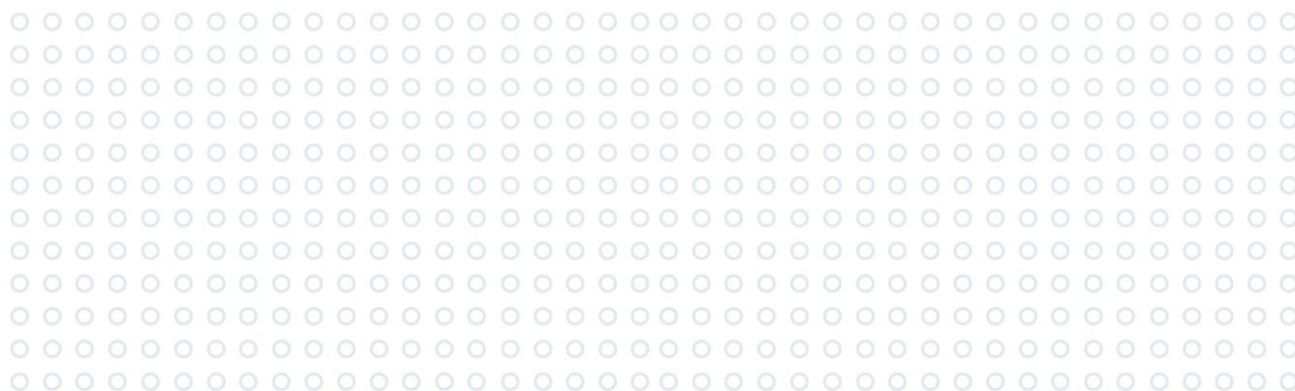


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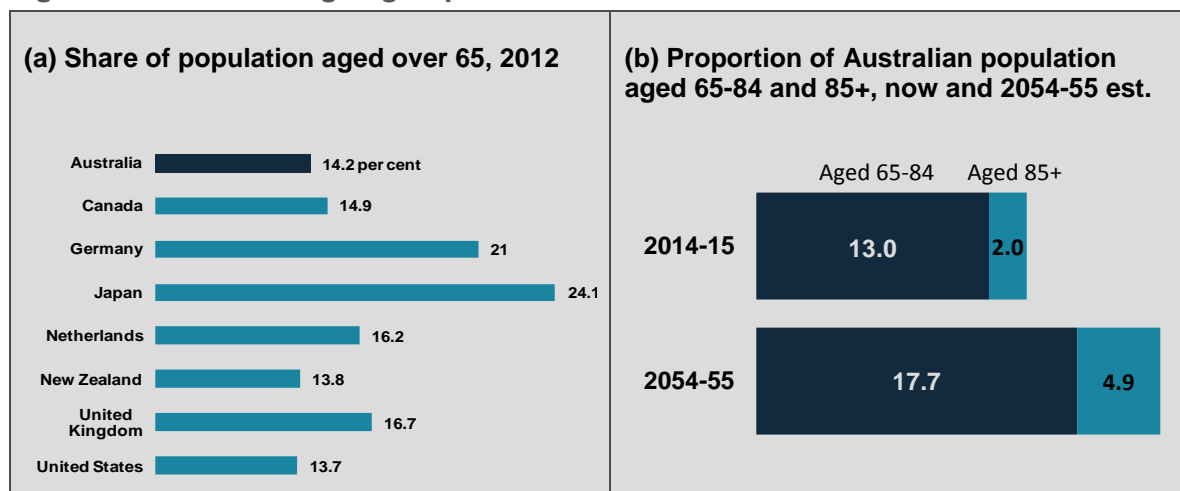
## Technical Supplement

OCTOBER 2015

### Like all first world countries, Australia’s population is ageing

Australia’s population totals 23.9 million people today, and is projected to reach 39.7 million in 2054-55, based on a growth rate of 1.3 per cent, per year.<sup>1</sup> The most significant predicted change to Australia’s demography is the continuation of the population’s ‘ageing’. The number of Australians aged 65 and over is projected to double by 2055.

Figure 1: Australia’s Ageing Population

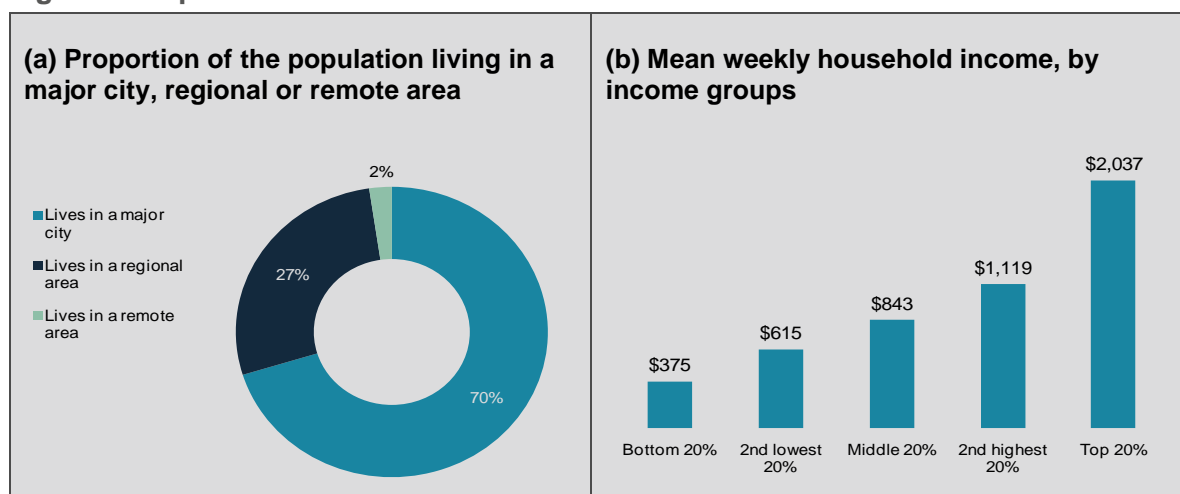


Source: The Commonwealth Fund, *International Profiles of Health Care Systems 2014 & Commonwealth Treasury, Intergenerational Report 2015*

### Australia’s population is diverse, with different demands on the health system

The Australian population is composed of a diverse mix of people, living in a wide array of different geographic, financial, and cultural circumstances. Approximately 3 per cent of Australia’s population is Indigenous.

Figure 2: Population characteristics



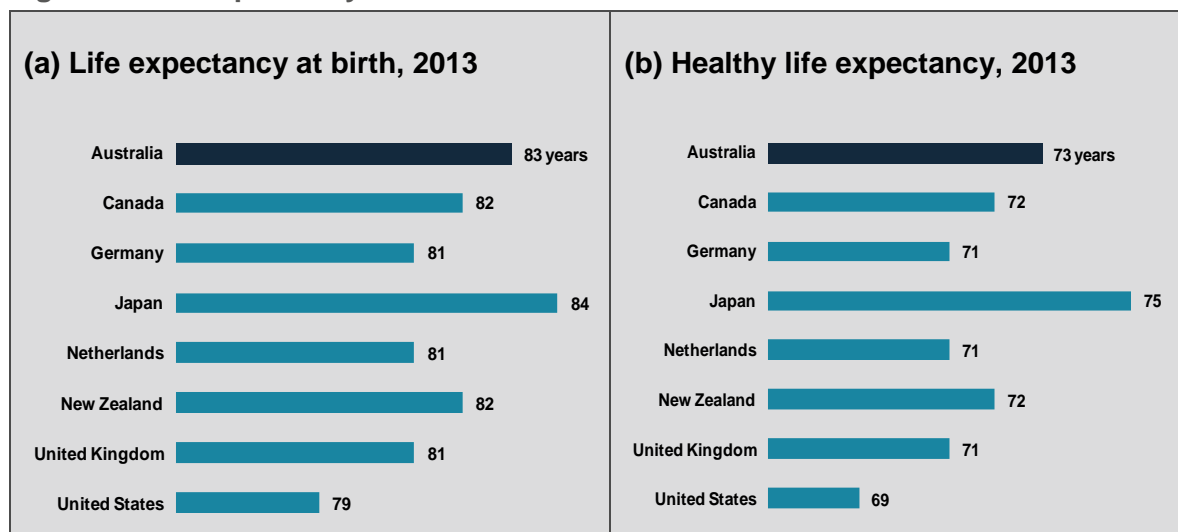
Source: ABS, *Regional population growth Australia 2011-12*, ABS Cat. No. 3218.0. & ABS, *Household Income and Income Distribution 2013-14*, Cat no.6523.0, 4 September 2015

<sup>1</sup> Commonwealth Treasury, *Intergenerational Report 2015*.

### Australia performs strongly on life expectancy at birth and healthy life expectancy

Australians rank second of eight comparable populations for life expectancy at birth, and second on health-adjusted life expectancy.

