



AUSTRALIAN DENTAL ASSOCIATION INC.

NATIONAL DENTAL UPDATE APRIL 2005

www.ada.org.au

PRIVATE HEALTH INSURANCE AND DENTAL COVER

The recent 7.96% rise in private health insurance premiums¹ highlights two questions often asked about private health insurance: Is it worth it? Is it affordable?

Effective from 1 April 2005, the 7.96% rise follows a 7.58% rise in April 2004,² a 7.4% rise in April 2003³ and a 6.9% rise in April 2002.⁴ **The cumulative premium increase in private health insurance since 2002 is 29.84%.**

The rise in the cost of private health insurance over the past three years contrasts claims in 2000 by the then Health Minister, Michael Wooldridge⁵ who said: "Because we've got so many extra people in, that'll keep real downward pressure on premiums." This view was supported by the Australian Health Insurance Association⁶ which claimed that the 30% rebate for private health insurance and Lifetime Health Cover and subsequent increase in the number of people with private health insurance would lead to "long-term premium stability".

Unfortunately, there has been little stability in private health insurance premiums over the past three years and the outlook does not appear to be positive. According to a recent analysis of private health insurance funds by the ratings agency, Standard and Poor's:⁷

"Benefit costs increasing will always remain a challenge for the industry, as medical CPI generally runs twice as high as normal CPI. So, without seeking premium increases to support benefit levels, the industry risks remaining unprofitable, and the long-term picture remains tenuous."

Ancillary cover

Although the debate about the effectiveness (and affordability) of private health insurance tends to focus on hospital cover, this debate also applies to ancillary

cover, particularly cover for dental services. Dental cover is a significant aspect of private health insurance as it accounts for over 50% of all ancillary service benefits.⁸

An examination of benefits paid to private health insurance members for dental services shows benefits are not keeping up with the cost of providing dental care. **Figures from the Private Health Insurance Administration Council⁹ show that the average benefit paid per service for dental treatment has fallen from 58.18% of the cost of treatment in December 1996 to 48.89% of the cost of treatment in December 2004, a decrease of approximately 16%.**

The fall in benefits paid to consumers was recently considered by the Private Health Insurance Ombudsman,¹⁰ who commented:

"There are ... signs that, in their efforts to keep premium increases to an acceptable level, some funds are devaluing their

health insurance products by reducing benefits or other conditions and allowing more patient gaps. Although health funds may only alter their premiums annually after an approval process, they can change the benefits and conditions applying to a health insurance product at any time. In this regard, health insurance consumers have less protection from such changes than is available in other consumer contracts and insurance policies, where change to contracts cannot be made unilaterally or contracts are renewed annually."

Conclusion

The clear trend that has emerged over the past three years, and one that appears likely to continue into the foreseeable future, sees rising premiums, diminishing returns paid by private health insurance funds, and concerns about the long-term viability of the industry.

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