

18 December 2012

NFP Sector Tax Concession Working Group Secretariat  
The Treasury  
Langton Crescent  
Parkes ACT 2600

By email: NFPReform@treasury.gov.au

**Response to the Discussion Paper titled "Fairer, simpler and more effective tax concessions for the not-for-profit sector"**

Dear Sir/Madam

This submission has been prepared by Ernst & Young on behalf of GMHBA Limited ("GMHBA") in response to the abovementioned Discussion Paper released by the Not-for-profit ("NFP") Sector Tax Concession Working Group ("the Working Group") in November 2012.

GMHBA is also a participant in the submission prepared by Ernst & Young on behalf of the various NFP Health Insurance organisations, dated 17 December 2012 ("the NFP Health Insurers submission"). GMHBA affirms their strong support for the comments and recommendations contained in the NFP Health Insurers submission.

Further to the information detailed in the NFP Health Insurers submission, this submission has been prepared to outline the specific position and objectives of GMHBA to support the recommendation that GMHBA retain its income tax exempt status as contained in Item 6.3 of section 50-30 of the *Income Tax Assessment Act 1997*.

In summary, we submit that:

- ▶ GMHBA's income tax exempt status facilitates its objective of maximising value to members and investing in the long-term health and wellbeing of its communities.
- ▶ GMHBA provides a valuable role in the community that may not otherwise be provided if GMHBA lost its income tax exempt status.
- ▶ Removing the income tax exempt status of GMHBA will require an immediate review of its business structure, product pricing and offering and community investment. Removal of the income tax exempt status will result in GMHBA reviewing its NFP model and is likely to see it shift to "for-profit" status. This in turn may result in GMHBA's objectives focusing on returning profits to shareholders rather than providing better services to members. Ultimately, this may result in:
  - ▶ Increased prices to consumers;
  - ▶ Lower benefits;
  - ▶ Less generous product design;
  - ▶ Reduced investment in community programs;
  - ▶ Changes to rules to limit funding of services to public hospitals; and
  - ▶ Changes to rules to limit services provided by public hospitals that would be eligible for benefits.

- ▶ We reiterate our comments in the Industry Submission that income tax concessions do not always violate the principles of competitive neutrality. "For-profit" funds enjoy commercial and operational advantages. The fact many NFP funds have moved to a "for-profit" status demonstrates that the income tax concessions do not provide a competitive advantage. In fact, income tax concessions are required to enable NFP funds to retain their competitiveness against the larger "for-profit" funds.

Specific details on GMHBA and the benefits it provides the community as a result of being a NFP private health insurer are set out in the attached Appendix.

\* \* \* \* \*

If there is any aspect of this submission on which the Working Group or Treasury would like further information, please do not hesitate to contact me on (02) 9248 5303.

Yours faithfully



Jason Wrigley  
Partner - Taxation

Encl.

## Appendix

### Overview of GMHBA

GMHBA is a leading Australian NFP Private Health Insurance provider which has been operating for more than 75 years. GMHBA is a public company limited by guarantee, operating with headquarters in Geelong, 11 branches in regional Victoria and one branch in Western Australia. GMHBA provides health cover to more than 226,000 Australians, making it the fourth largest health insurer in Victoria and the eighth largest health insurer in Australia. The fund enjoys an enviable reputation as continually offering quality and affordable private health cover.

In comparison to for-profit funds, which focus on maximising shareholder value by distributing profits to shareholders in the form of dividends, GMHBA operates on a NFP basis. This means that any profit made is used to further their objective of maximising value to members. This concept is embedded in GMHBA's mission and belief statement:

*"Our mission - supporting the health of our communities for generations. Our belief - consistent with a not-for-profit ethos, we believe our primary obligation is to the wellbeing of our members and their communities. Only if we do well by them is our business sustainable."*

GMHBA's focus on providing benefit to members is also demonstrated in an extract from the GMHBA Annual Report 2012:

*"We believe that we continue to achieve good results year on year because of two key differentiators of the GMHBA Limited business model:*

- ▶ *We focus on member value, not shareholder value, as we are a not-for-profit fund.*
- ▶ *We have a complete commitment to engage and connect with our local communities."*

(Ken Jarvis, GMHBA Annual Report 2012)

GMHBA's emphasis on members and NFP structure enables it to provide significantly lower margins and a lower cost structure compared to the existing for-profit health insurers.<sup>1</sup>

8 year average	Industry	Industry - open	Industry - open for-profit	Industry - open NFP	GMHBA
Gross Margin (%)	13.8	15.7	17.7	14.7	11.2
Management Expense Ratio (%)	9.6	10.8	11.4	9.9	9.9
Net Margin (%)	2.4	4.9	6.3	4.8	1.3

Further, GMHBA's payout ratio is notably higher than the for-profit sector.<sup>2</sup>

2010-11 average	Industry	Industry - open	Industry - open for-profit	Industry - open NFP	GMHBA
Member benefit paid out ratio (%)	85.3	84.4	81.2	85.9	87.5

<sup>1</sup> PHIA Operations of Private Health Insurers (2003 - 2011)

<sup>2</sup> PHIA Operations of Private Health Insurers (2011)

These statistics provide strong support that GMHBA provides value to members in the form of higher benefits and lower premiums compared to for-profit funds.

