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Transcript: AMA President Dr Michael Gannon, 2GB, *Money News with Ross Greenwood*, Thursday 12 October 2017

Subject: Private Health Insurance Reforms

ROSS GREENWOOD: One thing that's going to happen tomorrow is that the Health Minister, Greg Hunt, is going to announce a significant overhaul of private health insurance. There is a fundamental problem with private health insurance at the moment, and that is if you are younger, you're basically on the wrong side of the equation. The issue with young people in private health insurance is, you're young, you're relatively healthy, and unless you're in an accident or something untoward happens, you're probably not likely to make a claim on your private health insurance of any substance until you are older.

Now if you're older, you actually need those younger people in, paying their premiums, so that your health insurance premiums are not higher because you need it, because you are more at risk of making a significant claim. So, as people are dropping out at the rate of 10,000 a month from private health insurance, it skews the risk inside that private health insurance fund, and it means that the premiums continue to rise. And, as we know, when we've seen above-inflation increases to private health insurance premiums for at least the last six or seven years, it becomes a significant impost on families.

Well, now an arrangement, apparently, that is going to be put in place by Greg Hunt - and we've put in a call, we expect to be speaking with him tomorrow night - is ultimately to try and change the way in which private health insurance premiums operate, to make certain the people who do not join at younger ages are not allowed a free kick as they get in in later life, and also that so-called junk policies - in other words policies the young people really don't need but they pay for anyway - that those policies in some way either be flagged better or be done away with altogether.

Now joining us on this - and they've had a lot to say about it - is the Australian Medical Association President, Michael Gannon, who joins me now. Many thanks for your time, Michael.

MICHAEL GANNON: Pleasure, Ross.

ROSS GREENWOOD: Just explain, in regards to one of the proposals from Greg Hunt as it's being put out there, is that the Government is going to flag gold, silver, and bronze type policies. Now these policies obviously give you some idea - immediately I'm looking at them - as to whether you'll be covered for everything, for some things, or not many things at all. Do you think that's a reasonable way for them to try and grade these private health insurance products?

MICHAEL GANNON: Well, certainly he needs to do something. You've pointed to it yourself, the falloff in membership of the funds - people holding private health insurance - needs to be arrested. We're very fortunate in Australia that we've had a system that's pretty close to having found the balance between public and private systems, and we've encouraged the use of language that people can understand. Very simply, we have been asking the Minister to act and deliver on a system so that people have got some sort of idea of what they've got.

ROSS GREENWOOD: I've often made the analogy when it comes to private health insurance that one of the reasons that's often cited as to why the prices have gone through the

roof for health care is when it comes to, say, stents - when it comes to people putting in stents into arteries or veins going into the heart. So, there are medically coded stents, which are not needed in every case, but because they might be needed in some cases it tends to be that the more expensive, medically coded stent is put in in almost every case, rather than the much cheaper ordinary stent, that could be used in most cases. Now, most people would say, well that's fair, we agree with that, but it makes the health care more expensive.

Here's the other thing as well, and that is that the Government's now saying that it's going to try and cut the amount that it spends on prostheses like hip and knee replacements. How does it actually do that, given the fact that those medical devices and other things, we don't want substandard quality going into our bodies, we want to make certain we've got the right hips, the right knees, the right stents going into our bodies; how do you overcome those costs?

MICHAEL GANNON: Well, you make some good points there. And one of the problems that Minister Hunt has, and other people have got across Australia, is working out a way to manage these costs. Because health CPI runs at 5, or 6, or 7 per cent per year, and one of the great drivers of that is the fabulous technology that you are talking about.

Now, if you use the example of an intraocular lens - what you put in when you do cataract surgery - many of your listeners will be aware of the fabulous work that the Fred Hollows Foundation does in Nepal. Now you can put in a lens that restores sight in Nepal and it might cost a dollar, whereas it might cost hundreds of dollars in Australia, but the lenses you put in in Australia might mean that people no longer need to wear glasses.

You've used a great example there of the drug eluting stents in cardiology, you've used the example of hip and knee prostheses. Health care is expensive. We need to think of clever ways of funding it and it doesn't surprise us that the costs do go up at- have been going up at 5, or 6, or 7 per cent per year. What we need is real reform in the industry. We need more than one year of relief. The Minister's gone part of the way to addressing that in the reforms that we've seen foreshadowed today.

ROSS GREENWOOD: Okay, so the Private Health Ombudsman is going to upgrade the site to give people more guidance as to what type of product they are looking for, and therefore there'd be more options come up via the private Health Insurance Ombudsman site. There are already sites out there: there's iSelect, there's Compare the Market, there's others such as that that already do this. So I mean, again, this is about having better knowledge and better, I guess, transparency of these private health insurance products. Because, to most people - including me, and I'll be honest about this and I've tried to look - don't really understand the nuance of the products that they have got, and if you wanted to change to a different product, to really understand the nuance of the product you're going to.

MICHAEL GANNON: Yeah, you raised an important point there, Ross. I think that there are an absolutely bewildering array of policies and policy settings. I gave a speech earlier this year when I said that we'd counted over 20,000 and other people said that we'd underestimated it, it was closer to 50,000. You shouldn't need to be three months into a medical degree to understand the clinical definitions and what you are and aren't covered for.

