



Health Savings Accounts

A third pillar to support the long-term sustainability of healthcare in Australia

Prepared by ExtrasJar Pty Ltd
April 2024

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1. Open Letter to the Minister for Health and Aged Care

The Hon Mark Butler MP
Minister for Health and Aged Care
Parliament House
CANBERRA ACT 2600

Dear Minister,

Re: Health Savings Accounts and their Application in Australia

Private Health Insurance (PHI) is facing a value-for-money and affordability crisis. As younger and healthier people abandon their PHI, the cycle will continue without structural reform. The current structure is creating barriers to care, and with an ever-increasing trend of higher out-of-pocket expenses, excesses, and co-payments, the need for reform has never been greater.

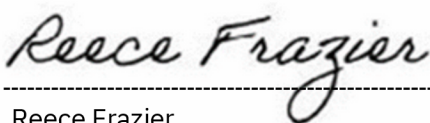
Health Saving Accounts (HSAs) are well-known and currently available in multiple countries. HSAs have the potential to be a successful third pillar alongside Medicare and PHI, supporting the long-term sustainability of healthcare in Australia. Key industry associations such as the Australian Dental Association (ADA) and the Australian Medical Association (AMA) continue to advocate for the introduction of HSAs, highlighting their concerns about inaction with the current structure and the benefits HSAs could bring. ExtrasJar Pty Ltd also advocates for the Australian Government to support HSAs.

ExtrasJar Pty Ltd has been offering HSAs since August 2022 and brings a unique insight into how HSAs can be implemented in an effective way to improve timely access to healthcare and promote preventative healthcare. Our customers currently use their HSAs either to supplement their existing PHI or as a replacement for general treatments (extras) cover. HSAs are being used to pay for preventative healthcare, hospital excesses, and out-of-pocket expenses, such as dental and optical care. Customer savings are invested in a registered managed investment scheme, giving customers access to investment returns. Moreover, customers can access their funds at the point of sale to pay for health-related treatments using their ExtrasJar Mastercard®, an ideal solution for HSAs for high-volume healthcare transactions in industries such as the dental and optical sectors.

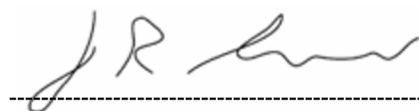
This report outlines why now is the time for reform and how HSAs can be used to promote health and wellbeing by helping to build health wealth, offering a healthier and more secure future for Australians. The report offers a series of recommendations that the Government should consider in forming its long-term strategy, which outlines an efficient approach to operationalise, incentivise, and administer HSAs, using the current financial services infrastructure and tax system to minimise the cost of implementation and change.

We trust you will gain detailed insight from the report and look forward to seeing reform involving HSAs, as well as discussing HSAs in further detail.

Your sincerely



Reece Frazier
CEO of ExtrasJar



John Connor, MScFIAA CERA
Chairman of ExtrasJar

2. Executive Summary

2.1 ExtrasJar and Health Savings Accounts

ExtrasJar launched its HSA product in August 2022 and is the only provider of HSAs in Australia in which customers can access their investments at the point of sale. This feature enables customers to pay for health-related expenses such as dental and optical expenses and out-of-pocket costs promptly with their digital Mastercard®.

HSAs present an innovative and modern solution to healthcare financing, and variations of HSAs have successfully been implemented in multiple countries. As the only HSA provider in Australia offering customers instant access to their funds, ExtrasJar brings a unique perspective as to how HSAs can be used to support the health and wellbeing of Australians.

2.2. About this report

This report outlines a series of recommendations as to how HSAs can be operationalised, administered, and incentivised to improve access to healthcare across Australia. These recommendations should be considered by the Australian Government when shaping health policy. The report leverages the work previously completed by major industry healthcare associations, such as the Australian Dental Association (ADA) and the Australian Medical Association (AMA), which support the introduction of Health Saving Accounts.

“Health Savings Accounts can support the long-term sustainability of health care”

The healthcare industry is facing an affordability crisis. An increased fear of health-related costs and out-of-pocket expenses is creating a culture of avoidance of healthcare. Left unresolved, this will have a catastrophic impact on the health and wellbeing of Australians.

With an upward trend of barriers to care and ever-increasing Private Health Insurance (PHI) relative to wage growth, now is the time to adopt a reform agenda and consider innovative approaches. Health Savings Accounts have the potential to be a strong third pillar alongside Medicare and PHI to support the long-term sustainability of health insurance in Australia, creating health wealth and peace of mind.



3. Recommendations

The report has a series of 13 recommendations that the Australian Government should consider when forming its long-term strategy and policy in relation to healthcare. HSAs can be a third pillar of the healthcare system alongside Medicare and PHI, promoting the long-term stability of healthcare in Australia.

The recommendations outline how Health Savings Accounts can be introduced, operationalised, incentivised, and administered in Australia to promote and support the long-term sustainability of the healthcare sector. The intent of the recommendations is to provide a framework on which detailed modelling, impact assessments, and feasibility studies can be conducted.



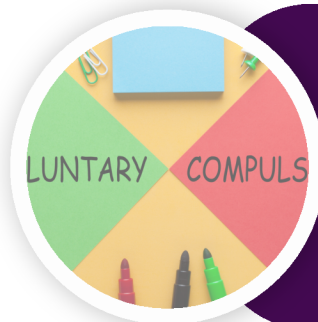
1) CLEAR OBJECTIVES OF HSAs

HSAs should serve the dual purpose of assisting patients in meeting out-of-pocket healthcare expenses not covered by public and private insurance, as well as facilitating the funding of preventive healthcare treatments and services.



2) HSAs NEED EASE OF ACCESS

HSA holders should be able to readily access their investments to seamlessly pay for health-related expenses, thus reducing obstacles to utilisation and administrative burdens.



3) VOLUNTARY PARTICIPATION

Participation in HSAs should be voluntary, ensuring individual autonomy in healthcare financing decisions.



4) TAX INCENTIVES ARE NEEDED

The Government should leverage Commonwealth tax policy to incentivise HSA adoption. The annual increase in the HSA, net of withdrawal requests and unpermitted HSA expenditure can be administered as an income tax offset benefit in a manner akin to the current approach to work-related expenses.

3. Recommendations (cont.)



5) CAPPED INCENTIVES

The limit of income tax offset for HSAs can be capped to avoid distorting the market and allow the government to control its expenditure.



6) WEALTH TRANSFER LIMITATIONS

HSAs should not be utilised for intergenerational wealth transfer, preserving their intended purpose as a healthcare financing tool.



