

A scenic view of a harbor with many sailboats and a forested hill in the background. The water is calm, and the sky is clear. Two birds are flying in the upper left. The text "Risk Equalisation In Australia" is overlaid in yellow.

Risk Equalisation In Australia

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ICA 2002

Outline

- History of Equalisation
- Proposed Risk Equalisation System
- Improvements to Proposed System

History

- **Claims Equalisation Commenced 1976**
- **Claims over 5 ALOS for remainder of year**
- **National Pool**
- **Claims, premiums and expenses pooled**
- **50% Commonwealth Subsidy**
- **Handshake deal with politicians**

A scenic view of a harbor with many sailboats and a forested hill in the background. The water is calm, and the sky is clear. The hill is covered in dense green trees. In the foreground, there are several sailboats docked at a pier. The overall atmosphere is peaceful and serene.

1984

- Introduction of Medicare
- State Based Pools
- No pooling of premiums and expenses

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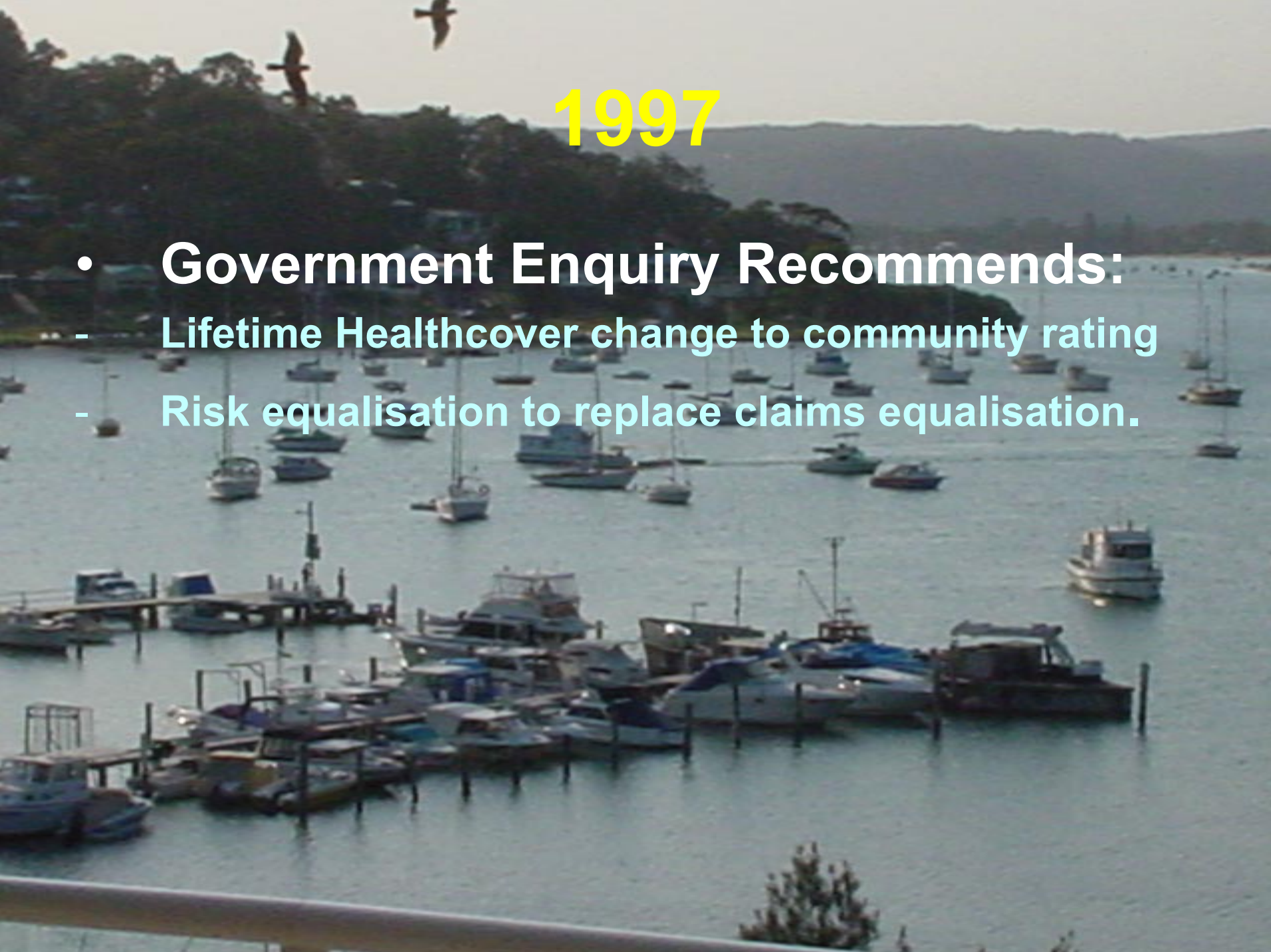
1989

- 100% of all hospital claims for over persons over age 65 pooled.
- Commonwealth subsidies abolished
- Political motivation for change.



1995

- 79% of claims pooled

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1997

- **Government Enquiry Recommends:**
 - Lifetime Healthcover change to community rating
 - Risk equalisation to replace claims equalisation.

Proposed Risk Equalisation

- **Principles of Proposed System**

- **Simplicity**
- **Stability**
- **Fairness**
- **Self Financing**
- **Compulsory**
- **Sufficiency**
- **Appropriateness**
- **Correct Incentives**

Proposed Risk Equalisation

- Other objectives
 - Audit of risk parameters
 - Transparency of effect
 - Transparency of application



Original Formula

$$k \cdot \left\{ \frac{\sum_i \sum X_{n,s}^i \cdot w_{n,s}}{\sum_i \sum X_{n,s}^i} - \frac{\sum_i X_{n,s}^i \cdot w_{n,s}}{\sum_i X_{n,s}^i} \right\} \cdot \frac{\sum c^i}{\sum_i \sum X_{n,s}^i} \cdot \sum_i X_{n,s}^i$$

x - person covered

k- equalisation constant

w - Medicare cost weight

c – contribution income

Improvements

$$k. \left\{ \frac{\sum_i \sum_s x_{n,s}^i \cdot w_{n,s}}{\sum_i \sum_s u_{n,s}^i} - \frac{\sum_i x_{n,s}^i \cdot w_{n,s}}{\sum_i u_{n,s}^i} \right\} \cdot \frac{\sum_i b^i}{\sum_i \sum_s x_{n,s}^i} \cdot \sum_i u_{n,s}^i$$

x - person covered

k - equalisation constant

w - derived cost weight from insurers' data

b – benefits paid

Lifetime Healthcover Addt'n

- Add the total Lifetime Healthcover loadings paid to the numbers of members so that u becomes $u+p$ where p is the Lifetime Healthcover loading in respect of member u .

The End

