



**Australian Government**

**Private Health Insurance  
Administration Council**

## Circular

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### **Circular No 11/21**

**Replaces Circular: N/A**

**22 December 2011**

#### **New calculation of the Risk Equalisation Trust Fund for 2009-2010 financial year**

At its December 2011 meeting, the Council considered applications made by three private health insurers for a new calculation of the Risk Equalisation Trust Fund (**RETF**) for the 2009-10 financial year.

The three insurers—CBHS Health Fund Ltd, Railway and Transport Health Fund Ltd and Health Partners Ltd made applications on the basis of errors in relation to the high cost claims pool in the quarters ended 31 December 2009, 31 March 2010 and 30 June 2010.

Each of the applications were determined in accordance with rules 19(1) and (3) of the *Private Health Insurance (Risk Equalisation Policy) Rules 2007*. After careful consideration of each submission, Council determined that a new calculation was deemed to be in the best interests of insurers generally and the good administration of the RETF. A new calculation will be made by PHIAC early in 2012 and insurers will be advised of adjusted levy and payment amounts together with their routine RETF advices in respect of the quarter ending 31 December 2011.

The facts of the case highlight the significance of the Risk Equalisation scheme for each insurer and the industry as a whole, and demonstrates the criticality that sound governance, oversight and management of systems and processes underpinning each insurer's involvement in the scheme plays in the effective operation of the scheme.

An insurer's audit committee is at the forefront of strong and effective governance in relation to the RETF and PHIAC strongly recommends that the Audit Committee of each insurer takes all necessary action to ensure that close scrutiny is applied to its own systems, processes and control framework that enable it to quickly and effectively identify and remedy discrepancies in RETF reporting.

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PHIAC expects that scrutiny by the Audit Committee would extend to all aspects of RETF involvement, including consideration of outsourced functions and both internal and external audit activities.

The Council views the capacity for the industry to be able to rely on the certainty of the final calculation of the RETF as an important feature of the scheme. As a result, Council expects that any future application seeking a new calculation will be supported by persuasive evidence of properly implemented risk management systems.

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