



## Tax Laws Amendment (Medicare Levy Surcharge Thresholds) Bill 2008

### Second Reading Speech

By Senator Mathias Cormann on 15 September 2008

**Senator CORMANN** (Western Australia) (4:29 PM) —The [Tax Laws Amendment \(Medicare Levy Surcharge Thresholds\) Bill 2008](#) demonstrates the short-sightedness of this new Labor administration. At best, this bill points to a government that does not understand the flow-on implications of its actions. At worst, this is an ideologically driven attack on private health, an ideologically driven attack on those Australians who take additional responsibility for their healthcare needs. It is unbelievable that a federal government would introduce a measure like this without properly assessing the flow-on implications for our health system. The government introduced what they soothingly call a tax relief measure without conducting any proper assessment of the overall health policy implications. So much for the pre-election rhetoric that Labor would fix the health system, that they would end the blame game, that they were committed to private health, that the buck stopped with the Prime Minister and that we would have a new era of cooperative federalism in health.

If passed in the Senate, this measure will undermine the whole health system. Senators on the other side might think it is only targeted at the private health system, but let us be very clear that this measure will undermine our whole health system. The measures in this bill will end up hurting those Australians who are most likely to need timely access to quality hospital care—all those Australians who make the sacrifice every year to find the funds necessary to pay for their private health insurance so that they can have the peace of mind of having timely access to quality hospital care when they need it and not when the system tells them that they are a high enough priority. They have the private hospital option to complement their public hospital entitlement. Older Australians will find it even harder than it is now to afford private health insurance. Many of them will be forced to join the long queues in our public hospital system, which is already under serious pressure.

This measure demonstrates the clear lack of understanding by the Rudd Labor government of the policy framework that has underpinned the successful efforts over the past decade to restore balance to our health system. To assess the merits of this measure, of course, we will need to separate the government's spin from the facts, as revealed during the Senate inquiry. The government tells us that this is a measure to provide tax relief to Australians who are doing it tough. If the government takes the view that Australians in those income brackets are doing it tough and deserve tax relief, why is it discriminating against Australians in those same income brackets who are also taking out private health insurance? Why doesn't it think that Australians who take additional responsibility for their healthcare needs are equally deserving of tax relief?

The government complain that the Medicare levy surcharge thresholds have not been indexed since they were first introduced in 1997. If that is the complaint, why is the government not indexing the thresholds? Why are they doubling the Medicare levy surcharge threshold for singles, with the disastrous consequences that became very obvious during the inquiry? There is absolutely no doubt that, if implemented, this measure will lead to many Australians abandoning private health insurance. Treasury tells us 644,000 people are expected to leave private health insurance, 57,000 of whom are expected to be Australians above the age of 65. Obtaining that information took quite a bit of prodding and inquiring, because to start off with it was 485,000 people, until Treasury finally conceded that they had forgotten to take children into account.

Private health insurance premiums will go up as a result of this measure, if it is implemented. Don't take my word for it—Professor John Deeble, the father of Medicare, says there will be an additional five per cent increase in private health insurance premiums over and above what the usual increase is already expected to be. Access Economics equally says that there will be at least a five per cent additional increase in private health insurance premiums over and above what the normal expectation would be. They are not the vested interests that the government dismisses. The government says, 'You can't really believe what the Australian Health Insurance Association are saying because they have a vested interest.' Well, here is Professor Deeble saying there will be a five per cent additional increase in private health insurance premiums over and above the normally expected increase.

So what have we got? We have 644,000 to a million Australians expected to leave private health insurance. There will be a five per cent additional increase over and above the normal increase. This will lead to a second, third and fourth wave of people leaving private health insurance. The government, the Treasury and the Department of Health and Ageing were trying to tell us how this would be a one-off shock to the system. Those are the words that were used: 'This will be a one-off shock to the system.' But the reality is this: this will be the beginning of a new downward spiral, equivalent to the downward spiral in private health insurance membership that we experienced between 1983 and 1996, when Labor was last in government.

Make no mistake: this will result in additional pressure on public hospitals. There is absolutely no doubt about it. I invite the parliamentary secretary—through you, Madam Acting Deputy President—to have a look at the evidence that the Treasury and the health department gave during the inquiry. They were not prepared to put numbers to it and they were not prepared to quantify it, but they very clearly said, 'Yes, we do expect that there will be additional pressure on public hospitals.' So I am quite surprised that the Parliamentary Secretary to the Minister for Health and Ageing would come into this chamber today, interject and say, 'No, there's no evidence at all that there will be any additional pressure.' Every state and territory health minister across Australia has said there would be additional pressure, but of course in this conspiracy of silence, which thankfully came to an end last Saturday, no state or territory administration was prepared to prod too deeply or to commission any independent modelling to properly assess and cost the impact of this measure on their public hospitals. Hopefully, that conspiracy of silence will be coming to an end very soon.

