



**HEALTH  
FUNDS**  
**ASSOCIATION**  
OF NEW ZEALAND

ANNUAL REVIEW 2017







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## HFANZ Board

(2016-2017)

In order from top, left to right:

**Geoff Annals**

**Accuro Health Insurance**

(Chairman)

**Dermot Martin**

**Union Medical Benefits Society Ltd (UniMed)**

**Peter Tynan**

**Southern Cross Health Society**

**Heather Verry**

**Police Health Plan Ltd**

**Nicola Cresswell**

**Sovereign Assurance Company Ltd**

**Our other members:**

**AIA New Zealand**

**Healthcare Plus**

**Manchester Unity Friendly Society**

**Associate member:**

**Accident Compensation Corporation**



**Geoff Annals  
Chairman**



## **Chairman's Report 2016 – 2017**

The 2016-2017 year has seen strong growth in the health insurance industry, the strongest we have seen since 2001. With the 2008 global financial crisis now well and truly behind us, New Zealand is experiencing a period of jobs growth, and with more vacancies available than skilled workers to fill them, it's a prime time for employers to offer incentives such as health insurance to attract staff.

Our statistics for the past year show a significant increase in the number of working age New Zealanders insuring their health, contributing to an almost 2 percent growth in the sector and its eighth straight quarter of growth. There are now 1.366 million lives covered, or about 29 percent of the overall population.

***"Employers are concerned about the wellness of their staff and see the enormous value in having them well looked after if they get sick."***

The resurgence in workplace health insurance plans is heartening. Employers are concerned about the wellness of their staff and see the enormous value in having them well looked after if they get sick. Health insurance enables them to seek treatment more promptly and be back to work sooner, thus maintaining productivity levels. The Health Funds Association has been at the forefront of promoting these plans and is working to increase numbers by lobbying for the removal of fringe benefit tax to make it more attractive to employers.

Health insurance has this year funded \$1.15 billion in healthcare – up \$100m on the previous year. This is a record level of elective surgery which illustrates the sizable and growing contribution private health insurance makes to New Zealand healthcare.

Demographic shifts and population growth are pointing to continued strong growth in both public and private spending on healthcare. New Zealand is fortunate to have access to high quality public and private healthcare systems which complement each other well.

With around 30 percent of New Zealanders covered by health insurance, this relieves a lot of pressure on the public system, especially in meeting demand for elective surgery and keeping waiting lists and times in check. More than that, it means that each year over 150,000 people are getting the certainty and timely access to treatment they need.



This year we have seen a renewed emphasis on long term healthcare funding. While HFANZ welcomed the Government's decisive move to raise the superannuation age of eligibility to 67, we have yet to see evidence of a plan to tackle the projected growth in public spending on healthcare and to mitigate the impact of this on the Government's books.

A refresh of the New Zealand Healthcare strategy has placed a lot of faith in the benefits from embracing new technology and innovation in healthcare. This is all well and good, although the incorporation of new technology in itself is unlikely to offset the cost pressures and demographic shifts underway. Nor will it alleviate the need for dramatic increases in the level of both public and private funding relative to GDP.

Treasury estimates that by 2060 public spending on healthcare will cost taxpayers 9.7 percent of GDP – up nearly 50 percent on current funding levels. Clearly the pressures on the public purse relating to healthcare funding are not going away anytime soon.



The time is right for a more planned approach as to how we make the best use of both public and private resources to get the best health outcomes we can. The private sector has the resources and capacity to be funding a significantly larger contribution to healthcare in the future if we can get the framework and incentives right.

By removing some of the disincentives and penalties in the system, private health insurance could play a bigger role and fund more procedures in the future. HFANZ will be turning its focus on leading this debate again in the coming year.

### **Organisational**

We have had a few changes in HFANZ's Board and member representation over the past year. I would like to acknowledge the invaluable contribution to HFANZ which Peter Tynan has made over past years as a board member. I also would like to acknowledge the contribution from Russell Foley over the years representing HFANZ member Healthcare Plus. Can I also thank the continuing board members 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.

**Geoff Annals  
Chairman**



**Roger Styles**  
**Chief Executive**



## **Chief Executive's Report 2016 – 2017**

The 2016-17 year has been another busy one for HFANZ, including a shift to new premises following the former offices at Deloitte House becoming uninhabitable after November's earthquake.

For the health insurance industry, the year has seen the strongest annual growth in lives covered for 15 years, with an additional 24,000 people covered by health insurance for the year ended 31 March 2017 - an increase of 1.8 percent. Much of the increase appears to come from higher employment levels together with increased interest from employers in offering group plans for their staff.

