

Senate Standing Committee on Economics

Budget Estimates 2008 – 2009

Tuesday 3 June 2008 – After 2pm session

Treasury

CHAIR—I understand that this is a change of topic, but Senator Cormann needs to go to another meeting.

Senator CORMANN—Thank you. I have a series of questions in relation to the government's proposed change to the Medicare levy surcharge thresholds. Before I get into it, can you tell us the date when you first provided advice to the government about the proposed change?

Mr Ray—I would need to take that question on notice.

Senator CORMANN—The Department of the Prime Minister and Cabinet was able to answer that in a flash, but I appreciate that you have taken it on notice. Did you provide advice on means testing of the 30 per cent rebate?

Mr Ray—I beg your pardon?

Senator CORMANN—Did you also provide advice on means testing of the 30 per cent rebate? I am not asking you for the content of your advice; I am just asking you whether you did provide advice.

Mr Ray—Again, I will take that question on notice.

Senator CORMANN—Thank you. While you are taking it on notice—

Senator BOSWELL—He should not have to take that on notice. Either he provided advice or he did not provide advice.

CHAIR—Senator Cormann.

Senator CORMANN—I agree with Senator Boswell. I am surprised that you are not able to answer, but I have got a lot of questions and I want to get to the important part of it. While you are taking this can you also take on notice if you provided advice on abolishing the 30 per cent rebate and if you provided advice on changes to the lifetime health cover arrangements, for each of those questions, could you let us know when you provided that advice?

Mr Ray—Certainly.

Senator CORMANN—You have done modelling on the impact of the increase in the Medicare levy surcharge?

Mr Ray—I think maybe the way into this is for me to explain what we have done. We are of course responsible for the costing of the increase in the Medicare levy surcharge as it affects revenue. We undertook that costing and we did that using our personal tax model. We also worked with our colleagues in the Department of Health and Ageing and the Department of Finance and Deregulation to provide assistance to them in costing the other element of this measure, which is the change in the private health insurance tax offset.

What we did for that was provide estimates of the 2008-09 income distributions for singles and couples with private health insurance because we had better data than our colleagues in either Finance or Health. That, therefore, provided an estimate of the base population of people with private health insurance in the relevant income ranges.

We were also able to split those populations into three age groups—those less than 65, those 65-69 and those 70 or more—because different private health insurance rebate percentages apply to those age groups.

Senator CORMANN—Thank you very much for that. Can we get a copy of that modelling, of which you described only a component? I see the minister is shaking his head; I take that as a no. I refer you to an answer by the Treasurer at the National Press Club after a question from Andrew Probyn from the *West Australian*, who asks about Treasury analysis showing that the changes to the Medicare levy surcharge thresholds will see 485,000 people leaving private hospital cover. He also asked you whether Treasury had modelled the corollary impact on public hospitals and public hospital demand. I will get back to that later in my questions, because I take the view that these two questions still have not been accurately and consistently answered in the public domain. That is what I would like to explore here today.

But before I do, I refer you to the Treasurer's answer, in which he said that indexing the Medicare levy surcharge was removing a tax trap, which would ensure that people on average incomes and below will no longer be caught by this tax trap. Does that accurately describe the policy intent of this measure? You can describe it for us; I am not asking you to provide policy advice.

Mr Ray—I do not have the Treasurer's words exactly in front of me, but that sort of sentiment is the way he has described it.

Senator CORMANN—Has Treasury got a definition of what constitutes average income?

Mr Ray—Certainly. There are a number of definitions of average income: average weekly ordinary time earnings, male average weekly earnings and all those sorts of things.

Senator CORMANN—Are you familiar with the Household, Income and Labour Dynamics in Australia survey, which is also referred to as the HILDA survey and which is conducted by the Melbourne Institute of Applied Economic and Social Research and funded by the Australian government?

Mr Ray—Yes, we are quite familiar with that. I have some experts behind me if you are going to get into detailed questions about HILDA.

Senator CORMANN—I will just keep running through it because I do have a lot to get through. Ross Gittins, a senior writer for the *Age*, referred to that particular survey when he was defending the government's decision to means test the baby bonus, and he pointed out that, according to the HILDA survey, in 2008-09 average earnings of adult full-time employees are expected to be \$60,000, whereas for households they will be about \$80,000 a year before tax. It would seem to me that \$100,000 and \$150,000, respectively, would be well above the average according to that definition of average income, would it not?