GMHBA's Capital Management Plan is effective in enabling GMHBA to manage their business to maintain prudent capital levels. Where these levels are exceeded, GMHBA is able to use the excess capital to ease pressure on prices for consumers and enhance competition in the market.

GMHBA is also able to provide a range of unique benefits to its members, including:

- ▶ Waiver of Front End Deductibles (or excesses) for children;
- ▶ Higher medical gap coverage on selected covers;
- ▶ Exceptional payments for high cost drugs;
- ▶ Exceptional payments for ancillary charges;
- ▶ Funding of disease management programs;
- ▶ Benefits for travel and accommodation; and
- ▶ Higher annual limits for ancillary therapies on selected covers.

Further, as a key participant in the health industry, GMHBA is able to contribute towards members' health beyond the usual hospital or service provider arena. GMHBA places a strong emphasis on community health in addition to other community initiatives which make a major contribution to the economic and social viability of rural and regional Australia. GMHBA engages with these communities directly on prevention and health related issues.

Specifically, GMHBA invests in the following initiatives to support the long-term wellbeing of its members:

- ▶ A series of successful free health seminars covering topics such as child health, obesity, menopause and baby sleep and settling techniques;
- ▶ Free fitness and yoga classes;
- ▶ Supporting healthy eating programs in local communities by providing healthy cooking classes which were open to GMHBA members and non-members, attracting more than 1,000 participants;
- ▶ The GMHBA Bowel Cancer Risk Identification Program which enables members to access Faecal Occult Blood Test preventative kits;
- ▶ Chronic disease management and hospital substitution programs which improve the health of rural and regional communities, allowing scarce hospital resources to be used more efficiently;
- ▶ Actively support employee volunteering opportunities to engage in health and wellness projects in areas where GMHBA has branch representation;
- ▶ Partnership with Kardinia Health GP Super Clinic to ensure a sustainable regional GP student scholarship;
- ▶ Business partnerships with Deakin University, Barwon Health, Barwon Medicare Local and others to provide sustainable health outcomes;
- ▶ Donations and sponsorship of a range of national and grass-roots events and charitable institutions, with a focus on organisations which are important to GMHBA's members and contribute to building stronger and healthier communities. For example, GMHBA was an event partner of the 2012 Run Geelong and Run Ballarat events, which raised money for children's health; and

- ▶ Currently investigating recognising group midwifery services provided by a public hospital for benefits on a full cost recovery basis. This will provide GMHBA's members with greater choice, and will increase revenue at this public hospital, allowing them to provide these services without reducing other publicly funded services.

### **Impact of loss of income tax exemption**

Maximising value for GMHBA's members means investing in broader health outcomes and enhancing the community. The loss of income tax exempt status would immediately impact GMHBA's ability to meet its objectives, as the subsequent reduction in operating surplus would prompt a review of pricing, benefit structures and community involvement.

Further, GMHBA would be required to invest in expensive tax resources and systems to manage new regulatory and compliance risks, the costs of which would also be borne by its members by way of reduced benefits or increased premiums.

As set out in Appendix A of the NFP Health Insurers submission, the income tax exemption is a significant factor in the decision as to whether NFP health insurers retain their NFP structure, and may result in further consolidation of the Health Insurance industry.

It would be unfair to force a tax regime on GMHBA that may compel a change in their organisational structure and leave them more vulnerable to a hostile acquisition by funds with for-profit status. This is evidenced by the attempted takeover of GMHBA by NIB Ltd in 2010. Such a move may not be in the best interests of GMHBA's members.

Further, GMHBA's members want the fund to remain a NFP. GMHBA surveyed its members and of the respondents, 83% were aware that GMHBA was a NFP organisation and 94% of them wanted GMHBA to remain a NFP organisation. This is a strong affirmation of the value that GMHBA provides members, which is facilitated by their NFP structure and objective.

Being answerable to shareholders as opposed to being for the benefit of members would drive behaviours focused on immediate shareholder return, rather than the broader health of communities. This would lead to product design that limits benefit payments to the detriment of members. As a for-profit, the changing drivers to the GMHBA business would put at risk their long-term investments in community health and wellbeing. A focus on short-term results will pervade and these investments in longer term health benefits will be under greater scrutiny to return in the short-term.