7) ADMINISTERED BY FUND MANAGERS

Fund Managers are best placed to administer HSAs, and registered Managed Investment Schemes provide a strong regulatory framework to operationalise HSAs



8) HSA STATEMENTS

HSA providers can issue annual transaction statements to HSA account holders. These statements would facilitate the calculation of health-related tax incentives during the annual tax return process.



9) HSA RECEIPTS

HSA account holders can retain receipts as evidence of health transactions, and HSA account holders could be subject to a potential audit by the Australian Tax Office, in line with standard procedures for tax returns.



3. Recommendations (cont.)



10) INVESTMENT EARNINGS

Investment earnings on HSAs can be taxed in a manner similar to the approach taken for investment earnings on Managed Investment Schemes, preventing market arbitrage.



11) DISTRIBUTION AND RESIDUAL BALANCES

In the event of the HSA account holder's death or the closure of the HSA, the residual balance should be disbursed to the designated account holder or beneficiary.



12) HSA AND HOSPITAL EXCESSES

HSAs can be used to pay hospital excesses. The Australian Government should consider increasing the mandated hospital insurance excess products for HSAs holders to help address the affordability crisis.



13) HSA CAN BE USED TO PROMOTE HEALTH INITIATIVES

New government initiatives can be introduced via the HSA framework to promote preventative health care, including gym memberships

4. Why the Time for Reform is Now

The Australian healthcare system is facing an affordability crisis, marked by increasing gaps and exclusions in private health insurance, resulting in financial strain and barriers to accessing essential care.

In response, the government has initiated discussions on healthcare reform, with a focus on improving access, affordability, and the overall quality of care. Notably, HSAs have not been considered in current reform efforts, despite their potential to mitigate out-of-pocket costs and enhance healthcare affordability, access to care and alleviate cost fears.

This section of the report highlights the challenges and why now is the time to explore HSAs as a solution to support the long-term sustainability of the healthcare system. Addressing barriers to treatment and enhancing value for money are identified as critical components of any effective reform strategy aimed at ensuring the long-term sustainability of healthcare in Australia.

4.1 A current agenda of reform

The unresolved challenges with Medicare and the PHI industry, coupled with the cost of health care in the family budget, continues to keep reform at the forefront of people's minds. The focus of health care policy reform to support the long-term sustainability of care has become a central component for the Australian Government and Australians alike.

The Australian Government established a steering group in October 2019 to provide independent expert advice to guide and assist in the development of a 10-year plan [1] for primary health care. The quadruple aim of the plan was to improve people's experience of care, enhance the health of populations, improve the cost-efficiency of the health care system, and enhance the work-life balance of health care providers. Moreover, the Government has also brought renewed focus to improving access to allied health with the appointment of a new Chief Allied Health Officer to develop a program of work.

Surprisingly, the 10-year plan made no reference to HSAs as a pillar to support reform. The introduction of HSAs into Australia can assist the Government in achieving its main objectives, such as managing health and wellbeing in the community and embracing new technology and methods. With PHI in an affordability spiral, characterised by an increasing number of exclusions, co-payments, excesses, and out-of-pocket expenses, now is the time for reform to include HSAs. The efficiency of products such as general treatments cover should be challenged, HSAs can supplement the current system and act as third pillar to ensuring value for money and reducing the fear of health care costs.

[1] Future focused primary health care: Australia's Primary Health Care 10 Year Plan 2022-2032

4.2 Barriers to treatment are impacting care

The current design and approach to funding the Australian healthcare system is creating barriers for consumers to seek health services appropriate for their condition. Prompt access to private health services and preventative care is essential for good health and helps alleviate pressure from the public healthcare system. Unfortunately, access has been stifled by an affordability crisis, with an increasing trend in gaps, exclusions, and the fear of out-of-pocket expenses embedded in the design of PHI. Health Savings Accounts (HSAs) can be a useful mechanism to support the system and provide more peace of mind to Australians.

The fear of costs affects people of all generations and impacts various types of treatments. In a survey conducted by National Seniors of Australians over 50, respondents were most likely to forego mental health care due to cost, such as appointments with counsellors or psychologists (26%), as well as any kind of dental care (checkup 20%, treatment 24%) [2].

“The barriers to treatment are not isolated to a single healthcare sector or demographic.”

The Australian Bureau of Statistics reported in its patient survey that 16.4% of Australians delayed or did not access dental care due to cost [2a].

The 2022 Vision Index found that while three in four Australians value vision as their most important sense, eye health issues have increased, causing concern for Optometry Australia. Despite this rise in issues, many Australians have never seen an optometrist (13%) or had an eye examination within the last two years (26%) [2b].

The Centre for International Economics, in its report "Saving for One's Care" (SFOC) prepared for the Australian Dental Association, highlighted some of the negative impacts of not having timely access to healthcare. Regarding dental care, the SFOC report emphasised that delays in accessing preventative treatments like check-ups, or early intervention treatments such as fillings, are known to be associated with poorer long-term oral health outcomes. These delays often necessitate costly, complex, and uncomfortable procedures such as root canal or complete tooth removal [3].

The SFOC report suggests that poor oral health has ramifications for overall health, wellbeing, and quality of life. People with dental disease may suffer from pain, infection, and tooth loss, leading to difficulty eating, swallowing, and speaking, with flow-on effects for self-esteem [4].

[2] Older People's Experiences of Health care Affordability and Accessibility, August 2023, National Seniors Association

[2a] ABS Patient Survey 2021-2022

[2b] 2022 Vision Index - Taking a closer look at Australians' eye health

[3] Harris, R.V., Pennington, A. & Whitehead, M. 2016, 'Preventative dental visiting: a critical interpretive synthesis of theory explaining how inequalities arise', Community Dentistry and Oral Epidemiology, doi: 10.1111/cdoe.12268

[4] Australian Government, Department of Health. 2012, 'Outcomes and Impact of Oral Disease', Report of the National Advisory Council on Dental Health, http://www.health.gov.au/internet/publications/publishing.nsf/Content/report_nacdh~report_nacdh_ch1~report_nacdh_out.