Mr Ray—I was not sure that HILDA had a wave yet for 2008-09.

Senator CORMANN—They have, actually: wave 6 was recently released.

Mr Ray—Yes, but I suspect they do not have 2008-09 data in it, given that we are not there.

Senator CORMANN—I am quoting Ross Gittins in the *Age*. What definition of average income did you use when you were making your assessments?

Mr Ray—If you look at average weekly ordinary time earnings, I think it is now—

Senator CORMANN—It is a very simple question. What I am interested to know is what the average annual income is for singles and for households? The government is making an assertion that average is up to \$100,000 for singles and up to \$150,000 for couples.

Mr Ray—I will get someone to tell me what average weekly ordinary time earnings is in a minute. I think one way of looking at this is that, since the thresholds were introduced in August 1997, average weekly earnings have increased by around 50 per cent. So, if the thresholds had been indexed to average weekly earnings, they would now be \$78,000 for singles and \$156,000 for couples.

Senator CORMANN—Could you repeat that? That is actually one of my questions. If the Medicare levy surcharge thresholds had been increased by the CPI every year since the introduction—

Mr Ray—No, average weekly earnings.

Senator CORMANN—Okay. Let us go to my question, then. If the Medicare levy surcharge thresholds had been increased by the CPI every year since their introduction, what would those thresholds be today?

Mr Ray—I would need to take that on notice because I don't have that spreadsheet.

Senator CORMANN—Maybe I can help you, because I have done a bit of research on this—

Mr Ray—But I think the government was talking about how this was affecting wage earners.

Senator CORMANN—The government has been making the point that the thresholds have not been indexed. I put it to you that, if the thresholds had been indexed, today the threshold for singles would be at \$73,900. Do you disagree with that figure?

Mr Ray—I cannot confirm that figure because I do not have the CPI series in front of me or a spreadsheet, but it is obviously in the ballpark—

Senator CORMANN—This was an obvious area for questioning, surely? This is the area that your output provides advice on and it is under the revenue measures. I am a bit surprised that an obvious question on what would happen if the Medicare levy surcharge thresholds had been indexed cannot be answered in light of the fact that that is what a lot of the public debate on this has been centred on.

Mr Ray—Senator, I actually provided you with what the numbers would have been if they had been indexed by wages.

Senator CORMANN—My question is—and again, please take it on notice: if the Medicare levy surcharge thresholds had been indexed since their introduction, what would be the figure? You say by wages it is 78,000; I say by CPI it would have been \$73,800. The point I am making is that, whatever it is, it is significantly less than \$100,000.

Mr Ray—Yes, but another way of looking at this—and I think the government has spoken about this—is that, when this policy was introduced, about eight per cent of single taxpayers were affected by it. Under the government's policy, around nine per cent of single taxpayers will be affected by it by 2011-12.

Senator CORMANN—It is funny that you should mention that, because I was going to ask you a question about that as well. You make the point that it will be about nine per cent at the end of the forward estimates. How many taxpayers in 2008-09?

Mr Ray—I do not have that in front of me but I can take it on notice.

Senator CORMANN—You have the figure for 2011-12 but you do not have the figure for 2008-09? I have to say that this is not very satisfactory, Mr Ray. As you are taking all these things on notice, could you please provide us with information on how many single Australians earning between \$50,000 and \$100,000 per year and how many couples and families currently earning between \$100,000 and \$150,000 currently have private health insurance. The Managing Director of Medibank Private has told us that 85 per cent of Australians in that income

bracket have health insurance. As you mentioned earlier, you have access to the best possible data because you would be very clearly aware as to who is and who is not paying that Medicare levy surcharge. Are you able to answer that today or do you have to take it on notice?

Mr Ray—I will take that on notice.

Senator CORMANN—Is that because you have to clear the answer or because you have not got it?

Mr Ray—I do not have that number, oddly enough.

Senator CORMANN—The Assistant Treasurer used that number, that percentage of Australians who at the end of the forward estimates will be subject to the MLS, in his second reading speech, but you do not have that information for 2008-09. I find that very strange. Your modelling of the Medicare levy surcharge threshold changes has informed the assumptions that are the basis of the savings that you outlined in the budget papers—am I correct in assuming that?

