



# Funds' figures do the talking

**John Breusch**

Australia's biggest private health fund has admitted it could lose 7 per cent to 10 per cent of its membership as a result of the decision to raise the income thresholds on the Medicare levy surcharge.

But Medibank Private managing director George Savvides told a Senate estimates hearing yesterday the government-owned insurer was yet to complete an assessment of what the change meant for its financial position or for premiums.

The federal government announced in the budget it would lift the income thresholds that apply to the 1 per cent Medicare surcharge levy from \$50,000 to \$100,000 for single people and from \$100,000 to \$150,000 for families.

Treasury has estimated that because many people will no longer need to take out a policy to avoid the 1 per cent tax, the industry is likely to lose about 485,000 members.

Mr Savvides said Medibank was likely to suffer a one-off loss of people on hospital cover of "at the light end 7 per cent and at the high end 10 per cent".

The lift in the surcharge threshold is expected to particularly affect funds that have been trying to attract young people by offering policies for \$500 to \$700 a year.

Shares in listed insurer NIB, which has been targeting this segment of the market, have fallen 22 per cent since the change was announced.

Mr Savvides said Medibank Private was unlikely to be so

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affected as it had not offered such cheap policies.

"We don't sell bottom-end products that attract that market," he said. "We don't like selling products that have a lot of exclusions in them."

Mr Savvides came under pressure from Liberal senator Mathias Cormann to explain why, when NIB had made statements to the ASX about how it was likely to be affected by the lift in the surcharge

threshold, Medibank Private was yet to provide similar advice to the Department of Finance.

But department secretary Ian Watt said the government "doesn't put itself in quite the same position as a shareholder who has shares on the stock exchange".

Treasury estimates that the fall in health fund membership will save the government \$232 million in 2008-09, because it will be paying less through the 30 per cent rebate for private health insurance.

But many in the industry cannot understand how that estimate fits with Treasury's projection that 485,000 people are likely to quit private cover.

The figures together suggest the average person who quits membership because of the lift in the surcharge threshold would have had a policy worth more than \$1500 a year — much more than the typical policy people would take out if their chief objective was to avoid tax.

Analysts have warned that the exodus of young members, who rarely need hospital treatment, will put pressure on health funds, leading them to raise premiums next year.



Income thresholds that apply to the 1 per cent Medicare surcharge were lifted in the budget.

Photo: SASHA WOOLLEY