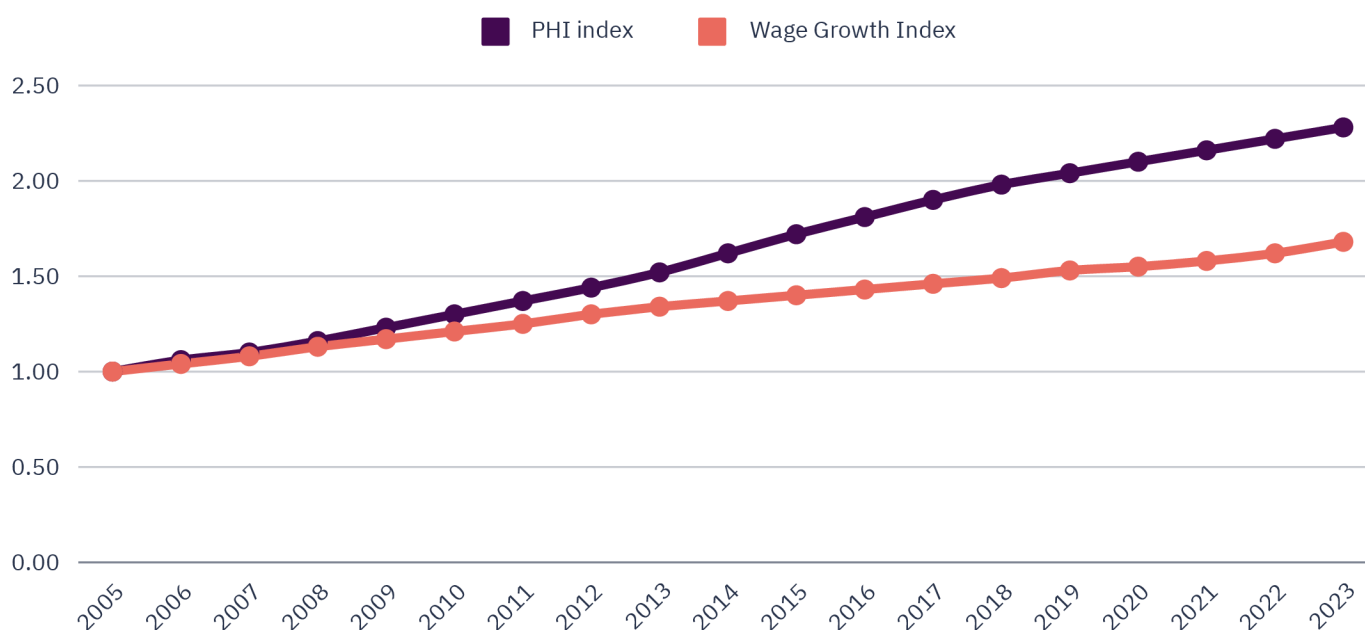
Furthermore, tooth count is correlated with the probability of death from cardiovascular disease. People with less than 10 teeth are seven times more likely to die of coronary disease than someone with at least 25 teeth [5]. The SFOC report also emphasised that people who have 19 teeth or less, and suffer from difficulty eating, are 1.85 times more likely to die from respiratory disease compared with people who have at least 20 teeth[6]. The SFOC highlighted that the probability of death from cardiorenal mortality is three times higher in diabetics who have severe periodontitis compared to those without. Without timely access to preventative care, particularly for diabetics, it is a matter of life or death[7].

The Productivity Commission warned that health spending by all Australian governments, ‘could almost double from around 6 per cent of GDP currently to about 10 per cent by 2044–45’[8]. Without a reformative agenda, barrier to entry will continue accelerating the affordability crisis.

4.3 An affordability crisis

The cost-of-living crisis alongside an ever-widening gap between PHI premium increases and wage growth is becoming alarming for the sustainability of PHI and health care. For example, a premium of \$2,500 in 2005 now costs \$5,698 compared to a wage of \$2,500 only growing to \$4,013 - leaving a gap of \$1,685.

Figure 1 - Private Health Insurance vs. Wage Growth



Source data: Department of Health and Aged Care, Average annual price changes in private health insurance premiums. ABS, Wage Price Index, Australia June 2023, All sector WPI, quarterly and annual movement (%), seasonally adjusted (a). (base index 1.00 for FY2025).

[5] Holmlund, A., Holml, G. & Lind, L. 2008, 'Number of teeth as a predictor of cardiovascular mortality in a cohort of 7,571 subjects followed for 12 years', *Atherosclerosis (Supplements) (Component)*, vol. 9, no. 1, pp. 79-79.

[6] Aida, J., Kondo, K., Yamamoto, T., Hirai, H., Nakade, M., Osaka, K., Sheiham, A., Tsakos, G. & Watt, R.G. 2011, "Oral Health and Cancer, Cardiovascular, and Respiratory Mortality of Japanese", *Journal of Dental Research*, vol. 90, no. 9, pp. 1129-1135.

[7] Preshaw, P.M., Alba, A.L., Herrera, D., Jepsen, S., Konstantinidis, A., Makrilakis, K. & Taylor, R. 2012, "Periodontitis and diabetes: a two-way relationship", *Diabetologia*, vol. 55, no. 1, pp. 21-31

[8] Productivity Commission, *Economic Implications of an Ageing Australia*, Research Report, Canberra, 24 March 2005, p. 143.



The affordability crisis has a threefold impact:



A survey by Finder [9] of 1,070 Australians found that 16% of Australians admit they plan to cancel their Health Insurance policy in 2024. Apply this to the population, this could be over three million people cancelling their cover - a concerning statistic.

“Over 3 million people could cancel their health insurance in 2024”

The Grattan Institute paints a challenging picture of Australia's private health industry, describing it as being in a "death spiral." They emphasised the urgent need for collaboration between the government and the industry to develop a new plan ensuring sustainability [10]. Premiums for PHI are becoming increasingly unattractive and unaffordable, especially for younger, healthier individuals. As they drop their coverage, the risk pool deteriorates, causing premiums to rise further with additional healthy and younger people dropping out, and the cycle continues. Finder's survey underscores this trend, revealing that 25% of gen Z and 19% of millennials are planning to drop their private health insurance by the end of the year, much higher than the average of 16%, with 58% telling Finder that price was the most important factor.

The aversion to seek health treatments is compounded further for those who do not have PHI. Those without PHI are also more than three times more likely to rarely see a dentist (having only one visit every five years or longer)[11]. Health Savings Accounts can be a useful product to help those without PHI seek appropriate and timely treatments without the fear of the associated costs. With 44.9% of the population only having hospital treatment membership and 54.6% for general treatment membership[12], the time for reform and HSAs is now.

The concern about drop-out is amplified by the potential impacts on vulnerable cohorts in the community.

[9] Finder Survey (March 2024)

[10] Stopping the death spiral: Creating a future for private health: Grattan Institute (May 2021)

[11] Chrisopoulos, S., Harford, J.E. & Ellershaw, A. 2015, 'Oral health and dental care in Australia — Key facts and figures 2015', prepared for Australian Institute of Health and Welfare, Cat. No. DEN 229

[12] APRA Health Insurance Statistics – June 2023

Those without PHI are more likely to experience pain, discomfort, or dissatisfaction with their dental appearance [13]. Finder’s survey also found that more women (18%) than men (14%) plan to cancel their cover.

