

3 Funding of health expenditure

3.1 Broad trends

In 2007–08, governments provided \$71.2 billion or 68.7% of the total to fund health expenditure in Australia. The contribution of the Australian Government was \$44.8 billion (43.2% of total funding) and state, territory and local governments contributed \$26.4 billion (25.5%) (tables 3.1 and 3.2).

Non-government funding sources (individuals, private health insurance and other non-government sources) provided the remaining \$32.4 billion (31.3%).

Funding by the Australian Government increased between 2006–07 and 2007–08 by \$4.9 billion; state, territory and local governments' funding by \$1.9 billion; and non-government funding by \$1.8 billion.

Table 3.1: Total funding for health expenditure, current prices, by source of funds, 1997–98 to 2007–08 (\$ million)

Year	Government			Non-government ^(a)	Total
	Australian Government ^(a)	State/territory and local	Total		
1997–98	18,852	11,332	30,184	14,618	44,802
1998–99	20,959	11,501	32,460	15,968	48,428
1999–00	23,304	13,076	36,380	16,189	52,570
2000–01	25,864	13,601	39,465	18,803	58,269
2001–02	27,752	14,661	42,413	20,686	63,099
2002–03	30,005	16,780	46,785	22,013	68,798
2003–04	32,033	17,349	49,382	24,127	73,509
2004–05	35,493	19,426	54,918	26,142	81,060
2005–06	37,074	21,907	58,981	27,704	86,685
2006–07	39,872	24,485	64,358	30,581	94,938
2007–08	44,773	26,379	71,152	32,411	103,563

(a) Funding of expenditure has been adjusted for non-specific tax expenditures (see page 28).

Note: Components may not add to totals due to rounding.

Source: AIHW health expenditure database.

At the broad level, the relative shares of funding by the different funding sources altered little between 1997–98 and 2007–08. The Australian Government contribution ranged from a low of 42.0% in 2006–07 to a high of 44.4% in 2000–01, while the state, territory and local governments contribution ranged from a low of 23.2% in 2001–02 to a high of 25.8% in 2006–07. Funding by the non-government sector ranged from 6.8% to 7.8% (Table 3.2 and Figure 3.1). Part of the reason for the increase in the Australian Government's share was the way the private health insurance incentives introduced in the late 1990s were treated. They were regarded as a form of subsidy and were allocated across the areas of expenditure in accordance with the health insurance funds' expenditure ratios. The result was a substantial

shift of funding responsibility from the private health insurance funds to the Australian Government.

Table 3.2: Total funding for health expenditure, by source of funds as a proportion of total health expenditure, 1997–98 to 2007–08 (per cent)

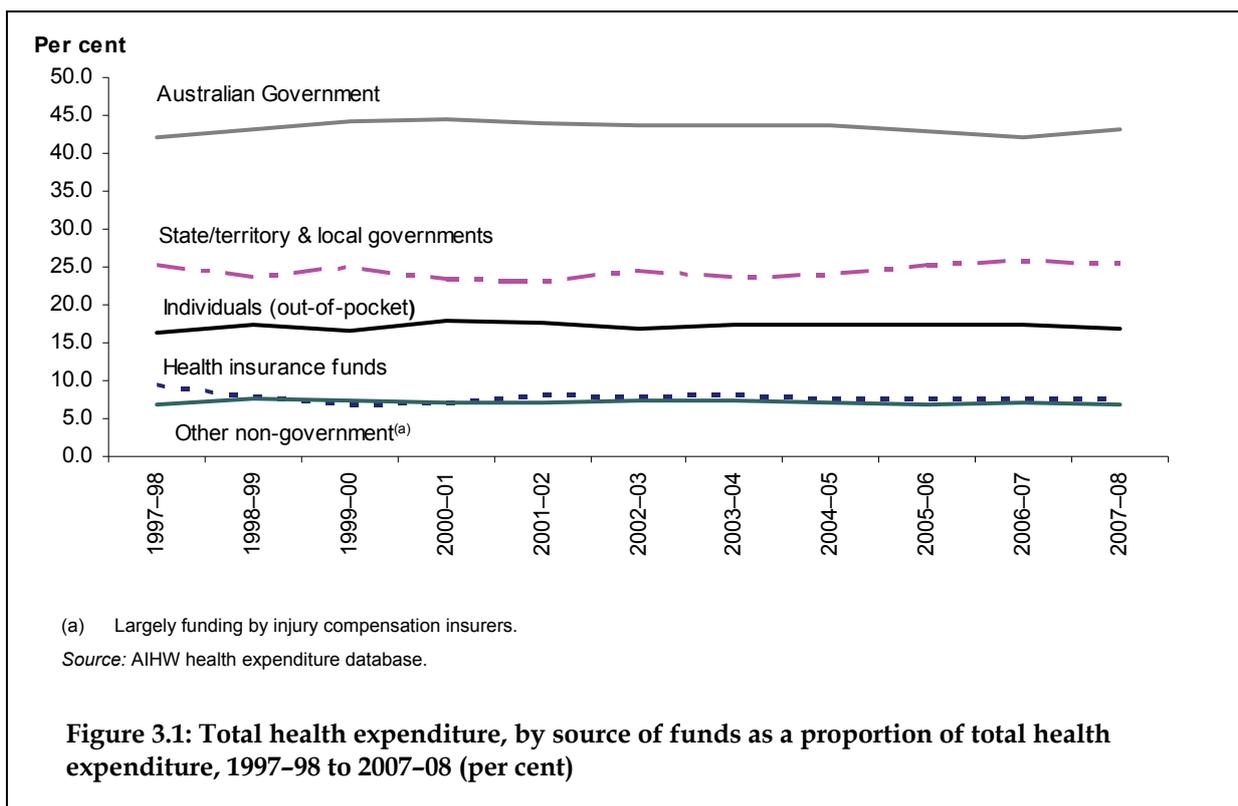
Year	Government			Non-government			Total
	Australian Government ^(a)	State/territory and local	Total	Health insurance funds	Individuals ^(a)	Other	
1997–98	42.1	25.3	67.4	9.5	16.3	6.8	32.6
1998–99	43.3	23.7	67.0	8.0	17.3	7.8	33.0
1999–00	44.3	24.9	69.2	6.9	16.7	7.3	30.8
2000–01	44.4	23.3	67.7	7.1	18.0	7.2	32.3
2001–02	44.0	23.2	67.2	8.0	17.5	7.2	32.8
2002–03	43.6	24.4	68.0	8.0	16.7	7.3	32.0
2003–04	43.6	23.6	67.2	8.1	17.4	7.3	32.8
2004–05	43.8	24.0	67.7	7.7	17.4	7.1	32.3
2005–06	42.8	25.3	68.0	7.6	17.4	6.9	32.0
2006–07	42.0	25.8	67.8	7.6	17.4	7.2	32.2
2007–08	43.2	25.5	68.7	7.6	16.8	6.9	31.3

(a) Funding of expenditure has been adjusted for non-specific tax expenditures (see page 28).

Note: Components may not add to totals due to rounding.

Source: AIHW health expenditure database.

The Australian Government's contribution in 2007–08 was 43.2%, which was 1.1 percentage points higher than in 1997–98, while the contribution of the state, territory and local governments in 2007–08 was 25.5%, 0.2 of a percentage point higher than in 1997–98 (Table 3.2).



