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## Gap cover and out-of-pocket costs explained

Even after paying thousands for private health insurance you can still be slugged with large costs if you go to hospital.

By Share:  

### Mind the gap

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The world of doctors' fees and health insurance policy inclusions and exclusions can be extremely confusing. We'll help clear up some of your confusion around out-of-pocket costs, also known as 'gap payments'.

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### The cost of being a private patient

It can be a real shocker when you use your private health insurance policy for the first time and still face a hefty medical bill at the end of the day. Isn't avoiding such costs the very reason you've been paying your ever-increasing health insurance premiums?

This story of a CHOICE member who had heart surgery will be familiar to many:

"I had triple by-pass surgery two years ago. My out-of-pocket expenses included \$4000 for the heart surgeon and \$700 for the anaesthetist. I was lucky enough to have some shares that could be sold at the time to cover the expenses."

There are many costs private patients can get slugged with in hospital, while treatment for public patients is free. These include:

- out-of-pocket costs for consultations with your doctor in hospital
- procedures you aren't covered for. Tip: Check with your insurer before the treatment
- excess and co-payments
- pathology costs, such as for blood tests
- prostheses, such as an artificial hip. Tip: There's always one suitable prosthesis that's free

- hospital incidentals, such as a TV or medication you take home (public patients can also be charged for these extra costs).

Of course, it's not all bad. As a private patient you can usually get treatment sooner than public patients can, and private hospitals are usually more comfortable.

You also have a choice of doctor... but that's where the gap payment comes in.

## What's a gap?

Words like "gap" and "gap payment" are good examples of the jargon that can make health insurance so confusing.

A gap is simply the difference between what Medicare and your private health fund will pay towards your treatment, and what your doctor or hospital charges. You'll need to pay the difference (the gap), which is why it's also sometimes called your out-of-pocket cost.

There are two types of gap schemes:

- **Hospital gap:** for example, for accommodation costs
- **Medical gap:** for example, for doctor and surgeon fees.

In this article we'll be concentrating on the medical gap (your out-of-pocket fees for the surgeon).

## How does the medical gap work?

- The Australian Government sets a fee for a range of treatments, procedures, tests and so on, and these are listed on the Medicare Benefits Schedule (MBS).
- Medicare will pay 75% of the MBS fee for treatment of private patients in hospital.
- Your insurer will pay the remaining 25%.
- But doctors aren't bound by the MBS so they often charge more than this fee, and the extra amount they charge is called the gap – or your out-of-pocket cost.
- These costs can go into the thousands of dollars: in a [CHOICE member survey](#), 25% of respondents who paid a gap said it was more than \$3000.

## Gap schemes explained

Now, explaining a gap was pretty easy, but explaining a gap scheme gets a bit trickier. But they exist to save you money, so it's worth your while to understand how they work as it'll help you find doctors who won't leave you seriously out of pocket.

Health funds have gap schemes under which they'll pay all, or a portion, of the medical gap.

There are two types of gap schemes for medical services:

- **No gap: No out-of-pocket costs.**

The insurer sets an upper limit for how much they'll pay over the MBS fee. If your doctor charges above the MBS but under, or up to, the insurer's 'no gap' threshold, you'll be covered and have no out-of-pocket cost. If they charge more than the 'no gap' threshold, you may be able to take advantage of your insurer's 'known gap' scheme (see next point).

- **Known gap: Known out-of-pocket cost.**

This gives you a bit of leeway if your doctor charges above the 'no gap' threshold, but not all health funds offer a known gap option in their scheme. The insurer sets a known gap amount, which often is exactly the same amount as the no gap amount. Usually, if the doctor charges up to \$500 more than the known gap amount, you pay the difference between the known gap amount and the doctor's charge. The health fund and Medicare pay the rest. This usually limits your out-of-pocket costs to a maximum of \$500.

But beware, if your doctor charges only a few dollars above the known-gap amount, you're no longer eligible to claim anything under the gap scheme, and you're back to paying the difference between the MBS-set fee and what the doctor or surgeon charges.

Health funds have agreements with particular doctors who've agreed to charge up to the threshold for some or all of their patients. But even if a surgeon has a gap agreement with your health fund, it's up to them if they choose to use it for you.

- Find out [how to negotiate with your doctor](#) and what your options are if they don't have an agreement with your health fund.

## How much will my insurer pay?

Here's how the gap scheme works with knee replacements, using Bupa health fund's gap scheme as an example.

In this scenario, you live in NSW, you need a knee replacement and you're insured with Bupa. Your out-of-pocket costs will depend on whether your doctor charges a fee above the no-gap or known-gap amounts set by Bupa.

You can see in the table what happens if your doctor charges just \$1 above the known-gap threshold – you're suddenly \$1300 out of pocket, compared with \$500 out of pocket if they'd charged a dollar less.

Will you be out of pocket \$0, or \$1300?