For Indigenous Australians, only 20 percent in remote areas have PHI, with 72 percent citing affordability as the main barrier to uptake [14]. The SFOC highlighted the importance of timely treatment for vulnerable communities such as Indigenous communities. Indigenous Australians experience 20 times the rate of blindness due to uncorrected refractive error compared to non-Indigenous. In 2016, the treatment rate of refractive error for Indigenous Australians was 11 percent lower than the treatment rate for non-Indigenous Australians [13]. While eye tests are covered by Medicare, the provision of glasses is generally paid for by general treatment cover or out-of-pocket costs.

4.4 A worrying trend of exclusions, excesses, and co-payments

The cost of PHI is not the only concern. Value for money and hidden costs are causing distress. ExtrasJar customers setting up HSAs to replace their general treatment (extras) cover or to supplement their PHI often cite their 'out-of-pocket surprise' as the reason for doing so, a phenomenon likely to continue with current trends of exclusions, co-payments, excesses, and out-of-pocket costs both on extras and hospital cover.

The number of policies with exclusions [17] has increased over time in response to pressures on PHI affordability. The table [18] shows the increase in the proportion of policies held with exclusions, and co-payments [19] are ever increasing. Since June 2019, the number of hospital policies with exclusions has increased from 56.8% of policies to 63.2% in June 2023. A similar trend is occurring for hospital policies with excesses and co-payments.

Table 1: Percentage of policies with exclusions, excesses or co-payments

% of Hospital Policies	June 2019	June 2020	June 2021	June 2022	June 2023
policies with exclusions	56.8	58.7	60	61.3	63.2
policies with excess & co-payments	84.8	85.8	85.7	86.5	87.3

Source : APRA, Quarterly private health insurance statistics, 2019 to 2023

[13] Chrisopoulos, S., Harford, J.E. & Ellershaw, A. 2015, 'Oral health and dental care in Australia — Key facts and figures 2015', prepared for Australian Institute of Health and Welfare, Cat. No. DEN 229.

[14] Department of Prime Minister and Cabinet. 2014, 'Aboriginal and Torres Strait Islander Health Performance Framework 2014 Report'- 3.14; AIHW 2015, 'The Health and welfare of Aboriginal and Torres Strait Islander peoples', Cat. no. AIHW 147, p. 158.

[15] AIHW 2016, 'Indigenous Eye Health Measures', Cat. no. IHW 178, p. 18

[17] If a policy has exclusions for particular conditions, the policyholder is not covered at all for treatment as a private patient in a public or private hospital for those conditions. An excess is a lump sum the policyholder pays towards their hospital admission before the health fund will pay its benefits. A co-payment is an amount the policyholder must pay each time the health insurer pays hospital benefits for them. Normally a co-payment is payable for each day of hospitalisation up to a maximum annual amount or per admission amount. The insurer will not pay any benefits towards a policyholder’s hospital and medical costs for such treatment. Commonwealth Ombudsman, What are exclusions and restrictions?, accessed 6 October 2023

[18] Source: APRA, Statistics: Private health insurance membership and benefits June 2023.

[19] An excess is a lump sum the policyholder pays towards their hospital admission before the health fund will pay its benefits. A co-payment is an amount the policyholder must pay each time the health insurer pays hospital benefits for them. Normally a co-payment is payable for each day of hospitalisation up to a maximum annual amount or per admission amount - Commonwealth Ombudsman, What are exclusions and restrictions?, accessed 6 October 2023

4.5 Value for money is a real concern

The product design, including incremental changes to limits, exclusions, gaps, and out-of-pocket expenses, is creating value-for-money concerns for consumers.

The decline in no gaps for in-hospital

The decline in no-gap arrangements for in-hospital services is creating a culture of 'out-of-pocket' surprises and fear. In the case of a no-gap arrangement, the participating healthcare service provider agrees to charge a certain amount for services, and the health insurer will fully cover the cost of the relevant medical procedure performed by the participating provider. The proportion of in-hospital services with no gap has dropped from 91% in June 2020 to 88.4% in June 2023. The gap expenses incurred by policyholders for hospital treatments have continued to increase, with the average gap expenses for hospital treatments rising from \$314.51 in June 2019 to \$408.38 in June 2023 [20].

A rise in complaints

The increase in gaps, co-payments, excesses, and out-of-pocket costs is reflected in customer satisfaction. A Roy Morgan Research survey across 50,000 consumers per year, including coverage of more than 23,000 private health insurance members, suggests that satisfaction has fallen across the five largest health funds since mid-2015. Cost pressures were cited as the key driver of the falling satisfaction experienced to date [21].

“PHI complaints for service have increased by 40%”

The Australian Competition and Consumer Commission (ACCC) analysis of Private Health Insurance Ombudsmen Complaints by issue shows that complaints about benefits have increased significantly from 2022 to 2023, and complaints about service, incentives, and waiting periods increased by about 40%, 31%, and 24%, respectively [22].

Cyclical impacts impacting care

One aspect of general treatment coverage is the tendency for health service activity to cluster around expiration dates or when limits and caps are renewed. This puts unnecessary pressure on the healthcare system. While some instances of this activity may be appropriate, others raise questions as to the appropriateness of the timing of care. The existing system of general treatment coverage creates incentives for health service providers to encourage consumers to utilise services to maximise their PHI benefits. Likewise, consumers may choose to purchase health services to ensure they make the most of their entitlements.

With the introduction of HSAs, the phenomenon of clustered activity would be less prevalent, putting less pressure on service providers during renewal periods, while empowering consumers to seek treatment at the right time. An additional benefit of HSAs would be the ability for consumers to select their own provider, ensuring continuity of care. The current concept of preferred provider discounts is impacting the continuity of care.

[20] APRA, Quarterly Private Health Insurance Statistics, June 2019 to June 2023

[21] Roy Morgan Research, 2016. Satisfaction with private health insurance declining. November 2016. Finding No. 7044.

[22] ACCC 2022–23, Private Health Insurance Report to the Australian Senate

The disturbing reality of extras

“With an average return of 45% on extras after out of pocket expenses and premiums, value for money is a real concern and HSAs offer a better alternative.”