Mr Ray—We costed the cost to revenue of increasing the Medicare levy surcharge.

Senator CORMANN—Which is the \$660 million over the forward estimates; is that right?

Mr Ray—Someone could probably better—

Senator CORMANN—Go to page 33, part 1, revenue measures.

Mr Ray—Yes.

Senator CORMANN—In the same table you can see the related expense, Department of Health and Ageing. Who made the assessment in terms of that impact?

Mr Ray—I thought I tried to explain this before. Obviously, I did not do a very good job. The expense costing is the responsibility of the Department of Health and Ageing and the Department of Finance and Deregulation, but we provided assistance in—

Senator CORMANN—Because you have access to the best available data.

Mr Ray—Because we had access to estimates of the 2008-09 income distributions that would be relevant.

Senator CORMANN—Yes. But this is part of revenue measures. The impact and related expenses is part of the overall policy consideration that you look at, isn't it?

Mr Ray—Sure.

Senator CORMANN—I think it is quite legitimate for me to ask questions under this output. The Treasurer's office has provided advice that the estimate of 484,000 taxpayers leaving private health insurance, which has been circulated in the media for some time now, has been derived using data from Treasury modelling of the estimated number of singles and couples in the relevant income ranges and applying estimated dropout rates derived by the Department of Health and Ageing from National Health Survey data. That is what you have just been saying as well, isn't it?

Mr Ray—That is correct.

Senator CORMANN—The Treasurer's office has also provided advice that the Treasury modelling indicates an estimated 186,000 singles and 149,000 couples would drop their health insurance as a result of the threshold increases. Can you confirm those figures?

Mr Ray—Yes.

Senator CORMANN—So 186,000 singles and 149,000 couples. We can do a quick calculation. In a couple there is two, so 149,000 times two is 298,000 plus 186,000 brings us to 484,000. Are you still with me?

Mr Ray—Yes.

Senator CORMANN—So far, so good. In your modelling, out of the 149,000 couples, how many couples have you estimated to be older than 65 years of age?

Mr Ray—Off the top of our heads, we do not know. We are willing to take it on notice.

Senator CORMANN—This is just incredible! How many of those couples are in fact on a family policy?

Mr Ray—Again, we do not have that sort of detail with us. We will take it on notice.

Senator CORMANN—Can you tell me how many children that you expect, through your modelling, will no longer be covered by private health insurance, based on your assumption as a result of the increase in the Medicare levy surcharge?

Mr Ray—I think that is effectively the sort of question that we just said we would take on notice.

Senator CORMANN—You are saying it is the same question?

Mr Ray—Yes.

Senator CORMANN—So the figure of 484,000, according to advice from the Treasurer's office which you have just confirmed, is 186,000 singles and 298,000 people, which is 149,000 couples. That does not include any children?

Mr Ray—That is correct.

Senator CORMANN—So essentially when we talk about 484,000 people we are not talking about 484,000 people, are we?

Mr Ray—We are talking about 484,000 adults.

Senator CORMANN—Taxpayers—is that right?

Mr Ray—They may not all be taxpayers.

Senator CORMANN—Hang on. Let me refer you back. The advice from the Treasurer's office, which you have confirmed, is 186,000 singles and 149,000 couples, which is 298,000 people. That brings us to 484,000.

Mr Ray—Adults.

Senator CORMANN—How many children are part of that? How many children in a couple?

Mr Ray—I just said I would take that on notice.

Senator CORMANN—I refer you to the PHIAC data on persons covered by private health insurance cover which is available up until 31 December 2007. If you look at the correlation between single equivalent units, which is essentially taxpayers, and persons covered and to make an adjustment for people over 65 and you will find the correlation is a ratio of 1.48. I am very happy for you to check that out. Applying it across the 484,000 taxpayers, you will find that it is a figure of more than 700,000 people that you, according to your assumptions, are expecting to leave private health insurance. I note that you have just confirmed that the figure of 484,000 people, which has been circulating in the media, is not actually 484,000 people; it is 186,000 singles and 149,000 couples, not making any allowance for children whatsoever. Now that we have established that I look forward to your answers on notice in relation to this.

