

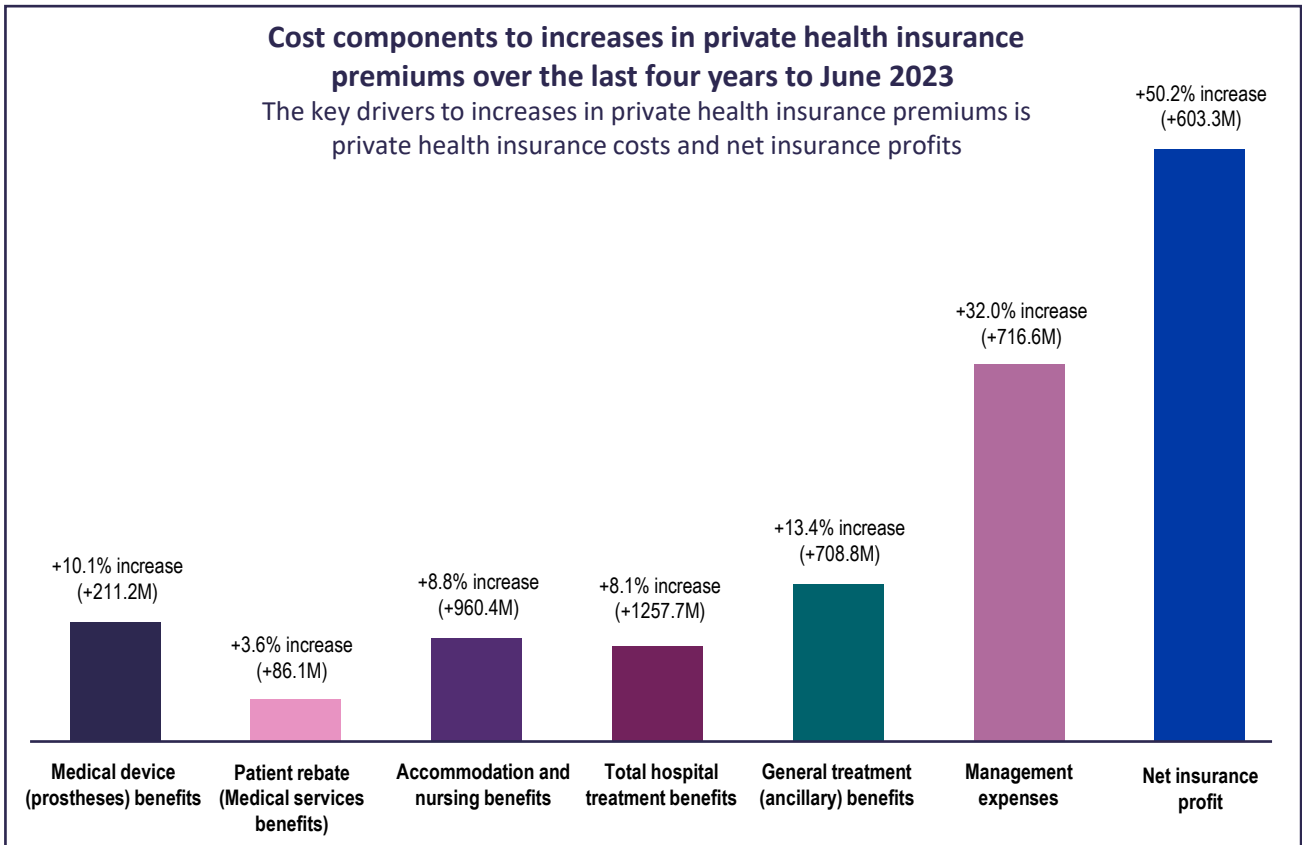
Where do your private health insurance premiums go?

Private health insurers will generally aim to set premium levels to cover the expected costs of benefits (that is, payments made on behalf of insured members for admitted hospital costs including doctors’ fees), plus the fund’s management costs. Management expenses comprise of the amount of premiums per policy that are used to manage the business of the fund. All funds have management expenses and depending on their position in the market and whether they are “for-profit”, they can have varying marketing costs, staff salaries, overheads and profit margins that need to be built into these expenses.

Regardless of whether a private health insurer is for-profit or not-for-profit, they have a number of expenses in common. For any episode of healthcare funded by an insurer they cover the following main expenses:

- hospital expenses: the amount paid to the private hospital
- medical expenses: the amount paid to doctors
- prostheses: the amount paid to buy items such as hip and knee joints or cardiac stents.

The figure below demonstrates that the key drivers to increases in private health insurance premiums is private health insurance costs, in particular management expenses, and net insurance profits. It is important to note that all insurers, including not-for-profits, must retain a small amount of profit to stay viable.



Year ending June 2019 has been used as the base comparison year, being the most recent pre-pandemic annual period.

In the year to June 2023 compared to the year to June 2019 (pre-pandemic), management expenses increased by 32.0%, net insurance profit increase 50.2%.

Sources:

- APRA, 2022–23, Operation of Private Health Insurers Annual Report 2022–23.xlsx
- For financial year 2019, the operating performance including operating profit: APRA 2019, PHI_operations_June2019.xlsx
- For financial year 2022–23 premium revenue, claims, net margins, net investment income, management expenses: APRA, 2023, Quarterly Private Health Insurance Membership and Benefits December 2023.xlsx

Notes:

Other revenue from health-related business and net investment income have been excluded from insurance operating profit. Had these been included, profit for funds would show an even larger increase. Likewise tax paid is also excluded.
Funds paid \$608M in tax expenses in FY 2022–23, however they also earned ‘other revenue’ and ‘investment revenue’ of \$929M which meant net profit after tax was even higher than the net insurance margin. Total surplus after tax was \$2.057 billion in FY 2022-23, compared to \$1.380 billion if 2018–19, resulting in an increase of \$676 million across the four years.