

ANNUAL REVIEW 2018



**HEALTH
FUNDS**
ASSOCIATION
OF NEW ZEALAND

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**HEALTH FUNDS
ASSOCIATION OF NEW
ZEALAND**

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HFANZ BOARD

2017-2018

In order from top, left to right:

Geoff Annals (Chairman)
Dermot Martin

Accuro Health Insurance

Union Medical Benefits Society Ltd (UniMed)

Nick Astwick
Nicola Cresswell
Pete Hayes
John Seed

Southern Cross Health Society
Sovereign Assurance Company Ltd
Police Health Plan Ltd
Healthcare Plus

Our other members:

AIA New Zealand

Manchester Unity Friendly Society

Associate member:

Accident Compensation Corporation



Chairman's Report 2017-2018

The 2017-2018 year has once again been very positive for the health insurance sector, with the twelfth straight quarter of growth and the strongest annual increase in coverage since 2001. It is pleasing to see a greater focus on wellness in the workplace and more emphasis on the "health" part of health and safety from employers. These have helped drive an increase in working age New Zealanders taking out health insurance as part of something offered through their employer.

Our statistics for the year show 1.386 million New Zealanders have health insurance, up 1.5 percent on a year ago. Around 15,000 of the 20,100 additional lives covered were in the 20-64 age group, with around 11,000 of them aged 25-39. This reflects the overall rise in employment generally, and shows employers are aware that offering health insurance is a great incentive to attract and retain staff and meet their new workplace health and safety responsibilities. Emphasis has previously been on safety concerns but now health is being recognised as equally important, not just the impact of the workplace on employee health but also the impact of employee health on the workplace, such as through productivity and absenteeism.

"The health insurance sector is aware of the pressures surrounding healthcare funding in this country, both currently and in the future as the population ages, and we know we have the capacity to play a greater role to relieve pressure on government budgets and the public system. Despite large and ongoing increases in the Government budget for the public healthcare sector, there will never be enough funding to satisfy all healthcare demand from taxpayer funding."

- Geoff Annals

Health insurance has funded in the past year a record \$1.207 billion in healthcare, up 5.4 percent on the previous year. This amount has effectively doubled over the past decade as New Zealanders have accessed a greater volume and wider range of services and treatments. A significant number of those claims were paid to the over-60 age group and for elective surgery – around half a billion dollars in healthcare claims. HFANZ projections are that health insurance will fund more than \$2 billion in healthcare costs for the over-60s over the next four years as that demographic grows in numbers at the same time as more people over 60 are retaining their health insurance.



The health insurance sector is aware of the pressures surrounding healthcare funding in this country, both currently and in the future as the population ages, and we know we have the capacity to play a greater role to relieve pressure on government budgets and the public system. Despite large and ongoing increases in the Government budget for the public healthcare sector, there will never be enough funding to satisfy all healthcare demand from taxpayer funding. Private health insurance can play a larger role than at present, both in routinely funding high-cost treatments that which most people couldn't otherwise afford, but also increasingly in promotion of overall good health and wellbeing. That just 28.5 percent of New Zealanders are able to collectively fund more than \$1.2 billion in healthcare annually through health insurance shows there is potential for the sector to achieve much better health outcomes for the nation if that percentage can be lifted.

Along those lines, during the year HFANZ engaged KPMG to explore options for achieving better health outcomes with a particular focus on the existing contribution provided by workplace-based health insurance plans. Their final paper – Improving Health Outcomes – explored the concept of Kiwihealth, using some of the lessons learnt through Kiwisaver to significantly boost the number of employees covered by health insurance through plans subsidised by their employers. The paper aimed to promote debate around how public and private health sector participants could work together to improve access, affordability, and outcomes of healthcare in New Zealand. KPMG's modelling forecast that KiwiHealth could

increase health insurance coverage by 400,000 people and fund approximately 50,000 additional elective surgical procedures and between 43,000 and 70,000 other medical appointments per annum by 2027, at a potential saving to the public health budget of \$224 million a year.

The report has been welcomed by HFANZ as a useful contribution to the policy debate. Not only would expanding the number of employees covered by employer-subsidised health insurance improve health outcomes, but it would be a significant boost to productivity through reduced absenteeism and illness.