Health funding can also be expressed as a proportion of GDP. Over the decade from 1997-98 to 2007-08, funding by governments increased, as a proportion of GDP, from 5.2% to 6.3%. Most of this was the result of increases in funding by the Australian Government, from 3.3% to 4.0% of GDP (Table 3.3). Funding by state, territory and local governments increased from 2.0% to 2.3%. Non-government sources increased from 2.5% to 2.9%.

Table 3.3: Total health expenditure, current prices, by source of funds as a proportion of GDP, 1997-98 to 2007-08 (per cent)

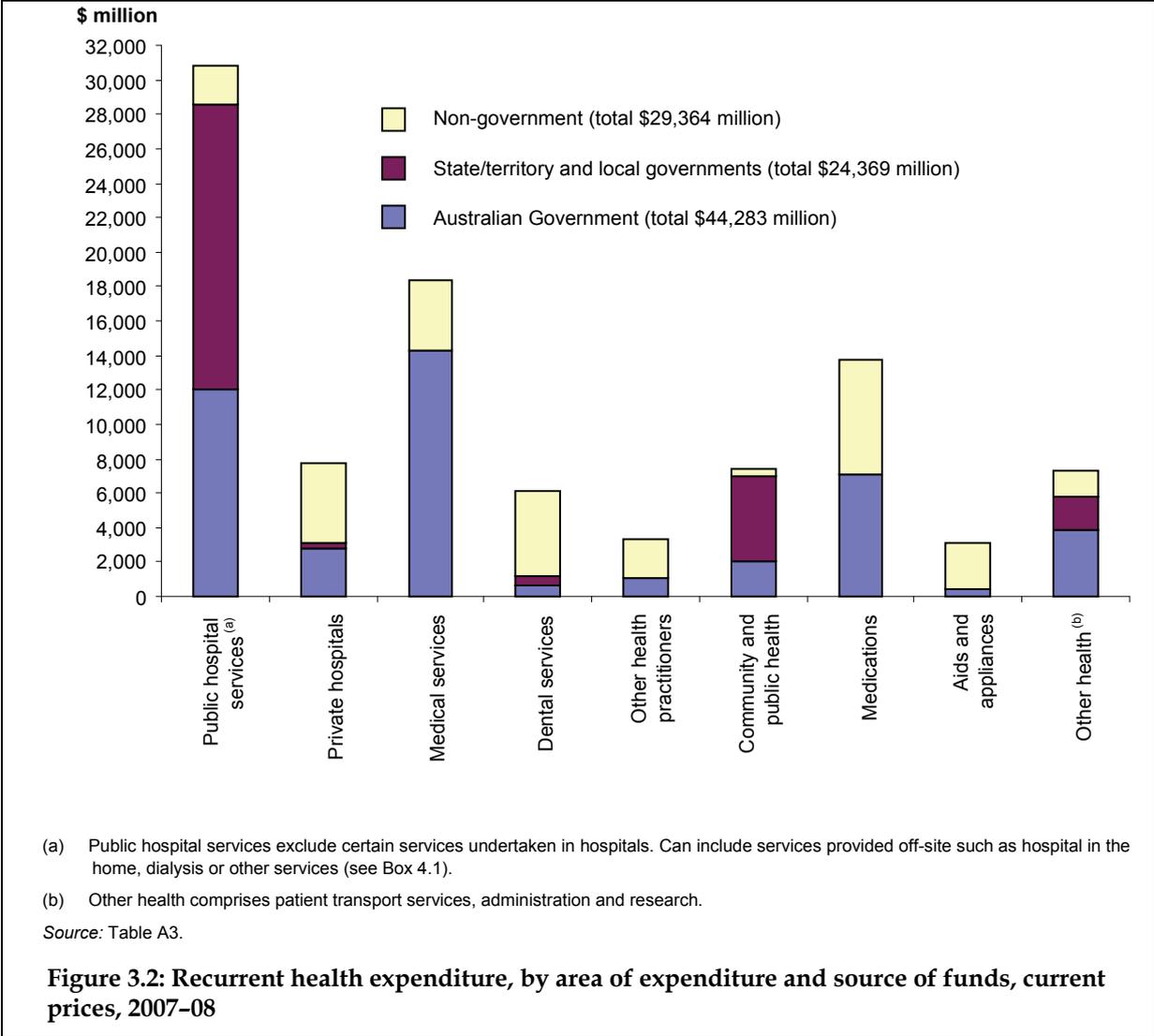
Year	Government			Non-government ^(a)	Total
	Australian Government ^(a)	State/territory and local	Total		
1997-98	3.3	2.0	5.2	2.5	7.8
1998-99	3.4	1.9	5.3	2.6	8.0
1999-00	3.6	2.0	5.6	2.5	8.1
2000-01	3.8	2.0	5.7	2.7	8.5
2001-02	3.8	2.0	5.8	2.8	8.6
2002-03	3.8	2.1	6.0	2.8	8.8
2003-04	3.8	2.1	5.9	2.9	8.7
2004-05	4.0	2.2	6.1	2.9	9.0
2005-06	3.8	2.3	6.1	2.9	9.0
2006-07	3.8	2.3	6.2	2.9	9.1
2007-08	4.0	2.3	6.3	2.9	9.1

(a) Funding of expenditure has been adjusted for non-specific tax expenditures (see page 28).

Note: Components may not add to totals due to rounding.

Sources: AIHW health expenditure database and ABS 2009a.

The distribution of funding by the Australian Government, state, territory and local governments and the non-government sector varies depending on the types of health goods and services being provided (Figure 3.2). The Australian Government provides a substantial amount of funding for medical services, with the balance primarily from individuals. The state, territory and local governments on the other hand provide most of the funding for community and public health services. The governments share most of the funding for public hospital services while individuals account for a large portion of the funding for medications, dental services and aids and appliances.



After allowing for inflation, real growth in the Australian Government’s funding for health averaged 5.4% a year from 1997-98 to 2007-08. At the same time, funding by the state, territory and local governments also grew at an average of 5.4% per year and non-government funding by 4.8% a year (Table 3.4).

In 2007-08, the Australian Government’s funding grew by 9.3%, while funding by state, territory and local governments and by non-government sources grew by 4.0% and 3.2%, respectively.

3.2 Australian Government funding

The Australian Government provided \$44.8 billion to fund health expenditure in 2007–08. This represented 62.9% of total government health funding (calculated from Table 3.1, page 21). This was made up of:

- funding by the Australian Government Department of Veterans' Affairs (DVA) of goods and services provided to eligible veterans and their dependants (\$3.4 billion or 7.7%)
- specific purpose payments (SPPs) to the states and territories for health purposes (\$11.3 billion or 25.3%)
- rebates and subsidies for privately insured persons under the *Private Health Insurance Act 2007* (\$3.6 billion or 8.0%)
- direct expenditure by the Australian Government on health programs – mostly administered through the Australian Government Department of Health and Ageing (DoHA) – for which it has primary responsibility (such as MBS and PBS) (\$26.1 billion or 58.2%)
- non-specific tax expenditure (\$0.4 billion or 0.9%).

