

— Opinion

# Independent hospital pricing an opportunity for genuine health reform

The reality is private hospitals need fairer agreements with health funds. Providers, insurers, and government need to start a conversation.

**Martin Bowles**

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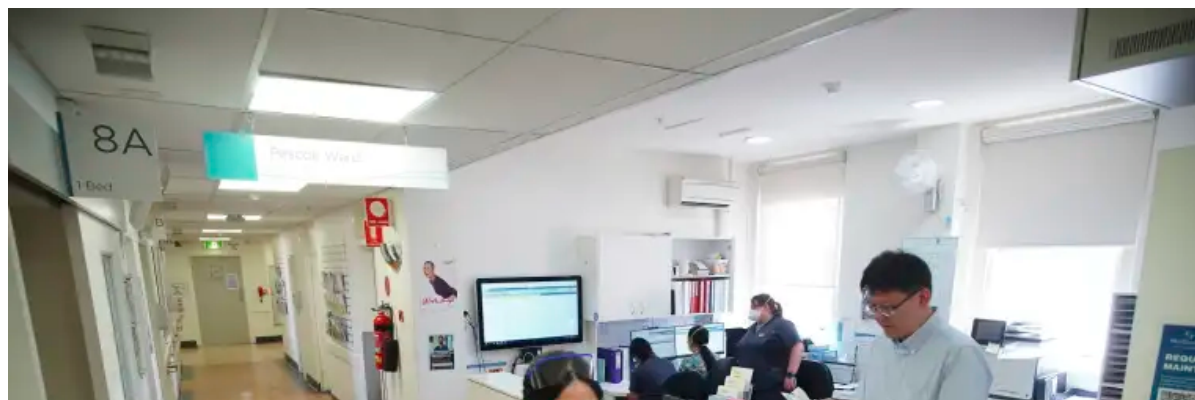


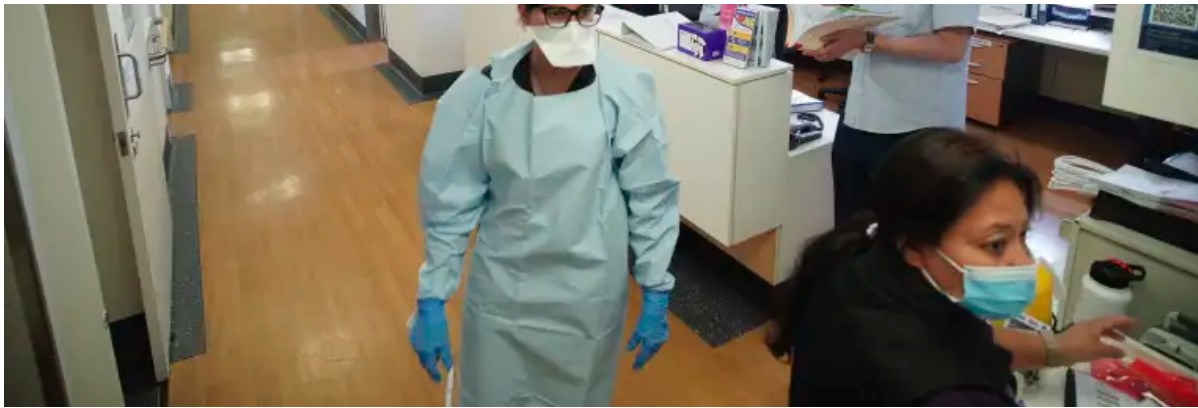
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As models of care and medical technology continue to advance, patient outcomes in Australia remain second to none. Our healthcare structure stands out in its balance of public and private sectors complementing each other to offer patients both accessibility and choice.

Yet equitable access to that care is at risk if we do not achieve essential reforms to the model underpinning our health system.





The core issue is a funding model that no longer suits the evolving healthcare landscape. **AFR**

If your window into the healthcare system is the media, you would see disputes between federal and state governments [<https://www.afr.com/companies/healthcare-and-fitness/insurers-warn-of-premium-hikes-after-losing-nsw-bed-rate-battle-20241201-p5kuwe>], rising costs, workforce shortages exacerbated by the COVID-19 pandemic, and ongoing tensions between private hospital providers and insurers [<https://www.afr.com/companies/healthcare-and-fitness/hospitals-seek-right-to-boycott-big-insurers-from-funding-talks-20240801-p5jyeb>]. Yet, the core issue is a funding model that no longer suits the evolving healthcare landscape. We are attempting to operate a system built for the 1980s in a healthcare environment that has changed dramatically.

Continuing down this path simply is not sustainable.

As someone who has run public hospitals in both rural and metropolitan regions, served as the Commonwealth secretary of health, and now leads a national private healthcare provider, I bring a perspective shaped by long-term experience across multiple facets of the sector. From this vantage point, reforming our system is essential to secure a stable future for Australian healthcare.

The introduction of Medicare in 1984 saw a steady decline in private health insurance membership. Since then, health policy has focused on maintaining a balance between the public and private systems.

The Medicare levy surcharge, the 30 per cent rebate, and lifetime health cover were introduced to encourage private health insurance uptake and alleviate pressure on the public system. These interventions successfully stabilised private health insurance membership at around 45 per cent, but the gap between the cost of providing care and the revenue generated from premiums has widened.

This is evident when reviewing the gap between CPI growth and insurance fund escalation rates. Providers are now finding it increasingly difficult to keep pace with growing costs. Consumer behaviour has also been influenced by the pandemic, which initially saw people delaying access to healthcare. Now cost-of-living pressures are forcing some to not prioritise healthcare, in addition to the ageing population's demand for more complex care.

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## **It will be up to the sector to come to the table and leave self-interest at the door.**

In this challenging climate, providers have responded in various ways. Some have sought government bailouts, others have raised out-of-pocket costs. At the same time, private insurers have moved to vertically integrate, targeting only profitable, low-acuity services and leaving the more costly, complex care to existing – generally not-for-profit – private hospital operators and the public system.

This cherry-picking of profitable activities destabilises the sector, risks driving consumers away from private hospitals, and puts pressure on the public system.

The reality is private hospitals need fairer agreements with insurers, but it is vital that patients remain at the centre of these decisions. An independently set, transparent pricing structure offers a genuine opportunity for reform. While it may not be popular across the board, this model could bring much-needed stability to the entire system.

One of the key things in this reform is to ensure that innovative solutions are allowed to come to the surface. A great first step would be to move away from government-approved price growth to an independent mechanism similar to public hospitals and aged care.

An independent pricing model would offer patients certainty about the costs of their care, provide private hospitals with the stability needed to cover their service delivery costs and create a uniform pricing model that fosters balanced relationships between providers and insurers. At present, the healthcare sector lacks this kind of predictability, which is detrimental to all players.

Implementing this reform will be a significant undertaking requiring time,

resources, and careful consideration of socioeconomic factors. A shadow-pricing scheme may also be necessary to ensure equitable access across diverse communities.

The challenge for all of us in the sector is to prioritise the well-being of patients, above the interests of shareholders, investors, or property owners. If we are serious about preserving the unique balance of Australia's healthcare system, providers, insurers, and government need to sit down and start a conversation.

Federal Health Minister Mark Butler has established this process, but it will be up to the sector to come to the table and leave self-interest at the door.

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