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Productivity Inquiry
Productivity Commission
GPO Box 1428
Canberra City ACT 2601
By email: productivity.inquiry@pc.gov.au

Dear Commissioner

INQUIRY INTO AUSTRALIA'S PRODUCTIVITY PERFORMANCE

AIA Australia welcomes the opportunity to make a submission to this inquiry. We support the intent of the inquiry to review Australia's productivity performance and recommend an actionable roadmap to assist governments to make productivity-enhancing reforms. As one of Australia's leading life and health insurers, we are committed to helping people live healthier, longer, better lives. Our role as a life and health insurer means that we see first-hand the significant impact that ill-health has on Australians; not just individuals, but their families, their communities and broader society. Improving the health of Australians and reducing the incidence or severity of ill-health will deliver improvements to productivity and should be part of that actionable roadmap.

Non-communicable diseases (NCDs) are the main causes of death and disability in Australia, and yet they are largely preventable. Insights from AIA Australia's *5590+* publication[1] show that by focusing on and improving five modifiable behavioural risk factors – physical inactivity, poor nutrition, smoking, excess alcohol and our interaction with the environment – we can assist to prevent five major non-communicable diseases – cancer, diabetes, respiratory diseases, heart disease and mental health conditions and disorders. The case for investing in health promotion and prevention of NCDs is now stronger than ever. It is our view that a greater focus on prevention and early intervention from Government and from the private sector would be of greatest long-term benefit to productivity.

To achieve productivity gains and to encourage and incentivise greater investment and focus on prevention and early intervention to drive those productivity gains, a broad review of the delivery of private healthcare services should be undertaken. We support the Productivity Commission's approach which seeks to focus the public health system more on early intervention, prevention and health outcomes. However, the private health system also needs to deliver efficiency, health and affordability outcomes for Australians who choose to use it. The review should aim to deliver recommendations that achieve better coordination of the private healthcare system and the multiple actors that affect a person's health (including the person themselves) and those outside of the health system. The proposed scope of this review is set out later in this response.

Reflections on the 2017 report

The Productivity Commission's 2017 report *Shifting the Dial – 5 year productivity review* dedicated a significant section of its response to health. We strongly support those recommendations that advocated for a greater focus on preventative health and management of chronic conditions. For example, Recommendation 2.1, which encourages Governments to allocate (modest) funding pools to health and hospital networks for improving population health, managing chronic conditions and reducing hospitalisations, would allow these networks to overcome some of the current barriers and foster greater experimentation and innovation, including with the private sector, particularly in prevention.

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[1] 5590+ The new health insight helping Australians lead healthier, longer, better lives – July 2021

We note that many of the 2017 recommendations are yet to be acted upon or are in early stages of adoption, in some part due to the significant impact of the pandemic on the health system. However, the pandemic has also accelerated some changes to health delivery, particularity the greater use of technology and delivery of services digitally and in non-clinical settings.

We also acknowledge the sentiment raised in the 2017 report that there are large public interest gains to be made by orienting Australia's health system towards achievement of outcomes rather than payment for services; the Commission highlighted as a key problem that health funding is not currently oriented towards innovation or outcomes. It also noted that the prevention and proper management of chronic illnesses is still in its infancy, with the system primarily responding to patient crisis.

The 2017 report further noted that Australia is beset by a rising wave of complex chronic health conditions that will lead to many years of life spent in ill-health, lower involvement in work and rising costs for the healthcare system. While Australians have high life expectancy, they spend 11 years in ill-health – the highest amongst OECD countries[2] – and even small improvements in management or prevention of chronic conditions can produce substantial benefits for people's wellbeing, labour markets, productivity and avoided health care costs.

The impact of chronic illnesses on productivity

Chronic illnesses have a significant impact on the lives of Australians. It is estimated that the five major NCDs (respiratory disease, diabetes, cardiovascular disease, cancer and mental health conditions and disorders) account for over 90 per cent of all deaths in 2019.