Figure 3: Life expectancy

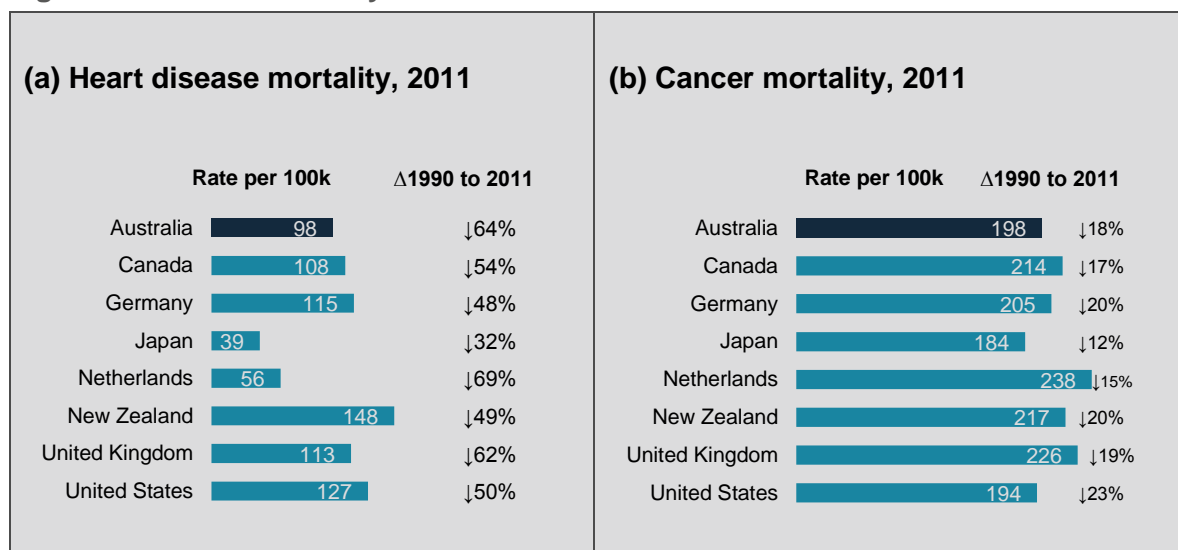


Source: World Health Organisation, *World Health Statistics 2015*

### Australia performs well on mortality rates for several common, fatal diseases

Heart disease and cancers are two of the most common killers of Australians. Australia ranks third lowest for heart disease mortality and third lowest for cancer mortality.

Figure 4: Disease mortality rates



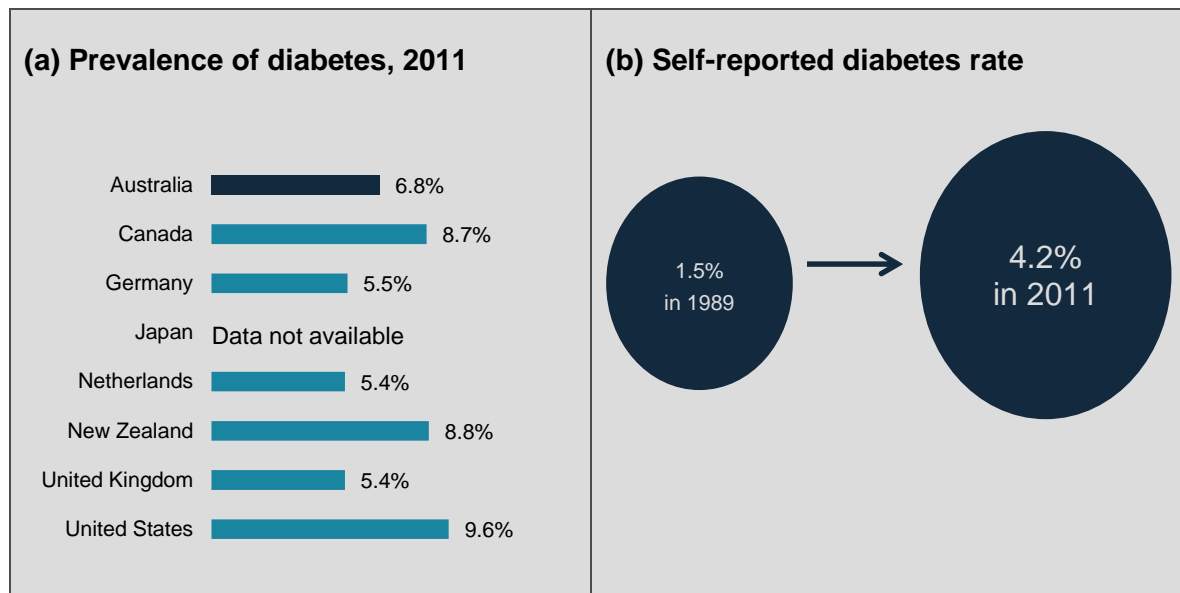
Source: OECD, *Health at a Glance 2013*

### Living with ill health is increasingly common in Australia and around the world

Prevalence rates for several chronic and age-related conditions are rising in Australia. Australia ranks fourth of seven nations for prevalence of diabetes. The rate of

self-reported diabetes more than doubled (1.5 per cent to 4.2 per cent) between 1989–90 and 2011–12.

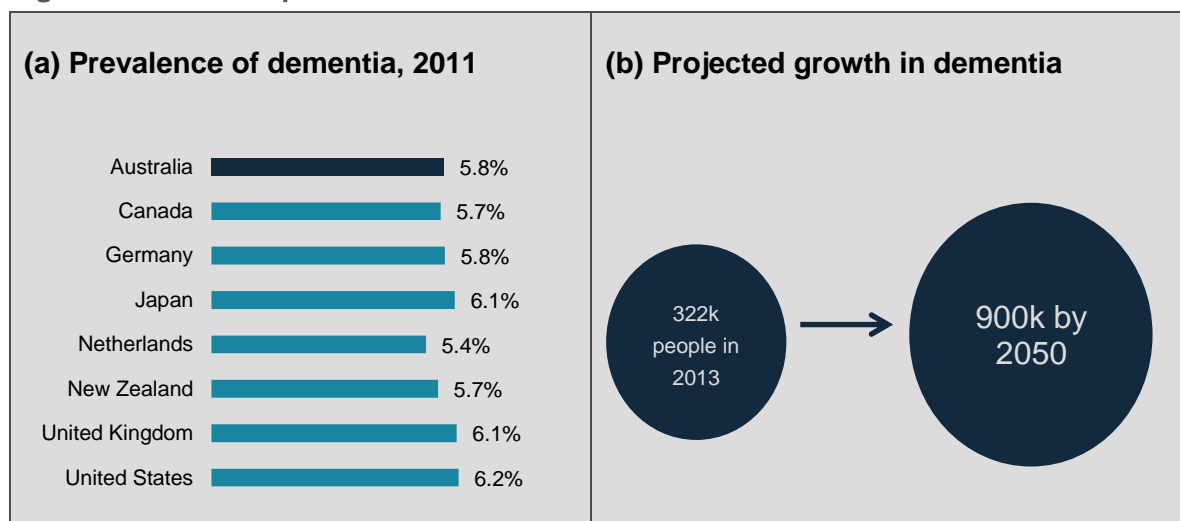
**Figure 5: Diabetes prevalence**



Source: OECD, *Health at a Glance 2013* & Australian Institute of Health & Welfare (AIHW), <http://www.aihw.gov.au/how-common-is-diabetes>

Australia ranks equal second for highest prevalence rate of dementia. The number of dementia sufferers in Australia is projected to reach 900,000 by 2050.

**Figure 6: Dementia prevalence**



Source: OECD, *Health at a Glance 2013* & AIHW, *Dementia in Australia, 2012*

**Population Health – Scorecard**

Drawing this data together, Australia ranks in the top two countries on three of the four indicators. It ranks second on life expectancy and second on health-adjusted life expectancy.

The only indicator for which Australia ranks in the bottom half of countries is its obesity rate. On this indicator, Australia ranks seventh ahead of the United States.

**Table 1: Scorecard**

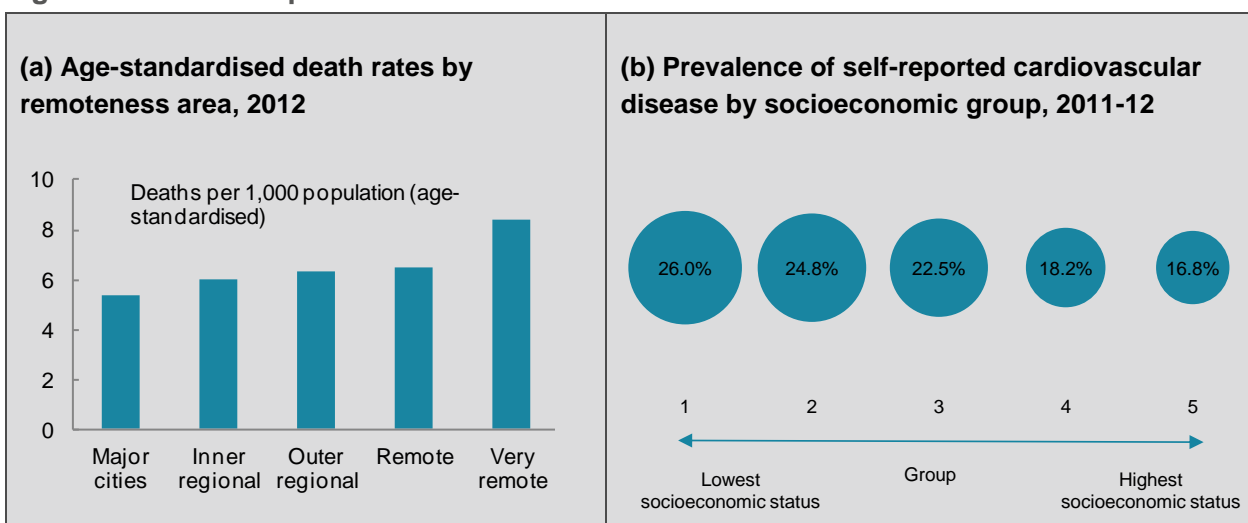
Country	Life expectancy	Health-adjusted life expectancy	Obesity rate	Daily smoking rate
Australia	2	2	7	2
Canada	6	3	4	3
Germany	7	5	3	8
Japan	1 (highest)	1 (highest)	1 (lowest)	6
New Zealand	4	3	6	4
Netherlands	3	5	2	7
United Kingdom	5	5	5	5
United States	8	8	8	1 (lowest)

**Yet some groups record poorer health outcomes than the broader population**

Indigenous Australians have poorer health outcomes than non-Indigenous Australians. Life expectancy for Indigenous Australians is approximately 10 years shorter than for non-Indigenous Australians.

