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## **Media Release**

### **PRIVATE HEALTH INDUSTRY IN GOOD SHAPE**

The private health industry in Australia improved its position this year but still faced considerable challenges with continuing growth in health costs exerting pressure on premium rates, the Private Health Insurance Administration Council (PHIAC) Commissioner Garry Richardson said today.

Releasing PHIAC's 2005 Annual Report, Mr Richardson said while the industry as a whole had improved its financial position over the previous year, the largest contribution to the surplus was from investment income. The industry recorded a surplus of \$626 million before tax and extraordinary items, \$273 million of which was derived from core health insurance operation, a net margin of only 2.7 per cent.

"The buoyant economy played a significant role in boosting the industry's reserves but investment income cannot be relied upon to fund future growth in benefit outlays as there is no guarantee the current economic trend will continue," he said.

Mr Richardson said PHIAC played a key role in monitoring Australia's private health funds to ensure a high standard of corporate governance and management to safeguard health fund contributors against fund failure.

"While PHIAC is generally satisfied with the standard of governance throughout the private health industry, we will continue to emphasise our expectations that funds must consistently meet best practice governance.

"We make no apology for concentrating on this issue as a way of ensuring that the contributors to private health insurance are adequately protected

"PHIAC will continue to underscore to fund directors their obligation to give priority to the interests of contributors to funds in relation to all relevant decisions made," he said

Mr Richardson said one aspect of PHIAC's agenda was to continue its focus on those funds with management expenses significantly higher than the industry average.

Private health fund management expenses this year represented 9.5 per cent of income from contributors and cost the average membership \$190, an increase of \$7 over last year.

Membership in private health funds in Australia remained stable this year with 8.7 million people contributing to hospital coverage and 8.4 million people with ancillary coverage. Overall benefits paid by private health funds to contributors increased in line with utilisation and funds paid out \$5,869 million in hospital benefits and \$2,259 million in ancillary benefits.

Mr Richardson said while the medical gap covered provided a significant benefit to fund members it remained a significant cost driver for health funds.

The cost of benefits for services in excess of the Medicare Benefits Schedule Fee increased by 11.9 per cent over the previous year. Although this increase was significantly lower than each of the previous two years, it was still in excess of growth in contribution rates. The proportion of services with no gap decreased to 81 percent, a drop of one per cent from the previous year.

An initiative by PHIAC to develop specific training for directors of registered private health organisations was well received this year and will continue in 2006. Training focuses on specific health insurance issues such as health insurance reinsurance, prudential standards, products, pricing and governance.

PHIAC's annual report is available online from PHIAC's website [www.phiac.gov.au](http://www.phiac.gov.au). PHIAC welcomes comments from readers of the report. Comment can be emailed to [phiac@phiac.gov.au](mailto:phiac@phiac.gov.au).

PHIAC is an independent statutory authority that regulates the private health insurance industry

## **ENDS**

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