Why private health insurance is good for your health and your hip pocket

Health insurance isn't usually top of the list when you're thinking of tax traps and savings, but when it comes to smart end of financial year planning, it turns out the health of your hip pocket is closely connected to the state of your health insurance.

Three government programs you should know a little about

The government is keen to encourage people to have at least some form of private hospital insurance, and they help us make sure it's a priority through three key programs. One can save you money, and two could cost you money – that's three good reasons to spend a few minutes reading up about them.

1) Lifetime Health Cover loading

Who needs to know about it?

Anyone turning 31 who doesn't have hospital cover, anyone who has had hospital cover since turning 31 but let it lapse, anyone who has moved to Australia from overseas and received full Medicare entitlements.

What is it?

It's a government penalty you have to pay if you don't have hospital cover before the age cut-off date, if you've dropped your hospital cover for an extended period or if you're new to Australia and have received full Medicare entitlements

Lifetime Health Cover is an incentive designed to encourage people to take out private hospital cover early in life and to keep it. If you join private hospital cover by the 30th of June following your 31st birthday, you'll pay the 'base rate' that the health fund offers. you will be charged a 2% loading on top of the base rate.

Once you have a loading, the only way out of it is to hold hospital cover continuously for ten years!

There is a loophole that might help you out if you've held hospital cover but dropped it since you turned 31 – it's called 'days of absence'. What it means is that as long as you've held private hospital cover after the age of 31, you can drop your cover for a maximum period of 1,094 days (yes, that precise!) throughout your lifetime while still not getting slugged with a loading (or additional loading if you already have one).

Even if you're already past the age 31 cut-off, every year you delay taking out private hospital cover costs you more in the long run. And when you get to an age when you may need private hospital insurance the most, you may be least able to afford it.

If you want to lock in the best price you can for hospital cover throughout your lifetime, join when you're younger and you'll be paying less when you're older.

2) The Australian Government Rebate on Private Health Insurance

Who needs to know about it?

Anyone with private health insurance or who is thinking about getting private health insurance.

What is it?

It's the amount of your private health insurance that the government will pay for you.

So here's the good news. Depending on your age, income and the number of dependent children you have, the government will chip in up to 33.887% of the cost of your private health insurance.

Most people choose to receive their rebate as a reduction in the cost of their cover, that way every time you make a payment the government also chips in its share. But you can choose to pay the full price and claim the rebate as an end of financial year tax offset.

From 1 April 2014, the government started basing the rebate you are eligible to receive

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on your age and income, and indexing the rebate by CPI each year. For more information, please visit the Department of Health website at www.health.gov.au.

The income tiers that determine the rebate you are eligible to receive are set by the tax office and indexed each new financial year. So it's important to keep an eye on the new tiers if your income is variable. In the 2018/2019 financial year, the income tier thresholds are as below (right).

If you fall into one of the income tiers that means you're eligible for a rebate lower than the standard 25.415%. There are a couple of things you can do about it.

1. Do nothing at all

You can continue to receive the 25.415% rebate as usual and sort it out with the tax office when you're lodging your income tax return. Even if you've claimed more rebate than your income entitles you to, you can settle the bill with the ATO as part of your tax return, without penalty.

2. Contact us to let us know which rebate tier you fall into

Nominating a tier will change the level of rebate you are receiving. You might choose to do this if you prefer to start receiving the correct rate of rebate straight away, rather than sorting it out at tax time. This will effectively increase the amount you pay for your health insurance immediately though, as the amount the government is paying on your behalf will decrease.

3) The Medicare Levy Surcharge

Who needs to know about it?

Anyone earning over $90,000 a year as a single or $180,000 as a couple or family.

What is it?

It's an additional tax you will be charged once you earn over a certain amount if you don't have private hospital cover.

Whether you realise it or not, most of us pay a Medicare Levy through our income tax. It helps to fund the public health system and pay for the services we use each time we throw down our Medicare card for a doctor's visit or public hospital treatment.

If you earn over a certain amount, and don't have private hospital cover, you have to pay a bit extra. It's called the Medicare Levy Surcharge.

The amount is based on your income – the more you earn, the more you'll pay.

The income tiers set by the tax office are indexed each new financial year, so it's something you need to keep an eye on.

In the 2018/2019 financial year, the income tier thresholds are as below.

If your taxable income is below the tier 1 threshold, or if you have private hospital cover (no matter how high your income is), you don't pay the additional Medicare Levy Surcharge.

If you're earning an income that puts you in the Medicare Levy Surcharge zone, you'd be far better off taking out at least a basic level of private hospital cover.

For example, as a single earning $95,000, you'll be up for $950 in Medicare Levy Surcharge every year, with nothing to show for your outlay. On the other hand, you could take a base-level private hospital cover with rt health fund for around the same cost you can avoid the surcharge while gaining the all the benefits of having private hospital cover.

So, why pay more tax than you need to?

	No Tier	Tier 1	Tier 2	Tier 3
Singles	$90,000 or less	$90,001–$105,000	$105,001–$140,000	$140,001 or more
Families	$180,000 or less	$180,001–$210,000	$210,001–$280,000	$280,001 or more
Medicare Levy Surcharge	0%	1%	1.25%	1.5%
Private health insurance rebate entitlement				
Under 65 years old	25.415%	16.943%	8.471%	0%
65-69 years old	29.651%	21.180%	12.707%	0%
70 years old or over	33.887%	25.415%	16.943%	0%

Can we help?

With all things tax related, we strongly recommend that you get advice from your accountant, tax agent or financial planner.

Do you have questions about how these programs work or where to go for more information? It can be confusing and it is always best to clarify your understanding.

Our team is happy to help. Contact us on 1300 886 123 or email help@rthealthfund.com.au