



**HEALTH FUNDS
ASSOCIATION OF
NEW ZEALAND**

Annual Review 2015





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HFANZ Board

(2014-2015)

In order from top left:

Dermot Martin (Chairman)

Union Medical Benefits Society Ltd (UniMed)

Geoff Annals (Deputy Chairman) **Accuro Health Insurance**

Peter Tynan **Southern Cross Health Society**

Grant Hill **OnePath (NZ) Ltd**

Joyce Au-Yeung **Sovereign Assurance Company Ltd**

Rob Hennin **nib NZ Ltd**

Our other members: **AIA New Zealand**

EBS Health Care

Manchester Unity Friendly Society

Partners Life

Police Health Plan Ltd



**Dermot Martin
Chairman**



Chairman's Report 2014 – 2015

The 2014-15 year marked a significant milestone for private health insurance as it saw the industry reach the \$1 billion mark in claims paid. The fact that New Zealand can achieve a billion dollars annually of healthcare funding through around 30 percent of the population having health insurance indicates that there is significant scope to increase the contribution to future healthcare costs by lifting coverage rates.

While health insurance funds around 5 percent of healthcare costs at present, there are good reasons why it will likely fund more in the future. It can routinely provide private funding for high-cost treatments, which government funding and user part-charges are limited to do. Planning for future healthcare financing is becoming increasingly urgent as the gap between healthcare demand and public funding capacity widens. Treasury has projected public-financed health costs to grow by 4 percent of GDP in coming decades – a funding gap of around \$10 billion in today's terms.

“The projected growth in healthcare spending is the country's single biggest fiscal challenge, but presents the single biggest area for making fiscal savings.”

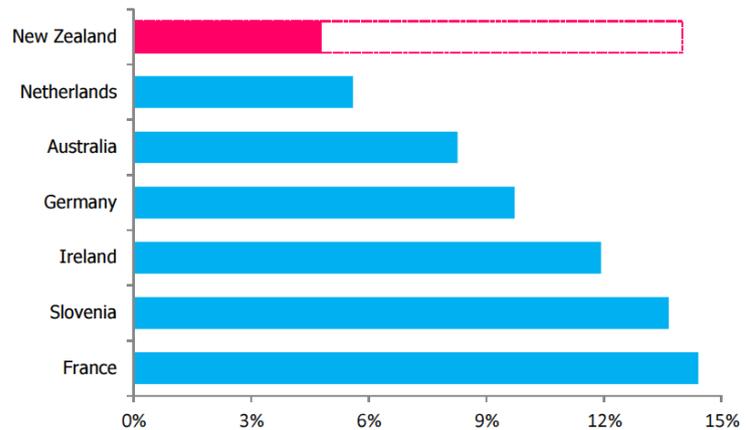
This year the Health Funds Association asked NZIER to explore what scope existed for private health insurance (PHI) to make a greater contribution to funding future healthcare costs in New Zealand. NZIER approached the issue from several angles – looking at the public policy rationale as well as overseas experience in a number of countries with comparable health systems.

At a high level, NZIER found that the countries making the best use of private health insurance as a funding contributor to healthcare are achieving a contribution to total healthcare costs of between 10 percent and 15 percent. These include Germany, Ireland, Slovenia and France. If New Zealand were to match this level of funding, it would mean that private health insurance would be funding around \$3 billion in healthcare each year instead of the present \$1 billion. In other words, it could feasibly fund anything up to \$2 billion of the \$10 billion gap identified.

Even if New Zealand could match Australia's performance at just over 8 percent of health expenditures, this would see the contribution to healthcare from health insurance nearly double.

PHI as a Percentage of Total Health Spending

2011 or nearest year



source: OECD

NZIER found there was no best practice international model, although concluded that international evidence showed PHI could play an important complementary role.

As well as looking at comparable overseas examples, NZIER canvassed a number of high level policy options. It suggested that accelerating New Zealanders' return to work after sickness was where health insurance could add the greatest value.

Gains to productivity, GDP

NZIER found that increasing the number of workers covered by health insurance by 20 percent could save around \$60-\$110 million annually in lost output, because having their health issues dealt with privately meant they bypassed the public waiting lists and were treated much sooner. It said an estimated 42,300 New Zealanders were prevented from participating in the workforce due to ill health in 2010, a loss of 88 million hours of labour force productivity amounting to \$1.754 billion, or around 1.2 percent of GDP.

Their report also found that having large numbers of people on waiting lists for elective surgery imposes costs on society that could be avoided with private health insurance, without imposing further costs on the public health system.

