



## Media Release

November 2007

### **Interest Rate Rises Could Impact**

The Reserve Bank decision to increase official interest rates by 25 basis points this week could have an impact on those with private health cover if rises were to continue. If official interest rates increased one per cent over the coming year, more than 220 thousand Australians with private health insurance said they would be 'very likely' to drop their cover, according to the Ipsos Health Care & Insurance – Australia 2007 Report.

Ipsos Project Director, Erik Okerstrom, said; with the average mortgage well over \$300,000 nationally, increased petrol prices and drought pressure on grocery costs already stretching the family budget, private cover may be the first to go as a way to keep costs under control.

“It shows even the most stalwart supporters of private health insurance are saying enough’s enough. This is potentially damaging for the entire industry, not just the funds, that are otherwise forecast to see some steady growth over the coming year,” Mr Okerstrom said.

The report indicates there is an upper limit to the amount current private insurance contributors are prepared to pay, made worse by premiums rising at a faster rate than overall CPI – but not more than the medical and health rate of CPI.

The average family premium for top hospital and extras cover is around \$69 per week and research shows that once premiums reach beyond \$70 per week consumer confidence continues to fall steeply.

Price gaps after hospital treatment is another reason cited for dropping private cover.

“People feel they are paying twice when they have an unexpected gap and this lessens the perceived value of the cover, especially when they are not informed of these charges,” Mr Okerstrom said.

The Ipsos report also found a drop in the perceived quality of care in public hospitals is not likely to soften the negative impact of rising rates. Sixty Eight percent (68%) of Australians now have confidence in their local public hospital system, a gradual decrease from seventy three percent (73%) in 2005. In 2005 only 3% said they were very likely to drop their cover if interest rates rose by 1%, this has nearly doubled to 5% in 2007.

The gap in service rating of public vs private hospitals has also widened. Private hospitals increasing their lead in perceived service quality to 56% rating them high compared to 47% for public hospitals.

“Though private hospitals have a lead in perceived service quality over public hospitals, people still find it hard to see a need for private cover given the forbidding cost. Private hospitals need to



## Media release (continued) – Private health cover

demonstrate the benefits of private care more clearly. They have been very quiet in promoting themselves and the role they play in the Australian healthcare system. Focusing their promotion on health funds and doctors rather than patients where demand is clearly driven. Rising interest rates putting pressure on family budgets will make the consumer harder to ‘convince’ that private health care is worth it, meaning potentially fewer customers for the private hospital system” Mr Okerstrom said.

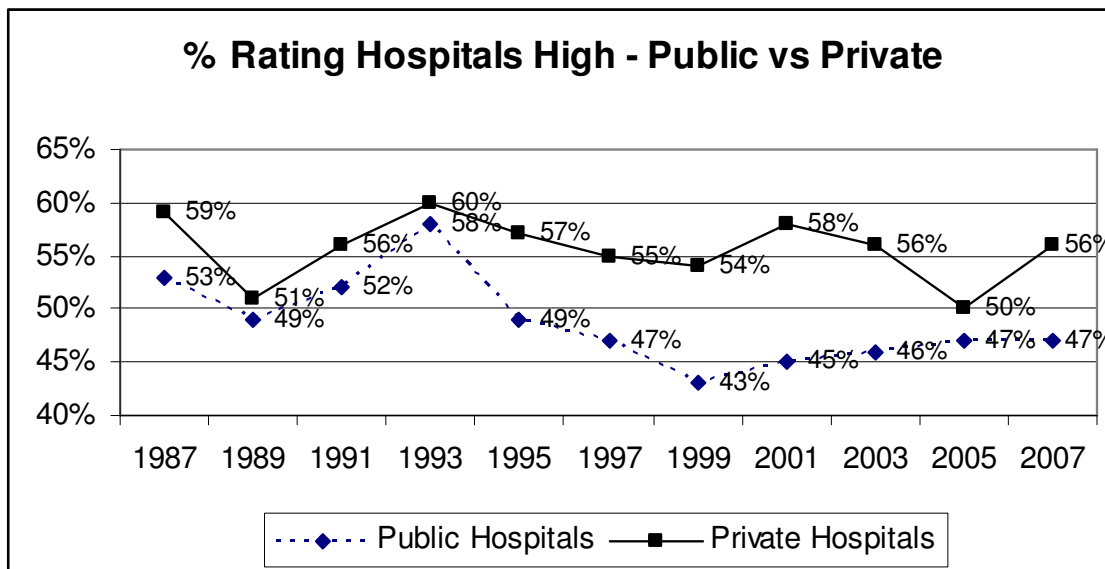
### Questions asked:

**Interest rates:** “There has been some talk of interest rates going up by perhaps a percentage point or so over the next year. If this occurred, what would the impact be on your private health insurance? How likely would you be to drop your private health insurance as a result of this interest rate increase? Would you say it’s very unlikely, fairly unlikely, neither likely nor unlikely, fairly likely or very likely?”

**Rating Public Hospitals:** How would you rate the service offered by public hospitals in (STATE/TERRITORY)? Would you say...Very high, Fairly high, Neither high nor low, Fairly low or Very low.

**Rating Private Hospitals:** How would you rate the service offered by private hospitals in (STATE/TERRITORY)? Would you say...Very high, Fairly high, Neither high nor low, Fairly low or Very low.

<b>% Likelihood of Dropping PHI if Interest Rates Increase a Percent or So</b>	<b>2005</b>	<b>2007</b>
Very unlikely	59%	60%
Fairly unlikely	26%	23%
Neither likely or unlikely	7%	7%
Fairly likely	3%	5%
Very likely	3%	5%
<b>NET UNLIKELY</b>	<b>85%</b>	<b>83%</b>
<b>NET LIKELY</b>	<b>7%</b>	<b>9%</b>
Don't know	1%	1%



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Ipsos Health Care & Insurance Report Background:

The Ipsos Health Care & Insurance Australia Report is a biennial syndicated publication based on a phone survey of over 5,300 Australians, geographically representative of the population. It focuses on consumer attitudes and trends towards the public and private health sectors- what Australians really think. It is a well respected report supported by government health departments (Federal and state/territory), major private health insurance organisations and health-related industry associations. The report has been measuring consumer attitudes in healthcare since 1987.