I take it page 33 again of the budget measures. The budget papers tell us that as a result of the number of people leaving private that insurance who will essentially make a related saving of \$232 million. I assume that that represents the 30 per cent rebate.

Mr Ray—It would represent the 30, 35 and 40 per cent rebates.

Senator CORMANN—It represents the rebate that you no longer have to pay to people who are leaving private health insurance?

Mr Ray—Correct.

Senator CORMANN—You are having a cost to the revenue as a result of the Medicare levy surcharge threshold increase of \$660 million and you have a related saving of \$959.7 million; is that correct?

Mr Ray—That is correct.

Senator CORMANN—Essentially you are making a saving to your bottom line over the forward estimates of about \$300 million.

Mr Ray—That is about right.

Senator CORMANN—I will park that for a moment and we will get back to it. Does your modelling actually include any impact on levels of ancillary cover?

Mr Ray—Yes.

Senator CORMANN—So you are assuming that people will also leave ancillary cover as a result of the changes to the Medicare Levy surcharge thresholds?

Mr Ray—This is people leaving cover.

Senator CORMANN—I am sure that you will have to take it on notice, based on your capacity to provide answers so far, but can you please also provide us with information on what your assumption is in terms of average private health insurance premiums, paid by dollars, that you expect to leave private health insurance? Are you able to take that on notice or are you able to answer that today?

Mr Ray—Those averages were calculated by the department of Health and Ageing.

Senator CORMANN—So you do not know them?

Mr Ray—I am quite happy to take it on notice and ask them, or alternatively you—

Senator CORMANN—Thank you very much. So you consulted with other relevant departments and agencies to inform your assumptions? You have already said that you have worked closely with the Department of Health and Ageing.

Mr Ray—As I said, we worked closely with the Department of Health and Ageing and with the Department of Finance and Deregulation.

Senator CORMANN—Can you give me the date on which you first sought advice from the health department about your modelling on the Medicare levy surcharge threshold?

Mr Ray—I can take that on notice.

Senator CORMANN—Did you consult with PHIAC—the Private Health Insurance Administration Council—as part of the process.

Mr Ray—I do not think that we would have done that, but I do not know whether the Department of Health and Ageing has over time.

Senator CORMANN—Did you consult with the states and territories?

Mr Ray—Did we in the Treasury consult?

Senator CORMANN—Yes.

Mr Ray—No.

Senator CORMANN—Why not? The states and territories would have a Tsunami of additional demand imposed on their public hospital systems coming their way. I just refer you to a similar issue when it came to the removal of the exemption on condensate, which, incidentally, I think is also a bad public policy measure, but at least there was some recognition of the impact on the state government in Western Australia in terms of its revenue base. Why would you not have similar modelling conducted for the impact on state and territory governments and have some communication with them so that they could—

Mr Ray—The task before us and the other departments was to cost, using normal costing conventions, this measure with its affect on the budget.

Senator CORMANN—We had a change of government in November last year and we were going in to a new era of cooperative federalism on health—ending the blame game. You are imposing more than \$3 billion worth of additional demand for hospital treatments on to the states and territories and you are not expecting to have a conversation with them?

Senator Conroy—That is a speech. That is not a question.

Senator CORMANN—That is a question.

CHAIR—I think if you allowed Mr Ray to finish he might have given you the answer to those two questions.

Mr Ray—Yes. I had not finished. Thank you, Chair. Those normal costing conventions do not include costings of second-round effects. What you are referring to, to the extent that it may or may not occur—and I am not going to comment on that—is a second-round effect and therefore it is not relevant to the exercise in front of us.

Senator CORMANN—So the impact on condensate is not a second-round effect?

Mr Ray—No.

Senator CORMANN—Okay. Have you received any formal or informal representations from any state or territory government since the budget putting the case for additional funding to compensate—

Mr Ray—Are you asking whether the government has?

Senator CORMANN—Yes.

Mr Ray—We would need to take that on notice and ask the government.

