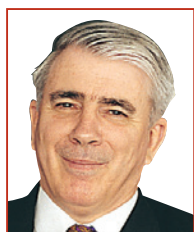


# Dental patients exploited by large health insurance funds

By Graham Middleton, BA, MBA



*“Extras cover is rarely cost-effective and best avoided; if consumers really want it, it should be purchased from one of the small mutual funds which don’t have to remit their profits to shareholders or a UK parent...”*

**T**he issue of dental patients being exploited by large health insurance funds has worried dentists, with the President of the ADA noting in ADA Inc.’s June publication that Medibank Private, Bupa, nib and HCF each keep over 22% of extras premiums, paying out less than 78% to their extras policyholders in benefits. This compared with smaller mutual funds ACA, HPL, Navy Health and Defence Health, which skimmed only 5% to meet reasonable administrative expenses. Such is the power of advertising that the big four funds taking 22% of premiums account for 73% of the market, while the four small funds, taking 5% collectively, accounted for 3% of the market. Advertising agencies are good at distracting consumers with fluffy TV advertisements without exposing the true facts as to the quality of the product being sold. This is a process sometimes referred to as putting lipstick on pigs.

## Whitecoat

**N**ib, Bupa and HBF are now partners in utilising Whitecoat, which has the ability to trawl information from HICAPS, the in-practice terminals, whereby patients offset their treatment invoices with their health fund rebate. This has

sinister overtones of Big Brother assessing health-care information and using it to divert patients away from the dentist or other health professional of their choice.

## Big funds exploit extras insured

**H**ealth funds also restrict the alternative treatments dentists can offer, not on the basis of clinical experience but on the basis of saving money. Hence they are able to maintain this 22 cents in the dollar margin. This is not possible with hospital cover, because they cannot regulate the rate at which people require hospitalisation and health costs grow faster than inflation with an ageing population. Further, the large private hospital networks, knowing they hold a significant number of scarce hospital beds, are in a relatively strong bargaining position with the health funds. As a result, the health funds cannot achieve that sort of margin on hospital cover. Additionally, mutual cost sharing features of hospital insurance legislation mean there is less incentive for the funds to attack hospital costs. Consequently, the big health funds heavily promote extras insurance, but simultaneously manipulate the benefits which are 50% dental, followed by optical, physio and chiropractic in order to meet the funds’ profit targets. Since it’s

extras insurance, which has the highest profit margin for the big health funds and since dental treatment is 50% of extras insurance, it is dental patients who bear the brunt of benefits manipulation by health funds.

### Dissecting Medibank Private's financial results

According to the Melbourne *Herald Sun* on 9 May 2016, Bupa, which remits its profit to its UK parent, recorded net surplus of \$328.7 million in the 2015 financial year; Medibank Private \$317.7 million; and HCF \$153 million. Medibank received government approval to increase its overall premiums by 6.59% from 1 April 2015 and another 5.64% from 1 April 2016. These are huge increases in a time when inflation has fallen to under 2% per annum. Medibank Private increased its net profit by 46.4% to \$417.6 million in the 2016 financial year yet its premium revenue fell by 4%! Its number of insured fell by 2.6% and overall claims paid were 83.4% of revenue, indicating a gross margin of 16.6% of premiums; but the 16.6% figure masks the fact that with an extras margin of 22%, the margin on hospital cover must have been much less! In other words, Medibank Private is growing its profit at the expense of its extras policyholders. nib also had huge premium increases.

### No detail in Medibank Private and nib financials

The big health insurers are careful not to break down their extras premium income from their hospital premium income in their annual financial results. Nor do they assign their administrative expenses separately. That would, if done, correctly signal to consumers that extras premiums are way too high relative to benefits paid out and relative to hospital premiums. It would also signal to financial analysts that the financials of the two Australian stock exchange listed businesses, Medibank Private Ltd and nib Ltd, may be more risky than superficial analysis would reveal looking at the consolidated figures.