Doctor's fee (\$)		Medicare pays (\$)*	Bupa pays (\$)	You pay (\$)	Why?
Up to or equal to MBS	1317.80	988.35	329.45**	0	You are fully covered because Medicare pays 75% of the MBS and Bupa pays 25%.
Up to or equal to the Bupa no-gap threshold	2109.90	988.35	1121.5	0	You are fully covered because Medicare pays 75% of the MBS and Bupa pays the rest.

Equal to the Bupa known-gap threshold (A)	2609.90	988.35	1121.55	500	You have to pay \$500, Medicare pays 75% of the MBS and Bupa pays the rest.
Greater than the Bupa known-gap threshold	2610.90	988.35	329.45**	1293.10	Medicare pays 75% of the MBS, Bupa pays 25% of the MBS and you pay the rest.

Table notes

Here's another way of visualising it:

No- and known-gap schemes vary between health funds – but one thing they have in common is that they're all very complicated. We chose Bupa in our example as it is one of the simpler ones to understand. (That doesn't necessarily mean it's the best though.)

Who has the best gap scheme?

While all insurers have gap agreements, there can be a big difference between what they set their thresholds at. Take, for example, a health fund's no-gap threshold for the surgeon's charge for a knee replacement, which has an MBS fee of \$1318:

- \$2001 – Medibank (Australia-wide)
- \$2504 – HCF (Australia-wide)
- \$2592 – AHSA, a service company operating the ACCESS Gap Scheme used by 29 mostly smaller funds (NSW only; lower benefits apply in other states)

There can also be a big difference between health funds when it comes to the number of medical services they cover with no gap.

How much will my doctor charge?

The Australian Medical Association (AMA) argues that specialists need to charge fees above the MBS, because the government-set fee isn't adequate.

"Medicare rebates do not, and were never intended to, cover the full cost of medical services," says Dr Michael Gannon, national president of the AMA. "Combined with the fact that the government has not indexed the MBS for a number of years, and the indexation rate used is far below the increases in CPI, health inflation and health insurance premium increases, they have become even further removed from the value of a medical service, or an amount that medical practitioners should or must charge."

How much should specialists charge?

The AMA publishes a fees list for their members with recommended fees for many procedures. For example, for a knee replacement, it recommends a fee of \$3920, which is nearly three times the MBS fee of \$1317.80. It's also above most health funds' known-gap threshold – for example, Bupa's known-gap amount in NSW is \$2609.90, which means you'd pay a gap of about \$2500 for the surgeon.

Many doctors charge less than this and the AMA insists that its fees are a guide only and doctors should always charge a fair and reasonable fee, taking into account their costs and the particular case and patient.

But it does seem that patients get squeezed when doctors and health funds can't agree on what a service is worth.

Excessive fees

And while the AMA fees seem high, they're very reasonable when compared with what a small percentage of specialists charge.

Professor Lesley Russell, associate professor at the Menzies Centre for Health Policy at the University of Sydney, points out that a specialist can charge whatever they wish. "Very few charge the MBS fee and some simply charge like wounded bulls. Some surgeons working in private hospitals are charging more than ten times the recommended fee [MBS]," she says.

Different fees in different states

What's really strange is how a doctor's fees vary for some procedures depending on the state. As an example, take a look at the average gap payment for knee surgery in the ACT compared to South Australia.

Patient costs for knee surgery compared

Location	Average gap payment*
Australia-wide	\$1885
ACT	\$2600
South Australia	\$397

\* Source: Medibank and RACS

- See [how to save money on surgeon's fees](#).

Gap thresholds of different health funds

We take a look at the no-gap threshold of some of the larger health funds for four common procedures.

If your surgeon charges up to the fund's threshold (or cap), you'll be fully covered.

The MBS fee is listed so you can see what the government-recommended fee is, but as we explained earlier, surgeons generally charge more.

Examples of gap thresholds

Procedure*	
Gall bladder removal	
MBS	\$739

AHSA (A)	\$873-\$1580
Bupa (B)	\$1059-\$1212
HBF (WA only) (C)	\$1019.80
HCF	\$1083
Medibank	\$1012
NIB	\$1001
Colonoscopy	
MBS	\$334
AHSA (A)	\$395-\$745
Bupa (B)	\$472-\$530
HBF (WA only) (C)	\$456.45
HCF	\$473
Medibank	\$443
NIB	\$433
Tonsils (adenoids) <12 yrs old	
MBS	\$296
AHSA (A)	\$413-\$569
Bupa (B)	\$463-\$527
HBF (WA only) (C)	\$522.05
HCF	\$562
Medibank	\$472
NIB	\$444
Hip or knee replacement	
MBS	\$1318
AHSA (A)	\$1871 (WA) to \$2278 (hip)/\$2592 (knee)
Bupa (B)	\$2105-\$2469
HBF (WA only) (C)	\$2146.75
HCF	\$2504
Medibank	\$2001
NIB	\$2024

Table notes



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