Senator CORMANN—I will just quickly run you through those figures on page 33. We have already established that you have a loss in revenue of \$660 million. You have a related saving of \$959 million, which of course only represents a 30 per cent rebate, which means that over the forward estimates you save about \$300 million. Now, considering that the \$959.7 million represents the 30 per cent rebate, and that is because of the people that you assume are leaving private health insurance, isn't it the case that the total loss of revenue, of financing capacity to the private health system, is 100 per cent—the 30 per cent plus the 70 per cent currently contributed by people taking additional responsibility for their health-care needs by taking out private health insurance?

Mr Ray—Our task here is to cost the effect on the Commonwealth budget. But in any case, I think that there are two sides of health insurers' balance sheets.

Senator CORMANN—But the effect on the Commonwealth budget is that you save \$959.7 million. Based on your assumptions as to how many people will leave, and I think you have underestimated in your papers how many people will leave but we will leave that for later, I put it to you that the Australian health system overall—and this is where the criticism of this public policy measure comes in—will lose \$3.2 billion worth of funding. Again, going to the PHIAC data, obviously that \$3.2 billion would also have to cover for that 15 per cent, which is the average gross margin of health funds across the industry, so let us take off \$480 million. Essentially it means that there is \$2.7 billion that will no longer be available, as a result of this measure, for hospital treatment provided in private and public hospitals. Is that something that you considered? Did you model the impact on public hospitals at all?

Mr Ray—As I said, we did not attempt to model, as we normally do not attempt to model, anything to do with the second round.

Senator CROSSIN—You say 'as you normally do not'; I guess the reason I am intrigued by that is because I understood that the election of the Rudd government marked a change in approach and things were not going to be business as usual—there was going to be a new era of cooperative federalism in health.

Senator Conroy—You are making a speech again.

Senator CORMANN—I am not making a speech. This is a very important public policy area.

Senator CONROY—I am not going to comment on the quality of the speech.

Senator CORMANN—This is a very important public policy area. There is a public policy decision of the Commonwealth which will result in the biggest cost shift ever—

Senator Conroy—Is there a question anywhere? I thought you were in a comedy set!

Senator CORMANN—There is a question. I will get to the question. Will you make any allowances, will you compensate—

Senator Conroy—Senator Fierravanti-Wells wants a question.

Senator CORMANN—The question is this: will the Commonwealth compensate the states and territories for a cost shift from the Commonwealth and current privately insured patients, who you are telling us are leaving private health insurance to the tune of 484,000 people. Will there be some compensation—some reasonable and meaningful compensation for the impacts on the states and territories as a result of that loss of \$2.7 billion worth of revenue?

Senator Conroy—That is a policy question rather than—

Senator CORMANN—Is it a policy question? Will you answer a policy question then, Minister?

Senator Conroy—We will take that on notice.

Senator CORMANN—So you cannot answer that question. This is very interesting stuff. When you do your modelling on a public policy issue like this, do you assess the impact on things like hospitals and their capacity to provide treatment? This is obviously at the heart of the funding mechanisms of hospitals in our health system, which clearly is a mixed public and private system.

Mr Ray—I think there are a number of things packaged up in your question. If you want to talk about the policy elements on the expense measure, then you are probably better talking to my colleagues in the department of health—

Senator CORMANN—I will talk to them tomorrow.

Mr Ray—but when it comes to doing costings, the standard arrangements are that they do not take account of second-round effects.

Senator CORMANN—So you do not take account of the impact of your policy decision on hospitals?

CHAIR—Senator Cormann, Mr Ray does not make policy decisions. Can I just ask you to separate your questions on his tasks?

Senator CORMANN—My question goes to modelling and the question that I flagged right at the beginning. I think that Mr Ray answered the question and I am just trying to summarise how I understood he answered the question.

CHAIR—I am sorry, but you asked him about—

Senator Conroy—Perhaps I can help. There has been no change in the policy about modelling from the previous government.

Senator CORMANN—We are assessing the budget estimates and there are some assumptions that inform the budget estimates as they are before us, and I think that it is quite appropriate for us to probe whether those assumptions are credible or not. I guess I am trying to understand whether the Commonwealth and the Treasury on behalf of the Commonwealth, as they were modelling this policy change, as part of that, assessed that correlated impact on public hospitals, which are managed by the states and territories.

Senator Conroy—They assessed it the same way they assessed measures undertaken by the previous government.

