



Ombudsman's Introduction

Welcome to our latest edition of "Health Insurance Insider". In this edition of our consumer newsletter, we focus on government rules and regulations that may affect your decision to purchase or maintain your health insurance.

There are a number of government rules that support and encourage participation in private health insurance. These are: the Australian Government Rebate; Lifetime Health Cover; and the Medicare Levy Surcharge. These rules are discussed in more detail in this newsletter.

It's important to be aware that Lifetime Health Cover and the Medicare Levy Surcharge apply only to the purchase of Hospital Treatment policies. They do not apply to General Treatment policies (also known as ancillary or extras cover). The Australian Government Rebate, however, applies to both Hospital Treatment and General Treatment policies, providing that your income falls within the income thresholds for receiving the full rebate, or a percentage of the rebate.

How government rules affect your private health insurance

I'm thinking about joining private health insurance. How am I affected by government rules and regulations?

If you've started looking into private health insurance, you've probably heard about government surcharges and incentives like Lifetime Health Cover, the Rebate, and the

Medicare Levy Surcharge. These three government policies can affect how much you pay for private health insurance and potentially how much you pay in tax. Their effect on your insurance situation will depend primarily on your age and your income.

The Australian Government Private Health Insurance Rebate

Most people who hold private insurance are eligible for a Rebate from the government to help cover the cost of health insurance. The amount of Rebate will vary depending on your age and income level.

The Rebate is a subsidy provided by the Australian Government to help cover the cost of health insurance premiums. Your Rebate entitlement varies depending on your age and income. The Rebate levels applicable for 1 July 2013 to 30 June 2014 are:

| REBATE LEVELS 2013-14 | | Tier 1 | Tier 2 | Tier 3 |
|-----------------------|------------|---------------------|---------------------|------------|
| Singles | ≤\$88,000 | \$88,001 - 102,000 | \$102,001 - 136,000 | ≥\$136,001 |
| Families | ≤\$176,000 | \$176,001 - 204,000 | \$204,001 - 272,000 | ≥\$272,001 |
| <Age 65 | 30% | 20% | 10% | 0% |
| Age 65-69 | 35% | 25% | 15% | 0% |
| Age 70+ | 40% | 30% | 20% | 0% |

Single parents and couples (including de facto couples) are subject to family tiers. For families with children, the thresholds are increased by \$1,500 for each child after the first.

The tiers are based on your income for Medicare Levy Surcharge purposes. To work out your Rebate entitlement, use the Australian Taxation Office's (ATO's) [Private Health Insurance Rebate calculator](#).

You can receive the Rebate on hospital cover, general treatment (also known as 'extras' or 'ancillary') and

ambulance cover purchased from a registered Australian health fund. Overseas visitors cover, overseas student health cover or cover held with an international insurer are all not eligible for the Rebate.

If you currently pay a Lifetime Health Cover (LHC) loading, as of 1 July 2013, the Rebate will no longer apply to the LHC component of your hospital cover premiums. You will still receive the Rebate on the standard component of your hospital cover and on general treatment (extras) cover.



The Medicare Levy Surcharge

If you're earning over the Medicare Levy Surcharge income threshold, then you may want to consider purchasing private hospital cover so you can avoid the Surcharge. The income threshold for 2013-14 is \$88,000 for singles and \$176,000 for couples/families. The Surcharge ranges from 1% up to 1.5% of your income.

The Medicare Levy Surcharge (MLS) is a tax that applies if you earn above a certain income threshold. You can avoid

paying the tax if you earn under the income threshold or you have private hospital insurance. If you are earning over the threshold and don't have private hospital insurance, you pay the Surcharge, which ranges from 1% to 1.5% of your income.

The Surcharge levels applicable for 1 July 2013 to 30 June 2014 are:

| SURCHARGE 2013-14 | | Tier 1 | Tier 2 | Tier 3 |
|-------------------|------------|---------------------|---------------------|------------|
| Singles | ≤\$88,000 | \$88,001 - 102,000 | \$102,001 - 136,000 | ≥\$136,001 |
| Families | ≤\$176,000 | \$176,001 - 204,000 | \$204,001 - 272,000 | ≥\$272,001 |
| Surcharge level | 0.00% | 1.00% | 1.25% | 1.50% |

Single parents and couples (including de facto couples) are subject to family tiers. For families with children, the thresholds are increased by \$1,500 for each child after the first.

To work out your annual income for MLS purposes, you can refer to the ATO's [Medicare Levy Surcharge Income Calculator](#) or contact the ATO directly.

To be exempt from the Surcharge, your hospital cover must be held with a [registered health fund](#) and cover some or all of the fees and charges for a stay in hospital, with an excess no greater than \$500 for singles or \$1,000 for couples/families.

General treatment cover (also known as 'extras' or 'ancillary') without hospital cover won't exempt you from the Surcharge. Overseas visitors cover, overseas student health cover or cover held with an international insurer also don't qualify for Surcharge purposes.

The Medicare Levy Surcharge is in addition to the Medicare Levy. The Medicare Levy is paid by almost everyone who has access to Medicare benefits; the Levy can only be avoided if you have a special exemption (for example, if you are a very low income earner or have special medical requirements – see the [ATO website](#) for more details.)