### Bupa's 86% payout!

UK-owned Bupa has claimed that 86 cents of every dollar of premium revenue is paid out in benefits. However,

again this doesn't disclose the actual payout ratios for hospital cover vis-à-vis extras cover. Since we know from elsewhere that the extras payout ratio is 78 cents, it follows that to get an average payout ratio of 86 cents in the dollar, the hospital payout ratio was significantly higher than the 86 cents.

In simple terms, extras policyholders are being exploited but Bupa is having difficulty in containing hospital cover related payments. Bupa remits its profits to its UK health fund parent and therefore Australian consumers who buy extras cover from Bupa are indirectly cross-subsidising Bupa's UK patients! As a good Australian of British heritage, I'm friendly towards the British but I believe they can pay for their own health cover and don't need to be cross-subsidised by excessive extras premiums paid by Australian consumers.

### Majority better off

All of the above points to the fact that the vast majority of extras policyholders would be better off not having extras cover at all and paying their own dental, physio and chiropractic bills and buying their own spectacles.

### Excessive return on capital

Reportedly financial analysts at Credit Suisse and UBS calculated health fund returns on capital at 17% and 18% respectively, well above that of general insurers at about 12.5%.

### Differential rebates - ethical issues

Some large health funds are indicating to their clients that they will get a bigger rebate if they leave their dentist of personal choice and go to one nominated by their fund as a preferred provider. There are serious ethical issues involved, since the fund's preferred provider often has less experience, but has agreed to fund directions to restrict some treatment options.

Patients are unaware of the true meaning of a dentist being a preferred provider or that many of the better dentists by qualification or experience are likely to be among those who are not preferred providers.

Differential rebates are an abuse of health fund relationships with their clients. They are not permitted under UK law, but in Australia, the health funds have found ways of skirting the intent of the law.

### Two dentists in town - Superior vs Inferior Practice

Consider a country town with two dental practices. One practice is far superior in terms of the quality of its dentists, both clinically and in chairside manner, the quality of its premises and of its equipment. Its staff have higher morale and it is invariably well-booked several weeks in advance.

The other practice is decidedly inferior. Its dentists haven't upgraded their clinical skills, being more of a patch-up practice. Its premises are long overdue for renovation and its equipment is ageing. There are many gaps in its appointment book and its staff morale is poor.

Desperate for more patients, Inferior Practice signs up as a preferred provider with several big funds. Insured patients of Superior Practice are then advised by their funds that their dentist is too expensive and to get a better rebate they should attend a preferred provider practice. The nearest preferred provider practice is Inferior Practice!

How can health funds justify this practice ethically?

### Senate enquiry

Senator Nick Xenophon is reported as seeking a senate enquiry into the practice of health insurers, with particular attention to the discriminatory nature of rebates between so-called preferred and non-preferred providers.

The senator has reportedly received first-hand accounts from private health insurance customers about this discriminatory behaviour, but his main focus will be his home state of South Australia and the behaviour of health funds in particular Bupa, which holds the lion's share of private health insurance policies in South Australia. Reportedly Senator Xenophon expressed shock that policyholders who choose to attend their own dentist receive lower rebates from Bupa than policyholders who attend the fund's own clinics!

## Some authoritative verdicts

### PHIAC

Private Health Insurance Administrative Council CEO Shaun Garth was quoted in the *Advertiser* of 30 March 2015 as saying that extras cover was an irrational purchase and “probably doesn’t make sense”, however “funds spend a lot of money advertising it”. PHIAC’s function has now been absorbed into the Australian Prudential Regulatory Authority.

### Consumer Health Forum

Consumer Health Forum CEO Leanne Wells has called for “junk” policies to be weeded out. She pointed out there are now 48,000 health policy options on the market (per *The Australian* 8 January 2016). The best way to hide something is to bury it in a mass of data. Health funds, which produce a myriad of policy options, are able to easily confuse consumers as to where true value lies or does not lie.