The incoming coalition government has had a number of demands placed on its health budget during its first months in office, with boosts to both operating and capital spending. At the same time, the Government has foreshadowed a new way of approaching next year's budget - with a focus on wellbeing, including measures for such things as peoples' physical and mental health. As a sector, health insurers have an opportunity to contribute positively to these outcomes in a coordinated way alongside the public sector.

This remains a busy time in terms of the number of regulatory reviews and legislation impacting on the wider financial services sector. HFANZ - and health insurers generally - have an important role as a responsible sector in showing leadership in these important reviews. We have made submissions in support of the Government's Financial Services Legislation Amendment Bill, which seeks to improve the regulatory regime for financial services and advice. Strengthening the responsibilities to act in the interest of consumers, together with a genuine commitment to treat people fairly are important principles for the wider financial services sector.

On an organisational note, I would like to thank Chief Executive Roger Styles and his staff and my fellow board members for their continuing work and support over the year.

Geoff Annals
Chairman



Chief Executive's Report 2017-2018

The 2017-18 year has been a positive one for the health insurance sector, with a further 20,000 people covered by health insurance in New Zealand. This is the third year running where lives covered have increased significantly, with 2017 seeing some of the strongest growth in numbers since 2001.

Health insurance is the largest significant block of funding in the health sector outside of public funding through the Government budget. This is important, as the sector is in the business of healthcare funding just as much as it is in the financial services sector – perhaps even more so. Reflecting on these ‘twin roles’ in reporting on the year’s activity, it seems a little out of kilter that around 90% of Government engagement with the sector over the past year has been in relation to the financial services side of things, with contributions to the various regulatory reviews being an increasing focus of activity for HFANZ. On the other hand, engagement in relation to the sector’s views on health funding and working towards better health outcomes has been light.

This is odd, as the sector makes a significant and growing contribution to healthcare funding and outcomes in New Zealand. Over the next four years, health insurance is projected to fund \$5.4 billion in healthcare, with coverage growing to around 1.5 million New Zealanders.



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- Roger Styles

Much of the increase is being driven by higher employment levels together with increased interest from employers in offering group plans for their staff. The increasing interest from employers in offering PHI for their staff is a welcome sign, and shows increasing recognition by employers that having a healthier workforce makes good business sense.

The research project on better health outcomes, completed by KPMG during the year, pointed to significant healthcare benefits from expanding the numbers of employees able to take advantage of employer-subsidised health insurance. I believe this is probably the single



biggest opportunity for the sector to lift its contribution to healthcare outcomes in New Zealand over coming years.

This will be increasingly important as demographic changes and surging healthcare demand increasingly test the country's ability to fund present public health sector service levels through taxation alone. The health insurance sector is uniquely positioned to help in this regard.

Contributions to regulatory reviews

During the year HFANZ has contributed to an increasing number of regulatory reviews. These have included submissions to the Reserve Bank of New Zealand on its review of the Insurance (Prudential Supervision) Act (IPSA), as well as on publication of insurer statistics and its proposed audit requirements for insurer data. HFANZ has also submitted on the Financial Markets Authority's proposal for 'robo-advice'.

An initial submission to MBIE on amendments to financial services legislation was followed up with a submission to the Economic Development, Science and Innovation Committee on the Financial Services Legislation Amendment Bill.

It is apparent that 2018-19 will see an increased level of input to regulatory reviews as the review of IPSA continues and MBIE's review of insurance contract law progresses.

Operational

In 2017 HFANZ updated and refreshed its consumer information to make it easier for people to access and view this information,

especially using devices. This involved replacing a downloadable brochure with a series of one-pagers on specific topics. These include information on the importance of disclosure, indicative costs of surgery, why premiums increase with age, as well as general background on health insurance in NZ and the public and private sectors.

During the year, HFANZ provided statistics to the Ministry of Health for their use in completion of OECD data requests. We also provided information to Statistics New Zealand to assist with updating the CPI data and weightings.

Following the general election outcome, an information paper was prepared for Government MPs, providing some background to health insurance in New Zealand including insurers, those with insurance, and the overall contribution the sector makes to healthcare.

Part-way through 2018 there is a sense that the sector is well-positioned to grow that contribution to future healthcare outcomes – not just through funding more healthcare, but also through a greater focus on helping improve wellness and avoid ill-health.

I would like to thank HFANZ members for their support over the past year, and their contribution to the Association, in particular the support I have had from HFANZ Chair Geoff Annals.