Research released early in 2016 by TDB Advisory pointed to clear productivity benefits of around \$100 million annually from the PHI industry in New Zealand (along with significant annual savings to the Government). 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.

***"It was disappointing that the refresh of the NZ Health strategy made no effort to address the future funding of healthcare in New Zealand – a much larger looming problem than the cost of superannuation."***

### **Industry statistics**

During the year HFANZ amended the industry data reporting to split out a third category of insurance – minor medical – and began reporting these numbers separately. Traditionally the reporting had only reported comprehensive vs major medical categories. The new 'minor medical' category represents lower cost policies with limited or no coverage for surgery, and accounts for around 50,000 lives covered – or just 3.5 percent of those with health insurance.

Staying with industry statistics, HFANZ also collected and released a regional breakdown of lives covered in June 2016. This showed the proportion of the population with health insurance cover for all New Zealand's regions – from a high of 33.5 percent in Auckland to a low of just 14 percent in Gisborne.

### **Health funding strategy**

While the Government set out moves to raise the age of eligibility for NZ Super to address the future cost burden, it

was disappointing that the refresh of the NZ Health strategy made no effort to address the future funding of healthcare in New Zealand – a much larger looming problem than the cost of super. In fact, the funding of future healthcare still appears to be an off-limits area for the Ministry of Health. This is bad for New Zealand, as failure to plan is a huge missed opportunity. We know from NZIER's 2014 report that smarter use of the private sector in health funding could significantly increase the future contribution to overall healthcare funding in New Zealand, with insurance potentially funding 10-15 percent of healthcare costs rather than the current 5 percent.

During the year I had the privilege of presenting at two important conferences – the Healthcare Congress in Auckland and the Private Health Insurance Summit in Sydney. The opportunities to make better use of private funding were a key focus of my presentation to the Healthcare Congress.



### **Organisational**

As noted above, some of the year's activities were more reactionary in nature due to the November earthquake and the need to find new office space. The earthquake saw Deloitte House occupants significantly impacted, with the building unable to be occupied – or even accessed – for some time. Fortunately, HFANZ was able to operate remotely and has subsequently moved to new leased premises in Resimac House.

While there was significant disruption to operational activities, it is pleasing to note that overall expenses for the year have been kept largely within budget.

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**



## Net impacts of private health insurance

During the year, HFANZ received a report on the net impacts of health insurance in New Zealand, carried out for the industry by Wellington consultancy TDB Advisory.

Unlike previous research projects which have sought to look at the impacts of particular policy initiatives, such as subsidies, this work provides a broader assessment of the net impacts of PHI in New Zealand, compared with the counterfactual (*i.e. what things would be like in the absence of health insurance*).

Despite very conservative assumptions, the report finds the existence of PHI results in significant net benefits for New Zealand. These include:

- △ An improved level of health coverage and outcomes;
- △ Productivity benefits equating to around \$100 million annually;
- △ Net positive fiscal impact of around \$0.4 billion annually.

It also discusses changes to the nature of health insurance over the past decade or so which have greatly reduced the extent to which PHI can be viewed as pro-consumptive. This has largely been the result of a shift from comprehensive policies to major medical policies.

This report provides a solid basis for further research and policy initiatives because it establishes that health insurance in New Zealand is a net-positive. The existence of health insurance saves taxpayers money rather than imposing costs – to the tune of nearly half a billion dollars a year.

It results in a significant boost to productivity for the New Zealand economy – at least \$100 million annually.

Above all, health insurance results in better health outcomes for New Zealand than would be the case without it.



## **Improving health outcomes**

Given there are such significant benefits from having just 28 percent of the population covered by health insurance, the question becomes what additional benefits are possible from increasing that 28 percent to some higher level, and what sort of policy initiatives might help.

HFANZ is following up the TDB Advisory research with a subsequent project exploring potential initiatives to boost overall health outcomes with a particular focus on raising levels of workplace-based health insurance and expanding the level of employer-funded PHI in New Zealand from current levels.





## Health Insurance Key Statistics 2016-17 Summary

During the 2016-17 year, there was growth of almost 24,000 lives covered by health insurance, marking 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.

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 a record increase in elective surgery volumes, which helped increase claims paid by almost \$100 million or 9.5 percent for the year. Premium income for the year ended March 2017 was up 6.3 percent on the previous year.

### Headline changes

- ▲ Lives covered up 23,800 or 1.8 percent for the year;
- ▲ Premium income of \$1.379 billion for year ended 31 March 2017, up \$82 million (6.3 percent) on March 2016 year;
- ▲ Claims paid for March 2017 year of \$1.150 billion up \$99.4 million (9.5 percent) on March 2016 year claims.