In general, people from lower socioeconomic groups also have poorer health. Figure 7(b) confirms that the prevalence of self-reported cardiovascular disease is inversely proportional to socioeconomic status. Australians living in regional and remote locations also tend to have poorer health outcomes than those living in major cities.

**Figure 7: Health inequities**

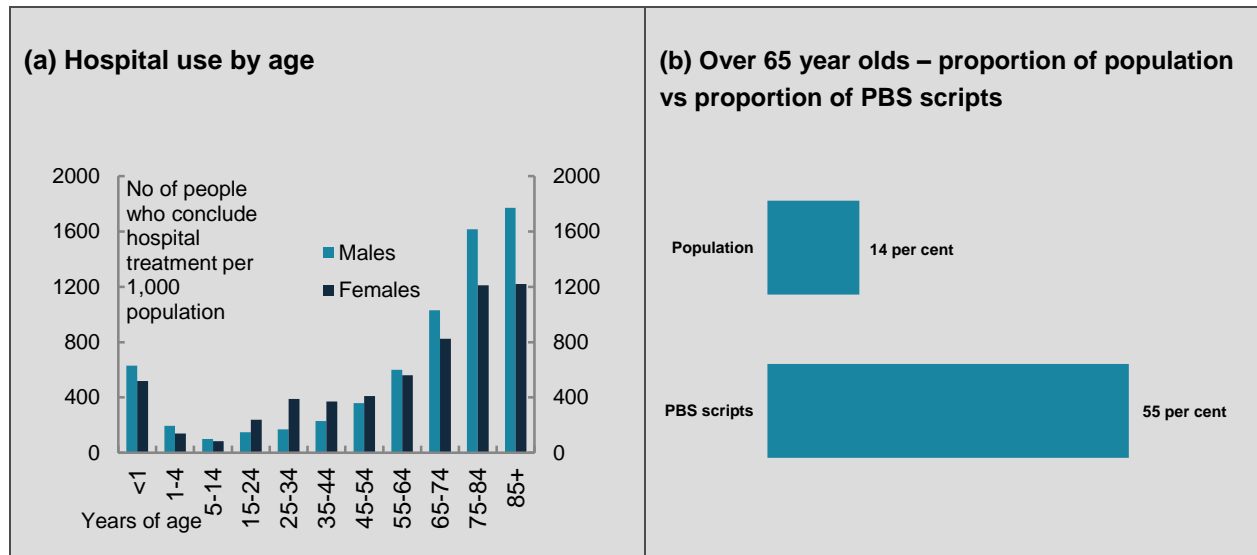


Source: AIHW, *Australia’s Health, 2014* & AIHW, *Cardiovascular disease, diabetes and chronic kidney disease – Australian facts: Prevalence and incidence. Series no. 2. Cat. no. CDK 2. 2014*

### Older Australians typically use health services more often than others

Australians use the health system to varying degrees. Given that older people have a higher incidence of disease and illness, it is unsurprising that older people are more likely to use hospital care and pharmaceutical scripts.

**Figure 8: Service utilisation**

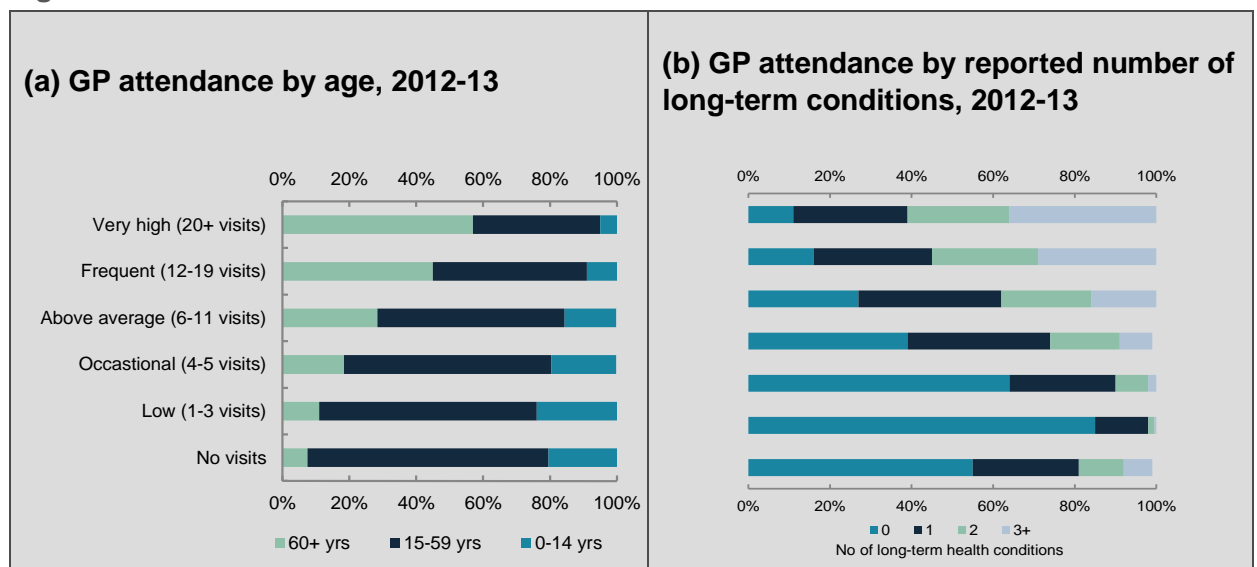


Source: AIHW, Admitted Patient Care 2013-14, Cat. no. HSE 156, 2015; Productivity Commission, *An Ageing Australia: Preparing for the Future*, 2013

### Older Australians and those with a chronic disease frequently use GP services

Figure 9 reveals that older Australians and those with a chronic disease are the most frequent users of GP services.

**Figure 9: GP utilisation**

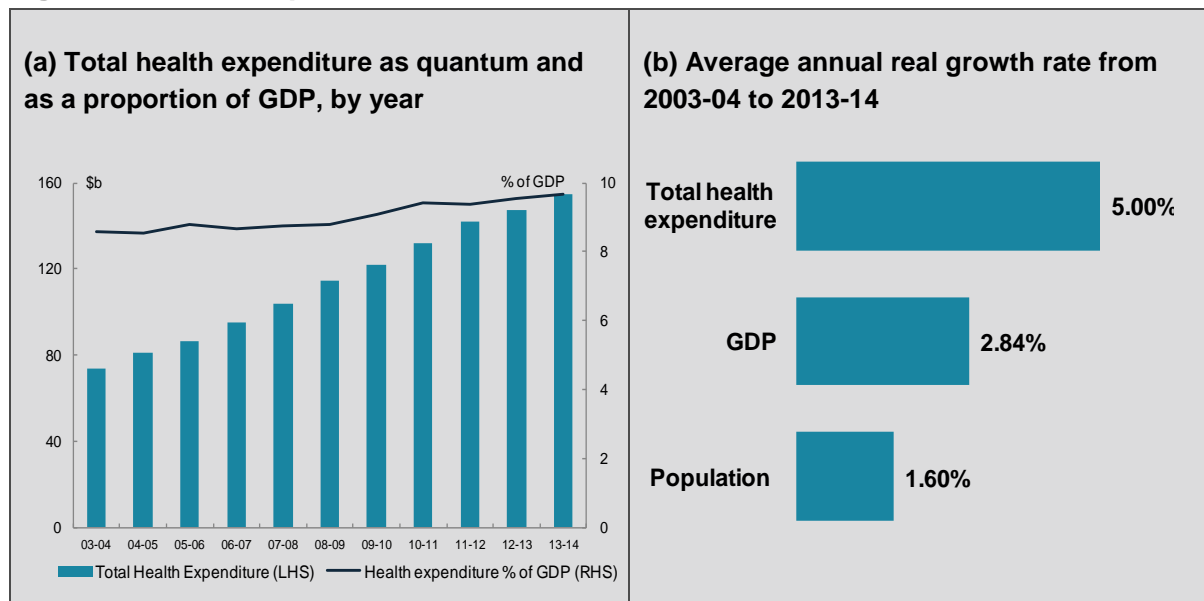


Source: National Health Performance Authority, *Healthy Communities: Frequent GP attenders and their use of health services in 2012-13*, 2015

### Total health expenditure is growing much faster than GDP and the population

In 2013-14, total spending on health from all sources was estimated at \$154.6 billion. Figure 10 shows that total health expenditure has been increasing each year and also as a proportion of GDP. Figure 10 shows that total health expenditure grew at 5 per cent per year on average in real terms over the decade to 2013-14, which was significantly faster than GDP annual average growth in real terms (2.84 per cent) and annual average population growth (1.6 per cent).