The public health policy objective of any government is to ensure that all Australians can have timely and affordable access to quality hospital care. In Australia we have been seeking to achieve that through a mixed health system, and our health system works best when we have a strong and well-funded public

system and a strong and well-supported private health system. That is the way the Australian system, in quite a unique fashion, has been able to get as close as possible to achieving that objective.

The reality is this: in 1996, when we last came to government, private health insurance membership was in absolute freefall. It went down to 30 per cent before we were actually able to turn this around through a range of policy measures. The Australian health system in 1996 was totally out of balance and, through measures like the private health insurance rebate, Lifetime Health Cover and the Medicare levy surcharge, we were able to turn that around. If you look at the evidence given by Mr Kalisch, the Deputy Secretary of the Department of Health and Ageing, you will see that he said that the Medicare levy surcharge when it was introduced in 1997 was not actually all that effective. Well, of course it was not—because, do you know what, as a new measure it was probably pitched at a threshold that was too high to be immediately effective. This was a three-pillar policy where you had Lifetime Health Cover, the private health insurance rebate and the Medicare levy surcharge. Over time all three of them together were able to achieve the significant increase in private health insurance membership that we have experienced over the last 10 or 12 years and which has been able to restore some balance into the Australian health system.

If you actually look at the membership trends over that period then you will see that there was an initial spike in membership of about 13 to 14 per cent, then it started to plateau and it hovered around 43 to 44 per cent over a couple of years and then over the last two or three years it started to increase again. Some 400,000 additional Australians took out private health insurance in the 12 months to the end of June 2008. Why do you think that was? It is because the Medicare levy surcharge at its current thresholds is becoming increasingly effective. At a time when it is becoming increasingly effective, and without any proper assessment of the flow-on consequences for our health system, the government just sort of draws a line in the sand and says: 'We might have complained that it had not been indexed but let's not worry about that; let's just double it. Let's not worry about what the flow-on consequences on the public health system overall may or may not be.'

What does this measure actually do? What does the government expect to happen? What are the government's assumptions in all of this? It took quite a bit of work to get that out of Treasury and out of the health department. We now know that the government expects 644,000 people to leave private health insurance. It expects to save \$960 million over the forward estimates from not having to pay the private health insurance rebate to those people it expects to leave. The parliamentary secretary earlier was interjecting about how these people will be the young and healthy and there will be hardly any impact on public hospitals because those who are leaving would not be accessing services anyway. But, do you know what, if the government expects to save \$960 million because it no longer has to pay the private health insurance rebate—particularly if those people are young people—that \$960 million only represents 30 per cent of the total funding of hospital treatment that will be lost to the health system.

Does anybody here expect that demand for hospital treatment is going to reduce over the next couple of years? I do not think so. If \$960 million is only 30 per cent of the funding that is lost to the health system to fund hospital treatment then what is the total amount of funding that is going to be lost to the system? It is \$3.2 billion. When I brought that up at a committee inquiry the deputy secretary of the health department said, 'Oh, well, there are the profits of the health funds. They might not spend it all on funding hospital treatment.' Yes,

that is true; they do not. If you had bothered to have a look at the Private Health Insurance Administration Council website—it is a very good website with a lot of facts and figures and industry statistics; the Treasury never even looked at it, the Treasury never consulted with PHIAC—you would have found that only 15 per cent goes into either the cost of administration or a small net surplus to fund future claims.

If we are saying that out of \$3.2 billion 15 per cent goes into the cost of administration and a small surplus to cover the cost of future claims then we are talking about more than \$2.7 billion being lost to the Australian health system as a result of this measure. And the government is trying to tell us that there will not be an impact on the level of services available to the Australian people. Who is going to fund this? Where is the funding going to come from moving forward? This is the biggest cost shift from the Commonwealth and the privately insured to the states and territories and to the public hospital system and nobody has done a proper assessment of it. Nobody has done an assessment of how much additional pressure public hospitals will face, nobody has made an assessment of how much it will cost and nobody has put their hand up to say: 'Okay, we acknowledge that there is going to be an additional cost that you are faced with. We acknowledge that you are going to have some additional pressure in terms of meeting the demands of Australians who need access to quality hospital care. So we will compensate you for it.'

There is a huge politically motivated conspiracy of silence across Australia. It is a case of, 'I won't blame you if you don't blame me; let's just keep quiet about it.' If the previous government had introduced a measure like this 12 to 14 months ago, I am pretty sure that all of the state and territory Labor governments would have come together and commissioned some independent research. They would have gone to Access Economics and said, 'Here's a public policy measure at the federal level which is going to have an impact on us at the state level. Please tell us how much it is going to cost to deal with the impact of this.' But what have we had? Just some token resistance at the state level where they say: 'Oh, well, we think there's going to be some additional pressure. We don't really know how much. In the papers they say that 485,000 people will leave private health insurance but they are all young, so it will not be so bad.'

