



Australian Government

**Private Health Insurance
Administration Council**

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INFORMATION TO ASSIST INSURERS COMPLETE THE HIGH COST CLAIMANTS POOL SECTION OF THE PHIAC 1 FORM

There have been errors in reporting high cost claimants pool (HCCP) amounts on page 3 of the PHIAC 1 form for the June and September 2007 quarters. This circular explains how the HCCP amounts should be calculated, and how they should be reported on the PHIAC 1 form, by giving examples.

The spreadsheet ([HCCPExample.xls](#)) attached to this circular on PHIAC's website www.phiac.gov.au provides an example of calculating eligibility for the HCCP for a single claimant over 7 quarters. At the bottom of the spreadsheet a table shows the amounts that would be entered on the PHIAC 1 form for the claimant. The totals for the HCCP amounts to be reported on the PHIAC 1 form are the sums of the amounts for all claimants who are eligible to be included in the HCCP pool in the reporting quarter.

The following pages explain how the amounts to be reported in the HCCP section of the PHIAC 1 form are calculated. The examples below explain the calculations for the first two quarters in the attached spreadsheet.

Note that the calculation has been modified from that previously circulated to insurers to take account of the possibility of a claimant moving between age based pooling age groups during the reporting quarter.

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HCCP Calculation

C1	=	Gross Claim Size in the quarter where the claimant is in their <u>initial ABP age group</u> , allocated by the proportion of days the claimant is in the age group
C2	=	Gross Claim Size in the quarter where the claimant is in an <u>older ABP age group</u> , allocated by the proportion of days the claimant is in the age group
T	=	Threshold for High Cost Claimants Pool, the threshold has to be reached in each rolling 12 month period = \$50,000
m	=	Percentage pooling that applies in High Cost Claimants Pool
p1	=	Percentage pooling under the <u>initial ABP age group</u> for the claimant in the quarter
p2	=	Percentage pooling under an <u>older ABP age group</u> for the claimant in the quarter
pC	=	Benefits to be included in age based pool = $p1C1 + p2C2$
R	=	$C1(1-p1) + C2(1-p2)$, Residual, the amount of the claim left after age pooling
CR	=	Sum of residual R over current and previous 3 quarters

HCCP benefit to be equalised = m% of residual less threshold,
subject to a maximum of m% of gross benefits in the quarter being equalised

So include in the current quarter HCCP the lesser of:

$m(CR - T) - \text{SUM}(\text{last 3 quarters of HCCP})$,
subject to this amount being greater than zero
= $\text{Max}(0, m(CR - T) - \text{SUM}(\text{last 3 quarters HCCP}))$

and

$(m-p1)C1 + (m-p2)C2$ which is 82% of gross benefits in the quarter

The final calculation using the above notation is given as:

Current quarter HCCP =

$\text{Min}(\text{Max}(0, m(CR - T) - \text{SUM}(\text{last 3 quarters HCCP})), (m-p1)C1 + (m-p2)C2)$

where $\text{Max}(0, ---)$ is used to ensure the calculation does not give a negative amount

HCCP Example calculation.

Mr X First quarter

Mr X is aged 59 and has a gross benefit of \$100,000. The amount that will be notionally allocated to the ABP is \$15,000 (15% * \$100,000). that Mr X has not made a previous claim in the preceding 3 quarters. Mr X will be above the \$50,000 threshold. That is, \$85,000 (the amount not notionally allocated to ABP in the current quarter with no other claims in the preceding 3 quarters) exceeds the designated threshold of \$50,000. Here, the amount that will be notionally allocated to the HCCP is $\$28,700 = (82\% * (\$85,000 - \$50,000) - 0$.

Using the notation above:

There was no change in age groups during the quarter so:

p1 = 15% and p2 is not used

gross benefits C1 = \$100,000 and C2 = 0;

Residual R = $C1(1-p1) + C2(1-p2) = \$100,000(1-15\%) + 0 = \$85,000$

The maximum HCCP is $(m-p1)C1 + (m-p2)C2 = (82\% - 15\%)\$100,000 = \$67,000$

There were no gross benefits in the previous 3 quarters so

Cumulative residual is R = \$85,000

and

Last 3 quarters of HCCP = 0

So the calculation is:

$\text{Min}(\text{Max}(0, m(\text{CR} - T) - \text{SUM}(\text{last 3 quarters HCCP})), (m-p1)C1 + (m-p2)C2)$

$= \text{Min}(\text{Max}(0, 82\%(\$85,000 - \$50,000) - 0), (82\% - 15\%)\$100,000 + 0)$

$= \text{Min}(\text{Max}(0, 28,700) - 0), \$67,000)$

$= \text{Min}(\$28,700, \$67,000)$

$= \$28,700$

Mr X Second quarter

Mr X has another gross benefit of \$100,000 in the next quarter and also turns 60 during the quarter. In this case the benefits paid are equally distributed between the two age groups of 55 to 59 and 60 to 64. The amount that will be notionally allocated to the ABP is \$28,750 [\$7,500 (15% * \$50,000) plus \$21,250 (42.5% * \$50,000)]. The calculation of the total amount not notionally allocated to the ABP will need to account for the previous claim in the first quarter for the purpose of calculating whether the total amount not allocated to the ABP exceeds the designated threshold. In this case the total residual amount will be \$156,250 (\$85,000 (amount not allocated to ABP last quarter) + \$71,250 (the amount not allocated to ABP this quarter)). The result is that the total amount not allocated to the ABP in the current quarter and in the preceding 3 quarters of \$156,250 exceeds the designated threshold of \$50,000.

Subject to the limit of 82% of the current quarter gross benefits being notionally allocated to the HCCP, the amount to be notionally allocated is \$58,425 which represents 82% of the difference between the sum of the total amount not allocated to ABP in the current and preceding 3 quarters (\$85,000 + \$71,250) and the threshold (\$50,000), minus the sum of the amount notionally allocated to the HCCP in the preceding 3 quarters (in this case there was only one amount in the previous quarter, the sum of \$28,700).

The maximum that can be notionally allocated is \$53,250 (the gross benefit of \$100,000 multiplied by 82% minus the amount notionally allocated to the ABP). As the maximum of \$53,250 is less than \$58,245 the amount to be notionally allocated to the HCCP will be \$53,250

Using the notation above:

There was a change in age groups during the quarter so:

$p_1 = 15\%$ and $p_2 = 42.5\%$

gross benefits $C_1 = \$50,000$ and $C_2 = \$50,000$;

Residual $R = C_1(1-p_1) + C_2(1-p_2) = \$50,000(1-15\%) + \$50,000(1-42.5\%) = \$71,250$

The maximum HCCP is $(m-p_1)C_1 + (m-p_2)C_2$

$= (82\% - 15\%)\$50,000 + (82\% - 42.5\%)\$50,000 = \$53,250$

There was a residual in the previous quarter of \$85,000 so

Cumulative residual $CR = \$85,000 + \$71,250 = \$156,250$

and

Last 3 quarters of HCCP = \$28,700

So the calculation is:

$\text{Min}(\text{Max}(0, m(CR - T) - \text{SUM}(\text{last 3 quarters HCCP})), (m-p_1)C_1 + (m-p_2)C_2)$

$= \text{Min}(\text{Max}(0, 82\%(\$156,250 - \$50,000) - \$28,700), (82\% - 15\%)\$50,000 + (82\% - 42.5\%)\$50,000)$

$= \text{Min}(\text{Max}(0, \$58,245), \$53,250)$

$= \text{Min}(\$58,245, \$53,250)$

$= \$53,250$