SUMMARY

1. In Australia, as in other Western countries, health costs are rising at a greater rate than general inflation.

2. If this trend continues such rises will eventually be unsustainable particularly if there is an economic downturn.

3. The major strength of the current Australian health system is that it provides high quality universal health care irrespective of the consumer's (patient's) economic circumstances. In any reform this value must be protected.

4. The major weaknesses of the current system are twofold:

(i) The system inherently encourages consumption of medical services. Such consumption is to the financial advantage of the provider and as the services are essentially "free" or at low cost to the consumer they are generally gratefully received and their necessity usually not seriously questioned.

(ii) The system does not reward good health nor encourage preventative measures to maintain such health.

5. The only component of the current health system that rewards restraint in medical expenditure is the case-mix system in public hospitals. Public hospitals can only make a profit from a hospital admission if expenditure is less than the case-mix payment. As a consequence the cost of treating the same illness in a public hospital is considerably less than in a private hospital.

6. Experience abroad indicates that health savings accounts are the most efficient way of constraining costs without compromising care. Giving consumers greater financial responsibility for their health markedly reduces unnecessary medical services and encourages preventative measures to preserve health (eg healthy life-style).

7. For example Singapore which has a health savings based system spends only 3.7% of GDP on health compared to 9.7% in Australia and 15.4% in the USA yet health outcomes including life expectancy are similar.

8. A major disadvantage of the Singapore system is that it is exclusively privately funded via employer/employee contributions. As such there is no safety net for the poor or unemployed. Unless the Singapore system was significantly modified it is unlikely that it would be acceptable to the Australian public.

9. I have designed a health savings system for Australia which maintains the universal coverage and the safety net features of medicare but includes the cost efficiencies of health savings accounts and case-mix funding of hospital admissions. The system is described in brief below. The full details are contained in the accompanying submission and power point presentation.

10. According to the latest available data from the AIHW Australian Govt health expenditure per person in 2003-04 averaged $2673.Assuming a health inflation rate of 4% pa since then the current figure would be $3263. I propose that the Govt pay a similar amount, supplemented by an equal employer/employee contribution of 2% of income, annually into the health savings account of each citizen held in a Commonwealth Health Bank. In any one year the exact annual payment the Govt would need to make would depend on the financial state of the bank.

11. Money from the health accounts could only be used to pay for approved health services at a price determined by an independent Health Advisory Council. Charges in excess would have to be met from the consumer's pocket.

12. Likewise the Health Advisory Council would determine case-mix fees for hospital admissions. For a particular illness public hospitals would only charge the relevant case-mix fee which would include a component to cover training costs. Private hospitals could charge above the case-mix fee but only the case-mix fee could be

deducted from the health account. Any extra would have to be met by the consumer or from private health insurance (PHI).
13. In such a system consumers, with and without PHI, would be attracted to hospitals which provided timely and cost efficient care. Competition between hospitals, both public and private, would be enhanced and such competition would help constrain costs and reduce waiting lists.
14. In this system the major role of PHI would be to cover unexpected catastrophic illness which would otherwise deplete the health savings account. Premiums would be far less and could be deducted from the health account if in positive balance.
15. Consumers could run up negative health accounts (the safety net) but if their income was above a certain level they would face marginally higher tax rates until the account was in a positive balance.
16. A positive balance would accrue an annual health dividend. At death a positive balance could be willed to the health account of another individual. A negative balance would have to be met from the deceased's estate.
17. A particular feature of this new system is that it provides strong incentives for consumers to maintain a positive health account. They would be wary about spending their precious health dollar. This system therefore provides much stronger incentives to maintain good health through healthy life-style choices than is currently the case. As such preventative medicine would be enhanced and the overall health of the community improved.
18. A further advantage of this system is that it would enhance the role of the GP as the patients' advocate and protector of their health. Specialist referrals which currently are often unnecessary and a considerable expense to the system would be far less.
19. In this system Federal State relationships would be greatly simplified. The Federal Government would be the guarantor of the Commonwealth Health Bank which would fund all aspects of health except nursing homes, administration and research and special health initiatives. Cost shifting and the "blame game" between the Federal and State Governments would be a thing of the past. Administration costs would be considerably reduced.
20. The main role of State Governments in this system will be to maintain standards in public hospitals.
21. Structures such as the Health Insurance Commission, the Pharmaceutical Benefits Scheme, the Medicare Schedule Review Task Force and the NHMRC could easily be adapted to the new system. Implementation of this system would be straightforward.
22. For the reasons outlined above this new system would undoubtedly result in considerable savings as compared to continuation of the current system. The money saved could be used to fund special health initiatives such as indigenous health.
23. The above system increases access to hospitals, encourages prevention and wellness and satisfies the **nhhr principles** of equity, shared responsibility, value for money, responsible spending on health and providing for future generations.

According to the Commonwealth Government 2nd Intergenerational Report (2007) if current trends continue health expenditure is projected to almost <u>double</u> as a proportion of GDP within the next 40 years. It is unlikely that Australia will be able to afford this . Something needs to be done now. The health scheme described in this submission offers the best way of constraining ever rising health costs without compromising the high standards of care or the essential fairness of the current system.