What else do we know? The Treasury in their evidence said to us, 'We expect to save \$960 million because we no longer have to pay private health insurance rebates to those who will leave.' Is that really true? Because Treasury also tell us that they have not made any assumptions whatsoever when they calculated that figure on whether there is going to be any impact in terms of future health insurance premium increases as a result of this measure. Professor Deeble says that there will be a five per cent increase in premiums, over and above any normal increase, as a result of this measure. The Commonwealth has allocated more than \$14 billion over the forward estimates for the private health insurance rebate. A five per cent additional increase is in excess of \$700 million. When I asked questions about that of the health department officials they said, 'No, we haven't costed that as part of the savings in the budget but we've allocated that into the contingency reserve.' When I asked, 'So how much have you allocated in the contingency reserve to cater for this,' they said: 'We can't tell you. That's secret; it is commercial in confidence.'

So this \$300 million saving over the forward estimates is a fraud; the true cost of this measure has been hidden in the contingency reserve. You tell us that you are going to have a \$960 million saving over here offset by a \$660 million loss in revenue. So you say, 'We have a \$300 million saving over the forward estimates.'

This is a fraud, because you have hidden the true cost of this measure in the contingency reserve. You know that private health insurance premiums are going to go up as a result of this measure. Professor Deeble says the increase will be five per cent. Access Economics says it will be five per cent. Health funds tell you that it will be up to 10 per cent. Let us be conservative; let us say that there will be a five per cent increase. That means it will cost more than \$700 million to actually cope with that additional premium increase that you have not made public in your budget papers.

So where are we now? Is it going to be the young and healthy leaving? If it is the young and healthy leaving does that mean there is not going to be an impact on public hospitals? What does it mean for community rating? The reality is this: the more young people we can attract into the private health system the more affordable it is for everyone and the more affordable it is for older Australians. If you discourage young people from taking out private health insurance you force up premiums for everyone, in particular for those older Australians who need that access so desperately.

The government then tells us, 'But we have allocated \$600 million to an elective surgery reduction strategy package, which was a pre-election promise.' That was another fraud. Essentially this was a pre-election commitment that was made before the government ever spoke about this particular measure. All of a sudden, as they come under pressure over the impact on public hospitals as a result of this measure, they say, 'But we have got this \$600 million that we are providing to ensure that we reduce elective surgery waiting lists.' Now, have a look at the fine print to make sure what is actually on the table. If you look at the fine print you will see that there is only \$150 million as a one-off payment to fund additional services and to reduce waiting lists. So you hear '\$600 million package'—a big headline—but only \$150 million has actually been committed to fund additional services across Australia. Put that against the \$2.7 billion loss in funding for hospital treatment as a result of this, and this is clearly inadequate. The parliamentary secretary is shaking her head but I just find it unbelievable.

Before the election Labor said: 'We are committed to fixing health. We are committed to ending the blame game. We are committed to working with the states and territories. We are committed to private health,' but everything they do when they came into government is totally different. If they were committed to cooperative federalism on health, why would they not give to the states and territories access to the modelling they have done on the impact of this measure? Why would they not provide access to that modelling so that the states and territories can make a proper assessment of the impact on them to make sure that they can run their public hospitals in a way that properly caters for the demand that is likely to come their way? I still have not received an answer to this. Not one state and territory government has actually asked for additional funding. How come? Everybody is out there saying, 'There is all this demand that is coming our way,' but when I ask questions on notice as to whether any state or territory administration has asked the federal government for some additional funding to compensate for this measure, the answer is, 'No, not one.' Not one single one! It is just incredible that we are all saying that there is going to be all this additional demand but we are not going to try to find out how much it is.

This measure is bad news. It will result in hundreds of thousands of Australians leaving private health insurance. It will push up premiums, which will hurt in particular older Australians who are already struggling every year to find the necessary funds to afford their private health insurance. You, as a government, are pushing up the price of premiums for those older Australians. You are forcing

them out of health insurance. You are forcing them into those public hospital queues and you are not offering any proper compensation for it. At the first opportunity you had to work with the states and territories to make sure that the flow-on implications of a policy measure at your level were properly catered for at the state and territory level, you failed to do so. As a closing remark, now that we have had a change of government in Western Australia, I would urge the Barnett government to commission a proper assessment of the impact of this measure—to commission a proper analysis of the costs that are likely to come their way as a result of this measure should it pass the Senate—so that they can make an informed claim to the Commonwealth for additional funding. *(Time expired)*