Table 3.5: Funding of health expenditure by the Australian Government, current prices, by type of expenditure, 1997–98 to 2007–08 (\$ million)

Year	DVA	Grants to states (SPPs)	Health insurance premium rebates ^(a)	Own program expenditure	Non-specific tax expenditure	Total
1997–98	1,619	5,651	407	11,047	128	18,852
1998–99	1,904	6,201	963	11,745	145	20,959
1999–00	2,180	6,440	1,576	12,947	162	23,304
2000–01	2,371	6,874	2,031	14,415	173	25,864
2001–02	2,593	7,391	2,118	15,447	203	27,752
2002–03	2,836	8,095	2,250	16,599	225	30,005
2003–04	3,013	8,219	2,387	18,162	250	32,033
2004–05	3,162	8,840	2,645	20,554	291	35,493
2005–06	3,126	9,233	2,883	21,501	332	37,074
2006–07	3,302	9,894	3,073	23,228	376	39,872
2007–08	3,437	11,316	3,587	26,052	382	44,773

(a) Comprises health insurance rebates claimed through the taxation system as well as rebates paid directly to health insurance funds by the Australian Government which enable them to reduce premiums charged to individuals for health insurance policies.

Note: Components may not add to totals due to rounding.

Source: AIHW health expenditure database.

The Department of Veterans' Affairs

DVA funding of health is largely through its purchase of health goods and services on behalf of eligible veterans and their dependants. In 2007–08, its funding totalled \$3.4 billion (Table 3.6). Almost half of this (47.5%) was for hospitals – public hospital services (21.5%) and private hospitals (26.0%).

Table 3.6: Department of Veterans' Affairs health expenditure, by area of expenditure, 2007–08

Area of expenditure	Amount (\$m)	Proportion (%)
Public hospital services ^(a)	738	21.5
Private hospitals	895	26.0
Patient transport services	133	3.9
Medical services	871	25.3
Dental services	108	3.1
Other health practitioners	172	5.0
Community health	2	—
Medications	461	13.4
Aids and appliances	2	—
Administration	56	1.6
Research	1	—
Total	3,437	100.0

(a) Public hospital services exclude certain services undertaken in hospitals. Services can include those provided off-site, such as hospital in the home, dialysis or other services (see Box 4.1).

Source: AIHW health expenditure database.

Grants to states and territories

Most of the SPPs by the Australian Government to state and territory governments were provided under the series of five-year Australian Health Care Agreements (AHCAs) between the Commonwealth and each state and territory government (see Box 4.2, page 48). The ACHA payments were primarily to fund expenditure on public hospital services. The SPPs for highly specialised drugs were also categorised as funding for public hospitals services for these estimates.

Another 'health' SPP that provides substantial Commonwealth funding to the states and territories arises from the five-year funding agreements – the Public Health Outcome Funding Agreements (PHOFAs). These funding agreements between the Australian Government and each state and territory provided both broad-banded and targeted funding that aimed to achieve agreed public health outcomes.

Rebates of private health insurance contributions

The Australian Government provided a 30–40% rebate of the premium charged to people with private health insurance cover by a registered private health insurer. This rebate was mostly claimed by members through a reduction in the premium charged by the insurer. In this case, the insurer could claim a payment from the Australian Government to cover the cost of charging a reduced premium. Alternatively, individuals can pay the full premium and then claim the rebate back through the taxation system.

Although this rebate, which was available from 1998, was actually a rebate based on the health insurance premium payable, it has been regarded in these estimates as a form of subsidy by the Australian Government of the expenses incurred – including benefits on health goods and services – by the private health insurance funds.

During 2007–08, the total value of the rebate that related to health goods and services was estimated at \$3.6 billion (Table 3.5). The majority of this (\$3.4 billion) was in the form of reimbursement of reduced premiums charged by private health insurance funds, with the balance provided in the form of rebates to individuals' payable through the taxation system (Table 3.12).

Australian Government funding of its own expenditures

The Australian Government funds health programs that are regarded as being its own expenditures. These include both the MBS and the PBS, public health, research, the Aboriginal community-controlled health and substance use services, and health-related capital consumption and capital expenditure. In 2007–08, the Australian Government provided \$26.1 billion in funding for its own program expenditures (Table 3.5).

Non-specific tax expenditure

The only tax expenditure currently included in non-specific tax expenditure is the 'medical expenses tax rebate'.

Taxpayers who spend large amounts of money on health-related goods and services for themselves and/or their dependants in a tax year are able to claim a tax rebate. The rebate in 2007–08 was set at 20 cents in the dollar and applied only to the amount by which those expenditures exceed the prescribed threshold of \$1,500.

The individual expenditures that are subject to this form of rebate cannot be separately identified. Therefore it is not possible to allocate this form of funding to particular area(s) of health expenditure. The related expenditures are assumed to have been included in the estimates of health expenditure and they would be shown as being funding by individuals in the various health expenditure matrices. A broad adjustment is made to redistribute the total funding through these tax expenditures to funding by the Australian Government. In 2007–08, the total value of these tax expenditures was estimated at \$382 million (Table 3.5).

3.3 State and territory governments and local government authorities

State and territory governments are the main providers of publicly provided health goods and services in Australia. Those goods and services are financed by a combination of SPPs from the Australian Government, funding by the states and territories out of their own fiscal resources, and funding from non-government sources (usually in the form of user fees).

More than two-thirds (67.9 %) of recurrent funding by state/territory and local governments was for public hospital services. The state and territory governments provided a total of \$16.5 billion to fund public hospital services in 2007–08 (calculated from Table A3).

Funding for health by state, territory and local governments grew at an average of 5.4% per year between 1997–98 and 2007–08 (Table 3.4).

3.4 Non-government funding

Non-government funding for health was estimated at \$32.4 billion, or 31.3% of total funding in 2007–08 (Table 3.7).

In the 2 years before the introduction of the health insurance premium rebates – 1997–98 and 1998–99 – the non-government sector's share of funding was 32.6% and 33.0%, respectively. The fall in the non-government share in 1999–00 was due, almost entirely, to the introduction of the premium rebates, which are treated as Australian Government funding in the estimates.

From 2001–02, the non-government share of total funding averaged around 32% with an average annual real growth in funding from 2002–03 to 2007–08 of 4.4% (tables 3.7 and 3.8).

Most non-government funding for health goods and services in Australia comes from out-of-pocket payments by individuals. This includes where people meet the full cost of goods and services and where they share the funding of goods and services with third-party payers – for example, private health insurance funds or the Australian Government. Funding by individuals accounted for 53.7% (\$17.4 billion) of estimated non-government funding of health goods and services during 2007–08 (calculated from Table 3.7). This was 16.8% of total funding of health expenditure (government and non-government). Private health insurance funds provided 7.6% of total funding (\$7.9 billion) in 2007–08, with the balance – 6.9% (\$7.1 billion) – coming from other non-government sources (mainly in the form of payments by compulsory motor vehicle third-party and workers compensation insurers).

Over the decade to 2007–08, the proportion of total health funding provided by private health insurance funds decreased almost two percentage points from 9.5% to 7.6%, funding by individuals increased by half a percentage point from 16.3% to 16.8%, and other non-government sources funding increased marginally from 6.8% to 6.9% (Table 3.7).