Roger Styles
Chief Executive





IMPROVING HEALTH OUTCOMES - A BETTER FUTURE FOR NEW ZEALANDERS WITH KIWICHEALTH

During the year, HFANZ received a discussion paper from KPMG which highlighted significant health and broader benefits possible through increasing workers' access to employer-subsidised health insurance. HFANZ had commissioned KPMG to explore what might be feasible within the current framework and without requiring Government subsidies. HFANZ has welcomed the report as a useful contribution to the debate on how we can help improve health outcomes and sustain funding.

The following is an extract from the report's executive summary. The full report is available on the HFANZ website.

New Zealand's health system consistently ranks well against other developed countries; both in terms of efficiency (cost per capita), and effectiveness (population outcomes). However, the cost of providing this level of healthcare is increasing, potentially unsustainable, and could result in restricted access to public healthcare. Both Government and industry participants are now actively looking at policy options to relieve some of the inherent pressures surrounding the cost of ill health.

This paper explores one such initiative, referred to as KiwiHealth. This initiative encourages both employers and employees to adopt a more proactive and preventative approach to healthcare during the employees working years.

WHAT IS KIWIHEALTH?

Fundamentally, KiwiHealth would be an umbrella name for certain PHI policies from existing health insurance providers. This approach is similar to that adopted for KiwiSaver. The key features of KiwiHealth are envisaged to include:

- No Government subsidies. While the initiative relies on the Government endorsing a mandatory employer subsidy, the fiscal impact of the scheme should be neutral to the Crown.
- Mandated employer contributions. A healthy workforce benefits individuals as well as employers. Indicatively, KiwiHealth has been modelled on the basis that employers offer a subsidy to their employees of up to \$500 per year, should the employee wish to participate.
- Minimum policy coverage for major medical events. There is a promising opportunity for private healthcare to contribute to better health outcomes through easier and faster access to elective services. This would require all policies to cover major medical events at a minimum; including specialist appointments, advanced diagnostics and elective surgery. Corporate governance information
- Utilisation of the current PHI system. KiwiHealth is designed to utilise the current PHI system as far as possible, including major policy types. This would avoid unnecessary administrative costs, and means that employers already offering PHI to employees would be able to continue their existing coverage and schemes.

WHAT ARE THE EXPECTED IMPACTS OF KIWIHEALTH?

Based on current research and initial economic modelling, the expected benefits of KiwiHealth include:

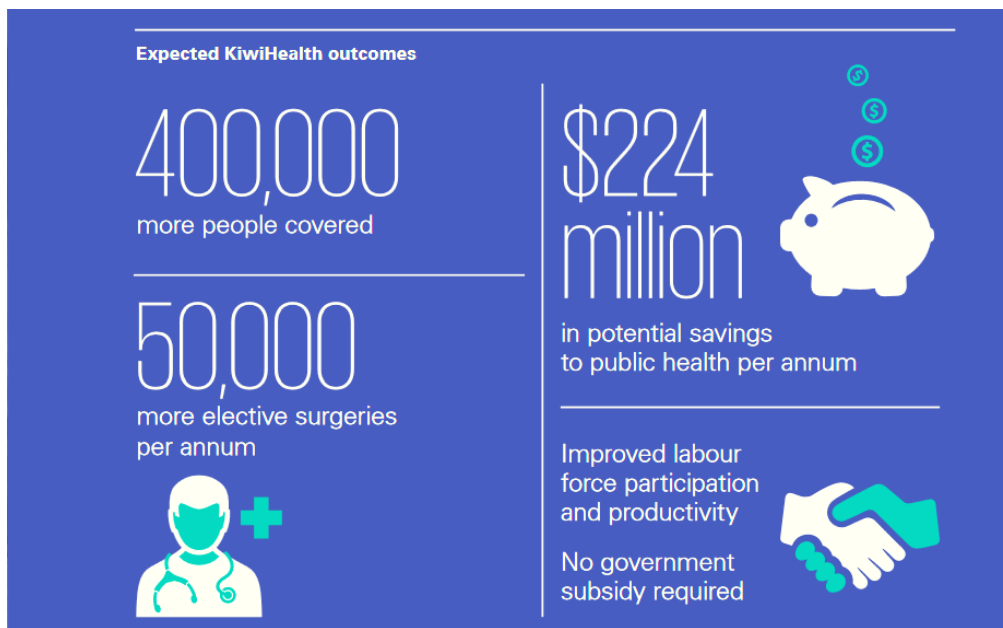
- Improved access to healthcare for employees. Research indicates that privately-funded elective services have significantly shorter waiting times than services funded publicly. Increased access to PHI would allow for increased access to elective care - potentially leading to a healthier workforce.
- Reduced pressure on public healthcare. Economic modelling indicates that KiwiHealth would fund approximately 50,000 additional elective surgical procedures and between 43,000 and 70,000 'other' encounters per annum by 2027 (of which some would directly substitute publicly-funded procedures, and some would be additional). In addition, the social impact of reducing early detection and improved management of chronic disease has many non-financial benefits to families and society
- Higher productivity and less absenteeism and presenteeism. With increased access to elective care, early detection and intervention is more likely to occur. With the right preventative treatments, this has the potential to reduce the burden of ill health in future years.