Table 2: General Treatments and Ambulance Cover FY2023

General Treatment and Ambulance		\$'000
(a)	Total cost of general treatment services (3)	11,762,427
(b)	Fund benefits paid (2)	5,957,033
(a)-(b)= (c)	Out of Pocket paid by customers	5,805,394
(d)	Total premium revenue (1)	7,303,322
(b) / (c)+(d)	Fund benefits / Premiums	82%
(b) / (c)+(d)	Return to customers after out of pocket expenses and premiums	45%

Source:

1) Operations of Private Health Insurers Annual Report data 2022-23 (Published 5 February 2024)

2) Operations of Private Health Insurers Annual Report 2022-23

3) Quarterly Private Health Insurance Membership and Benefits December 2023 (Published 28 February 2024)

The value of general treatments

General treatment cover, as it is currently offered as an insurance product, does not function as a savings vehicle for health treatments and enables cross-subsidisation between hospital and extras insurance [23]. This cross-subsidisation contributes to the value-for-money challenges for consumers regarding extras cover. If the private health insurance 'death spiral' continues, combined with continual reductions of limits, more gaps, exclusions, and out-of-pocket expenses, it is time to consider alternatives such as HSAs. A graver concern is the disturbing truth about the extras cover and its value to the consumer. Table 2 shows that the average return on extras, after factoring in out-of-pocket expenses and premiums, is only 45%, less than half. This product gives a false sense of security to consumers that they are covered. Without addressing the current design, out-of-pocket expenses will no doubt continue to increase. For example, the average gap expenses for an extras treatment have increased from \$49.20 in June 2019 to \$58.33 in June 2023, and for hospital treatments from \$314.51 in June 2019 to \$410.67 in December 2023 [24].

4.6 A Flawed Design

The prevailing insurance framework for extras presents several inefficiencies and concerns that merit reassessment of the design and benefit in the Australian healthcare sector. While insurance conventionally serves to mitigate high-cost, low-probability events, it may not be the most suitable approach for routine healthcare requirements such as physiotherapy sessions or occupational therapy. Unlike rare but financially catastrophic events like floods or fires, allied health services are often predictable and recurring. Consequently, including them within the same insurance framework as major medical events may not align with the core purpose of insurance, which is to pool risks across a population to safeguard against unpredictable and financially devastating incidents.

Furthermore, the administrative expenses and profit margins associated with the insurance model can significantly inflate the overall cost for consumers. A considerable portion of premiums is allocated to managing claims and generating profits for insurance providers, rather than directly benefiting policyholders. It has been estimated that the gross margin on a general treatment policy was between 23.1 per cent and 33.6 per cent, depending on the state or territory [25]. Individuals end up paying more in fees and subsidies than they receive in actual benefits. While, in some cases, the private health insurance rebate may improve the cost-effectiveness of general treatment cover, in totality it is inefficient. Such a system inherently creates a disparity between what consumers pay and what they receive in return, leading to dissatisfaction and inefficiency.

Exploring alternative approaches, such as HSAs, could offer more cost-effective solutions instead of perpetuating the cycle of high administrative costs and limited benefits. By moving away from the traditional insurance model and embracing more tailored financial instruments, individuals could potentially save money while still ensuring access to essential allied health services. This transition would not only address the current shortcomings of the insurance system but also empower consumers to exert greater control over their healthcare finances

[23]The Private Health Insurance Administration Council (PHIAC), 2013. Competition in the Australian Private Health Insurance Market: Premiums and Competition Unit. Research Paper 1. Canberra.

[24]APRA, Quarterly Private Health Insurance Statistics, June 2019 to June 2023

[25] Private Health Insurance Administration Council, 2015. 'Risk sharing in the Australian private health insurance market'. Research Paper 4: June 2015.

5. Health Savings Accounts

This section of the report explores how HSAs can support health and wellbeing by helping Australians build health wealth, thereby fostering a healthier and more secure future. Furthermore, the discussion offers a series of recommendations for the Government to consider in shaping its long-term strategy which are summarised in section 3.

5.1 Background

The purpose of Health Savings Accounts (HSAs) is to offer peace of mind and empower individuals to build a "nest egg" for future health-related expenses. Moreover, HSAs can encourage low-income earners without general treatment cover to save for health care expenses. They also assist in developing flexible and individualised financial safety nets to alleviate financial barriers to accessing care. Additionally, HSAs can deliver both short and long-term benefits by improving health outcomes through increased access.

HSAs should serve the dual purpose of assisting patients in meeting out-of-pocket healthcare expenses not covered by public and private insurance, as well as facilitating the funding of preventive healthcare treatments and services (recommendation 1).

Health Savings Accounts Overseas

HSA and Medical Savings Accounts are operational and well-known in countries like South Africa, China, Singapore, and the United States, where they have been widely adopted to promote health, wealth, and overall wellbeing. In all international examples, a notable distinction is the lack of universal access to healthcare and relatively high healthcare insurance costs compared to income levels. However, the common theme across these experiences is that MSAs have the potential to mitigate the declining value of general treatment cover and provide a consumer-centric approach to funding out-of-pocket healthcare expenses. HSAs have facilitated incentives for savings and spurred innovation in the insurance market, especially by providing options for young individuals who may be less inclined or financially capable of obtaining insurance coverage. These individuals are also less likely to make claims and derive benefits from their insurance policies.

Medical Savings Accounts were introduced in the United States to address perceived constraints on patient choice and provider autonomy in healthcare. They sought to encourage individuals to save for their healthcare needs, including allied health services, thereby empowering them to take charge of their healthcare expenses. This initiative aimed to counteract the diminishing attractiveness of conventional insurance coverage and promote greater individual accountability for healthcare costs.

Whilst there is international experience to reflect upon, it is important when considering HSAs in Australia to ensure that they are tailored to fit the specific needs of the country and are designed in a way that has no adverse consequences. It is also important that the introduction of HSAs with tax incentives supports both Medicare and Private Health Insurance, promoting long-term stability.

Health Savings Accounts in Australia

The HSA landscape in Australia is currently limited, and with government incentives supporting PHI and the inefficiencies associated with extras, the sector is unlikely to grow to a scale comparable to PHI. Various manifestations of HSAs have emerged in Australia, including iSelf, Vspry, and Your Health Wallet, none of which provided immediate access to invested funds.

“ExtrasJar offers valuable insights into how to implement, operationalise, and administer HSAs in Australia.”

ExtrasJar launched its HSA product in August 2022, enabling consumers to save specifically for health-related expenses. The savings are invested in a registered Managed Investment Scheme, providing potential investment returns to customers.

