Briefing note
Queensland Health changes to Right to Private Practice

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Purpose

Medical Financial Group has prepared this briefing note for senior medical officers (SMOs) working within Queensland Health. It explains the potential changes to the Right of Private Practice scheme and clarifies some uncertainties regarding SMO remuneration and contract terms. The briefing note:

- summarises the background to the current scheme and how other states work,
- identifies potential implications for doctors, and
- outlines some options for doctors to consider if the changes go ahead.

Although the Right to Private Practice report with recommendations was tabled in Parliament in July 2013, the final outcome will not be known until later in 2013. Many SMOs feel the current environment creates uncertainty which we believe presents an opportunity to consider your professional, personal and financial situation.

Background

Under Queensland Health’s current Right of Private Practice scheme, SMOs can receive payment for treating private patients in a public hospital. This has allowed patients the choice of being treated privately in a public hospital and encouraged doctors to remain in the public sector and earn additional private income. To be paid for private practice work, SMOs can choose between a few options which determine the payment received.

The original Option B was introduced 1986. After payment of facility and administration expenses, a doctor can retain private practice revenue up to a certain amount. Over this amount, the doctor can retain a third of the revenue. The other two thirds goes to an education trust available to all hospital and health service (HHS) staff.

Option A was introduced in 1992 against a backdrop of 20 per cent vacancy rates for SMO positions within Queensland Health to establish a new revenue stream from private practice for doctors not already exercising their right of private practice. Primarily designed to recruit and retain SMOs in the public hospital system, doctors were paid an allowance in lieu of private practice billings which were to be directed to the hospital and health service. In theory, this option was to be self-funding. With the introduction of Option A, Queensland Health gave SMOs a choice between Option A and Option B. Two further options – P and R – were introduced later as variants to Option B to cater for pathologists and radiologists.

Option B and its variants pay doctors according to the private practice revenue they generate. Option A pays an allowance in return for anticipated private practice revenue whether or not that revenue is forthcoming.
Queensland Health experience
According to Queensland Health, about 86 per cent of SMOs currently choose Option A; of these 93.5 per cent do not bill sufficiently to cover their allowance and 46.7 per cent generate no private practice revenue at all\(^1\). Currently, the system accepts that many doctors on Option A have no ability to bill privately which undermines the original break even objective of the scheme.

Other states
All Australian states have schemes in place to allow patients the option to be treated privately in a public hospital, although there are differences between the states (see references). The ACT, for example, has Scheme A, B and C. Scheme A includes an allowance of 20 per cent of a specialist’s base salary which is not dependent on private billings with additional payments based on the private practice revenue generated. Generally, specialists commence on Scheme A but after 12 months must choose between Scheme B or C which do not include the allowance.

Specialists are only permitted to remain on Scheme A if management identifies that the nature of their specialty makes it difficult to bill private patients. In doing this, specialties that can bill privately have incentive aligned to billings.

Implications for doctors
The proposed changes to the Right to Private Practice scheme in Queensland could have far reaching implications for SMOs, affecting some specialities far more than others.

1. Change to performance-based contracts
   Under the recent ‘Blueprint for Better Healthcare in Queensland’, Queensland Health propose that SMOs will be placed on performance-based employment contracts.

   SMOs’ remuneration is expected to be included as part of this performance-based employment contract which will take into consideration the individual doctors’ circumstances including whether their specialty provides opportunity to treat private patients or not.

2. Reduced income
   It seems likely that moving from a “right” to private practice to “actual” private practice will mean that Option A as we know it today will be abolished. Queensland Health have, however, recognised that some doctors – for example emergency specialists – will not have the opportunity to bill privately. Although it is not clear, Queensland Health may propose different revenue terms for these specialties within their contract.

   Queensland Health has also identified that the facility expenses charged to doctors working under Option B, P and R have not been revised since 2001 and have inadequately recouped costs. It seems Queensland Health will review these facility fees, tighten monitoring and administration systems, and remove allowances in an attempt to resolve a system that has cost taxpayers an estimated $800 million over the last decade. For many SMOs working publicly in Queensland, their income could reduce and many will consider part-time or full-time private practice options.