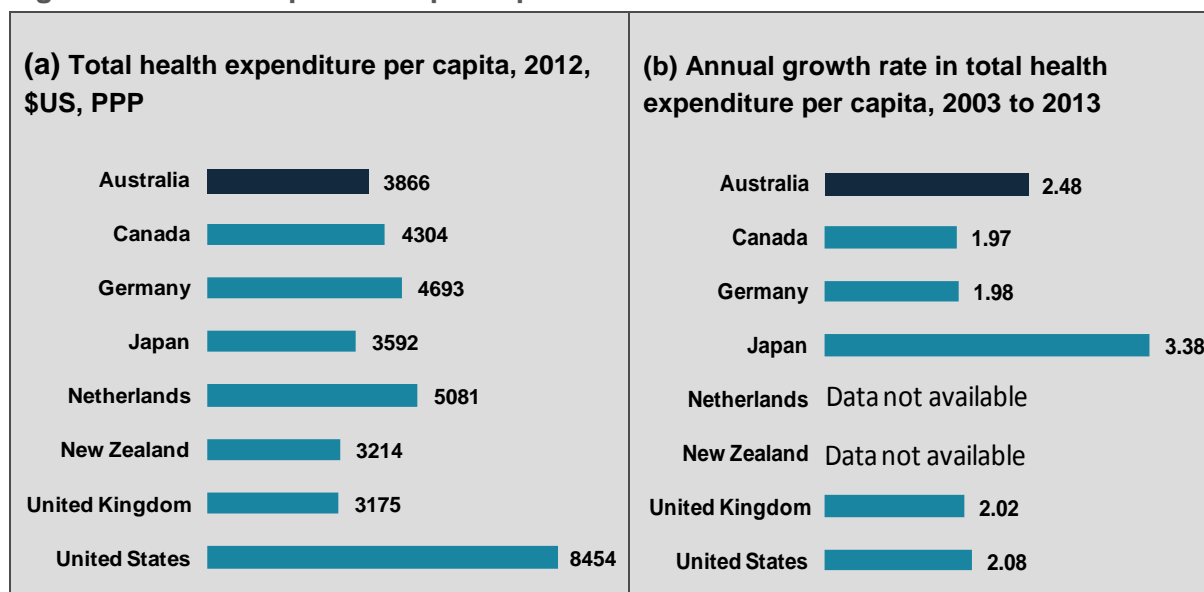
Figure 10: Health expenditure



Source: Australian Institute of Health and Welfare, *Health Expenditure 2013-14*

Australia’s estimated health expenditure per capita in 2012 is mid-range of the eight comparator countries. Australia’s health expenditure per capita grew second fastest of comparable countries between 2003–04 and 2013–14.

Figure 11: Health expenditure per capita

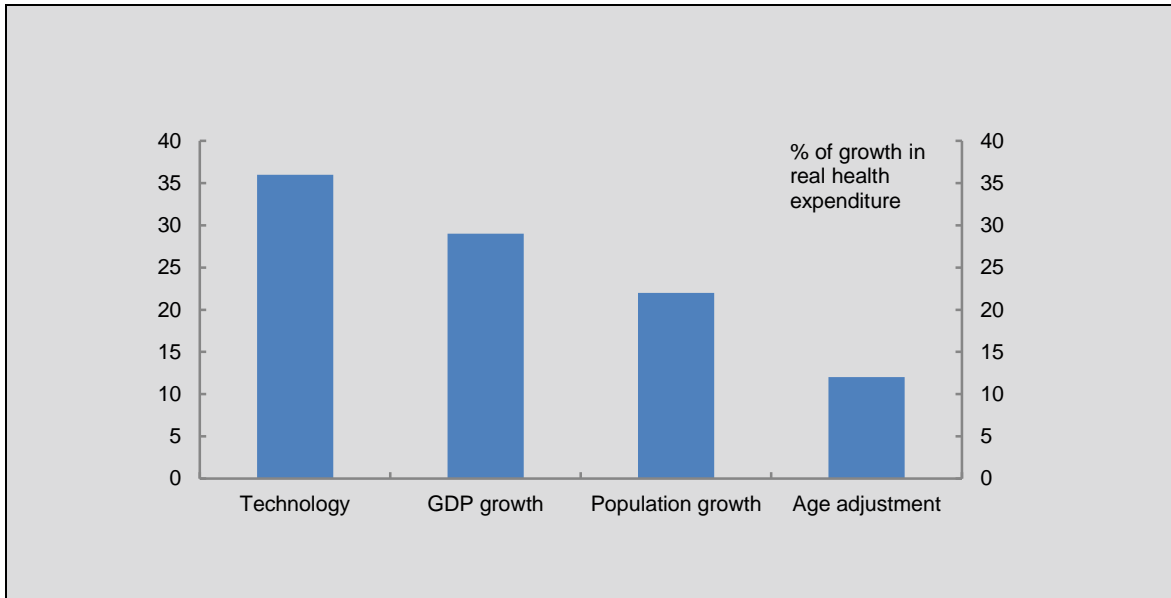


Source: Australian Institute of Health and Welfare, *Health Expenditure 2013-14*

### A mix of factors drive growth in health expenditure

These factors include population growth, population ageing, income growth and new technologies. Figure 12 depicts the Productivity Commission’s estimates of the share of growth in real health expenditure from each of these drivers over the decade to 2002-03.

**Figure 12: Impact of drivers of health spending, 1992-93 to 2002-03**

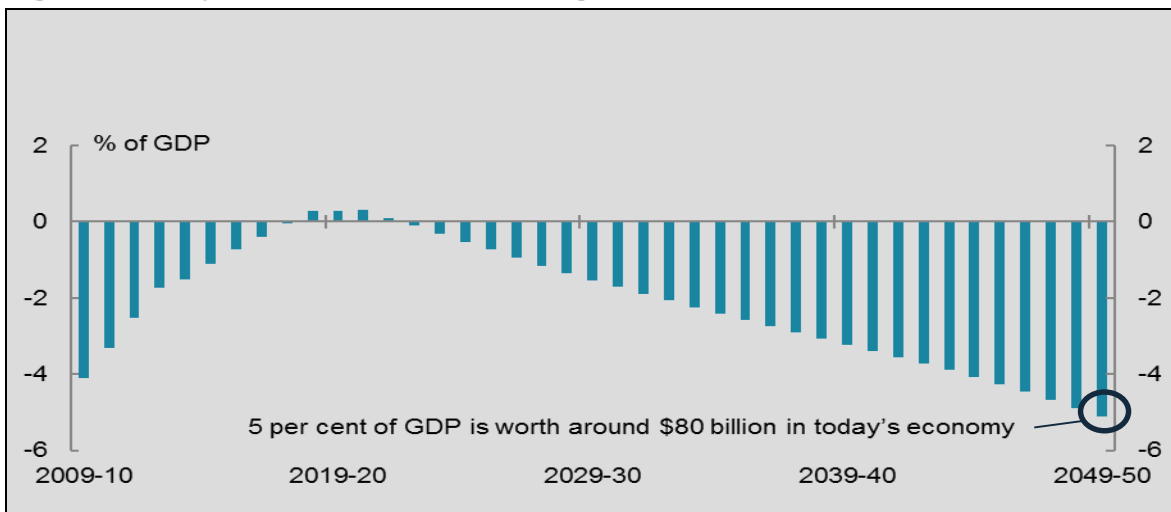


Source: Productivity Commission, *Impacts of Advances in Medical Technology in Australia*, 2005

### A predicted fiscal deficit across all governments calls for redesign

With no policy change, and assuming demand continues at projected rates, it is estimated that the combined annual fiscal deficit across all levels of government could reach 5% of GDP by 2050, or around \$80 billion in today’s terms.

**Figure 13: Projected fiscal balance of all governments**

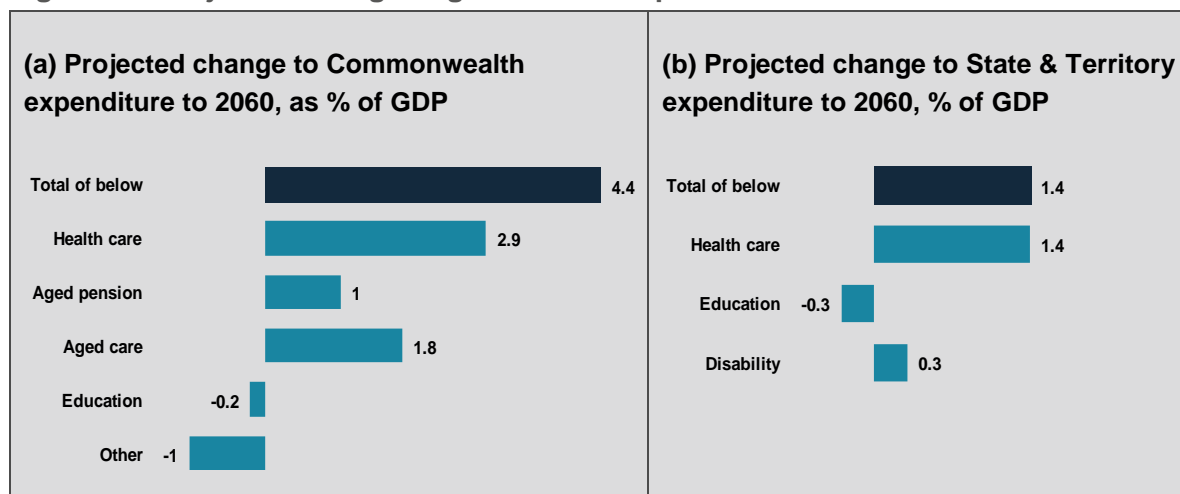


Source: Deloitte Access Economics, ‘An Intergenerational Report for the States’, incorporated within the BCA submission to the 2011 Tax Forum, October 2011



Figure 14 shows that health is predicted to be the largest driver of fiscal pressures.