Ease of Access

What distinguishes ExtrasJar's HSA is its unique feature: customers have instant access to their HSA investments at the point of sale. This means they can use their ExtrasJar Mastercard® to directly pay for health-related expenses like hospital excess or dental costs.

Simplifying access to HSA funds with instant availability for health-related treatments is crucial for widespread adoption and empowerment. Without this feature, HSAs may only attract consumers who can afford to pay upfront and then seek reimbursement, creating a regressive barrier that disproportionately affects the most vulnerable. This instant access is particularly vital in sectors with high transaction volumes, such as the dental and optical industries.

HSA holders should have immediate access to their investments to seamlessly pay for health-related costs. This reduces barriers to utilisation and administrative complexities (recommendation 2).

Consumer choice

Despite the confusion around whether extras cover is necessary to avoid paying the Medicare Levy surcharge, the product remains optional. This gives consumers the choice to decide how to manage their health-related expenses. It is important to provide consumers with this option, making HSAs voluntary. This aligns with the view shared by the Australian Medical Association in their AMA Position Statement on HSAs.

Participation in HSAs should be voluntary, ensuring individual autonomy in healthcare financing decisions (recommendation 3).

Real life case study



KC set up a HSA with ExtrasJar in 2022

"Like many, I felt my extras cover wasn't giving me bang for my buck, just a voucher I had to use."

"I made the switch to a Health Savings Account with ExtrasJar and now I've got a health nest egg. Saving money gives me peace of mind knowing I'm covered when I need it."

"Setting up a Health Savings Account was a breeze, and now I've got \$2,400 saved up, ensuring I'm covered for any health expense without limits or expiry dates. With looming cost increases, switching to a Health Savings Account is a no-brainer."

5.2 Tax Incentives

Despite the absence of tax benefits associated with opening and maintaining a Health Savings Account (HSA) in Australia, customers are increasingly embracing this option, often propelled by dissatisfaction with the perceived value for money offered by general treatment cover (extras). However, widespread adoption is unlikely without government incentives.

For HSAs to flourish, it's crucial for governments to provide support in the form of tax incentives. Such incentives will stimulate uptake and bolster the long-term stability of healthcare. Internationally, Medical Savings Accounts (MSAs) have consistently offered tax exemptions on contributions and interest, encouraging younger individuals to save for their health needs, with benefits and incentives varying by country. A well-considered implementation of HSAs in Australia should enhance, rather than diminish, the value proposition of private spending in healthcare, particularly for individuals under 30, those in later stages of life with substantial savings, and those in income-sensitive brackets.

Preliminary economic modelling by the Centre for International Economics found that with modest government support, initially around 850,000 Australians are likely to choose to adopt a HSA, increasing to up to 10 per cent of the Australian population by 2030 [26]. While the proposed model is unique, it illustrates the potential significance of HSA adoption with government support.

The incentives should be applied in a manner similar to other tax incentives, such as work-related and self-education expenses. This approach will simplify the operationalisation and administration of HSAs and can leverage the current infrastructure of the Australian Tax Office.

The Australian Government should leverage Commonwealth tax policy to incentivise HSA adoption. The annual increase in the HSA, net of withdrawal requests and unpermitted HSA expenditure can be administered as an income tax offset benefit in a manner akin to the current approach to work-related expenses (recommendation 4) .

Capping Incentives

The government should cap the level of tax incentives to avoid distorting the market. Even with capped benefits, the impact can be significant. For example, the model proposed by the Centre For International Economics has a cap on the tax incentive provided. The model found that the average amount saved by individuals (\$1,226) is close to seven times the average cost of the subsidy offered (\$186) to encourage those savings, resulting in a cost of \$157 million in the first year, rising to \$559 million once 10 per cent of the population chooses to save into an HSA [27].

It is important that a detailed cost-benefit analysis is conducted by the Treasury to ensure that the incentive is not set too low, inhibiting uptake, or set too high, causing inefficiencies in the allocation of resources.

The limit of income tax offset for HSAs can be capped to avoid distorting the market and allow the government to control its expenditure (recommendation 5).

[26] , [27] Saving for one's care: Understanding how Health Savings Accounts can help fund the health of Australians, February 2018

Wealth Transfer Limitations

It is also important, when capping incentives, to ensure that HSAs are not manipulated as a wealth transfer mechanism. Guardrails need to be added to prevent HSAs from being used as a wealth transfer tool.

HSAs should not be utilised for intergenerational wealth transfer, preserving their intended purpose as a healthcare financing tool (recommendation 6).

5.3 HSA Framework

Managed Investment Scheme

Managed Investment Schemes (MIS) are predominantly regulated by Chapter 5C of the *Corporations Act 2001 (Cth)*, which was first introduced into the law by the *Managed Investments Act 1998*.

The regulatory framework around MISs seeks to improve investor outcomes, promote investor confidence, and maintain financial stability while supporting choice, competition, and innovation in the market. The total value of all assets held in managed investment schemes in Australia is approximately \$2.7 trillion, which is just over half of Australia's broader \$4.4 trillion managed funds [28].

An MIS that is offered to retail clients must, in most cases, be registered with the Australian Securities and Investments Commission (ASIC). Registered schemes have significant compliance and governance obligations under Chapter 5C of the *Corporations Act*. These include the requirement to appoint a responsible entity, which must also be a public company with an Australian Financial Services (AFS) license authorising it to operate a scheme.

The total value of assets held by registered schemes is about \$1.8 trillion, and there were 420 responsible entities operating a total of 3,656 registered schemes at the end of June 2022 [29]. Over 70 per cent of responsible entities operate five or fewer registered schemes, with some concentration at the upper end, with ten responsible entities operating 46 per cent of all registered schemes [30]. The diversity of the size of responsible entities will provide variation and a competitive landscape for HSA offerings for consumers.

Fund managers and registered MISs offer an existing infrastructure that can provide variation, competition, and meet the high transaction volume and ease of access requirements of HSAs.

Fund Managers are best placed to administer HSAs, and registered Managed Investment Schemes provide a strong regulatory framework to operationalise HSAs (recommendation 7).

[28] APRA (Australian Prudential Regulation Authority) (2023), 'Table 1b Financial position' [data set], Quarterly superannuation performance statistics – September 2004 to March 2023, accessed July 2023. This figure accounts for superannuation funds with more than 6 members.

[29] ASIC (2022) unpublished data; ASIC (2022), Annual Report 2021–22, p 17, accessed July 2023.

[30] Review of the regulatory framework for managed investment schemes, Consultation paper August 2023



Statements and Receipts

An effective way to operationalise the tax offset incentive is to introduce the concept of HSA Statements and HSA receipts.