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\(^1\) Right of Private Practice in Queensland Public Hospitals—Queensland Health response
3. **Economic affects for high income earners**

The recent slowdown in the economy and an aging population has also seen changes to the superannuation system affecting many high income earners – including doctors. Unless you are over 59, for example, the current limit to concessional superannuation contributions is $25,000 per year which is unlikely to provide scope to achieve financial independence for many doctors. In addition, from July 2012 the contributions tax on concessional contributions increased from 15 per cent to 30 per cent for those earning over $300,000 a year. These changes will affect many SMOs.

The final change affecting high income earners is the tax on superannuation earnings above $100,000 when they start drawing on their superannuation fund. While this may seem a way off for some, this change increases the amount required to achieve financial independence. When combined with increased contributions tax and a possible reduction in income, many SMOs will need to plan earlier to ensure a comfortable retirement.

**Options for doctors**

If the current uncertainties have caused you to consider your personal and financial situation, the first step is to explore what outcomes are important to both you and your life partner. This should form the basis of everything you are doing financially. The outcomes you identify shouldn’t be purely financial. We often find couples wanting more time and less stress following strategies that deliver the exact opposite.

Once you understand what is important to you, you can do a simple audit of what you are currently doing and how these arrangements are supporting or detracting from what you are trying to achieve. In our experience working with SMOs a few consistent themes have been identified recently.

1. **Consider private practice**

Some SMOs are seriously considering moving into full or part-time private practice. Naturally your specialty, experience and contacts will have a large impact on the viability and attractiveness of this as an option. But if you are considering this, there are a number of things to consider to ensure you set up correctly and to give yourself the best opportunity for success.

Medical Financial Group’s research paper “Setting up in private practice” works through some of the issues to consider and can be obtained by visiting our website or contacting our office. We have also developed a number of tools which can assist you through this process and can present these individually or to groups on request.

2. **Check your debt and leveraging**

Not that long ago, a common wealth creation strategy was to leverage debt. Many accepted this as a way of increasing returns without fully understanding the extent of the risk. With the Global Financial Crisis, horror stories have emerged often caused by excessive debt.

While Australia’s debt is relatively low compared to the US or Europe, our personal household debt is one of the highest in the world and has grown significantly over the last decade. Most of this household debt is mortgage debt which has fuelled Australia’s property prices and our love affair with investment property. With Australian’s now heavily debt laden, it appears unlikely that property prices will gallop away anytime soon.
If the risk of your income decreasing concerns you, the first step is to model various scenarios to see how these would affect you. Doing this allows alternative options to be identified and helps frame future decisions to maximise your opportunity.

3. **Plan for the unexpected**
   At times of uncertainty, it is always wise to check that your insurance arrangements are up to date. This will ensure you have peace of mind that if something unexpected happened, you get your expected outcome. The objective of the right protection strategy is to provide the right amount of money, to the right people, at the right time, tax effectively. To be effective, your insurance needs to integrate with your estate plan and your death benefit nominations need to be correct. Getting any of these things wrong could result in money passing to the wrong people or dependents paying more tax than necessary, even if you had sufficient insurance in place.

   If you are considering private practice, or your income is going to be more variable, you should definitely check your income protection arrangements sooner rather than later. For example, one point to consider is whether you have a guaranteed value or indemnity policy. If you claim, a guaranteed value policy should not require you to prove your current income, whereas an indemnity policy would. This would be a potential problem if your income has temporarily reduced.

4. **Start investment and superannuation planning early**
   While it is not the first thing that springs to mind with the prospect of a reduced income, uncertainty highlights the need to be consistent and disciplined in the building of wealth, because things simply don’t stay the same. Once you understand the outcomes that are important to you and any gap that exists with what you are currently doing, you can start an investment program to fill the gap.

   Naturally you should select investment and ownership structures which protect your investment while delivering the return and tax outcomes you target with as little risk as possible. The earlier you start the easier it will be to achieve your objectives.

**More information**

To receive our regular information updates or discuss how Medical Financial Group can help provide financial certainty, please contact Neal Durling or Sean O’Kane on 07 3363 5800 or email info@medicalfinancial.com.au.

**References**

2. Right of Private Practice in Queensland Hospitals – Queensland Health Response
3. Right of Private Practice in Queensland Hospitals – Key Figures
4. Right of Private Practice – ACT Government Health website
6. Right of Private Practice – Victoria AMA website