**Figure 14: Projected change to government expenditures**

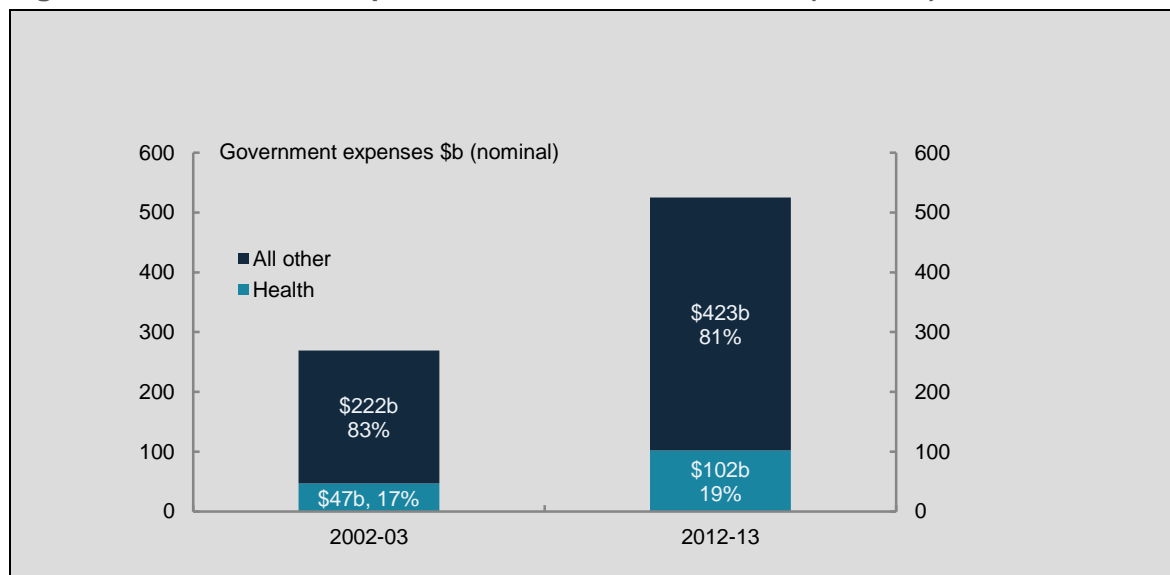


Source: Productivity Commission, *An Ageing Australia: Preparing for the Future*, 2013

**Health spending has been a significant driver of spending growth for governments**

Health constituted approximately 17 per cent of combined government expenditure in 2002-03. This increased to 19 per cent in 2012-13, as illustrated in Figure 15.

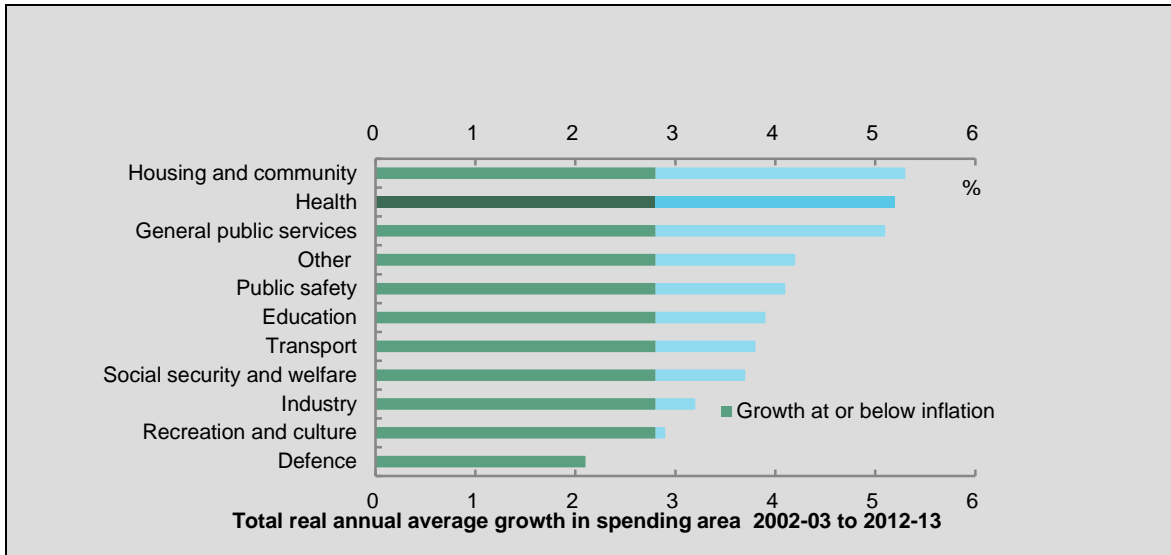
**Figure 15: Government expenses in 2002-03 and 2012-13 (nominal)**



Source: Parliamentary Budget Office, *National Fiscal trends*, 2015

Figure 16 shows that the recent growth rate in health spending exceeds the growth rate of most other sectors.

**Figure 16: Real annual average growth in government expenses, 2002-03 to 2012-13**

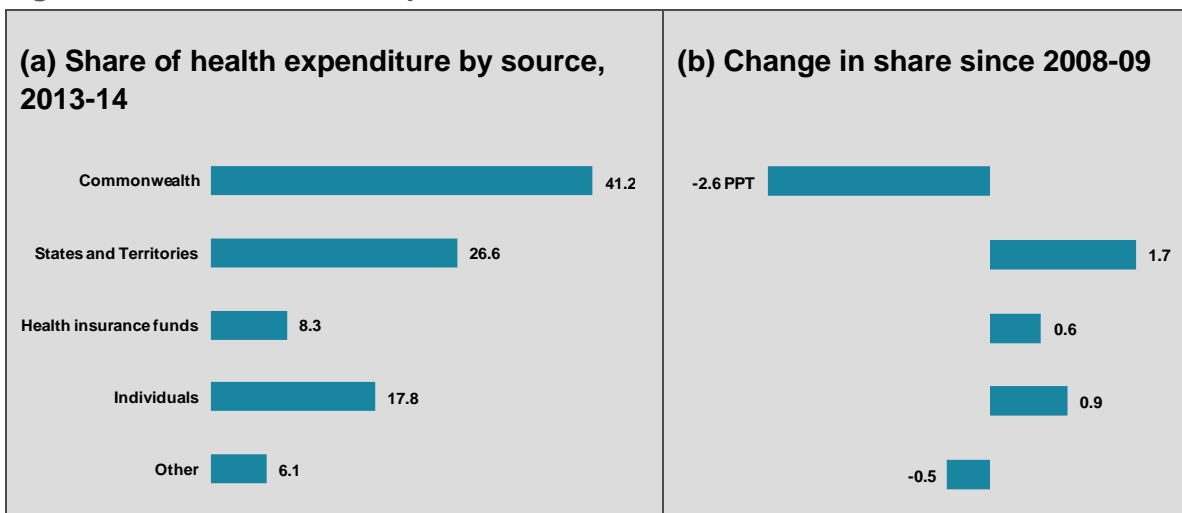


Source: Parliamentary Budget Office, *National Fiscal trends*, 2015

**Expenditure growth has not been limited to governments**

The share from the Commonwealth Government and other non-government sources (e.g. payments by compulsory motor vehicle third-party and workers compensation insurers) has fallen since 2008–09. At the same time, it has risen from state and territory governments, individuals (via out-of-pocket expenses), and private health insurers.

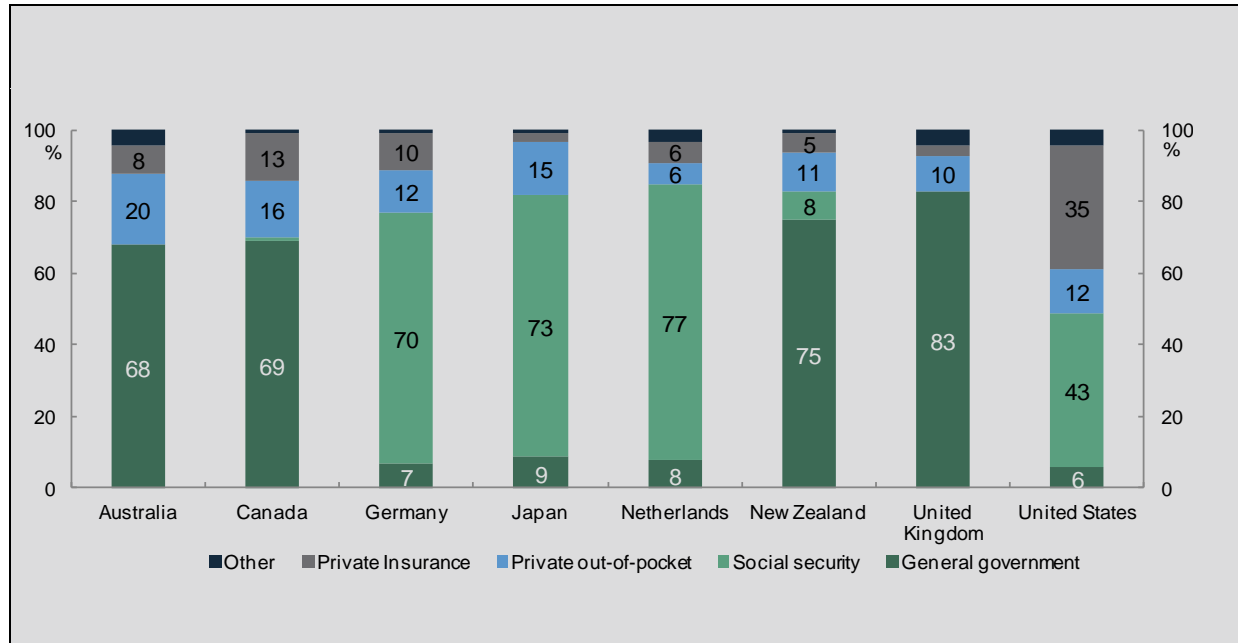
**Figure 17: Share of health expenditure**



Source: AIHW, *Health Expenditure 2013-14*

Australia’s government expenditure on health ranks as the second lowest share of total health expenditure (68 per cent) ahead of the United States (49 per cent). Figure 18 shows that out-of-pocket expenses by individuals in Australia account for 20 per cent of overall costs, which ranks as the highest of all eight countries.

