

Private Health Insurance Explained



Our core purpose is
“HELPING CLIENTS ACHIEVE FINANCIAL SECURITY”

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PRIVATE HEALTH INSURANCE EXPLAINED AND HOW YOU COULD SAVE MONEY BY UNDERSTANDING HEALTH INSURANCE AT TAX TIME

The Australian Government wants more people to take out private health insurance to help reduce the growing pressure on the public system. In order to do this the government has put in place a number of initiatives designed to get you covered. By reading this you will gain greater understanding of these initiatives to avoid paying extra tax and save money.

The Australian Government Rebate on Private Health Insurance

The Australian Government provides a rebate on private health insurance to help Australians meet their private health insurance costs. The private health insurance rebate is income tested, which means the level of your rebate will depend on your annual income, age and the number of dependent children you have.

DO YOU QUALIFY FOR THE REBATE?

- Singles earning \$140,000 or less
- Couples and families earning \$280,000 or less

If you have dependent children, your threshold increases by \$1,500 for each child after the first.

HOW BIG A REBATE CAN YOU RECEIVE?

The Australian Government adjusts rebate levels annually which apply from the 1 April each year. The following table shows the rebate levels as of 1 April 2016.

	No Tier	Tier 1	Tier 2	Tier 3
Income Tiers				
Singles	\$90,000	\$90,000 to \$105,000	\$105,001 to \$140,000	\$140,000 or more
Couples/Families	\$180,000 or less	\$180,000 to \$210,000	\$210,001 to \$280,000	\$280,000 or more
Rebate % By Age Group				
Under 65 Years	26.791%	17.861%	8.930%	0%
65 to 69	31.256%	22.326%	13.395%	0%
70 + Years	35.722%	26.791%	17.861%	0%

HOW DO YOU CLAIM THE REBATE?

There are two ways to claim the rebate:

1. Claim it as a reduction on the health cover premiums
2. Receive the full amount as a refund at tax time

To use the rebate to reduce your health cover premiums, you need to let your health fund know your income tier (from the above table). If you don't apply for the rebate through your health fund, you can claim it as a tax credit in your annual tax return.

WHAT DO YOU RECEIVE A REBATE FOR?

The rebate is applied to private hospital cover, extras only cover, and combined hospital and extras cover.

It does not apply to Overseas Visitors Cover or to Lifetime Health Cover loading.

WHAT IF YOUR FINANCIAL SITUATION CHANGES?

You can contact your health fund at any time during the year to change your income tier.

If you receive the incorrect rebate, you can contact Mulcahy & Co to discuss how any under or over payment can be corrected at the appropriate time.

Medicare Levy Surcharge

If you're single and earning over \$90,000 or a couple or family earning over \$180,000, buying private hospital cover can help you to avoid an extra tax called the Medicare Levy Surcharge (MLS).

The MLS adds a surcharge of between 1% and 1.5% of your taxable income to your tax bill if you don't have private hospital cover. The good news is that you can buy a basic hospital cover for around the same cost as (or even less than) the additional tax you might have to pay. So not only could you save on tax, you could also have cover for things like accidents and emergency ambulance. **Win-win!**

CASE STUDY

James is a single 28 year old construction worker earning \$110,000 per year who doesn't have private health insurance. Based on these facts James would pay \$1,375 in MLS tax. A Basic health insurance policy would cost around \$900 a year. So if James had implemented private health insurance at the start of the financial year he would have saved \$475 plus have had the added benefit of health insurance.

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DOESN'T EVERYONE PAY A MEDICARE LEVY?

There are two parts to the Medicare Levy:

- Medicare Levy: This is the 2% we all pay as part of our tax to help fund Medicare.
- Medicare Levy Surcharge: Higher income earners can be charged an additional 1% to 1.5% if they don't have private hospital cover.

DOES THE MEDICARE LEVY SURCHARGE APPLY TO YOU?

Unless you're exempt, the Levy is income tested, and applies to

- Singles earning over \$90,000
- Couples and families earning over \$180,000

If you have dependent children, your threshold increases by \$1,500 for each child after the first.

HOW MUCH DOES THE MLS COST?

The Australian Government adjusts surcharge levels annually. The following table shows the MLS surcharge levels as they apply from 1 April 2016. The income thresholds also shown in the table will remain the same for a period of 3 years from 1 July 2015 to 30 June 2018.

DO YOU STILL NEED TO PAY MLS IF YOU BUY HOSPITAL COVER IN JUNE?

The surcharge is payable for every day for which you don't have hospital cover within the financial year.

That means if you buy hospital cover on 1 July and maintain it throughout the financial year, you won't pay any MLS. However, if you purchase hospital cover after 1 July, or do not maintain your cover for the full financial year, you'll pay the surcharge for every day you don't have cover.

- To be exempt from the surcharge, your hospital cover must be held with a registered health fund and cover some or all of the fees and charges for a stay in hospital, with a maximum payable excess per year that is no greater than \$500 for singles or \$1,000 for couples/families (i.e. if multiple hospital claims are made in a single year, the excess paid by you cannot exceed \$500/\$1000).

Lifetime Health Cover (LHC) Loading

If you take out private hospital cover before July 1 following your 31st birthday, you can avoid paying Lifetime Health Cover (LHC) loading.

This LHC loading was introduced by the Australian Government in July 2000 to encourage people to take out private hospital insurance at a younger age and maintain it over time.

DOES LIFETIME HEALTH COVER LOADING APPLY TO YOU?

The LHC loading applies if you didn't have private hospital cover

- Before 1 July 2000, OR
- Before 1 July following your 31st birthday, whichever is later

There are some exceptions to the above, for example if you have recently migrated to Australia or were overseas on 1 July following your 31st birthday.

HOW MUCH DOES THE LOADING COST?

You'll pay an additional 2% a year for every year you don't have private hospital cover after the age of 30 (up to a maximum of 70%). For example, if you take out hospital cover for the first time when you're 40, you'll pay 2% x 10 years, so that's an extra 20% you'll be paying for your hospital cover!

Note that the loading applies only to your private hospital cover premiums, and is not applied to premiums for extras cover.

HOW IS LHC CALCULATED FOR COUPLES/FAMILIES?

Your LHC is calculated by averaging out the loading for each adult.

For example, if you have 0% loading and your partner has a 10% loading, you'll pay a 5% loading on a couple or family policy.

DOES LHC LAST FOREVER? OR CAN YOU PAY IT OFF?

You stop paying the loading after you've held hospital cover for ten continuous years. It is important to know if you cancel your private hospital cover and repurchase again at a later date, the LHC loading may apply.

Note that extras only cover does not count towards your 10 continuous years.

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Couples/Families	\$180,000 or less	\$180,000 to \$210,000	\$210,001 to \$280,000	\$280,000 or more
MLS Rate	0%	1.00%	1.25%	1.50%

We offer a free no obligation meeting to review your situation. Call us today on 03 5330 7200 and take advantage of this valuable offer.

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