Table 3.7: Non-government sector funding of total health expenditure, by source of funds, current prices, 1997–98 to 2007–08

Year	Private health insurance funds ^(a)		Individuals ^(b)		Other non-government ^(c)		All non-government sources	
	Amount (\$m)	Proportion (%)	Amount (\$m)	Proportion (%)	Amount (\$m)	Proportion (%)	Amount (\$m)	Proportion (%)
1997–98	4,271	9.5	7,321	16.3	3,026	6.8	14,618	32.6
1998–99	3,855	8.0	8,355	17.3	3,758	7.8	15,968	33.0
1999–00	3,601	6.9	8,777	16.7	3,811	7.3	16,189	30.8
2000–01	4,123	7.1	10,499	18.0	4,181	7.2	18,803	32.3
2001–02	5,075	8.0	11,050	17.5	4,562	7.2	20,686	32.8
2002–03	5,472	8.0	11,514	16.7	5,027	7.3	22,013	32.0
2003–04	5,919	8.1	12,827	17.4	5,381	7.3	24,127	32.8
2004–05	6,220	7.7	14,131	17.4	5,792	7.1	26,142	32.3
2005–06	6,578	7.6	15,108	17.4	6,018	6.9	27,704	32.0
2006–07	7,216	7.6	16,553	17.4	6,811	7.2	30,581	32.2
2007–08	7,862	7.6	17,416	16.8	7,133	6.9	32,411	31.3

(a) Funding by private health insurance funds excludes the Australian Government private health insurance rebate.

(b) Individuals' expenditure has been adjusted for non-specific tax expenditures (see page 28).

(c) All non-government sector capital expenditure is included here, as the details of funding of non-government capital expenditure is not known. If funding was known, this capital expenditure would be spread across all funding columns.

Note: Components may not add to totals due to rounding.

Source: AIHW health expenditure database.

Growth in funding by private health insurance funds averaged 2.5% per year between 1997–98 and 2007–08. The other two non-government funding sources – individuals and other non-government – both had average growth rates of 5.6% per year over the same period (Table 3.8). The lower average growth rate for private health insurance funds was due to the introduction of the private health insurance premium rebates.

Table 3.8: Non-government sector funding of total health expenditure, by source of funds, constant prices^(a), and annual growth rates, 1997–98 to 2007–08

Year	Private health insurance funds ^(b)		Individuals ^(c)		Other non-government ^(d)		All non-government sources ^{(b)(c)}	
	Amount (\$m)	Growth (%)	Amount (\$m)	Growth (%)	Amount (\$m)	Growth (%)	Amount (\$m)	Growth (%)
1997–98	6,120	..	10,102	..	4,118	..	20,340	..
1998–99	5,377	-12.1	11,302	11.9	4,960	20.4	21,639	6.4
1999–00	4,891	-9.0	11,544	2.1	4,952	-0.2	21,388	-1.2
2000–01	5,402	10.4	13,241	14.7	5,167	4.3	23,810	11.3
2001–02	6,409	18.6	13,513	2.1	5,478	6.0	25,400	6.7
2002–03	6,654	3.8	13,639	0.9	5,841	6.6	26,134	2.9
2003–04	6,916	3.9	14,632	7.3	6,134	5.0	27,681	5.9
2004–05	6,965	0.7	15,438	5.5	6,363	3.7	28,766	3.9
2005–06	7,058	1.3	15,920	3.1	6,383	0.3	29,362	2.1
2006–07	7,455	5.6	16,943	6.4	6,996	9.6	31,394	6.9
2007–08	7,862	5.5	17,416	2.8	7,133	2.0	32,411	3.2
Average annual growth rate								
1997–98 to 2002–03		1.7		6.2		7.2		5.1
2002–03 to 2007–08		3.4		5.0		4.1		4.4
1997–98 to 2007–08		2.5		5.6		5.6		4.8

(a) Constant price health expenditure for 1997–98 to 2007–08 is expressed in terms of 2007–08 prices. Refer to Appendix E for further details.

(b) Funding by private health insurance funds excludes the Australian Government private health insurance rebate.

(c) Individuals' funding has been adjusted for non-specific tax expenditures (see page 28).

(d) All non-government sector capital expenditure is included here, as the details of funding of non-government capital expenditure are not known. If funding was known, this capital expenditure would be spread across all funding columns.

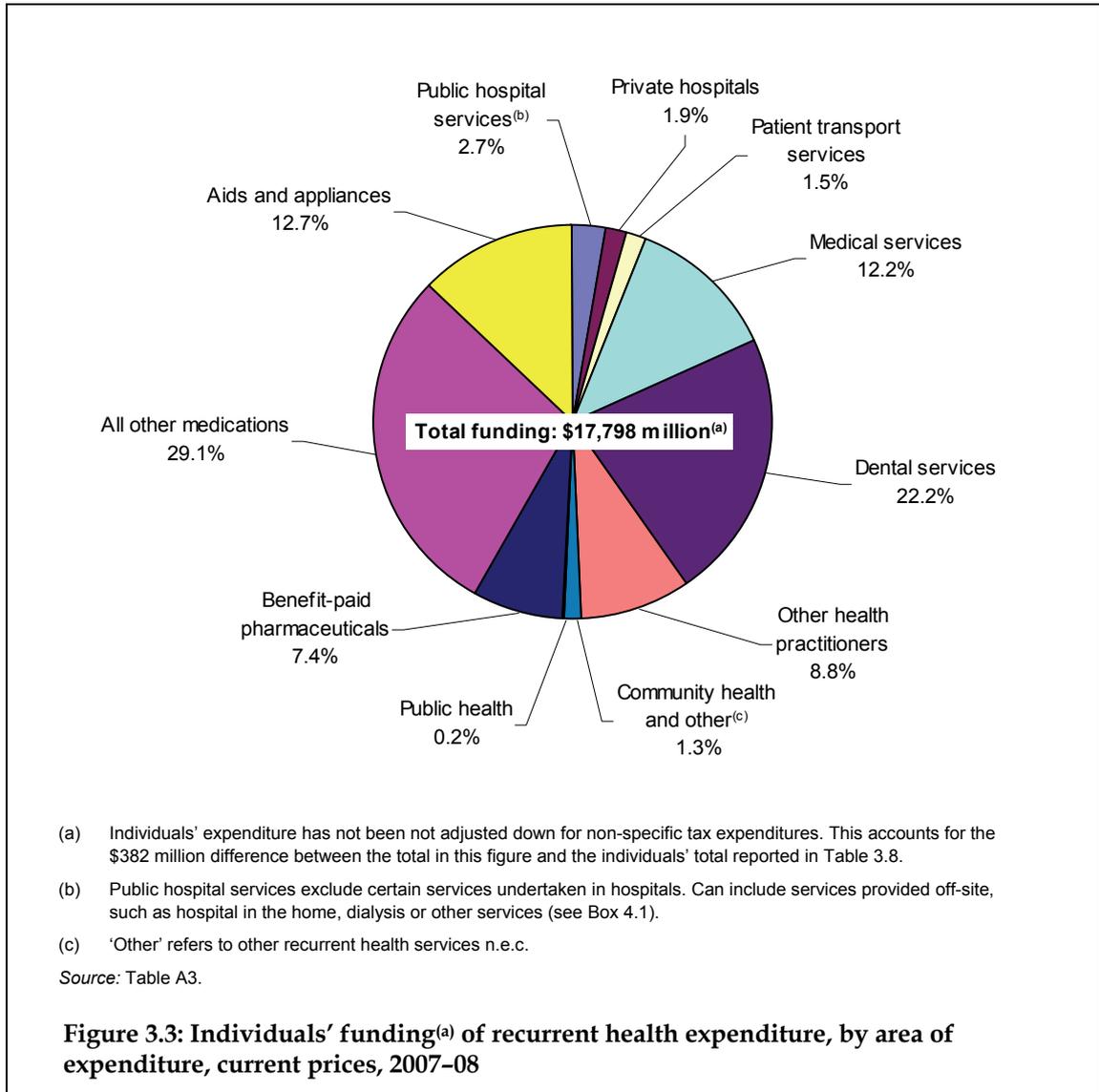
Note: Components may not add to totals due to rounding.