And one unfortunate reality that we need to face here is that the private health insurance industry has completely changed in the last decade. A decade ago it was dominated by mutuals, where members of a fund contributed to an insurance pool; various changes in the market have now seen more than 60 per cent of policy holders belonging to for-profit insurers and we're seeing hundreds of millions of dollars diverted from the health care into profits in that system.

Now, in my conversations with Minister Hunt he's said, very factually, ‘look, I can't put that genie back in the bottle’. The for-profit insurers - I don't need to tell you this, Ross - have a fiduciary responsibility to deliver a profit to their shareholders. But what we've seen is hundreds of millions of dollars go out of the health system into the pockets of shareholders, often overseas. Now that's not good value for the health system; we need to manage the system within that. But the funds need to take their responsibility as well; they can't deliver profits on

the back of reduced services to policyholders. We intend to continue to hold them to account; that's why we've called out these junk policies, these policies that leave people stranded when they finally get sick - they cannot be the basis of the system. We want to see tight clinical definitions and these reforms go part of the way to addressing that.

ROSS GREENWOOD: We should explain the junk policies to people, because you have been very strong on that and you have called for them to be banned. Now, effectively, these junk policies would cover a person if they were treated in a public hospital, but the fact is - that you and I and everybody listening knows - if you rock up to a public hospital without any private health insurance that you will be treated just as well and efficiently as any other person who might have health insurance. The question is: why would a person need basic entry policies - as they're sometimes called - or junk policies - as you call them - that would only cover treatment in a public hospital? That's the whole point of that, isn't it?

MICHAEL GANNON: You're exactly right, and that's why this is not a perfect market. That's what distinguishes health insurance from car insurance or fire insurance. People in Australia have a strange relationship with their health insurance; they expect to make a claim to get value for money. Now, part of the reason for that is that they see the free product down the road, and that's a comparison that people should make.

I've always said that I need to be convinced how policy that limits you to treat me in a public hospital is anything more than junk. But hopefully what these reforms will do is that they will maintain a significant number of younger Australians, healthy Australians, in the insurance pool, but we cannot have a situation where a policy severely curtails patients' options.

And we need to see an end to the tricks, so that people find out only when they go to make a claim that they're not covered, because those stories are not rare anecdotes, but they are daily stories. If you talk to many of my specialist colleagues - if you put in a call to a clerk in a private hospital who sits there and has to, on a daily basis, tell someone who thought they were insured that they are not eligible for treatment in a private hospital; that's the scale of the problem we've got. Every day people get told: you've paid your insurance for years, but you know that new policy you took on two years ago to save yourself $15 a month? Well, that means you're not covered.

The clinical definitions need to be reined in, and so do the funds in producing these armies of policies that aren't worth the paper they're written on.

ROSS GREENWOOD: And there's a Catch-22 here, isn't it? If all those young people with junk policies dropped those junk policies tomorrow, the price of everybody else's private health insurance would go through the roof, because you need those young people basically paying into the system to make certain that the older people that we started out with - this is almost a circular argument in some ways. So you don't want them to have junk policies because they're not really covering them for anything that they couldn't get otherwise, and yet, at the same time, you need them in the system because if you don't have them in the system everybody else pays more.

MICHAEL GANNON: No, you're exactly right, Ross. And this will require a great deal of skill and finesse from the Minister so that the policy levers are jigged very carefully.

ROSS GREENWOOD: We'll put that to him tomorrow. Just one final thing: I can't let you go without asking you something that I know every person who's ever touched private health insurance comes to - can you, as succinctly as you possibly can, explain the gap? In other words, the price gap between the scheduled fee and what a person might be charged, and where often you are not actually covered via your private health insurance. Can you explain that to people as succinctly as you possibly can?

MICHAEL GANNON: I'll try as best I can, Ross. One of the things I will defend is the right of doctors to levy the fee that they think's appropriate. The insurers - whether that be government or the for-profit sector or the mutual - they're not the ones who decide the value of an episode of health care.

Doctors have done their bit. When we think about the multiple elements in the system here, doctors have done their bit; 89 per cent of operations in Australia are done at a no-gap level, another 6 per cent are done at a known gap level of less than $500. So the things which are driving the costs of health insurance are not the doctor's fee.

So while I will defend the right of doctors to bill an appropriate fee, and while I will state very clearly that informed financial consent - telling people how much it should cost in advance of the operation - are not only appropriate, they're ethical medical care, the fact is that only 5 per cent of operations in Australia are done where there's a gap. The main driver of the gap has been the Medicare freeze which mercifully we will see an end to in nine months' time.

What we've seen for five years now is the Government has said: we will not pay one red cent extra for medical procedures; and the insurers have substantively followed suit. Doctors are not the problem in the affordability problem in the private system, they have tried very hard to rein in costs. We know that out-of-pocket expenses stop some people accessing critical health care.

ROSS GREENWOOD: To my guest, Michael Gannon, always good to have a chat to you on the program about this. And, as I said, we will speak with the Health Minister tomorrow, Greg Hunt, after he has announced his initiative and we'll get more details about it then.

Michael Gannon, the President of the Australian Medical Association, representing doctors, appreciate your time on the program this evening, Michael.

MICHAEL GANNON: Yeah, that's been a pleasure, Ross.

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