**Figure 18: Proportion of total health expenditure by funding source, 2011 (or nearest year)**

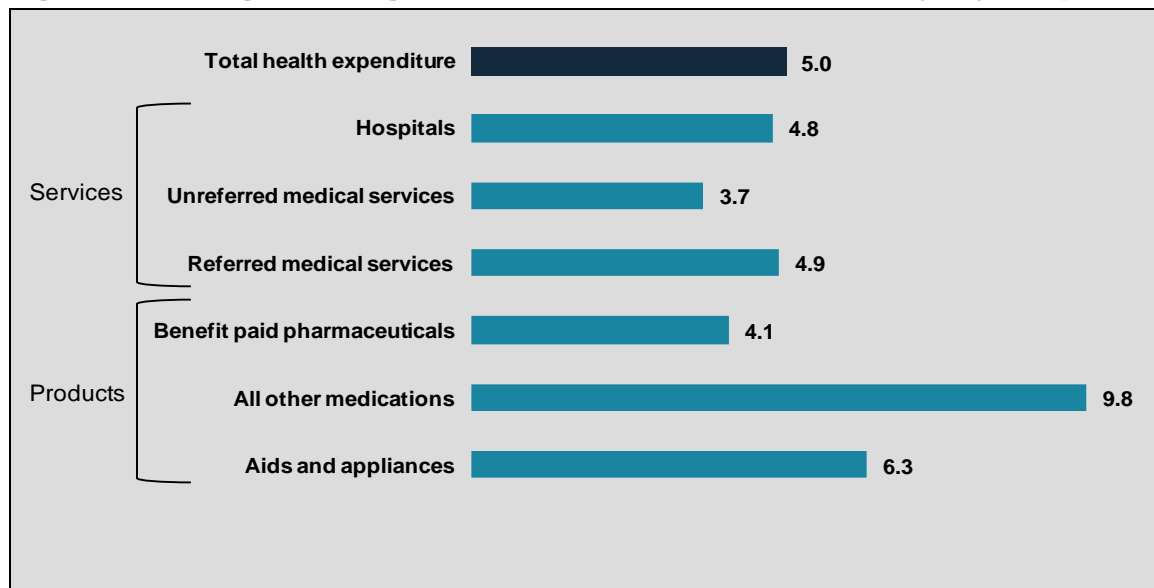


Source: OECD, *Health at a Glance 2013*

**Health expenditure is growing across all parts of the system, but hospitals have the largest base**

The largest cost components of the health system are hospitals (\$59 billion), primary care (\$55 billion) and secondary care (\$16 billion). All components of the health system have been growing faster than GDP.

**Figure 19: Average annual growth rate from 2003-04 to 2013-14, by key component**

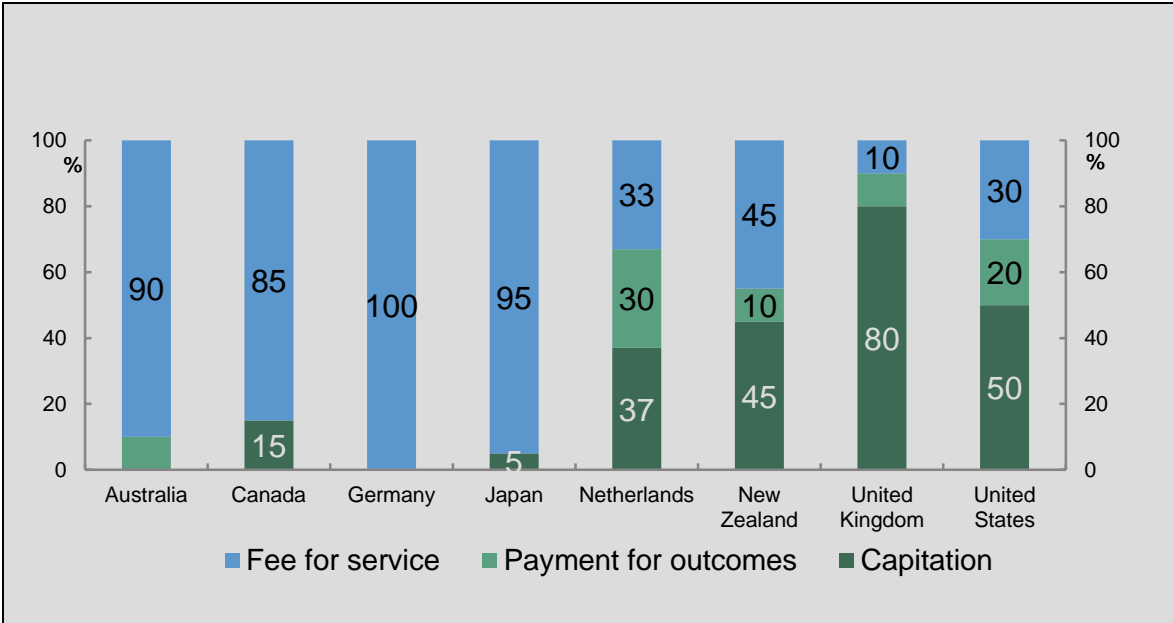


Source: AIHW, *Health Expenditure 2013-14*

**Australia’s primary care funding model is predominantly fee-for-service**

Figure 20 shows that the composition of primary care funding delivered by governments in the eight comparator countries differs significantly.

**Figure 20: Composition of primary care funding, by country**



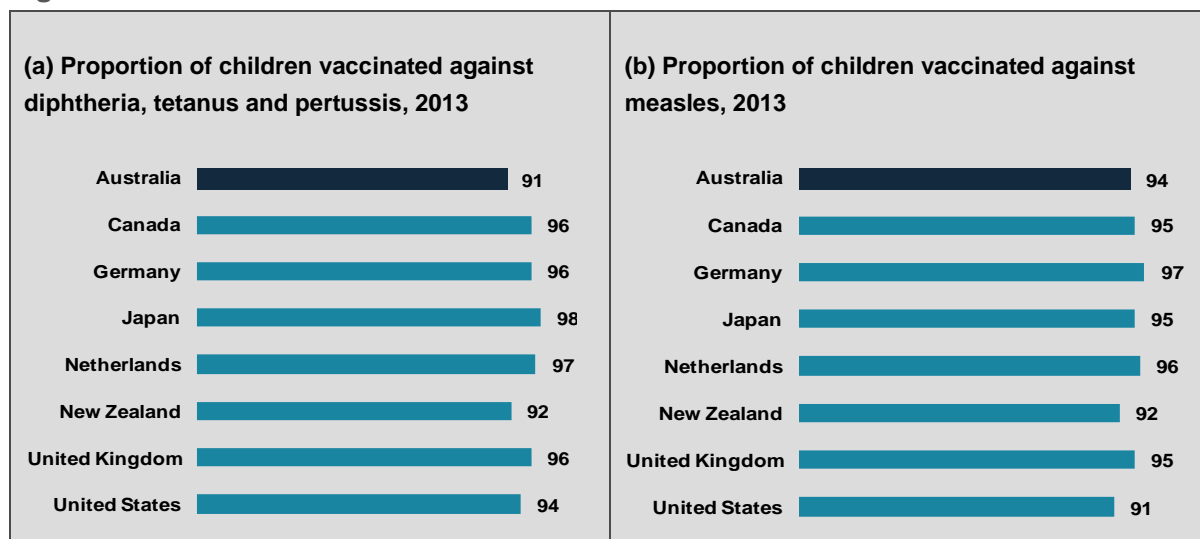
Source: McKinsey and Company, *How can Australia improve its healthcare its primary health care system to better deal with chronic disease?*, Background paper prepared for the Primary Health Care Advisory Group, 2015

Australia’s funding model is built almost entirely on fee-for service, similar to Japan and Germany. Other countries have a much more mixed model, with the United Kingdom having the strongest focus on capitation.

### Australia has lower child vaccination rates than comparator countries

Australia ranks 8th for vaccination rates of children aged around one against diphtheria, tetanus and pertussis, and ranks 6th for vaccination rates of children against measles.

Figure 21: Childhood vaccinations

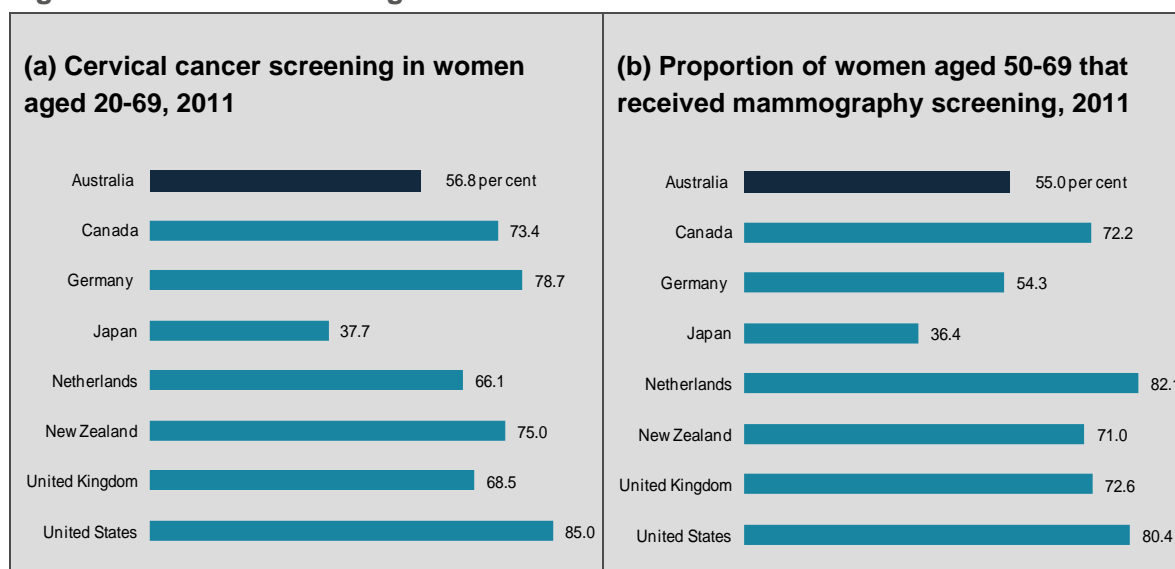


Source: OECD.Stat, <http://www.stats.oecd.org>.