Source: AIHW health expenditure database.

Individuals

Real growth in funding by individuals between 1997–98 and 2007–08 was 5.6% per year, 0.4 percentage points above the real growth in total funding for health expenditure (5.2%) (tables 3.8 and 2.1).

In 2007–08, individuals spent an estimated \$17.8 billion in recurrent funding for health goods and services (Figure 3.3). More than one-third (36.5%) of this was for medications (7.4% being by way of copayments on PBS and RPBS benefit-paid items and 29.1% for other medications). A further 22.2% of funding by individuals was for dental services; 12.7% for health aids and appliances; and 12.2% for medical services. A further 8.8% was spent on services by other health practitioners.



Per person health funding by individuals (that is, averaged over the whole population) grew at an average of 4.2% per year from 1997-98 to 2007-08 (Table 3.9). Over this period, funding for benefit-paid pharmaceuticals grew at 6.7% per year compared to 5.7% for all other medications. In contrast, average per person out-of-pocket expenditure on medical services grew at 3.0% per year.

Refer to Chapter 5 of *Health expenditure Australia 2006-07* for an analysis of the 2003-04 individual out-of-pocket expenditure on health, from the ABS Household Expenditure Survey.

Table 3.9: Average out-of-pocket funding of recurrent health expenditure per person, constant prices^(a), and annual growth rates, by area of expenditure, 1997–98 to 2007–08

Year	Hospitals ^{(b)(c)}		Patient transport ^(b)		Medical services		Dental services ^(b)		Other health practitioners		Community and public health ^{(b)(d)}		Benefit-paid pharmaceuticals		All other medications		Aids and appliances		Total recurrent expenditure		
	Amount (\$)	Growth (%)	Amount (\$)	Growth (%)	Amount (\$)	Growth (%)	Amount (\$)	Growth (%)	Amount (\$)	Growth (%)	Amount (\$)	Growth (%)	Amount (\$)	Growth (%)	Amount (\$)	Growth (%)	Amount (\$)	Growth (%)	Amount (\$)	Growth (%)	
1997–98	27	..	11	..	76	..	138	..	72	..	—	..	33	..	140	..	57	..	553	..	
1998–99	50	85.6	10	-1.5	78	3.2	139	0.3	67	-6.6	6	..	34	3.8	150	7.5	77	35.9	611	10.6	
1999–00	46	-7.5	11	4.8	78	-0.8	138	-0.8	63	-5.5	2	-56.2	36	7.1	163	8.3	81	4.5	618	1.1	
2000–01	50	7.3	12	8.5	79	2.0	162	17.5	62	-2.0	—	..	41	12.4	174	7.1	119	47.4	698	13.1	
2001–02	43	-12.7	13	10.0	82	3.5	175	8.3	66	6.0	—	..	44	7.0	196	12.7	86	-28.0	705	0.9	
2002–03	28	-35.5	14	3.8	91	11.7	181	3.4	70	6.5	—	..	49	11.6	177	-10.1	95	10.1	704	-0.2	
									<i>Break in series^(b)</i>												
2003–04	25	..	10	..	96	5.4	188	..	75	..	10	..	52	7.6	189	7.3	99	..	746	6.0	
2004–05	30	19.8	10	0.6	90	-7.0	193	2.5	80	7.2	10	-5.5	57	9.6	204	7.9	104	4.6	778	4.4	
2005–06	33	9.5	11	4.6	90	0.4	192	-0.3	82	3.1	12	22.1	61	6.0	204	-0.1	107	2.8	792	1.8	
2006–07	31	-6.7	12	6.0	99	9.7	192	0.0	83	0.1	12	6.1	61	1.1	229	12.2	111	3.9	830	4.8	
2007–08	38	23.3	12	5.1	102	3.5	186	-3.5	74	-10.2	13	2.5	62	1.2	244	6.5	107	-3.8	838	0.9	
Average annual growth rate																					
1997–98 to 2002–03		0.8		5.0		3.8		5.5		-0.5		..		8.3		4.8		10.7		5.0	
2003–04 to 2007–08		10.8		4.1		1.5		-0.3		-0.2		5.8		4.4		6.5		1.8		3.0	
1997–98 to 2007–08			3.0			6.7		5.7		..		4.2	

(a) Constant price health expenditure for 1997–98 to 2007–08 is expressed in terms of 2007–08 prices. Refer to Appendix E for further details.

(b) Up to 2002–03 patient transport, dental, community health and public health services that were delivered in public hospitals were included as expenditure on public hospitals. From 2003–04 they are included under their own classifications and are not included in expenditure on public hospital services. Care must be taken when comparing 2002–03 to 2003–04 (see Section 6.3 in the Technical notes for further information).

(c) Includes public and private hospitals.