NCDs contribute not only to deaths, but also to years lived with disability. The burden of disease is measured by the cumulative effect on years lost from premature death and years spent with a disability (often referred to as disability adjusted life years).

Globally, NCDs were responsible for 1.62 billion total years of healthy life lost to both death and disability in 2020[3].The Australian Institute of Health and Welfare in 2018 estimated that 38per cent of the Australian health burden was preventable due to modifiable risk factors[4]. This same report noted that a 21per cent reduction on burden could be achieved if all Australian's experienced the same rate of disease burden as the most advantaged socioeconomic group - suggesting that financial barriers are a significant contributor to poor health outcomes.

Ill-health directly affects social and economic participation. Poor health status represents one of the largest brakes on an economy's labour supply, meaning that successful preventative health measures can potentially have significant positive economic impacts and improve productivity of those in the workforce.

The supporting papers[5] to the Commission's 2017 report provides a compelling argument showing lower labour force participation for those with disability and ill health:

- unemployment and underemployment are higher
- hours of work are shorter
- absenteeism rates are higher.

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[2] World Health Organisation, Global Health Observatory

[3] Global Burden of Disease, 2019.

[4] Australian Institute of Health and Welfare – Australian burden of disease study: Impact and causes of illness and death in Australia 2018

[5] 2017 Productivity Inquiry - Supporting Paper 4: Why a Better Health System Matters (figure 8)

Coronary heart disease (CHD) is the highest individual disease burden in Australia and associated with productivity losses through unplanned absence from work, reduced output while at work and early labour force withdrawal. Approximately eighty per cent of CHD cases in Australia are preventable, highlighting the potential benefit of employing preventive strategies addressing populations at risk of CHD. The research predicted nearly 40,000 new (incident) CHD cases over a ten-year period to 2029. If, however, these new cases of CHD were prevented, a total of 14,000 deaths could be averted, resulting in more than 8,000 years of life saved and 100,000 productivity-adjusted life years gained, equivalent to A$21 billion in GDP[6].

The problems to be solved

Australia is well served relative to international comparisons with public health preventative strategies, including smoking rates, public health screening programs such as for breast and bowel cancers, and preventative vaccinations, such as for cervical cancer. Hoverer there is a lack of focus, coordination and investment in broadscale preventative strategies to address the major NCDs of respiratory diseases, diabetes, cardiovascular disease, cancer and mental health conditions and disorders. The 2017 reported that many consumers said that their GP had not discussed the likelihood of developing these chronic illnesses despite them exhibiting risk factors. In part, this may be attributed to a system that is oriented to payments for services and not towards outcomes.

The 2017 report includes several recommendations that are targeted at improving the effectiveness of health interventions and providing appropriate incentives for the broader healthcare industry to seek the best outcomes. However, it noted some structural issues that disincentivise participants in the sector from investing more in prevention and early intervention and weaken their capacity to address chronic illness effectively. For example:

- Public hospitals activity basis funding – programs they initiate, for example in partnership with GPs and other health care providers to improve health outcomes, can lead to reduced incidence or duration of hospitalisations and have a direct impact on their activity-based revenue.
- The operation of the Risk Equalisation Framework in private health insurance, which underpins community rating by requiring that insurers with healthier members bear some of the costs of insurers with greater representation of less healthy people, is a financial disincentive for individual insurers to invest in programs that improve the health outcomes of their members. The 2017 report noting that health insurers investing in prevention can readily lose 50 cents for every dollar of benefit they obtain from avoiding claims costs.

There are also legislative limitations on the types of payments and benefits that health and life insurers can provide that create silos that limit the effectiveness of prevention or early intervention programs and create a drag on productivity. Life insurers can provide rehabilitation that has an occupational or vocational focus; however, the life industry is prevented from providing targeted benefits that may otherwise be insured by a private health insurer as health insurance business or are covered by Medicare. Private health insurers are currently restricted from funding services outside of hospitals that are eligible for Medicare rebates.