Kiwi-health?

Currently around 600,000 New Zealanders (including spouses and dependants) are covered by health insurance via a workplace-based plan. Increasing this coverage was the focus of options explored by NZIER.

Workers could be automatically enrolled in workplace-based health insurance schemes and given the chance to opt out if they wished. NZIER considered other options,

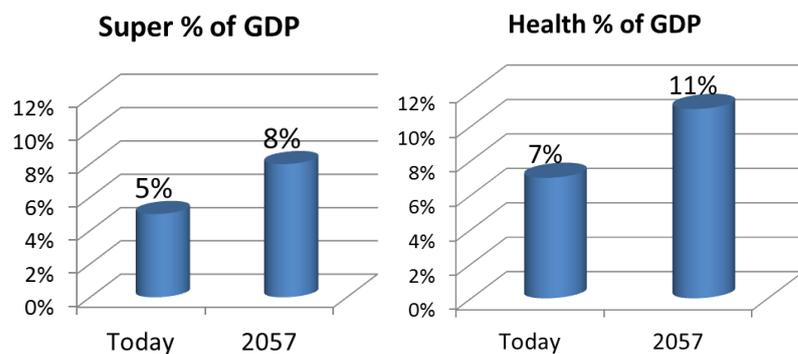
including a Kiwisaver-type compulsory scheme, general subsidies, the removal of fringe benefit tax on health insurance, a surcharge on high income earners who don't have PHI, and the Crown purchase of elective services from private providers, but each had a number of pros and cons.

HFANZ will be working on further development of these ideas and encouraging wider public debate in the coming year.

Health vs. superannuation

The general election last September resulted in the appointment of a new Health Minister, Jonathan Coleman. In HFANZ's briefing to the new minister, we advised that, based on Treasury's last three statements on New Zealand's long-term fiscal position, there were only two areas responsible for the surge in spending and also which provide opportunities for making the biggest fiscal savings – health and superannuation.

We pointed out that a rise in the superannuation entitlement age to 67 – even if the political climate allowed for a change - would only represent savings of less than 1 percent of GDP. Therefore, health spending is the only significant area of Government spending which can be looked at proactively with a view to containing the future unsustainable spending rise. The projected growth in healthcare spending is the country's single biggest fiscal challenge, but presents the single biggest area for making fiscal savings.



Integrity register

As well as undertaking research into future funding options, HFANZ members this year combined resources to establish an integrity register to crack down on fraudulent insurance claims.

The register, to be maintained by PricewaterhouseCoopers, aims to identify the estimated 3-5 percent of health insurance claims believed to be fraudulent, thought to cost \$29 million in claims a year. Its

automated detection abilities mean fraud can be attacked on a more consistent basis, and the coordinated approach to sharing fraud information lessens the investment required by individual insurers.

In the coming years, data will provide the health insurance industry the ability to gain insights and a level of detection that have not previously been available. The joint approach will also give a truer idea of the scale of customer and supplier fraud it and ensure we send a very clear zero-tolerance message.

Organisational

I would like to thank my fellow HFANZ member representatives – both past and present – for their work and support over the past year. Finally, I would also like to thank our Chief Executive Roger Styles and his staff for their work over the year.

**Dermot Martin
Chairman**





Roger Styles
Chief Executive



Chief Executive's Report 2014 – 2015

This year has seen some good progress made in terms of wider publicity and coverage of the need for new funding models in healthcare. One of HFANZ's primary goals is to foster debate on the issue of healthcare funding and the limitations of public funding. Along with a pleasing level of coverage this year, there have been signs that the momentum in the debate has shifted. There now seems to be a general level of acceptance that there are limits on the public sector, that there is significant unmet need, and that there is an imperative to make better use of private funding in healthcare.

This year, HFANZ has progressed a number of industry initiatives, while the health insurance industry itself has seen some noteworthy developments.

“This joint industry approach to fraud will also give the industry a truer idea of the scale of it and ensure a very clear zero-tolerance message is delivered to those who knowingly commit it.”

Claims paid top \$1 billion

This year saw total claims paid reach the \$1 billion level for the year ending March 2015. This was up around four percent on the previous March year, but more importantly has effectively doubled over the past decade.

The level of claims paid is a good illustration of the overall contribution that private health insurance is making in New Zealand to overall healthcare funding. The fact that the \$1 billion in claims can be achieved with just 29 percent of the population being covered also illustrates there is significant potential to increase the contribution health insurance makes to total health funding.

