



# Media Release

## Senator Mathias Cormann

### Liberal Senator for Western Australia

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28 May 2008

#### **Larger premium increase for Medibank Private**

The Rudd Government earlier this year allowed government-owned Medibank Private to increase health insurance premiums by more than required according to evidence by its Managing Director George Savvides before Senate Estimates today.

WA Liberal Senator Mathias Cormann says the revelation raises serious questions whether the government allowed the higher than necessary increase because it knew Medibank Private would be hit by extra costs from people exiting private health funds due to the change in the Medicare levy surcharge thresholds.

“This does raise some very, very serious questions about the Rudd government’s handling of premium increases, particularly in relation to Medibank Private.

“In February, Health Minister Nicola Roxon issued a public statement that she was ‘determined that premium increases should be the minimum necessary to maintain capital adequacy and solvency requirements.’<sup>i</sup>

“This commitment is repeated in the Budget papers.”<sup>ii</sup>

“But Medibank Private Managing Director George Savvides has told a Senate Estimates hearing that the increase approved in February by the Rudd Government was above the minimum required to maintain capital adequacy and solvency requirements. (Transcript attached).

“The increase approved for Medibank Private has in fact given it such a significant buffer that it will not need to seek a further increase outside the normal process despite facing the risk of an exodus of members following the increase in Medicare levy surcharge thresholds.

“The Minister has some explaining to do – at best she let Medibank Private get away with a higher than necessary premium increase, where some other health funds were sent back to the drawing board.

“The Minister will have to give an assurance to all Australians with private health insurance that all health funds were treated equally in the most recent round of premium increase applications.

“Has she allowed similar buffers for other private health funds or do they just have to wear the impact of the Medicare levy surcharge change?”

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<sup>i</sup> 28 February 2008

<sup>ii</sup> Refer page 146 of the Health portfolio budget statements: “*The Department will together with the Private Health Insurance Administration Council (PHIAC) support the Government’s assessment of private health insurance premium applications to ensure that increases are the minimum needed to maintain insurer solvency requirements and that the insurers can meet their claim obligations to members.*”

# Senate Standing Committee on Finance and Public Administration

Budget Estimates 2008 – 2009

Wednesday 28<sup>th</sup> May 2008 – between 1.35pm & 1.45pm

## Medibank Private

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**Senator CORMANN**—Did you submit a rate change application towards the end of last year?

**Mr Savvides**—Yes, we did.

**Senator CORMANN**—When did the government tell you that it would be allowed through, that it would not be disallowed? Have you got the date when the government told you about that?

**Mr Savvides**—Last year we submitted our rate application at the specified time and we received notification early this year—I think it was late February or early March.

**Senator CORMANN**—I have a press release from the minister dated 28 February, which is when a series of funds were essentially notified that it would not be disallowed but a series of funds were sent back to the drawing board. Were you one of the funds that were sent back to the drawing board?

**Mr Savvides**—No, we were not.

**Senator CORMANN**—So you were approved. When did the rate change take effect?

**Mr Savvides**—I believe the letters went out in April and it took effect at the end of April.

**Senator CORMANN**—I will just read you a quote from the health portfolio budget statement. The government says on page 146, if you want to cross-reference it down the track:

The Department will, together with the Private Health Insurance Administration Council<sup>1</sup> (PHIAC) support the Government's assessment of private health insurance premium applications to ensure that increases are the minimum needed to maintain insurer solvency requirements and that the insurers can meet their claim obligations to members.

Did you frame your rate change application with that in mind?

**Mr Savvides**—To ensure that we meet the minimum requirements?

**Senator CORMANN**—That the rate increase is not going to be more than the minimum required to maintain insurer solvency and that insurers can meet their obligations to members. The minister in her press release calls that not proceeding with the 'tick and flick approach' but essentially forcing health funds, including you, to apply for the lowest possible increase in health insurance premiums.

**Mr Savvides**—I am not totally familiar with the press release. It was some time back. I am aware it occurred but not of every line in it. What I can say is that when we do our rate application we do project the claims experience we believe will happen in the out years and we set a rate not only conscious of the immediate year ahead of us; we are a fund that believe very, very strongly in trying to avoid volatility in rate change. The steady reduction that we have experienced over the last four years is an experience that we think our members appreciate. They do not like surprises. And we work hard to make sure that our rate application manages not only an outcome for the immediate year but an outlook expectation as well.

**Senator CORMANN**—If I read the government's intent in the government papers, which is not to allow rate increases beyond the minimum needed to maintain insurer solvency and cover future claims, it sounds to me as if there is not much of a buffer in that. Would you agree with that?

**Mr Savvides**—I think it is a different picture for every fund. There are 37 health funds in the sector. The total membership of the bottom 20 funds is lower than the increase in membership that we have every year, so—

**Senator CORMANN**—So you do have a buffer in your rate change?

**Mr Savvides**—Absolutely we do.

**Senator CORMANN**—So your rate change application was actually more than what was required to maintain minimum solvency and to cover future claims?

**Mr Savvides**—It would have a safety buffer beyond the minimum buffer. That is exactly right.

**Senator CORMANN**—You are the government owned health fund. That would appear to be inconsistent with the government's stated intent in the budget papers. You have a buffer above minimum requirements in terms of insurer solvency and meeting future obligations. So you have a buffer on top of that.

**Mr Savvides**—We have a safety buffer. Our board always prescribes a buffer beyond the minimum because it is appropriate to deal with the volatility that might occur in claims.

[1.45 pm]