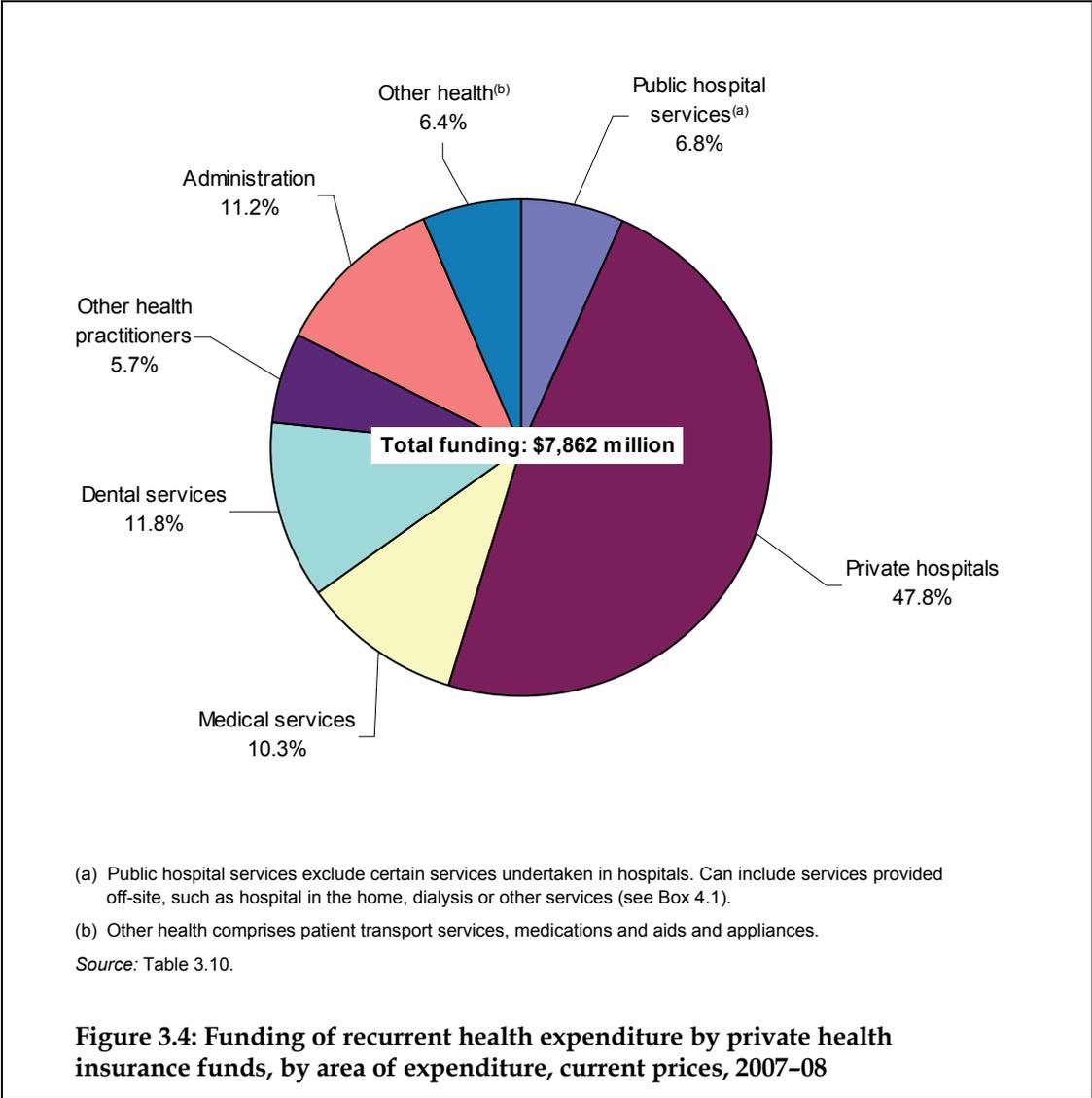
(d) For 1998–99 and 1999–00 this also includes administration expenditure.

Note: Components may not add to totals due to rounding.

Source: AIHW health expenditure database.

Private health insurance

During 2007–08, private hospitals received 47.8% (\$3.8 billion) of the \$7.9 billion in funding provided by private health insurance funds (Figure 3.4 and Table 3.10). Other major areas of expenditure that received funding were dental services (11.8% or \$0.9 billion), administration (11.2% or \$0.9 billion) and medical services (10.3% or \$0.8 billion). The funding for medical services includes some of the fees charged for in-hospital medical services that are provided to private admitted patients in hospitals. Patient transport services and medications received funding of \$128 million and \$46 million, respectively, from health insurance funds in 2007–08 (Table 3.10).



General benefits and administration

Gross health benefits paid through the health insurance funds in 2007–08 amounted to \$10.2 billion – up \$0.9 billion from \$9.2 billion in 2006–07 and up \$1.7 billion since 2005–06 (Table 3.10). A further \$1.3 billion was used to fund administration during 2007–08; this was 20% higher than in 2006–07 (see page 32 of PHIAC 2008 for further details).

The premium rebates paid by the Australian Government through the tax system or directly to private health insurance funds increased from \$2.9 billion in 2005–06 to \$3.6 billion in 2007–08 (Table 3.10). The reserves of the health insurance funds decreased between 2006–07 and 2007–08, largely due to a fall in operating profit (before abnormals and extraordinary items) from \$1.3 billion in 2006–07 to \$0.6 billion in 2007–08 (Table 3.11).

The introduction of the Private Health Insurance Incentives Scheme (PHIIS) subsidy in 1997 resulted in a movement of responsibility for funding expenditures incurred through the private health insurance funds from the funds themselves to the Australian Government. The result was a sharp drop in net funding by health insurance funds in each year up to 1999–00, despite an increase in gross payments through the funds (Table 3.12). There was then 2 years of rapid increase in both gross payments through the funds and net health insurance funding, which followed the introduction of the lifetime health cover arrangements at the beginning of 2000–01.

Net funding by the health insurance funds grew by 7.9% over the 2 years from 2001–02 to 2003–04. This represented an average annual growth rate of 3.9% (calculated from Table 3.12). Its rate of growth then averaged 3.3% per year, taking it to \$7.9 billion in 2007–08. The private health insurance rebates grew at a slower rate of 2.1% per year from 2001–02 to 2003–04 and then by 6.5% per year to 2007–08 (calculated from Table 3.12 and Figure 3.5).

Box 3.1: Treatment of private health insurance premium rebates

Before 1997, all health benefits paid by the funds, plus their administration costs, were regarded as being funded by health insurers out of their premiums and other earnings. The introduction of the Private Health Insurance Incentives Scheme and the non-means-tested 30–40% rebate means that some of the premium income of the insurers is being provided by the Australian Government. From 1 April 2005, the Private Health Insurance Rebate increased to 35% for people aged 65 to 69 years and to 40% for people aged 70 years and older. It remained at 30% for those aged less than 65.

There are two types of rebates on health insurance premiums, which sometimes causes confusion. The first rebate is where insurers offer members a reduced premium and then insurers claim reimbursement from the Australian Government. The second is where members pay the full premium and claim the rebate through the tax system at the end of the financial year.

Both these forms of rebates have been treated in these estimates as indirect subsidies by the Australian Government of the services that were partially funded through benefits paid by the health insurance funds.

In compiling its estimates, the Institute allocates the rebates across all the expenses incurred by the funds each year – including both health and non-health goods and services (such as funeral benefits, domestic assistance and so on); management expenses; and any adjustment to provisions for outstanding and unrepresented claims. But only that part of the rebate that can be attributed to benefits for health goods and services (which includes the funds' management expenses) is included when estimating private health insurance funding for health expenditure. This portion of the rebate is deducted from the gross benefits paid by the health insurance funds to calculate net health funding by private health insurance funds for particular areas of expenditure. These rebate amounts are then added to the funding of the Australian Government for those areas of expenditure.

Table 3.10: Expenditure on health goods and services funded through health insurance funds, current prices, 2005–06 to 2007–08 (\$ million)

Area of expenditure	2005–06			2006–07			2007–08		
	Gross benefits paid	Premium rebates ^(a)	Net benefits paid	Gross benefits paid	Premium rebates ^(a)	Net benefits paid	Gross benefits paid	Premium rebates ^(a)	Net benefits paid
Expenditure									
Hospitals	5,213	1,588	3,624	5,674	1,695	3,980	6,255	1,960	4,295
Public hospital services ^(b)	615	187	428	695	207	487	777	244	534
Private hospitals	4,598	1,401	3,197	4,980	1,487	3,493	5,478	1,716	3,762
Patient transport ^(c)	139	42	97	152	45	107	187	58	128
Medical services	957	292	666	1,047	313	735	1,183	371	813
Dental services	1,144	348	795	1,234	369	865	1,350	423	927
Other health practitioners	578	176	402	615	184	431	649	203	446
Community and public health	1	—	—	1	—	—	2	1	1
Medications	71	22	49	67	20	47	67	21	46
Aids and appliances	397	121	276	431	129	302	473	148	325
Total health benefits and levies	8,499	2,590	5,909	9,221	2,754	6,467	10,167	3,185	6,981
Health administration	962	293	669	1,068	319	749	1,282	402	881
Total expenditure on health goods and services	9,461	2,883	6,578	10,289	3,073	7,216	11,449	3,587	7,862
Items not included in estimates on health goods and services									
Non-health ancillaries	15	5	11	19	6	14	24	7	16
Outstanding claims adjustment	98	30	68	123	37	86	128	40	88

(a) The premium rebate is pro-rated across all expense categories (including change in provisions for outstanding claims). The rebate includes rebates paid through the tax system as well as rebates paid to funds, which directly reduce premiums.