### Health Minister Ley

Health Minister Sussan Ley was quoted in the *Australian Financial Review* of 29 October 2015 as saying that health insurance policies which exclude certain procedures often surprise patients who have paid for increasingly expensive cover and are a waste of money and need to be fixed. We note that Medibank Private is defending claims by a significant number of policyholders that they ended up having to pay for procedures which they had believed were covered by their policies. Naturally, Medibank Private has rejected claims of misleading its policyholders.

### Medibank Private prospectus

The Medibank Private Ltd prospectus issued to prospective investors in the initial public offer of shares prior to listing as a public company on the Australian Stock Exchange showed that 96% of hospital related expenses were covered, but on average only 52% of extras expenses were paid out. If these figures hold true today, the insured with extras cover are having 22 cents in the dollar of premium taken away and are only receiving back 52% of the actual cost of the procedures which they believed to be covered.

## Graeme Samuel

Former ACCC chairman Graeme Samuel, who had been an adviser on the government’s private health insurance review, was reported in the *Australian Financial Review* of 9 June 2016 as saying the complexity and capacity of health insurance makes it impossible for most consumers to make an informed choice. Samuel says the big health funds must lead the push for change or face disaster as more members downgrade or quit. Mr Samuel said he found it “bloody hard” to pick a fund when he decided to shop around as a case study after being hit by an 8% premium rise by Medibank Private.

### Choice

Consumer group Choice spokesman Tom Godfrey has indicated that people would be better off keeping extras premiums in the bank and personally paying for dental treatment and spectacles.

### Avoiding Medicare surcharge

For those who insure to avoid paying the Medicare surcharge, hospital cover alone will achieve this and is a more rational choice because it is likely to cover the big items like hip replacement and heart surgery. However, consumers need to be careful to read what the policy covers and what it doesn’t cover, as the big health funds confuse their clients with a bewildering array of options. It’s also important not to pay for items that will never be claimed - if the wife of a couple is past childbearing age, obstetric cover is unnecessary.

### About the author

*Graham Middleton personally has been advising dentists on strategic, practice management, valuation and conflict resolution processes for 29 years, the last 22 as a founding partner and director of Synstrat Management Pty Ltd and Synstrat Accounting Pty Ltd. He was once a regular army officer, and later Director Human Resources Manager, Attorney General’s Department of Victoria. He is considered an expert on dental practice valuation and practice performance benchmarking. He has spent many years advising dentists in respect of their business and financial strategy and measuring their practice and financial performance. He is the author of Synstrat Dental Stories, the Synstrat Guide to Practice Management, 50 Rules for Success as a Dentist and Buying & Selling General & Specialist Dental Practices. He is a long-term contributor to the Australasian Dental Practice magazine. The Synstrat Group is an independent data-based organisation providing management, benchmarking, valuation, financial and accounting services to the dental profession. Synstrat Management Pty Ltd is a Licensed financial services company. Both Synstrat companies are owned by the same directors who work within the Synstrat Group. For more info, call (03) 9843-7777, Fax: (03) 9843-7799, email dental@synstrat.com.au or see www.synstrat.com.au.*

## The overall verdict

It only makes sense to buy hospital cover which includes at-risk items but excludes unnecessary options. Hospital cover is best bought from one of the small mutual funds such as ACA, HPL, Navy Health, Defence Health, HIF or Frank.

Extras cover is rarely cost-effective and best avoided; if consumers really want it, it should be purchased from one of the small mutual funds which don’t have to remit their profits to shareholder dividends or a UK parent. Until the big health funds, Bupa, Medibank Private, nib, HCF and HBF reform themselves, they are best avoided.

### Comparator websites

In reality, these businesses induce policy owners to change funds for a commission. They are therefore not objective.

### Ethical question for dentists?

As the unpleasant facts about extras cover have been exposed, dentists who are preferred providers will find themselves in an ethical dilemma as to whether they have a responsibility to advise their patients that extras health insurance cover offered by the big funds does not represent fair value, and that patients would be better off cancelling it and paying their dentist of choice themselves.

### Personal disclosure

*My wife and I have hospital cover only with a small mutual fund.*