### Australia has lower rates for selected cancer screening than other countries

Secondary prevention seeks to identify and interrupt disease at an early stage. Australia ranks seventh on the proportion of women aged 20-69 receiving screening for cervical cancer, and sixth on the proportion of women aged 50-69 receiving mammography screening.

Figure 22: Cancer screening

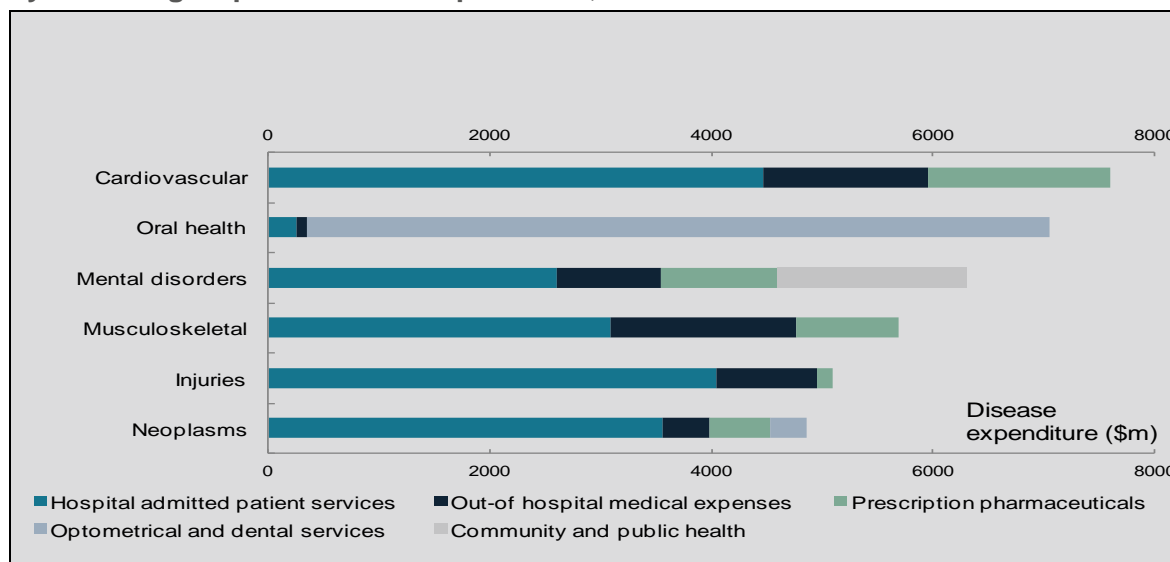


Source: OECD, *Health at a Glance 2013*

### Chronic disease is not always treated effectively in the community

Effective chronic disease management can mostly be delivered in the community via primary care. However, people with chronic diseases can deteriorate quickly when primary care is ineffective, and may require hospital admission. Figure 23 confirms that a significant proportion of chronic disease care expenditure occurs in hospital settings.

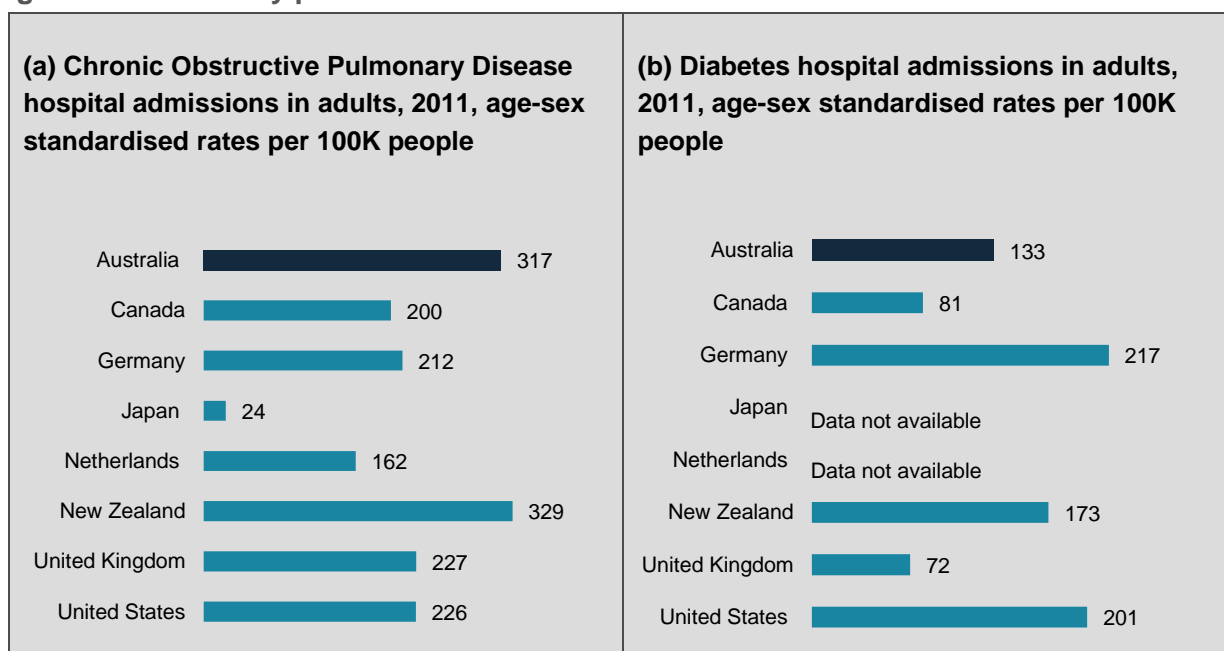
**Figure 23: Allocated health expenditure on the most expensive six disease groups, by disease group and area of expenditure, 2008-09**



Source: AIHW, *Australia's Health*, 2014

Australia has high rates of admission for both Chronic Obstructive Pulmonary Disease (COPD) and Diabetes. A high-performing system can, to a significant extent, prevent such admissions to hospital.

**Figure 24: Potentially preventable admissions**

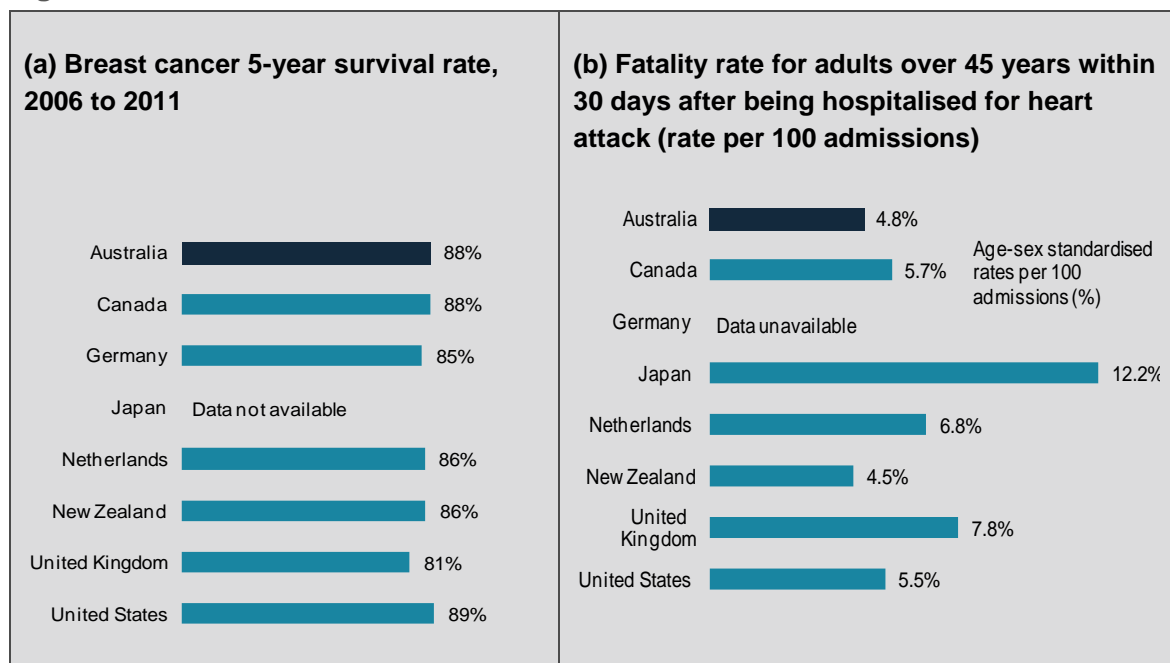


Source: OECD, *Health at a Glance 2013*

### Australia performs well on care effectiveness for several life threatening illnesses

For life threatening illnesses, Australia performs well on urgent care. It has the highest 5-year relative survival rate for breast cancer, and the second lowest case-fatality rate for heart attacks.