(b) Public hospital services exclude certain services undertaken in hospitals. Can include services provided off-site such as hospital in the home, dialysis or other services (see Box 4.1).

(c) Includes an Ambulance Service Levy that is payable by all private insurance funds with members in New South Wales and the Australian Capital Territory to offset the cost of this service.

Note: Components may not add to totals due to rounding.

Sources: DoHA 2006, 2007, 2008; ATO 2008; PHIAC 2006, 2007, 2008, 2009.

Table 3.11: Health insurance funds' reported expenses and revenues, current prices, 2005–06 to 2007–08 (\$ million)

Operating expenses and revenue of funds	2005–06	2006–07	2007–08
Expenses			
Total cost of benefits ^(a)	8,640	9,306	10,248
State levies (patient transport services)	113	126	137
Management expenses	962	1,068	1,282
Total expenses	9,715	10,500	11,667
Revenues			
Contributions income	10,261	11,127	12,189
Other revenues	446	672	49
Total revenue	10,706	11,799	12,238
Operating profit (loss) before abnormals and extraordinary items	984	1,288	562

(a) Includes the adjustment to provisions for outstanding claims accruing in the year and non-health benefits.

Note: Components may not add to totals due to rounding.

Sources: PHIAC 2006, 2007, 2008.

Table 3.12: Expenditure on health goods and services and administration funded through private health insurance funds, constant prices^(a), and annual growth rates, 1997–98 to 2007–08

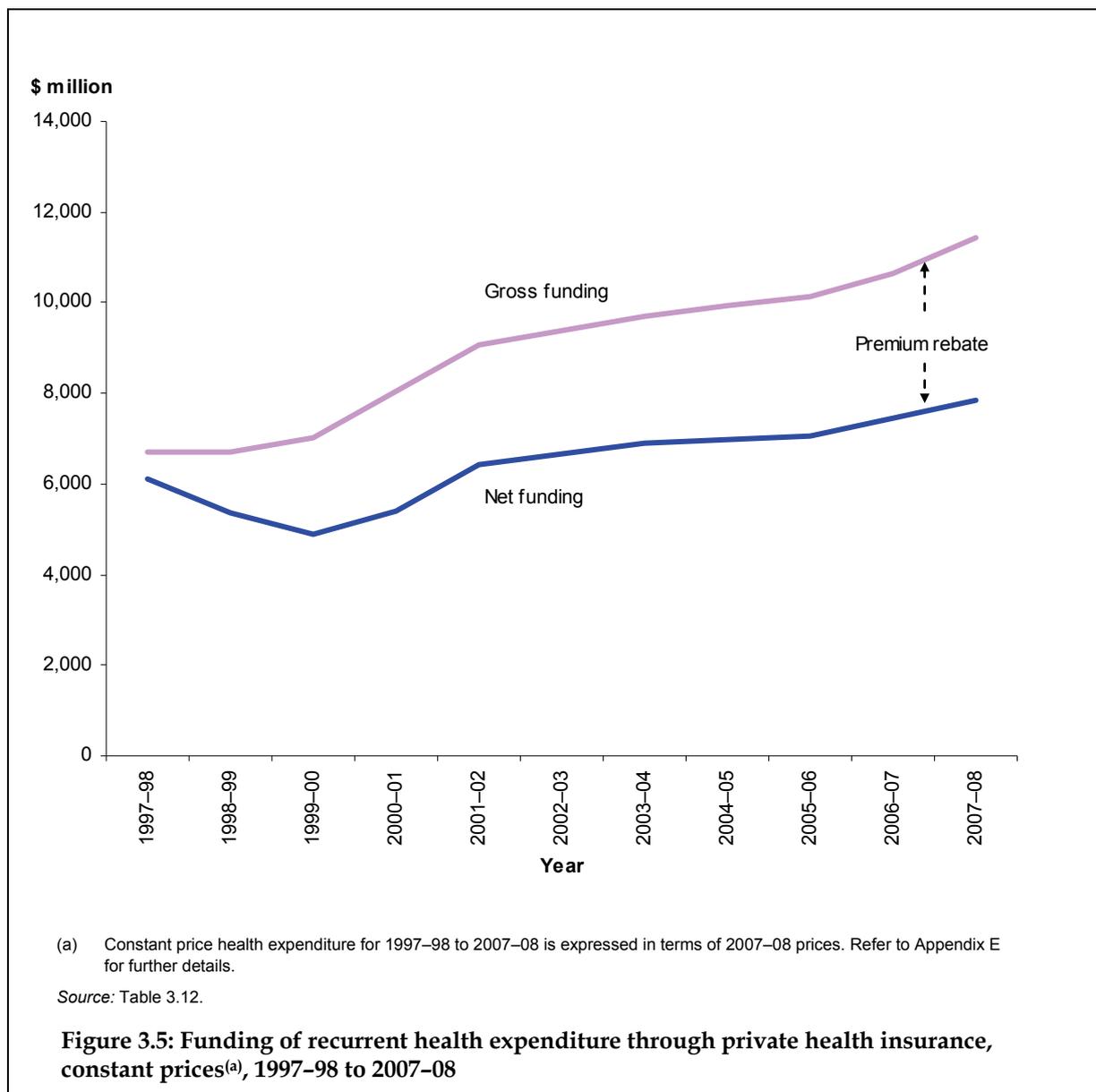
Year	Gross amounts paid through health insurance funds		Premium rebates				Net amounts funded from health insurance funds' own resources ^(b)	
			Through reduced premiums		Through taxation system			
	Amount (\$m)	Growth (%)	Amount (\$m)	Growth (%)	Amount (\$m)	Growth (%)	Amount (\$m)	Growth (%)
1997–98	6,703	..	357	..	227	..	6,120	..
1998–99	6,721	0.3	1,094	206.7	250	10.1	5,377	-12.1
1999–00	7,030	4.6	1,880	71.8	259	3.8	4,891	-9.0
2000–01	8,062	14.7	2,432	29.3	229	-11.6	5,402	10.4
2001–02	9,084	12.7	2,458	1.1	216	-5.6	6,409	18.6
2002–03	9,389	3.4	2,546	3.6	189	-12.5	6,654	3.8
2003–04	9,705	3.4	2,618	2.8	172	-9.1	6,916	3.9
2004–05	9,927	2.3	2,799	6.9	163	-5.4	6,965	0.7
2005–06	10,152	2.3	2,935	4.8	159	-2.4	7,058	1.3
2006–07	10,629	4.7	3,012	2.6	162	2.2	7,455	5.6
2007–08	11,449	7.7	3,418	13.5	169	4.3	7,862	5.5
Average annual growth rate								
2001–02 to 2003–04		3.4		3.2		-10.8		3.9
2003–04 to 2007–08		4.2		6.9		-0.4		3.3

(a) Constant price health expenditure for 1997–98 to 2007–08 is expressed in terms of 2007–08 prices. Refer to Appendix E for further details.