Most people can access funding for medical treatment through Medicare, and the Pharmaceutical Benefits Scheme provides funding for pharmaceutical products. However, there are often gap payments which are paid by individuals, which may be prohibitively high. The AIHW's burden of disease report links socioeconomic standing with disease burden and the financial barriers may face in accessing broader healthcare services.

In some instances, a preferred provider or service may not be available through the public system which will also mean that treatment needs to be funded by out-of-pocket expenses, acting as a barrier to treatment. For others, there may be significant waiting lists which can reduce an individual's chance of effective recovery if it means they are off work for an extended period. Difficulties in accessing appropriate treatment are compounded in remote and rural areas. Consider Joe, a plumber in his late 40s who is waiting for shoulder surgery on a public hospital waiting list. Without these barriers, Joe could be assisted by the life insurer of superannuation insurance policy to pay for treatment in the private system and facilitate an earlier return to work as well as reducing the likelihood of Joe developing secondary conditions like mental ill-health.

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[6] F Savira, B.H Wang, A.R Kompa, Z Ademi, A Owen, D Liew, E Zomer, The impact of coronary heart disease on productivity in Australia over ten years, *European Heart Journal*, Volume 41, Issue Supplement_2, November 2020, ehaa946.1491, https://doi.org/10.1093/ehjci/ehaa946.1491

The ability to scale prevention and early intervention programs that focus on the modifiable behavioural risks that underpin the main NCDs – physical inactivity, poor nutrition, smoking, excess alcohol and our interaction with the environment – is limited by these financial and legislative barriers.

Greater focus on prevention

Millions of Australians are living with one or more NCDs that could have been prevented. The 2017 report noted that more than 10 million Australians have three or more long-term conditions – many of these reducing their productivity[7].

To significantly reduce the burden of NCDs, we need to shift towards a preventive mindset, increasing awareness through health promotion, and supporting health innovations across all sectors. The Commission's 2017 report published data showing that moving from poor health to fair health increases labour participation rates by 34 percentage points[8].

Everyone can play a role – governments and policy makers, the private sector and individuals. Preventing disease requires more than providing people with information to make healthy choices. While knowledge is critical, we must reinforce and support good health – for example, by making healthy choices easy and affordable.

Health promotion and disease prevention strategies are designed to keep people healthy. They often address the social determinants (economic, social, cultural and political conditions) that affect health, which influence modifiable behavioural risks, such as physical activity levels and eating habits.

Health promotion and disease prevention programs aim to help people increase control over their own health, by engaging and empowering individuals and communities to choose healthy behaviours and make changes that reduce their risks of developing chronic diseases and other morbidities.

To be most effective, interventions must be developed for all stages of life. When combined with lifestyle changes, health promotion and disease prevention programs can significantly reduce the incidence of disease and associated disability and death.

Prevention can occur at three levels: primary prevention intervenes before disease occurs, secondary prevention detects and treats disease early, and tertiary prevention slows or stops the progression of an existing disease[9].

"Upstream" approaches focus on reducing the risk factors that impact health conditions before they can manifest. This approach can reduce rates of both death and disability. An upstream approach focuses on an outcome across an entire population in a community and emphasises a range of influences across different sectors in the environment that impact behaviour.

Evidence clearly shows that prevention is the best value-for-money investment in health[10]. Unlike the costs of treatment, lost productivity and ongoing health care, prevention policies and programs are generally cost-effective. These interventions often reduce overall health care costs and the economic burden of disease, while improving productivity and quality of life.

Case study: An example of incentivising Australians to make measurable improvements to their health

The Commission's 2017 report acknowledges the potential role of using "carrots" rather than "sticks" to encourage people to manage their health[11]. AIA Australia is a strong supporter of incentives that reward individuals for understanding and improving their health rather than penalising them.

