income of \$105,001 and above, the savings from the avoided MLS (a minimum of \$1313 = \$105,001 \* 1.25% per year) are greater than the cheapest basic-level hospital cover (\$1164 per year).

income, the savings from purchasing PHI increase with income.

In this and the following analyses, we only focus on singles, because we do not observe family information and detailed income levels for household income above \$200,000. The TTPN survey asked respondents their combined household income, so we identify singles and singles' incomes for those who do not live with a partner.

Figure 2 compares the MLS costs (line) and the cheapest basic-level private hospital cover (bars) for singles, by income category, as of 9 June, 2021. Because the MLS is applied at a fixed proportion of

Figure 2: Comparison between paying the Medicare Levy Surcharge and buying basic-level private hospital cover, by income category



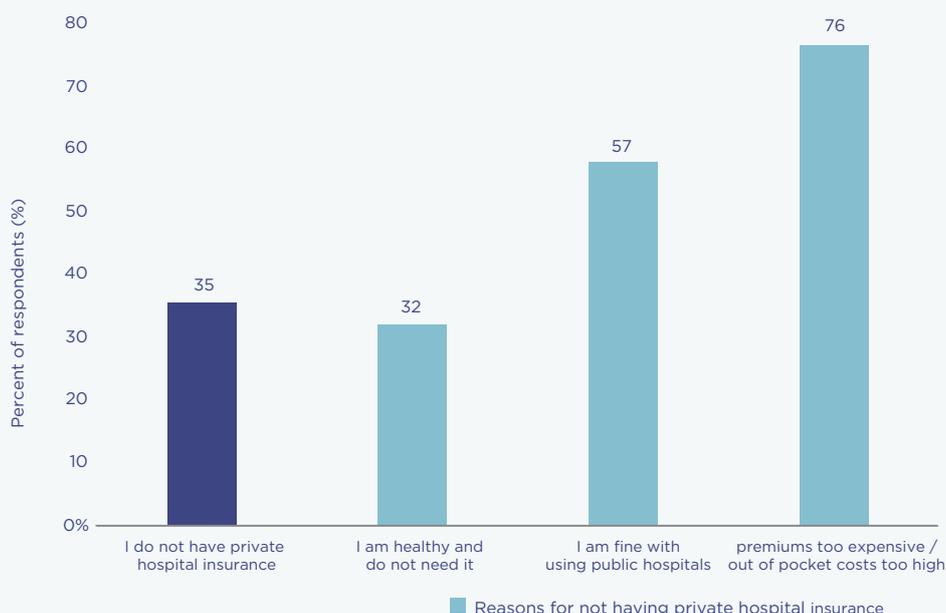
Source: The bar graph shows the premium paid by singles aged between 31-64 years across different levels of income. The price for the premium is based on the cheapest Basic Cover for hospital coverage obtained from <https://www.privatehealth.gov.au/dynamic/search/start> as of 9 June 2021. The increase in premiums for the same level of hospital coverage is due to reduced government rebates on insurance premiums for high income earners. The line graph shows the amount of Medicare levy surcharged for not having an adequate level of private hospital insurance. Differential rates of levy are used for different levels of income. Those earning below \$90,000 do not pay any surcharge; those earning between \$90,001-\$105,000 pay 1 per cent of their income as levy surcharge, those earning between \$105,001-\$140,000 pay 1.25 per cent of their income as levy surcharge while those earning more than \$140,001 pay 1.5 per cent of their income as Medicare Levy Surcharge.

### 3 One in three high income singles who could have saved money by purchasing private hospital insurance did not do so.

Among singles earning above \$120,000, 35 per cent did not buy PHI even though they could have saved money (Figure 3). We focus on earnings above \$120,000 to be conservative, as our survey only collected income at \$20,000 increments for those

who earn above \$100,000. About 10 per cent of singles in our sample reported their annual income above \$120,000.

Figure 3: Rate of private hospital insurance cover among those who earn more than \$120,000 and the reasons for not purchasing private hospital insurance.