Lifetime Health Cover

If you're under 31 years old, be aware that under Lifetime Health Cover rules, you generally only have until the 1 July following your 31st birthday to purchase hospital insurance at the lowest rates. If you have already missed your normal deadline, then you will have to pay a loading on top of the normal premium. The loading is calculated on your age at the time of joining - generally, the older you are when you join, the more expensive your policy will be.

The LHC rules determine how much you pay for Australian private hospital insurance. The general rule is that the older you are when you first join, the more expensive your policy will be.

You usually have until the 1 July following your 31st birthday to purchase hospital insurance at the lowest rates. (There are some exceptions - for example, if you are a new migrant aged over 31, then you have until the first anniversary of your registration for a blue or green Medicare card.)

If you miss your normal deadline and join later, then you will pay a 2% "loading" on top of the normal premium for every year you are aged over 30. For example, if you take out hospital cover at age 40, you will pay a 20% loading - this means you pay 20% more than someone who first took out hospital cover at age 30. The maximum loading is 70%.

Once you have paid a LHC loading on your private hospital insurance for 10 continuous years, the loading is removed, as long as you retain your hospital cover.

Under certain circumstances, exemptions may apply – for example, if you are a new migrant to Australia, if you were a member of the Australian Defence Force, or if you were living overseas on your normal deadline day. You can find [more information about exemptions](#) and [calculate your loading](#) on Privatehealth.gov.au

Case Studies

Case Study: Government Rebate

Gillian has held private hospital cover since she was born, first on her parents' policy and then later as a single adult. Although she's now aged 33, she doesn't pay any Lifetime Health Cover age loading because she purchased the cover before her LHC deadline.

After receiving a promotion, Gillian's salary increases from \$80,000 to over \$90,000 in the 2013-14 financial year – meaning she's over the Medicare Levy Surcharge threshold of \$88,000. Since she already has hospital cover, she doesn't have to pay the Surcharge at tax time.

The amount she pays for her insurance does increase, however, because her Rebate level reduces from 30% (for people earning under \$88,000 and under 65 years of age) to 20% (for people earning \$88,001 - \$102,000 and who are under 65 years of age). Gillian notifies her health fund so that her monthly premium is debited at her new Rebate level.

Gillian's standard monthly premium, before the Rebate, is \$120 per month. With the 30% Rebate, her policy cost \$84 per month. Now that she receives the 20% Rebate, Gillian pays \$96 per month.

Case Study: Lifetime Health Cover

Rick is a single father aged 40, with a 10-year-old daughter. Rick has never held private hospital cover before. As a single parent with an income of \$110,000, he doesn't have to worry about the Medicare Levy Surcharge – the Surcharge only affects families earning over \$176,000.

To cover himself and his daughter, Rick decides to purchase private hospital cover. He purchases a hospital policy with a standard price of \$210 per month.

Since his income is under \$176,000, Rick is eligible for the 30% Rebate. The Rebate is calculated based on the standard price of the policy – 30% of \$210 is \$63.

As he has never held hospital cover before and he's aged 40, Rick has a Lifetime Health Cover loading of 20%. The loading is based on the standard price of the policy – 20% of \$210 is \$42.

The final price of Rick's family policy is calculated by adding the LHC loading to the standard price, then deducting the Rebate. For a policy with a standard price of \$210 per month, Rick pays \$189 per month.



Recent and upcoming events in Private Health Insurance

July 2013

- **Rebate Changes:** On 1 July 2013, Rebate and Medicare Levy Surcharge Changes took effect, meaning that the Rebate no longer applies to the LHC component of hospital cover premiums. The Rebate still applies to the standard price of hospital cover and to general treatment (extras) cover.

October 2013

- **PHIO Annual Report:** The Ombudsman's Annual Report will detail the activities undertaken by the PHIO in 2012-13. The report will include case studies, discussion of developments and complaint trends in the industry, as well as PHIO's outlook on 2013-14. The report will be published on www.phio.gov.au
- **Final Lodgement for Income Tax Returns:** You have until 31 October to lodge your income tax return. If you use a registered tax agent you can lodge later than 31 October, but you need to be registered as a client before 31 October to qualify. Your private health insurance tax statement details may be required for your income tax return – you can request your statement or ask for a reprint from your health fund.

November 2013

- **PHIO's Quarterly Bulletin:** The Ombudsman's bulletins keep the industry updated on the most recent health fund complaint statistics and trends in complaint issues. The bulletins are published on www.phio.gov.au

Useful Links and Resources

- **Privatehealth.gov.au:** This is PHIO's consumer website and is Australia's leading independent source of consumer information about private health insurance.
To find out more about the [topics in this newsletter](#) and [search a database](#) of every health insurance policy in Australia, please visit our website.

Calculators:

- [Lifetime Health Cover Calculator](#)
- [Australian Taxation Office: Medicare Levy Surcharge Income Calculator](#)
- [Australian Taxation Office: Private Health Insurance Rebate Calculator](#)



Contact Us

The Private Health Insurance Ombudsman (PHIO) protects the interests of people covered by private health insurance. We provide an independent service to help consumers with health insurance problems and enquiries. The Ombudsman can deal with complaints from health fund members, health funds, private hospitals or medical practitioners. Our services are free of charge.

General Enquiries:
1300 737 299 and website@phio.gov.au

Complaints Hotline:
1800 700 465 and info@phio.gov.au

Websites:
www.phio.gov.au and www.privatehealth.gov.au

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