Senator CORMANN—I thought there was going to be a change. I thought this was a new era of ending the blame game in health. You are setting the states up for failure.

Senator Conroy—Let me just check. No, I am not sitting on your side of the table; there has been a change!

Senator CORMANN—They have a tsunami of demand coming their way and, quite frankly, ending the blame game is nothing more than covering things up and having a nice little cosy arrangement.

Senator Conroy—I am not sure if that is a question.

CHAIR—Senator Cormann, do you have a question?

Senator CORMANN—Okay, let us go back to the question. Are you aware that, according to the Australian Institute of Health and Welfare, data between 1999-2000 and 2006-07—which was released only last week, incidentally—show that the increase in hospital treatments provided by private hospitals was about 45 per cent, whereas the number of treatments in public hospitals only increased by 20 per cent? Why do you think that would be the case?

Mr Ray—That is way outside my area of expertise.

Senator Conroy—That is a Health question.

Senator CORMANN—So you did not assess that as part of the modelling?

Mr Ray—That is a health policy question.

Senator Conroy—He is saying it is outside his scope of Treasury advice.

Senator CORMANN—Okay.

Senator Conroy—It would be better put to Health estimates, as I think you have indicated.

Senator CORMANN—This has obviously been a Treasury driven and Treasury coordinated policy change by government. I think that the Treasurer has provided a range of answers on that and I think I am well in my rights to probe whether the underlying assumptions are accurate.

Senator Conroy—You are well within your rights, as long as you probe them in the right department.

Senator CORMANN—I just want to confirm whether Treasury will provide advice on notice as to when they first provided advice on this measure to government.

Mr Ray—Yes, we took that on notice.

Senator CORMANN—Were you aware that the government was in the process of approving rate change applications when you were assessing the merits of this policy? Is that something that you considered as part of your modelling?

Mr Ray—My recollection is that it was public that there were rate change proposals being considered, at the time the government was considering this.

Senator CORMANN—The Department of the Prime Minister and Cabinet the other day told us that the first day they provided advice on this measure was 11 March. You will provide us on notice what day your first day was. Now I put it to you that the first week of March is the week when the government announced its decision on rate change applications. I would have thought the timing there was very close, but you are telling me that you did not take that factor into account as part of your modelling?

Mr Ray—The premium information and the forward estimates of premium changes have been taken into account in these costings.

Senator Conroy—Could I add some information that might help with one of your earlier questions. It is my understanding that the guidelines on costings which exclude second-round effects were actually introduced by Mr Costello and they are in the Charter of Budget Honesty.

Senator CORMANN—Is that something that somebody has just emailed you?

Senator Conroy—Similar to when they just emailed you.

Senator CORMANN—The reality is this: I do not know why you point us to things that were done by the previous government, because you were elected on a whole range of assumptions.

Senator Conroy—That is not a question; it is a speech.

Senator CORMANN—It is not a speech. Are you still committed to cooperative federalism when it comes to health and resolving the important issues faced by our hospital systems as part of this budget?

Senator Conroy—I think the Prime Minister and the Minister for Health and Ageing have indicated that on many occasions.

Senator CORMANN—Let us go back to the questions on modelling and rate change. Membership trends are very relevant when it comes to assessing future premium increases. Obviously, looking at your assumptions, you are saying that 484,000 taxpayers are expected to leave health insurance over the forward estimates. Don't you think that that is information that would have been relevant for the government before making a decision on rate changes?

Senator Conroy—That is an opinion. You should be asking factual questions. You are not actually entitled to ask officials their opinion.

CHAIR—Yes, we seem to be running into problems here in the way you phrase your questions. Could you just remember that officers are not able to give their opinions on policy or their opinions on comparisons of policies.

Senator CORMANN—Essentially, I have concluded my questions and I will ask all of the other questions tomorrow in Health. To summarise, we have established that the 484,000 figure relates to 186,000 singles and 149,000 couples and does not include children. So the true figure for the number of people leaving health insurance is well in excess of that; we have established that. The \$959 million—

CHAIR—Senator Cormann, is this a question or a wrapping up statement?

Senator CORMANN—I am summing up. I invite the official at the table to confirm I am right in my understanding of his answers.

CHAIR—The officer has said that he will take those questions on notice.