Figure 25: Acute care

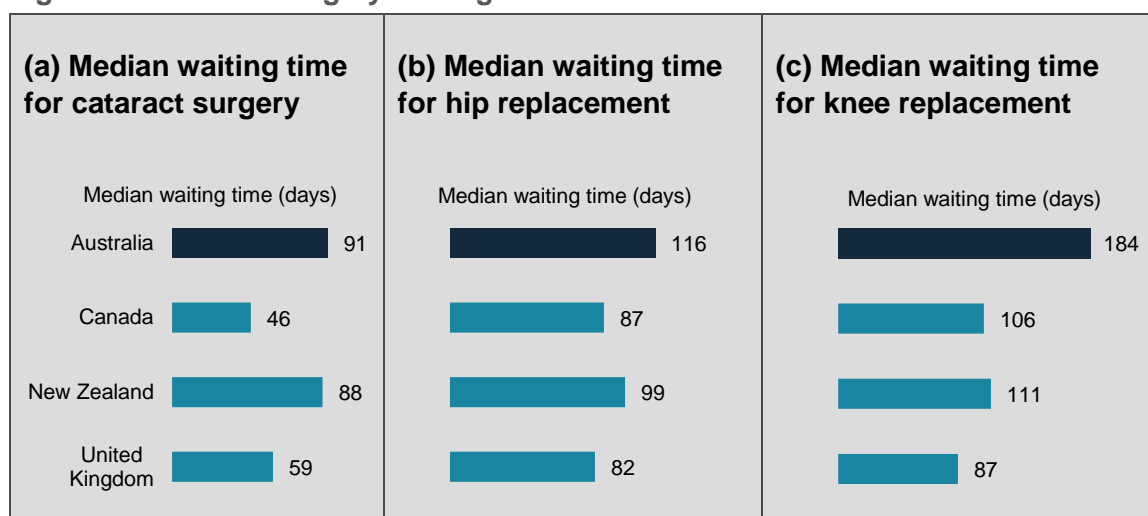


Source: OECD, *Health at a Glance 2013*

### Australia’s elective surgery waiting times are longer than for comparator countries

Australia ranks last of the four comparable nations on median waiting times for three common types of elective surgery - cataract surgery, hip replacement and knee replacement.

Figure 26: Elective surgery waiting times



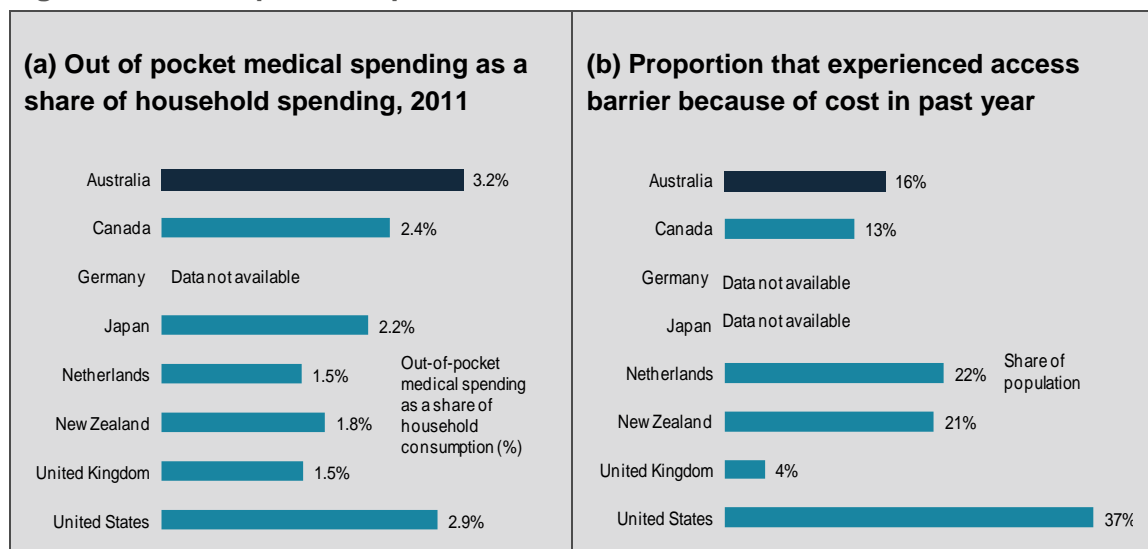
Source: OECD, *Health at a Glance 2013*

### Out-of-pocket expenses in Australia are high relative to comparator countries

Many Medicare-funded health services and all PBS pharmaceuticals require a co-payment. In these instances, access depends on peoples’ ability to pay.

Figure 27 compares out-of-pocket expenses as a share of household spending. The 3.2 per cent share in Australia is the highest of the seven countries for which data was available.

**Figure 27: Out-of-pocket expenses**

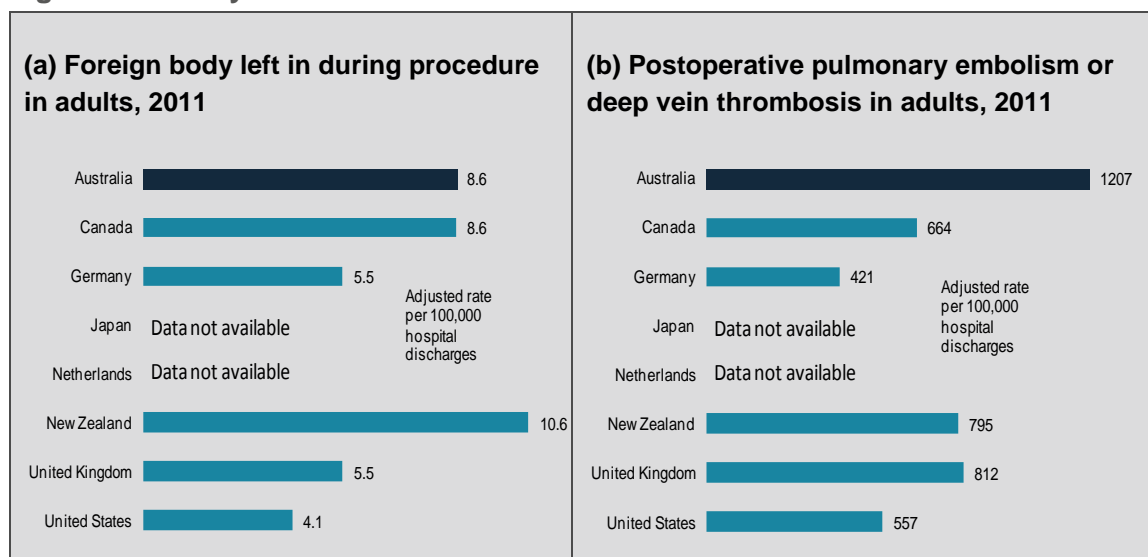


Source: OECD, *Health at a Glance 2013* and The Commonwealth Fund, *International Health Policy Survey 2013*

### Australia’s performance on safety in healthcare is not strong on several measures

Figure 28 illustrates the rate of foreign body left in during procedure (a sentinel event for which internationally comparable data is available). Australia has the second highest rate of the six nations.

**Figure 28: Safety events**



Source: OECD, *Health at a Glance 2013*



## Appropriate Care

One method of assessing the appropriateness of care is to examine practice variation. A 2014 OECD study found that Australia has high age-standardised rates of several procedures relative to other countries (e.g. knee replacement), and a high level of in-country variation relative to other countries for several activities (e.g. hospital medical admissions).

**Table 2: Findings for Australia from the 2014 OECD study of variations in utilisation of several health activities for 13 countries**

Measure	Australia's annual activity level		Australia's with-in country variation	
	Standardised rate of activity (per 100K ppl)	Rank relative to other countries	Degree of variation (co-efficient of variation)	Rank relative to other countries' internal variation
Hospital medical admissions	12033	3 <sup>rd</sup> highest of 12	0.20	3 <sup>rd</sup> highest (eq) of 12
Coronary artery bypass graft	72	3 of 11	0.21	10 of 11
Percutaneous transluminal coronary angioplasty	208	7 of 11	0.24	4 of 11
Admission / surgery after hip fracture	121	4 of 10	0.23	1 of 10
Knee replacement	257	1 of 12	0.19	6 of 12
Caesarean section	343	3 of 12	0.10	10 of 12
Hysterectomy	330	3 of 11	0.20	6 (eq) of 11

Source: OECD, 'Geographic Variations in Health Care: What Do We Know and What Can Be Done to Improve Health System Performance?', *OECD Health Policy Studies*, 2014

## Health Services definitions used in this paper

The broad categories of health activities, services and products are listed below.

**Table 3: Main categories and description of health care activities**

Component	Role
Public health	Activities to prevent disease and promote health in the community e.g. sun prevention information campaigns
Primary care	First point of contact for people to manage new health complaints and long-term conditions (excluding hospital emergency care). Includes unreferred medical services e.g. GPs, dental services, community health and other health practitioners such as physiotherapists and optometrists.
Secondary care	Medical care provided on referral from primary care by medical practitioners with specialist training.
Hospital services	Medical and surgical care provided in hospitals. Includes sub-acute care e.g. rehabilitation, palliative care, non-acute care such as supporting patients with an activity limitation or participation restriction, and pharmaceuticals paid for by hospitals.
Aids and appliances	Medical goods dispensed to ambulatory patients for use more than once for therapeutic purposes e.g. glasses, hearing aids, orthopaedic appliances fitted without surgery.
Pharmaceuticals	Medicinal drugs used to cure, treat or prevent disease outside hospitals. A wide range of prescription pharmaceuticals are subsidised by the Commonwealth Government.
Other	Includes patient transport services, administration and research.

Source: AIHW, *Australia's Health, 2014*

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