Parliamentary Budget Office

Request for budget analysis

Pensioners private health insurance rebates	
Requestor:	Dr Monique Ryan MP, Independent Member for Kooyong
Date analysis completed:	7 September 2026 *Authorised for public release on 14 September 2026*
Expiry date of the analysis:	Release of the next economic and fiscal outlook report

Summary of request:

The request sought a breakdown of the savings associated with the proposed changes to the Private Health Insurance (PHI) Rebate rates for those 65 years and older – as per the 2026-27 Budget measure *Modernising Private Health* – by:

- Individuals 65 years and older receiving the Age Pension; and
- Individuals 65 years and older not receiving the Age Pension

Overview

This request for budget analysis was prepared on the basis of information specified by the requestor and does not constitute a PBO policy costing.

The 2026-27 Budget measure *Modernising Private Health* introduced changes to the Private Health Insurance (PHI) rebate that would remove the existing age-based uplift from 1 April 2027.[1] The current and proposed PHI rebate rates are shown below in Table 1. These changes are estimated to result in Government savings of $2,994.7 million over 4 years from 2026-27.

Table 1: Pensioners private health insurance rebates – Proposed changes to the PHI rebate rates under the *Modernising Private Health* changes

	Current and proposed PHI Rebate rates[(a)] - as at 1 April 2027			
Age range	**Base Tier**	**Tier 1**	**Tier 2**	**Tier 3**
Age <65[(b)]	24.118%	16.079%	8.038%	0%
Age 65-69	28.139% → ***24.118%***	20.098% → ***16.079%***	12.058% → ***8.038%***	0%
Age 70+	32.158% → ***24.118%***	24.118% → ***16.079%***	16.079% → ***8.038%***	0%

(a) The proposed rebate rates (as shown) would be subject to annual indexation through the Rebate Adjustment Factor (RAF) on 1 April 2028 and in subsequent years, with no indexation on 1 April 2027. This change impacts all PHI-insured individuals, including those under 65 years.

The Parliamentary Budget Office's (PBO's) estimate of the breakdown of these savings based on age and Age Pension status has been provided in Table 2. It shows the value of Government savings in each year attributable to the changes in rebates provided to the following cohorts:

- PHI-insured Age Pension recipients[2]

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[1] At the time of this response, the legislation associated with these changes – the *Private Health Insurance Amendment (Modernising the Private Health Insurance Rebate) Bill 2026* – has not been passed by Parliament.

[2] As of 1 July 2023, the standard qualifying age for the Age Pension is 67 years of age.

- PHI-insured individuals aged 65 years and older not receiving the Age Pension
- PHI-insured individuals aged under 65 years

The PBO notes that, for the purposes of this analysis, individuals classified as Age Pension recipients includes individuals who may only receive the Age Pension for part of a year, as Age Pension payments are assessed on a fortnightly basis.

The PBO has also projected these Government savings for 2030-31 onwards, which are provided at Attachment A.

Table 2: Pensioners private health insurance rebates – Estimated savings associated with *Modernising Private Health* changes by cohort[(a)(b)]

	2026-27 $m	2027-28 $m	2028-29 $m	2029-30 $m	**Total to 2029-30 $m**
PBO estimate of PHI-insured Age Pension recipients	*111.6*	*462.4*	*485.0*	*504.6*	***1,563.6***
PBO estimate of PHI-insured individuals aged 65 years and older not receiving the Age Pension	*105.2*	*452.6*	*492.0*	*530.0*	***1,579.9***
PBO estimate of PHI-insured individuals aged under 65 years[(c)]	*-10.9*	*-44.7*	*-46.0*	*-47.2*	***-148.8***
Total Government savings (excluding PDI)[(d)]	**206.0**	**870.3**	**931.0**	**987.4**	**2,994.7**

(a) Positive values represent Government savings due to reduced payments. Negative values represent additional costs to the Government due to increased payments.
(b) Totals may not sum due to rounding.
(c) The costs associated with PHI-insured individuals under 65 years are due to changes in the annual indexation of PHI rebate rates in 2026-27 under the proposed changes.
(d) Total Governments savings are as shown in 2026-27 Budget measure *Modernising Private Health*.

Impact of Rebate Adjustment Factor (RAF) changes under *Modernising Private Health*

The costs associated with PHI-insured individuals under 65 years are due to changes in the annual indexation of PHI rebate rates in 2026-27 under the proposed changes.

The relevant rate of indexation, referred to as the Rebate Adjustment Factor (RAF), represents the difference between the Consumer Price Index (CPI) and the industry weighted average increase in premiums.[3]

Historically, the value of the RAF has been just below or exactly equal to 1.0.

- A RAF below 1.0 reduces the rebate, and policyholders fund a larger portion of premium increases.
- A RAF of 1.0 holds the rebate percentages flat, and policyholders fund the same portion of premium increases.

Under the proposed changes, the RAF for 1 April 2027 will be set to 1.0.[4] In contrast, without the proposed changes, a RAF below 1.0 would have been expected to apply.

The result of this change to the RAF is slightly higher rebate rates for all individuals, and a slightly increased cost (around +1%) to the Government for rebates to PHI-insured individuals under 65.

