Symposium on Health Insurance: Introduction

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It is a truism that Australia is in the midst of profound demographic change. The post World War II baby boomers are approaching retirement and the birth rate is well below the replacement rate. Consequently, there will be a marked aging of the Australian population over the next thirty or forty years. There will be a decline in the proportion of young Australians who pay little in the way of taxes and require on average a high level of government provided services, notably education. However, the decline in this youth dependency ratio is less important in terms of demands on the government budget than the increase in the aged dependency ratio. The calls of the aged for government provided health services and retirement incomes will figure prominently in the analysis of taxation and public expenditure in the next quarter of a century. It is hoped to publish a symposium on retirement incomes in a future issue of the *Economic and Labour Relations Review*. This symposium is an introduction to one of the major issues in financing health expenditure in Australia: the health or otherwise of the system of private health insurance in Australia.

While there is scope for discussion about how large the effect will be, there is no doubt that the aging of Australia's population will increase the proportion of our gross domestic product that is spent on health cost. Trends in medical technology will be even more important in increasing this ratio and the interaction of these two factors appear to make inevitable a large rise in expenditure on health costs. At present around 70% of health costs are paid for by government. Future trends in this percentage are important for public finance. A major influence on these trends is private health insurance.

Until recently there was a downward trend in private health insurance in Australia. Barrett and Conlon examine the reasons for this. Given the

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Australian system of community rating, in which all are charged the same premiums for the same level of cover, the old and those chronically ill are more likely to have health insurance than the young and fit, or at least those young and fit who do not expect to have children in the near future. This may set up a vicious circle. If the young and fit increasingly tend to self-insure, the level of claims, and hence premiums, will tend to rise. This will place greater pressure on those, who expect to be healthy, to withdraw from health insurance. Barrett and Conlon not only document the extent to which participation in health insurance is determined by the two inter-related factors, age and the prevalence of health conditions suffered, as well as by other factors, but also look to some extent at the dynamics. They show that, over the period studied, the proportion of young singles with health insurance declined while that of singles or families with chronic conditions increased, suggesting that the vicious circle described above was operating.

After 1996 the Howard government tried to reverse this trend with policies to make health insurance more attractive. The first two policy changes, in July 1997 and January 1999 appeared to have little effect. Then in July 2000 the "Lifetime Health Cover" policy was introduced. This changed the community rating system so that, for those joining after the deadline, the premium increases with the age a person joins. Changes in the types of policies that could be offered were also introduced at this time. Hopkins and French have put together early data to examine the effects of this. While only very preliminary, this data suggests that there has been a shift from public to private hospitals with an increase in claims on private health insurers and a reduction in public hospital waiting times.

The cost of private health insurance to individuals is much less than it would be without subsidies and tax incentives. They are examined in the article by Julie Smith, who looks at their size and who benefits from them. She finds that the costs of these incentives are generally underestimated. They are expensive, the rebate on private health insurance alone costing around $2 billion. Not surprisingly, the benefits accrue disproportionately to the better off.