PRESS RELEASE

For immediate release
6 February, 2018

Experts weigh in: How to make health insurance affordable

- 45% of economists surveyed support removing natural therapies from health insurance policies
- 27% believe eliminating risk equalisation laws could make health insurance cheaper
- All 30 members of the finder.com.au RBA survey correctly predicted a cash rate hold today

6 February, 2018, Sydney, Australia – With a health insurance price hike double inflation looming, a panel of experts and economists surveyed by finder.com.au, the site that compares virtually everything, has addressed the issue of health insurance affordability – with the removal of both natural therapies and risk equalisation laws both cited as potential cost-cutting measures.

While all 30 members of the latest finder.com.au RBA survey correctly predicted a cash rate hold today (06/02/2018), one in five said the central bank may change strategy in 2018 by potentially increasing rates by smaller increments than the traditional 0.25% enforced in previous years.

Beyond cash rate movements, the panel were asked about the current planned increases to health insurance premiums, as well as which reforms would have the biggest impact on affordability.

Five of the 11 panelists that weighed in on this question said removing natural therapies from policies would have the largest impact on affordability, while three said removing the 10% discount for young Australians (aged under 30) would have a positive effect.

Graham Cooke, Insights Manager at finder.com.au, says Australians could benefit from policies without natural therapies.

“Many Australians don’t realise they are covered for natural therapies as they are packaged up with other extras such as dental or optical. Removing non-clinically proven therapies such as homeopathy and reflexology could reduce premium costs across the board,” he says.

In what may be deemed a controversial stance, three (27%) experts and economists believe removing the risk equalisation policy could make health insurance more affordable overall.

“Risk equalisation means insurers in Australia cannot penalise a policyholder for being at a higher risk of illness. With this rule in place, health insurance is as affordable for the elderly as it is for younger people. Eliminating this policy would mean cheaper insurance for some, but could also mean more expensive insurance for the most vulnerable people in society,” Mr Cooke says.

Reform to boost competition, copayments and self-funding were also cited as ways to boost policy affordability.

Panellists were also asked about the average premium increase of 5.42% which has occured since 2010, and whether or not this increase was justified.

Of the 12 economists and experts who responded, the majority (58%) thought this was justified.

Mr Cooke says rising premiums are the result of multiple factors including the rising cost of healthcare and Australia’s ageing population.

“While it’s true that the cost of insurance has risen faster than inflation, there are many factors driving this increase so there is no ‘one size fits all’ solution that will address affordability,” he says.

“With premiums going up like clockwork every year at a faster rate than wages, insurance is getting less affordable for most families. This means it’s a more important time than ever to shop around for a better value policy before your costs are jacked up,” he says.

Here’s what our experts had to say:

Jordan Eliseo, ABC Bullion (Hold): "The RBA will hold rates where they are - economic data is still lukewarm at best, with latest inflation data still short of their targets, whilst credit growth is also soft. It is still our base case that the next move in rates is down, though the RBA will be in no rush to move the dial."

Tim Nelson, AGL Energy (Hold): "A number of factors are serving to hold inflation down. December quarter consumer price inflation (CPI) report has come in slightly below expectations. Wage growth may pick up but likely to take time and even then it is unclear how this will manifest into inflation. Currency continues to be robust."

Shane Oliver, AMP Capital (Hold): "While confidence, jobs and non-mining investment are strong, inflation remains below target, wages growth remains around a record low, uncertainty is high regarding the outlook for consumer spending and the Australian dollar is too strong. As such it is too early for the RBA to consider raising interest rates."

John Hewson, ANU (Hold): "The RBA can't afford to do otherwise given level of household debt."

Alison Booth, ANU (Hold): "The fundamentals do not want any change to the cash rate at this time."

Malcolm Wood, Baillieu Holst (Hold): "Despite recent improvements in business and consumer confidence, wage pressure remains low, household fundamentals challenged and underlying inflation below the RBA's target band."

Richard Robinson, BIS Oxford Economics (Hold): "inflation and wages growth is low, and unlikely to be a problem for at least 2-3 years, so a rate rise is not needed. Also, a rate rise will drive up the A$, which will negatively impact growth. Economic growth is reasonable, so a rate cut is not warranted. A rate cut would also re-ignite the property market."

Paul Dales, Capital Economics (Hold): "There is still not enough inflation to prompt the RBA to raise interest rates and concerns about the consequences of high household debt prevent the RBA from cutting rates."