Integrity registry set up

While the growth in claims paid has marked the vital role of health insurance in funding healthcare, not all claims are welcome. With growing attention internationally to health insurance fraud and an estimated 3-5 percent of claims internationally thought to be fraudulent, this year the industry took steps to establish an integrity register to tackle fraud and undesirable billing practices in health insurance.

The register has been established and will be maintained by PricewaterhouseCoopers. With the register, HFANZ members will be able to tackle fraud on a more consistent basis, and the coordinated approach to sharing fraud information will lessen the investment required by

individual insurers. This joint industry approach to fraud will also give the industry a truer idea of the scale of it and ensure a very clear zero-tolerance message is delivered to those who knowingly commit it.

Continued publicity around unmet need

Over the year, there has been continued publicity on the issue of unmet need in health, especially around access to elective surgery. Much of this has followed the study undertaken by TNS for HFANZ the previous year, which continues to be referenced. This showed almost 300,000 New Zealanders were in need of surgery yet could not access it. The level of surgical need has been growing over recent years with demographic changes and will grow further. Recent increases in public spending, while required, will do little to address the issue longer term. There is still a need for better engagement and planning on how the private sector can best be used to help fund the overall level of healthcare spending.



International – private spending leads OECD health spending increase

During the year, the OECD released its annual health statistics, which showed the private sector was leading the overall growth in healthcare spending internationally. They also showed New Zealand continued to lag the OECD average in terms of its use of private healthcare financing.

Overall health spending has started to rise again after stagnating or even falling in many countries during the global financial crisis of the past few years. However, the overall increase is low compared with the year on year rises in excess of 5 percent seen for the decade preceding the crisis. What is notable is that it is the growth in private health spending that is leading the increase, growing at almost four times the rate of public spending growth as countries re-balance their health spending.

The OECD data also showed New Zealand continues to lag the OECD average for private health spending, with just 17.3 percent of total health spending being private. This puts New Zealand among the group of countries who are facing the biggest transition to greater private funding in healthcare—those with a current share under 20 percent. HFANZ continues to maintain there is a need for wider planning and engagement around how best to rebalance the funding shares.

A degree of political acceptance

Prior to the general election, HFANZ quizzed political parties on their suggestions for dealing with future health funding challenges, in particular how to rebalance public and private funding shares, and their openness to options for encouraging a higher uptake of health insurance as part

of any solution.

There were a range of suggestions in the responses, with some of the smaller parties having the most promising ideas. Most parties accepted that the present public spending track was unsustainable and were open to assessing options for rebalancing. Some of the policy suggestions included rebates on health insurance, some form of tax-deductibility, and the exploration of savings schemes to fund healthcare through insurance. There was also some support for better definition around what is and isn't covered by the public sector.

NZIER research on potential for health insurance funding

To explore the contribution which private health insurance could feasibly make in the New Zealand context, HFANZ engaged NZIER to explore the potential for private health insurance as a funding mechanism.



NZIER said private health insurance (PHI) currently contributed \$1 billion annually to total health expenditure, and that if health insurance coverage increased to the same level as in France – where 96 percent of the population had insurance – that contribution could triple. “While there is no ‘best practice’ international model, international evidence shows that PHI can play an important complementary role,” the report said. It explored a number of comparable overseas examples, together with high level policy options.

It suggested that accelerating New Zealanders’ return to work after sickness was where health insurance could add the greatest value. NZIER found that even increasing the number of workers covered by health insurance by 20 percent could save around \$60-\$110 million in lost output, because having their health issues dealt with privately meant they bypassed the public waiting lists and were treated much sooner.

NZIER canvassed a number of high level options, including a subsidy or tax rebate targeted at employees, similar to the existing charitable donations rebate. They also suggested workers could also be automatically enrolled in workplace-based health insurance schemes and given the chance to opt out if they wished. NZIER considered other options, including a Kiwisaver-type compulsory scheme, general subsidies, the removal of fringe benefit tax on health insurance, a surcharge on high income earners who don’t have PHI.

NZIER concluded that *“a well-designed mutually reinforcing package of measures could make a difference. A series of complementary measures will provide additional improvements leading to better health and*

economic outcomes.” This has provided a good basis for HFANZ to look to further develop some of the suggested policy initiatives.

Organisational

At an organisational level, the Association finished the year in a solid position, posting a surplus and with a comfortable level of reserves. I would like to acknowledge and thank the board and wider membership of HFANZ for their support over the past year, especially Dermot Martin as Chairman of HFANZ.