As an example of how this can work and central to our proposition of helping people live healthier, longer, better lives is AIA Vitality – the world's largest health and wellbeing program – which supports our customers to make healthier lifestyle choices. At the heart of AIA Vitality is the concept of behavioural

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[7] 2017 Productivity Inquiry - Supporting Paper 4: Why a Better Health System Matters

[8] 2017 Productivity Inquiry - Supporting Paper 4: Why a Better Health System Matters (page 14)

[9] Centre for Disease Control, 2020

[10] National Prevention Council, 2011.

[11] 2017 Productivity Inquiry - Supporting Paper 5: Integrated Care

economics. Members are empowered and incentivised to make small lifestyle changes with the aim of decreasing their risk of chronic diseases. When members achieve meaningful change, this positively impacts on broader communities.

By focusing on four core pillars: physical activity (Move Well), nutrition (Eat Well), mental wellbeing (Think Well) and preventive screening (Plan Well), the program addresses and integrates the key modifiable behaviours that impact physical and mental wellbeing.

The program incentivises members to take action to understand and improve their health. The incentives are founded on reducing common financial barriers that make it harder to engage in these positive actions, like physical activity – for example, by discounting both wearable devices that help members monitor their activity and also the membership fees of partner gyms.

AIA Vitality members are also rewarded for assessing their physical activity levels and reaching physical activity goals – for example, by hitting daily step counts, participating in sporting events and tracking their sleep with a wearable device – and for undertaking mental wellbeing self-assessments, several of which focus on depression and anxiety. The mobile delivery of the program underscores AIA Australia's recognition that all Australians should have access to wellbeing support, regardless of where they live and work. AIA Vitality engages and educates people to act in ways that otherwise wouldn't be possible.

The AIA Vitality program is an example of the way that the private sector can partner with Government to improve health outcomes – however there are structural barriers that prevent providers, for example the financial disincentive of the Risk Equalisation Framework for health insurers or barriers that limit the ability to make certain types of payments due to silos between life insurance and health legislation, from fully harnessing these types of programs across the broader community.

Evidence of the efficacy of the AIA Vitality program includes improved clinical outcomes, reduced healthcare costs, lower hospital admissions, increased productivity at work and improved mortality rates.[12] Appendix A includes insights into the improvement in health metrics like blood pressure, cholesterol levels and blood glucose readings in addition to differences in life insurance claims incidence rates based on level of engagement with the AIA Vitality program.

Why a review of the delivery of private healthcare services is needed

The Commission's 2017 report stated an imperative of better coordination of the health system and acceptance of people themselves as partners in their own health management with integrated care that coordinates the actions of the multiple actors that affect a person's health needs. This includes businesses that lie outside of the health system, with one key goal of an integrated care system being prevention of disease.

To achieve these goals, and to encourage and incentivise greater investment and focus on health promotion and disease prevention, a broad review of the delivery of private healthcare services should be undertaken. This should not stop current reviews being undertaken, for example the consideration of how the Risk Equalisation Framework could be improved, as these reviews could inform this broader review.

The review should consider:

1. how Government and the private sector can collaborate to maximise health outcomes for Australians
2. the types of incentives needed to make these health promotion and disease prevention programs financially viable for both public and private sector participants
3. how to deliver a sustainable private health insurance sector in the context of the role it plays in providing choice and access to private healthcare services, noting that many Australians won't have the capacity for self-provision
4. how to reduce barriers that exist in life and health insurance that limit the ability for these schemes to deliver services and benefits that remove financial barriers limiting consumer choices about their health.

If the objective is to seek productivity improvements and to reduce healthcare costs (or alternatively increase the outcomes for the same expenditure) then preventing the onset of chronic illnesses, or reducing their

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[12] Porter, Michael E., Kramer, Mark R., and Aldo Sesia. "Discovery Limited." Harvard Business School Case 715-423, December 2014. (Revised May 2015).

severity, is critical. The delivery of private healthcare services and effective incentives are an important component in achieving these outcomes.

Should you wish to discuss any aspects of our response please contact Tom Gordon, Head of Regulatory Affairs in the first instance

Yours sincerely

Damien Mu

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AIA Australia