(b) Is equal to the gross payments through health insurance funds less the sum of the reimbursement through reduced premiums and the rebates claimed through the taxation system.

Note: Components may not add to totals due to rounding.

Source: AIHW health expenditure database.



In 2007-08, it was estimated that net health funding by private health insurance providers averaged \$834 per person covered (Table 3.13). In South Australia the average funding per person covered (\$936) was well above the national average, while for people in the Northern Territory and Australian Capital Territory it was well below the average at \$470 and \$513, respectively. All states and territories recorded reductions in the amount funded per person with health insurance cover from 1997-98 to 2000-01. From 2000-01 to 2007-08 the trend in funding was generally upwards in most states and territories.

Table 3.13: Average health expenditure funded by private health insurance, per person covered^(a), constant prices^(b), by state and territory, 1997–98 to 2007–08 (\$)

Year	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Australia
1997–98	1,066	1,052	1,046	984	1,200	1,018	523	597	1,047
1998–99	949	938	946	899	1,077	901	512	568	939
1999–00	728	753	750	763	864	721	432	452	745
2000–01	616	588	635	636	714	672	378	384	618
2001–02	724	698	767	756	855	789	426	473	734
2002–03	741	745	819	778	896	821	382	425	766
2003–04	773	777	860	800	904	862	566	451	799
2004–05	780	779	864	799	904	835	530	426	801
2005–06	772	801	859	778	903	858	537	433	801
2006–07	811	822	874	786	924	865	520	442	825
2007–08	826	830	876	794	936	872	513	470	834
Average annual growth rate									
1997–98 to 2002–03	-7.0	-6.7	-4.8	-4.6	-5.7	-4.2	-6.1	-6.6	-6.1
2002–03 to 2007–08	2.2	2.2	1.4	0.4	0.9	1.2	6.1	2.0	1.7
1997–98 to 2007–08	-2.5	-2.3	-1.8	-2.1	-2.5	-1.5	-0.2	-2.4	-2.2

(a) Based on the number of persons with health insurance cover residing in each state and territory.

(b) Constant price health expenditure for 1997–98 to 2007–08 is expressed in terms of 2007–08 prices. Refer to Appendix E for further details.

Source: AIHW health expenditure database.

Most privately insured people who use hospital and/or ancillary treatment services for which they are covered are required to meet some level of copayment. These copayments are regarded in the expenditure estimates as a form of out-of-pocket cost-sharing.

Hospital services

In 2007–08, the average fee charged for hospital services for insured patients increased with the age of the patient. For example, the average fee charged for hospital services for patients aged <14 years was \$158 per person covered in that age group and for patients aged ≥85 years was \$3,970 per person covered (Table 3.14). At the same time, the average copayment for patients aged < 14 years was \$48 per person covered and this increased to \$945 for patients aged ≥ 85 years (Table 3.14).

For the older age groups (≥ 65 years), copayments for males were, on the average, higher than for females. Insured female patients aged ≤ 14 met, on average, a copayment of \$43 while those aged 65–84 years had an average copayment of \$915. Males in the same age groups had copayments of \$52 and \$1,157 per person, respectively.

The greatest difference between the sexes in hospital services copayments was in the age category 20–44 years. Females in this category spent, on average, more than twice the rate of males (\$266 and \$125 respectively). This reflects the higher outlays on hospital services faced by women in their child-bearing years.

Ancillaries

The average per person out-of-pocket expenditure for ancillary health services paid in respect of females with ancillary cover was higher than that paid for their male counterparts at all ages, except the 85 years and over age group. The difference was greatest in the age category 45–64 years, where the average amount paid in respect of males was \$333 and for females was \$440 per female person covered.

Table 3.14: Fees charged, benefits paid and out-of-pocket expenditure, per person^(a) with private health insurance hospital cover and/or ancillary cover, by age group and sex, current prices, 2007–08 (\$)

	Age group					
	0–14	15–19	20–44	45–64	65–84	85+
Hospital benefits paid, fees charged and out-of pocket expenditure						
Males						
Out of pocket	52	89	125	376	1,157	1,172
Benefits paid	120	128	165	512	1,839	3,241
<i>Fees charged</i>	172	217	290	888	2,996	4,413
Females						
Out of pocket	43	83	266	371	915	861
Benefits paid	100	160	515	557	1,644	2,945
<i>Fees charged</i>	144	242	781	929	2,559	3,805
All persons						
Out of pocket	48	86	199	374	1,030	945
Benefits paid	111	144	350	535	1,736	3,025
<i>Fees charged</i>	158	229	550	909	2,766	3,970
Ancillary benefits paid, fees charged and out-of pocket expenditure						
Males						
Out of pocket	105	158	188	333	366	318
Benefits paid	132	182	190	298	305	231
<i>Fees charged</i>	238	340	378	631	671	549
Females						
Out of pocket	115	198	267	440	382	286
Benefits paid	140	216	261	382	323	207
<i>Fees charged</i>	255	414	528	822	706	493
All persons						
Out of pocket	110	178	230	388	375	295
Benefits paid	136	198	228	341	315	213
<i>Fees charged</i>	246	376	458	729	689	508

(a) Based on the number of persons with health insurance cover.

Source: PHIAC 2009.

Injury compensation insurers

In 2007–08, injury compensation insurers funded \$2,201 million of expenditure on health goods and services – \$1,329 million by workers compensation insurers and \$872 million by motor vehicle third-party insurers (Table 3.15).

Over the period 1997–98 to 2007–08, real funding by workers compensation insurers rose on average by 2.8% per year while the annual real growth over this decade was 4.7% for motor vehicle third-party insurers.

Expenditure on health funded by workers compensation and motor vehicle third-party insurers is most of the ‘other non-government’ source of funds category in the main health expenditure tables.

Table 3.15: Expenditure by injury compensation insurers, constant prices^(a), and annual growth rates, 1997–98 to 2007–08

Year	Workers compensation insurers		Motor vehicle accident third-party insurers		Total injury compensation insurers	
	Amount (\$m)	Growth (%)	Amount (\$m)	Growth (%)	Amount (\$m)	Growth (%)
1997–98	1,004	..	550	..	1,554	..
1998–99	1,078	7.4	639	16.1	1,717	10.5
1999–00	1,101	2.1	646	1.1	1,747	1.7
2000–01	1,094	–0.6	647	0.2	1,741	–0.3
2001–02	1,113	1.7	758	17.2	1,871	7.5
2002–03	1,200	7.8	769	1.4	1,969	5.2
2003–04	1,282	6.8	702	–8.8	1,983	0.7
2004–05	1,248	–2.6	764	9.0	2,012	1.5
2005–06	1,254	0.4	777	1.6	2,031	0.9
2006–07	1,264	0.8	814	4.8	2,078	2.3
2007–08	1,329	5.2	872	7.1	2,201	5.9
Average annual growth rate						
1997–98 to 2002–03		3.6		6.9		4.8
2002–03 to 2007–08		2.1		2.5		2.3
1997–98 to 2007–08		2.8		4.7		3.5

(a) Constant price health expenditure for 1997–98 to 2007–08 is expressed in terms of 2007–08 prices. Refer to Appendix E for further details.

Note: Components may not add to totals due to rounding.

Source: AIHW health expenditure database.