Saul Eslake, Corinna Economic Advisory (Hold): "Despite the pick-up in both economic and employment growth during the second half of last year, there remains a considerable margin of 'spare capacity' in the labour market, and to a lesser extent in the economy more broadly, which together with global factors is keeping both wage and price inflation below where the RBA wants it to be. The recent strengthening in the A$ to above US80c, albeit largely on the back of a weaker US$, is another complication the RBA would rather not have."

Peter Gilmore, Gateway Credit Union (Hold): "The RBA will stay on hold through to last quarter of 2019.”

Mark Brimble, Griffith University (Hold): "The Board uncertainty in the market and a balance of upside and downside indicators will keep the RBA on the sidelines."

Shane Garrett, Housing Industry Association (Hold): "Conditions with respect to inflation, the labour market, economic growth and the exchange rate do not justify a change in rates at this time."

Alex Joiner, IFM Investors (Hold): "Labour market data has been strong but the remainder of the economy still requires support and inflation remains below the lower bound of the RBA's target - there is no need for a hike in the short term."

Dr Andrew Wilson, Independent Economist (Hold): "The latest data is too benign for rate movement - low inflation, higher dollar, cooling house prices, positive labour market, declining building approvals, lower home investor activity - a mixed bag means wait and watch early days 2018 for RBA."

Stephen , Koukoulas (Hold): "RBA continue to miss its inflation target and despite evidence that a rate cut is needed, it is likely to remain on hold. It will cite an improving global economy as a key reason."

Leanne Pilkington, Laing+Simmons (Hold): "The most recent data indicates house price growth has slowed in the major capital city markets, reinforcing a wait-and-see approach from the RBA. The regulator's efforts to dampen activity appear to be working, with tighter lending criteria having the desired effect, though it's worth remembering that a pronounced decline in house prices will impact consumer confidence, so the situation is delicate."

Nicholas Gruen, Lateral Economics (Hold): "There's no excuse to raise rates."

Mathew Tiller, LJ Hooker (Hold): "Despite strong employment numbers, inflation and wage growth both remain stubbornly low."

John Caelli, ME (Hold): "There is no sense of urgency for the RBA to raise rates quite yet, particularly with a high dollar, low inflation and low wages growth."

Michael Yardney, Metropole Property Strategists (Hold): "The RBA is likely to be pleased with the way our economy is performing with strong jobs creation and falling unemployment, meaning there is no strong impetus to lower rates. Similarly there is no reason to raise rates in the short term as our property markets have slowed down, thanks to APRA's macroprudential controls."

Mark Crosby, Monash University (Hold): "2018 will be watch and wait for the RBA, as they observe movements in overseas rates and ponder timing for a rate rise in Australia."

Jessica Darnbrough, Mortgage Choice (Hold): "The domestic economy is tracking along quite well at the moment, giving the RBA no real reason to change their current monetary policy setting. Furthermore, given that the latest inflation data came in slightly below the RBA's target band range, I would be surprised to see the Board move rates either up or down at the present time."

Christopher Schade, MyState Bank (Hold): "While Australian economic data has, for the most part, been marginally than expected over the past few months, the Reserve Bank will leave rates at their current highly accommodative level for at least the next few months to allow the economy to continue to gather momentum. The economy is far from overheating, downside risks remain, inflation remains well contained, and the recent rise in the Australian dollar has served to tighten financial conditions for the Australian economy."

Alan Oster, Nab (Hold): "Too early to move. Need signs of wages growth to support the consumer."

Matthew Peter, QIC (Hold): "Lack of inflation pressure and a high dollar act as counterpoints to a strong labour market and improving an improving growth outlook. RBA to keep rates on hold."

Noel Whittaker, QUT (Hold): "The Aussie dollar is surging – the last thing the bank will do is pour fuel on the fire by increasing rates. And there is no way that will drop them."

Nerida Conisbee, REA Group (Hold): "There has finally been some positive economic news that suggests that a rate rise will be on the cards this year. My view however is that it is still too early to make a move."

Janu Chan, St.George Bank (Hold): "Low inflation, slow wage growth and ongoing spare capacity in the labour market will keep the RBA on hold in the near-term. "

Brian Parker, SUNSUPER (Hold): "CPI was a little disappointing, but not enough for RBA to change its views."

Clement Tisdell, UQ-School of Economics (Hold): "No economic reason to alter."

###

We now have a news feed on Twitter! Follow us for the latest updates or drop us a line to say hi: @finder_news.

For further information:

Bessie Hassan
Head of PR
& Money Expert
+61402 567 568
+61 1300 FINDER (346 337)
Bessie@finder.com.au