Source: *Taking the Pulse of the Nation* wave 30 and wave 31 survey data, with combined 2,400 respondents. 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. This figure shows those individuals with earnings above \$120,000 who do not have private hospital insurance by different income category. In the survey, the information on income is collected in bands of \$20,000 for those earning above \$100,000. We use a conservative minimum income of \$120,000 as a benchmark to understand what share of high-income earners do not buy private hospital insurance. The vertical axis indicates the proportions (%) based on weighted responses. Among those who don't have private hospital cover, we asked them which of the following reasons best describe their choice to not purchase it. These include (1) I am healthy and do not need it (2) Premiums are too expensive and/or out-of-pocket costs of private treatment would be too high (3) I am fine with using public hospitals (4) Don't know (5) Other. Given the TTPN survey asked respondents on their combined household pre-tax income, the reported income is identified as individual income if the respondents reported they do not live with a partner. This gave us a sample of 777 observations for individual income, out of which a weighted average of 462 persons did not have PHI. Ten per cent of individuals in our sample earned over \$120,000.

### 4 Some high-income singles are happy with using public hospitals and are willing to pay more tax to support the public system instead of buying private hospital cover.

About 57 per cent of singles with earnings above \$120,000 cited the reason why they do not hold private hospital insurance is that they are happy to use public hospitals (Figure 3). Seventy-six per cent cited expensive premiums are the reason not to buy, but they did not realise that they could save money by purchasing PHI. This suggests that some people may

not completely understand the MLS policy. It is also possible some high-income earners are willing to pay more taxes to support public hospitals directly instead of buying private hospital cover.

# Reconsider the goals of government regulations in private health insurance markets

The Australian government implemented the MLS to encourage people earning above \$90,000 to purchase private hospital insurance (Australian Taxation Office, 2021). We find that one in three high-income singles (with an annual income over \$120,000) in our sample did not buy PHI and therefore ended up paying additional tax. There may be several explanations for this. It is possible that some of them do not know about the MLS policy, but this is less likely for wealthy people who have accountants to help them with filing taxes. It is also possible that some made an error in their decisions. In addition, some people may intentionally choose to pay additional taxes to support the public system directly instead of being induced by the government to buy PHI when they do not need it.

Compared to a few years ago, more Australians are happy with using public hospitals and think Medicare cover is sufficient (Zhang and Prakash, 2021). This suggests that some people may think it is more appealing to fund public hospitals directly to reduce waiting time, instead of subsidising the private system with the hope of reducing the burden on the public system. If this is what people prefer, it forces the government to think more clearly about the goals of regulating the private health insurance industry.

Historically, government policies (e.g., MLS, rebates, Lifetime Health Cover) have aimed to increase the up-take rates of PHI. Initiated between 1997-2000, these policies were effective when they launched. However, community preferences, economic

circumstances, and private insurance market structures have changed substantially. Between 2011 and 2019, private insurance premiums have risen three times more than the rate of wage growth—30 per cent increase in premiums compared to an eight per cent increase in wage, after adjusting for inflation (Duckett, 2019). High premiums and unexpected expensive out-of-pocket costs have reduced the value of private health insurance for many Australians, especially for the young and the healthy. The government continues to subsidise the private health insurance industry with taxpayer's money through rebates or tax penalties with the hope that this may reduce the burden on the public system and reduce waiting times. But there is not much evidence to support this. If people buy PHI only to avoid paying the MLS and still use the public system, money contributed to the private industry will not take the pressure off the public system. Findings from this study bring into question whether the MLS is still fit-for-purpose and if a new approach directly alleviating pressure off the public system is needed.

# Further Information

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This analysis uses data from *Taking the Pulse of the Nation* – Melbourne Institute's survey on 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 and wave 31 over 5-25 April 2021.

## Further reading

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Why do Australians buy private hospital insurance? Melbourne Institute Research Insight: [https://melbourneinstitute.unimelb.edu.au/\\_data/assets/pdf\\_file/0004/3800758/ri2021n06.pdf](https://melbourneinstitute.unimelb.edu.au/_data/assets/pdf_file/0004/3800758/ri2021n06.pdf)

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