FURTHER CONSIDERATIONS

The costs of KiwiHealth principally relates to the insurance premiums, which are made up of the employer subsidy and the employee contribution. While significant, the employer contribution is partly offset by reduced absenteeism and presenteeism, increased workforce productivity, and over time, wage absorption.

As with any policy initiative, there are some limitations that will need further consideration. These include the impact on individuals in part-time employment, those who are self-employed, or those performing non-market activities such as looking after children or the elderly. In addition, the distributional effects of further improving access to healthcare to those who already have comparatively easier access, as a means of relieving pressure on the public system, must be debated.

From an economic standpoint, the option of doing nothing and relying on publicly-funded healthcare simply ignores an already evident trend, and shifts the financial burden to future generations. It is therefore important to highlight these issues and set out the options in order to stimulate policy debate in the health sector and Government, whilst at the same time understanding the potential costs and benefits to New Zealanders.





HEALTH INSURANCE KEY STATISTICS 2017-18 SUMMARY

During the 2017-18 year, there was growth of 20,000 lives covered by health insurance, marking the third year of increase and a continuation of some of the strongest annual growth in lives covered in over 15 years. Much of the growth relates to workplace-based health insurance, with a combination of strong employment growth and an increase in interest from employers in providing subsidised health insurance plans for their workforce, as part of a broader focus on wellness in the workplace.

Along with growth in lives covered, there has been continued growth in both claims paid and premium income over the year. Over the year, health insurers funded record elective surgery volumes, which helped increase claims paid by \$62 million or 5.4 percent for the year, exceeding \$1.2 billion for the first time. Premium income for the year ended March 2018 was up 5.5 percent on the previous year.

HEADLINE CHANGES

^ Lives covered up 20,100 or 1.5 percent for the year;

^ Premium income of \$1.454 billion for year ended 31 March 2018, up \$76 million (5.5 percent) on March 2017 year;

^ Claims paid for March 2018 year of \$1.207 billion up \$62 million (5.4 percent) on March 2017 year claims.

SUMMARY FINANCIAL DATA: PREMIUMS, CLAIMS AND LOSS RATIOS (MARCH YEARS)

	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18
Premium Income (\$m)	\$1102	\$1155	\$1225	\$1297	\$1379	\$1454
Claims Paid	\$880	\$962	\$1000	\$1054	\$1149	\$1207
Loss Ratio	79.8%	83.3%	81.6%	81.3%	83.3%	83.0%

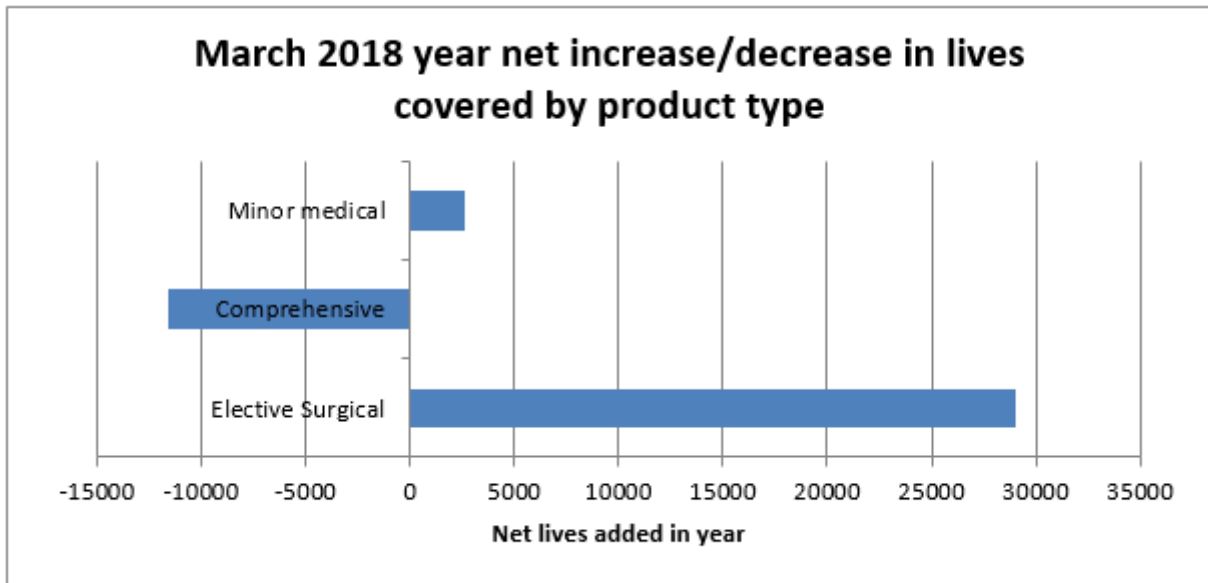
^ LIVES COVERED UP 20,100 OR 1.5 PERCENT FOR THE YEAR