Roger Styles
Chief Executive





Health Insurance Key Statistics 2014-15 Summary

Headline changes

- ▼ Lives covered down 3700 or 0.3 percent for the year;
- ▲ Premium income of \$1.22 billion, up 6 percent on March 2014 year;
- ▲ Claims paid for March year of \$1 billion up 3.9 percent on March 2014 year claims.

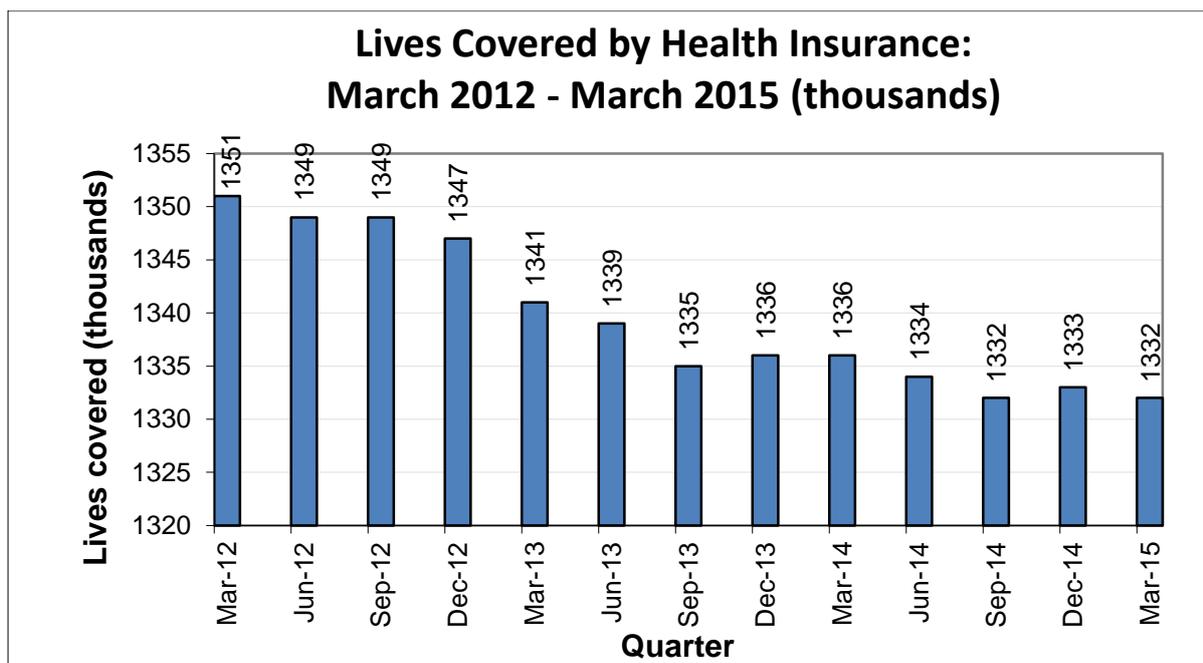
Summary Financial Data: Premiums, Claims and loss ratios (March Years)

	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15
Premium income (\$m)	\$895.3	\$983.8	\$1053.9	\$1101.9	\$1155.0	\$1225.0
Claims paid (\$m)	\$778.8	\$828.1	\$844.5	\$879.6	\$962.4	\$1000
Loss ratio	87.0%	84.2%	80.1%	79.8%	83.3%	81.6%

▼ Lives covered down 0.3 percent

On an annual basis, lives covered declined by 3700, or 0.3 percent over the year ending March 2015. A fall in lives covered in the March quarter largely offset the small rise recorded in the December quarter. The relative stability in lives covered over the past six or so quarters is welcome.

The past year has seen a decrease in the number of lives covered by comprehensive health insurance (-8800), although there has been an increase in lives covered by elective surgical and specialist policies (+5100). Elective surgical policies continue to increase as a proportion of policies, now accounting for 67.6 percent of lives covered.



Changes in lives covered by age-group

The table below gives a breakdown of the changes in lives covered over the past year by age group. The overall reduction of 0.3 percent for the year results from some age groups increasing while others have decreased.

The decline in lives covered in the 35-49 age group over recent years has stopped, with virtually no change in lives covered in this age group over the past year. Of note is the increase of nearly 3000 lives covered in the younger 25-35 age group, possibly attributable to the popularity of a newer category of comprehensive health insurance products which have found favour with this younger demographic.

The ageing population has again meant an increase in lives covered in the over-65 age group – up by around 2800 lives covered to just over 150,000 lives covered.