[3] The RAF calculation is set out in the *Private Health Insurance (Incentives) Rules 2012 (No. 2)*.

[4] As on page 22 of the Explanatory Memorandum for *Private Health Insurance Amendment (Modernising the Private Health Insurance Rebate) Bill 2026*.

Methodology

Forward estimates (2026-27 to 2029-30)

Based on analysis of personal income tax return data for the 2023-24 income year, around 45% of the PHI-insured population aged 65 and older lodged a tax return. For this group, individuals' Age Pension recipient status was estimated based on:

- The proportion of PHI-insured individuals aged 65 and older – as split by age and PHI rebate tier cohorts – who reported receipt of 'Australian Government pensions and allowances' on their tax return.
- Around 90% of people aged 65 years and older with income support payments receiving the Age Pension, based on findings by the Australian Institute of Health and Welfare (AIHW).[5]

For the remaining PHI-insured population aged 65 and older – around 55% of this population – individuals' Age Pension recipient status by age and PHI rebate tier cohort was estimated based on Age Pension recipient status in the wider Australian population, adjusted for characteristics observed in the PHI-insured population aged 65 and older who lodged a tax return.

Based on the above analysis, the proportion of each age and PHI rebate tier cohort who are also Age Pension recipients was estimated.

Based on these proportions, the change in the value of PHI rebates received and associated personal income tax impacts, as taken from the DHDA's modelling of the *Modernising Private Health* changes, were split based on Age Pension recipient status for each age and PHI rebate tier cohort (see Table 3 below for estimated population breakdown).

Table 3: Pensioners private health insurance rebates – Estimated population over 65 years old by Age Pension recipient status[(a)]

PBO estimates of Age Pension recipients in PHI-insured population Count of individuals, averaged across 2026-27 to 2029-30	
Age Range	**Split in PHI-insured population**
Age 65-69	131,000 Age Pension recipients | 816,000 non-recipients (14% Age Pension recipients)
Age 70+	1,360,000 Age Pension recipients | 1,280,000 non-recipients (52% Age Pension recipients)
Age 65+	**1,491,000 Age Pension recipients | 2,096,000 non-recipients (42% Age Pension recipients)**

(a) Estimates have been rounded to 3 significant figures

Remainder of the medium term (2030-31 to 2036-37)

The financial implications of the *Modernising Private Health* changes, broken down by age and PHI rebate tier cohort and Age Pension recipient status (as above), were projected for the remainder of the medium-term using projections from the PBO's 2026-27 Budget *Build your own budget* tool.

[5] Income support for older Australians - Australian Institute of Health and Welfare

Data sources

The Australian Taxation Office provided de-identified personal income tax return data for the 2023-24 income year.

The Department of Health, Disability and Ageing provided estimates of the PHI-insured population and the value of PHI rebates paid, under current conditions and under the proposed *Modernising Private Health* changes.

Treasury provided Australian population demographic projections as at the 2026-27 Budget.

Australian Institute of Health and Welfare (AIHW) (2025) *Income support for older Australians*, AIHW, Australian Government, accessed 24 August 2026.

Australian Taxation Office (ATO) (2026) *Taxation Statistics 2023-24, Snapshot - Table 4* [data set], data.gov.au, accessed 31 August 2026.

Commonwealth of Australia (2026) *2026-27 Budget,* Commonwealth of Australia.

Department of Social Services (DSS) (2026) *DSS Income Support Recipients – Monthly Time Series* [data set], data.gov.au, accessed 24 August 2026.

Parliamentary Budget Office (PBO) (2026) *Build your own Budget – 2026-27 Budget*, PBO, Australian Government.

Attachment A – Pensioners private health insurance rebates – PBO medium-term projections

Table A1: Pensioners private health insurance rebates – PBO projections of savings associated with *Modernising Private Health* changes by cohort[(a)(b)]

	2030-31 $m	2031-32 $m	2032-33 $m	2033-34 $m	2034-35 $m	2035-36 $m	2036-37 $m	**Total to 2036-37[(c)] $m**
PHI-insured Age Pension recipients	*520.7*	*537.7*	*555.1*	*572.4*	*590.3*	*607.3*	*625.5*	***5,572.6***
PHI-insured individuals aged 65 years and older not receiving the Age Pension	*551.9*	*573.9*	*596.5*	*620.6*	*645.3*	*672.4*	*699.4*	***5,939.8***
PHI-insured individuals aged under 65 years	*-49.2*	*-51.2*	*-53.3*	*-55.5*	*-57.7*	*-60.3*	*-62.8*	***-538.7***
Total savings (excluding PDI)	**1,023.5**	**1,060.4**	**1,098.3**	**1,137.5**	**1,177.9**	**1,219.4**	**1,262.1**	**10,973.7**

(a) Positive values represent Government savings due to reduced payments. Negative values represent additional cost to the Government due to increased payments.
(b) Financial implications were rounded consistent with the PBO's rounding rules. [6]
(c) Includes savings from 2026-27 to 2029-30 as noted in Table 2.

[6] https://www.pbo.gov.au/for-parliamentarians/how-we-analyse/pbo-rounding-rules