HSA providers can issue annual transaction statements to HSA account holders. These statements would facilitate the calculation of health-related tax incentives during the annual tax return process (recommendation 8).

This process already exists for registered Managed Investment Schemes (MISs). Statements are issued to help individuals correctly complete their taxes.

The statement can summarise investments, withdrawal requests, and transactions. The annual change in the HSA balance, after deducting withdrawals and any unapproved expenses, can be administered as an income tax offset benefit, subject to an allowed cap. This cap could be determined based on income level, PHI rebate tier, or another relevant measure.

This approach would align HSA expenses with the method used for work-related and self-education expenses. It would simplify the framework for consumers and minimise administration costs for government entities such as the Australian Tax Office.

HSA account holders can retain receipts as evidence of health transactions, and HSA account holders could be subject to a potential audit by the Australian Tax Office, in line with standard procedures for tax returns (recommendation 10).

Investment earnings

As HSA account holders accrue investment earnings, it is important to treat these earnings in a manner that is consistent with the current treatment of investment earnings on funds. This will keep the process simple and prevent any market arbitrage.

Investment earnings on HSAs can be taxed in a manner similar to the approach taken for investment earnings on Managed Investment Schemes, preventing market arbitrage (recommendation 11).

5.4 HSAs and hospital cover

The current design of hospital insurance is contributing to the cancellation rate and affordability crisis. In 2019, the government introduced a \$750 excess for singles and \$1,500 for families to give more control over the cost of your cover. This option was in addition to our current excess amounts of nil, \$250, or \$500.

"Consumer feedback has highlighted that many consumers are concerned about premium increases," the Department of Health and Aged Care website stated, with the potential savings of higher excesses being up to \$200 for singles and \$350 for families, per year [30].

The PHI affordability crisis can be addressed by allowing Health Savings Accounts (HSAs) to work in unison with hospital cover. Currently, HSAs are being used to pay hospital excesses.

The Government should introduce higher excess hospital products to policyholders who are HSA holders. By increasing hospital excesses for those with a HSA, premiums can be significantly reduced. This policy change would be most beneficial for mature Australians who want to self-insure up to an affordable level.

The Australian Government should consider increasing the mandated hospital insurance excess products for HSAs holders to help address the affordability crisis (recommendation 12).

A case study

Given the average benefit per episode/service for acute hospital visits is \$2,551 [31], higher excess options could have the potential to result in substantial reductions in premiums. When paired with HSAs, consumers can gain peace of mind knowing they have adequate funds to cover the hospital excess, with any unused funds rolling over for future years. Guardrails can be added, such as a minimum deposit amount to qualify for the higher excess product.

One potential model entails introducing hospital excesses up to \$1,500 for individuals, and up to \$3,000 for families, offering new excess up to the limit in increments of \$250. This would double the existing excess limit of \$750 for individuals and \$1,500 for families.

Economic modeling suggests that if the average hospital policy excess were to increase by \$250 as a result of higher uptake of hospital cover due to consumers taking out a HSA, acute hospital benefits would decrease by approximately 10%. Moreover, if hospital policy excesses were to rise by \$500 or \$750 from current levels, the reduction in benefit payments for acute hospital benefits would decrease by around 19% and 27%, respectively. HSAs can empower individuals, couples, and families to opt for higher excesses [32]. Assuming the benefit reductions translate to other benefits and are passed onto policyholders, it could lead to annual savings ranging from \$221 to \$1,781.

[30] <https://www.health.gov.au/sites/default/files/private-health-insurance-reforms-increasing-voluntary-maximum-excess-levels.pdf>

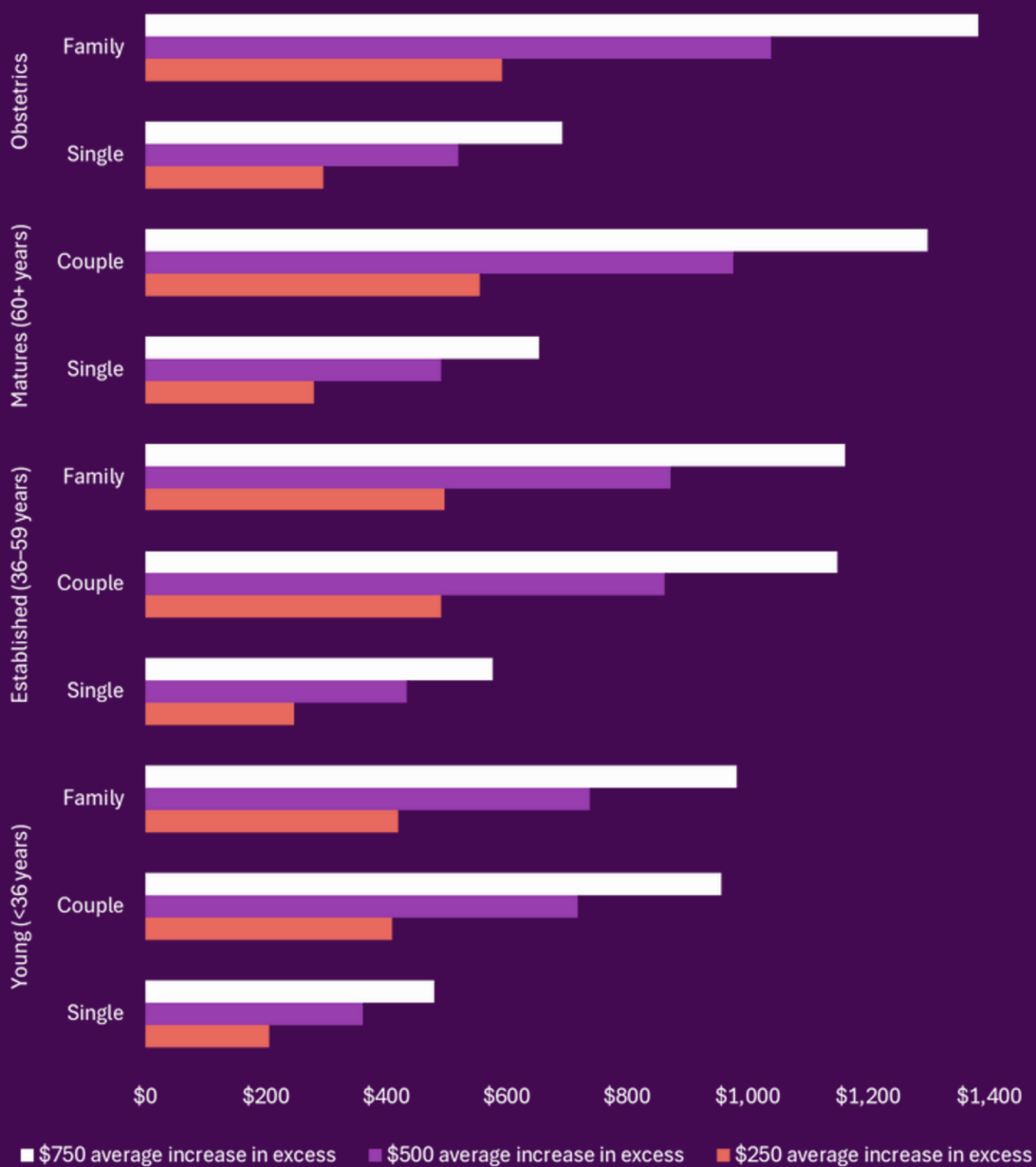
[31] Statistics: Quarterly PHI statistics Dec 2023