Table: Change in lives covered by Age: March 2015 year

Age	Mar 2014	Mar 2015	Change	Percent
0-4	61,699	61,863	164	0.3%
5-9	82,283	83,124	841	1.0%
10-14	83,782	82,828	-954	-1.1%
15-19	86,794	84,905	-1889	-2.2%
20-24	77,853	76,781	-1072	-1.4%
25-29	67,496	69,350	1854	2.7%
30-34	81,909	83,160	1251	1.5%
35-39	93,076	92,663	-413	-0.4%
40-44	114,092	112,334	-1758	-1.5%
45-49	116,709	115,663	-1046	-0.9%
50-54	121,255	119,527	-1728	-1.4%
55-59	108,765	108,468	-297	-0.3%
60-64	92,237	90,775	-1462	-1.6%
65-69	65,264	66,430	1166	1.8%
70-74	37,776	38,349	573	1.5%

75–79	21,154	22,099	945	4.5%
80–84	13,363	13,294	-69	-0.5%
85–89	7339	7398	59	0.8%
90+	2698	2816	118	4.4%
Totals	1,335,544	1,331,827	-3717	-0.3%

▲ Premiums paid up 6 percent

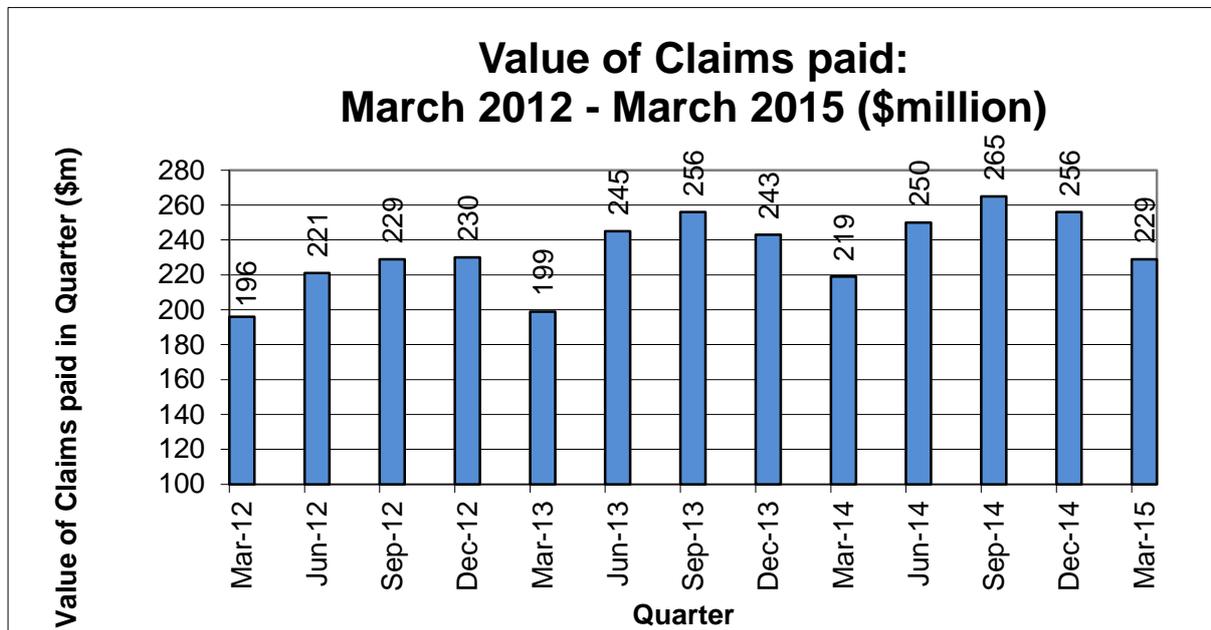
Health insurance earned premiums in the year ended March 31, 2015 totalled \$1.225 billion, up 6 percent on premium income for the March 2014 year.

The rate of premium growth had slowed over the previous two years as a result of lower levels of claims cost inflation and a reduction in the number of lives covered. However it was expected that premiums would increase again on the back of a sustained lift in claims costs as evidenced during 2014.

▲ Claims paid up 3.9 percent

Claims paid for the 12 months ending 31 March 2015 were \$1 billion, up 3.9 percent on March 2014 year claims.

The strong growth in claims paid recorded over recent quarters has seen annual claims paid climb to the \$1 billion mark for the first time. This underpins the valuable contribution health insurance makes to healthcare funding – with total claims virtually doubling over the past decade.



Growing Contribution from Health Insurance: Growth in Claims Paid, 2006-2015