Total lives covered as at 31 March 2017 stood at 1.386 million. On an annual basis, lives covered have increased by 20,100 or 1.5 percent for the year ending March 2017. This is the twelfth straight quarter of growth in lives covered, with 2017 seeing some of the strongest annual growth in lives covered recorded since 2001.

Much of this growth appears to have come from an increase in the numbers of people with employer-subsidised health insurance as part of an increased focus on wellness in the workplace.

LIVES COVERED UP BY PRODUCT TYPE

Most of the growth in lives covered over the past year has been in policies providing elective surgical cover. The trend away from comprehensive policies in favour of elective surgical or major medical policies has continued. While the number of people covered by minor medical policies also increased, these remain a relatively small share of overall lives covered at around 4 percent. Net changes by product type are shown in the chart below.



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.

Age	Mar 2017	Mar 2018	Change	Percent
0-4	61,008	60,600	-408	-0.7%
5-9	83,746	83,709	-37	0.0%
10-14	84,667	86,145	1,478	1.7%
15-19	84,738	84,075	-663	-0.8%
20-24	77,320	77,755	435	0.6%
25-29	78,066	81,277	3,211	4.1%
30-34	89,622	93,564	3,942	4.4%
35-39	97,268	101,059	3,791	3.9%
40-44	109,257	107,530	-1,727	-1.6%
45-49	119,334	120,868	1,534	1.3%
50-54	118,417	118,006	-411	-0.3%
55-59	112,150	114,506	2,356	2.1%
60-64	91,712	93,873	2,161	2.4%
65-69	67,729	68,069	340	0.5%
70-74	40,758	43,565	2,807	6.9%
75-79	25,526	26,351	825	3.2%
80-84	13,418	13,783	365	2.7%
85-89	7,660	7,636	-24	-0.3%
90+	3,140	3,292	152	4.8%
total	1,365,536	1,385,663	20,127	1.5%

INCREASE IN WORKING-AGE POPULATION WITH HEALTH INSURANCE

Most of the annual growth in lives covered has come from the working age population, as interest continues to grow in employer-subsidised health insurance for staff. The year saw numbers boosted by both general employment growth, as well as growth in the availability of employer-subsidised health insurance as part of a broader focus on wellness in the workplace.

^ Around 15,000 of the 20,100 additional lives covered were in the 20-64 age group, with over half (11,000) being aged 25-39.

Part of the growing interest from employers and employees appears to be coming from the new workplace health and safety responsibilities. While traditionally safety aspects have been forefront, the impact of health is now receiving greater attention – not just the impact of the workplace on employee health, but the impact of employee health on the workplace, such as through productivity and absenteeism. Health insurance is increasingly seen as having a role as part of a broader focus on wellness in the workplace.

PREMIUM INCOME

Annual premium for the year ended 31 March 2018 was \$1.454 billion, up 5.5 percent or \$76 million on premium income for the March 2017 year.

CLAIMS PAID

Total claims paid for the 12 months ending 31 March 2018 were \$1,207 million, up 5.4 percent – or \$62 million – on March 2017 year claims.

Annual claims paid have effectively doubled over the past decade, as people have accessed both a greater volume and a wider range of services and treatments through health insurance.