[32] ExtrasJar excess modelling April 2023, average premium by category - www.canstar.com.au, Claim benefits: APRA Quarterly PHI Statistics December 2023

HSA's can be used to reduce insurance premiums

“Doubling the hospital excess for those with HSA's can reduce annual premiums by up to 27%”

Figure 2: Annual hospital premium saving by category and policy type



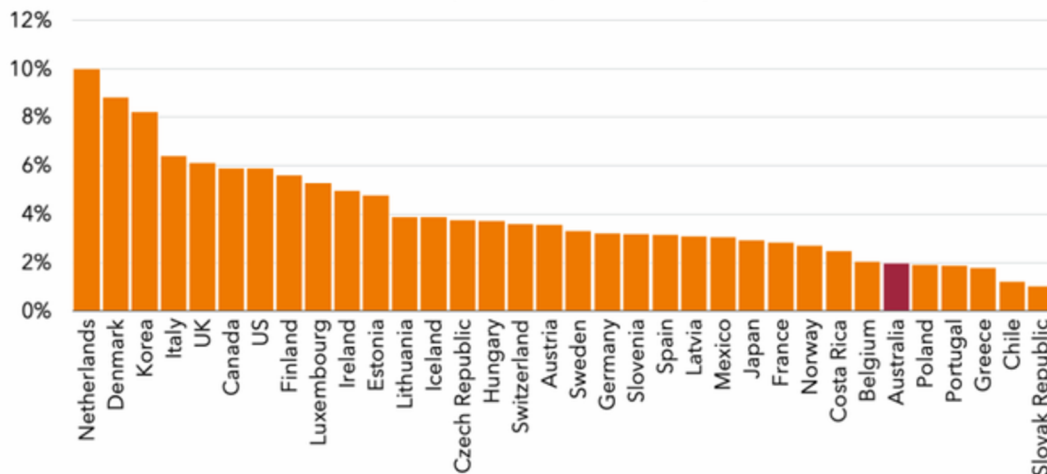
Source: Cost of premiums: www.canstar.com.au; Benefit: APRA PHI Statistics Dec 23

5.4 HSAs and Health Initiatives

Physically inactive individuals have been reported to have higher rates of morbidity and healthcare expenditure [32]. The World Health Organization (WHO) lists "insufficient physical exercise" as the fourth-leading risk factor in mortality, saying it's responsible for approximately 3.2 million deaths each year. The WHO also estimated that, in 2013, the price of physical inactivity globally was \$US54 billion per year in direct healthcare, with an additional \$US14 billion attributable to lost productivity. In the report "Global Action Plan on Physical Activity 2018-2030" [33], the WHO has urged governments to use a strategic combination of policies and actions "aimed at improving the social, cultural, economic, and environmental factors that support physical activity, combined with 'downstream,' individually focused (educational and informational) approaches.

Domestically, in 2019, it has been estimated that Australia lost about \$15.6 billion per year due to physical inactivity and \$561 million for individual dietary risk factors [34]. The Grattan Institute found that Australia invests far less in preventing illness than many other wealthy countries, including Canada and the United Kingdom.

Figure 3 - Preventative care as a share of current health expenditure, 2022 or latest year



Source: OECD (2023), Economic Surveys, Australia 2023, Figure 1.19

A report released in 2023 from the think tank stated, "We're sleepwalking into a sicker future that will condemn millions of Australians to living with avoidable disease and disability."

Using HSAs can be part of the solution to address these issues. The HSA infrastructure provides a framework for local, state, federal, and employers to promote health initiatives. This is particularly important to encourage individuals to seek preventative healthcare such as check-ups and promote physical exercise and positive health behaviour.

New government initiatives can be introduced via the HSA framework to promote preventative health care, including gym memberships (recommendation 13).

[32] Role of Physical Activity on Mental Health and Well-Being: A Review, 7 Jan 2023,, PMID: PMC9902068

[33] Global Action Plan on Physical Activity 2018-2030, More Active People for A Healthier World, WHO

[34] The economic cost of preventable disease in Australia: a systematic review of estimates and methods, 7 August 2019, PMID: 31390112

5. Conclusion

The introduction of Health Savings Accounts (HSAs) in Australia presents a significant opportunity to address the current challenges in our healthcare system. With the support of major industry bodies like the Australian Dental Association and the Australian Medical Association, HSAs could become the third pillar of our healthcare system alongside Medicare and Private Health Insurance.

To ensure their success, 13 recommendations have been outlined in this report. Firstly, HSAs should have clear objectives focusing on assisting patients with out-of-pocket expenses and promoting preventive healthcare. Their implementation should prioritise ease of access, with voluntary participation and tax incentives to drive adoption. Capped incentives will prevent market distortions, while restrictions on intergenerational wealth transfer will maintain their healthcare focus.

Administering HSAs through fund managers and providing regular statements to account holders will ensure transparency and accountability. HSA holders should retain receipts for potential audits, and investment earnings should be taxed similarly to Managed Investment Schemes to prevent market arbitrage. Furthermore, guidelines for residual balance distribution and using HSAs to pay hospital excesses are essential considerations.

Additionally, leveraging HSAs for government initiatives promoting preventive healthcare, can further enhance their effectiveness. ExtrasJar, having led the way in HSA implementation since 2022, provides invaluable insights for the successful adoption and operation of HSAs.

Australia has the opportunity to transform its healthcare financing landscape, promoting accessibility, affordability, and long-term sustainability. It's time to embrace innovation and collaboration to build a healthier future for all Australians. By implementing HSAs effectively, we can create a healthcare system that prioritises the wellbeing of its citizens and ensures equitable access to quality care for generations to come.



**Questions?
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