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

|                      | 2011-12  | 2012-13  | 2013-14  | 2014-15  | 2015-16  | 2016-17  |
|----------------------|----------|----------|----------|----------|----------|----------|
| Premium income (\$m) | \$1053.9 | \$1101.9 | \$1155.0 | \$1224.9 | \$1297.4 | \$1379.4 |
| Claims paid (\$m)    | \$844.5  | \$879.6  | \$962.4  | \$999.7  | \$1054.2 | \$1149.5 |
| Loss ratio           | 80.1%    | 79.8%    | 83.3%    | 81.6%    | 81.3%    | 83.3%    |

### ▲ Lives covered up 23,800 or 1.8 percent for the year;

Total lives covered as at 31 March 2017 stood at 1.366 million. On an annual basis, lives covered have increased by 23,800 or 1.8 percent for the year ending March 2017. This is the eighth straight quarter of growth in lives covered, and marks 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.

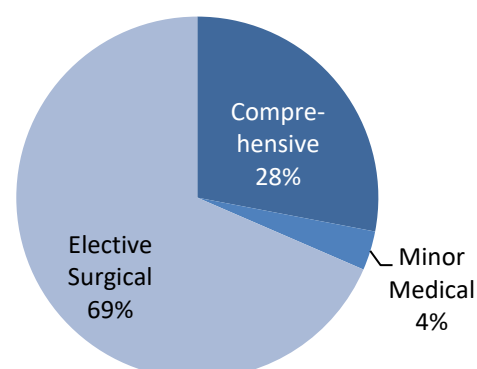
## Comprehensive, major medical and minor medical

For the first time this year, HFANZ started separating out data on minor medical policies – those policies with more limited cover, typically for day-to-day medical reimbursements, but with little or no cover for major surgery.

The data shows these policies form a low portion of overall health insurance numbers – around 48,000 lives covered or just 3.5 percent of the 1.366 million people with health insurance in New Zealand.

Elective surgical and specialist policies account for the overwhelming majority of health insurance policies with 68.3 percent of all lives covered.

**PHI: Lives Covered by Product Type: March 2017**



## 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.

**Table: Change in lives covered by Age: March 2017 year**

| Age           | Mar 2016         | Mar 2017         | Change        | Percent     |
|---------------|------------------|------------------|---------------|-------------|
| 0–4           | 60,074           | 61,008           | 934           | 1.6%        |
| 5–9           | 83,427           | 83,746           | 319           | 0.4%        |
| 10–14         | 82,918           | 84,667           | 1,749         | 2.1%        |
| 15–19         | 84,401           | 84,738           | 337           | 0.4%        |
| 20–24         | 76,789           | 77,320           | 531           | 0.7%        |
| 25–29         | 73,604           | 78,066           | 4,462         | 6.1%        |
| 30–34         | 85,781           | 89,622           | 3,841         | 4.5%        |
| 35–39         | 93,911           | 97,268           | 3,357         | 3.6%        |
| 40–44         | 110,139          | 109,257          | -882          | -0.8%       |
| 45–49         | 117,109          | 119,334          | 2,225         | 1.9%        |
| 50–54         | 118,925          | 118,417          | -508          | -0.4%       |
| 55–59         | 109,765          | 112,150          | 2,385         | 2.2%        |
| 60–64         | 90,921           | 91,712           | 791           | 0.9%        |
| 65–69         | 67,468           | 67,729           | 261           | 0.4%        |
| 70–74         | 39,045           | 40,758           | 1,713         | 4.4%        |
| 75–79         | 23,691           | 25,526           | 1,835         | 7.7%        |
| 80–84         | 13,235           | 13,418           | 183           | 1.4%        |
| 85–89         | 7,557            | 7,660            | 103           | 1.4%        |
| 90+           | 2,926            | 3,140            | 214           | 7.3%        |
| <b>Totals</b> | <b>1,341,686</b> | <b>1,365,536</b> | <b>23,850</b> | <b>1.8%</b> |

Of note is the significant increase of around 11,000 lives covered in the 25-39 age group – up by over four percent for the year. The stronger growth in the working age population with

health insurance comes amid renewed interest from employers in group health plans, and the benefits which flow from a greater focus on wellness in the workplace.

The annual growth in lives covered in the 65+ age group of around 4000 takes the total number of 65+ persons with health insurance to 158,000. Even with rising claims costs pushing up premiums with age, the increase in this age group shows a sizable portion of older New Zealanders continue to value their health insurance and the peace of mind it gives them.

### **▲ Premium income up 6.3 percent**

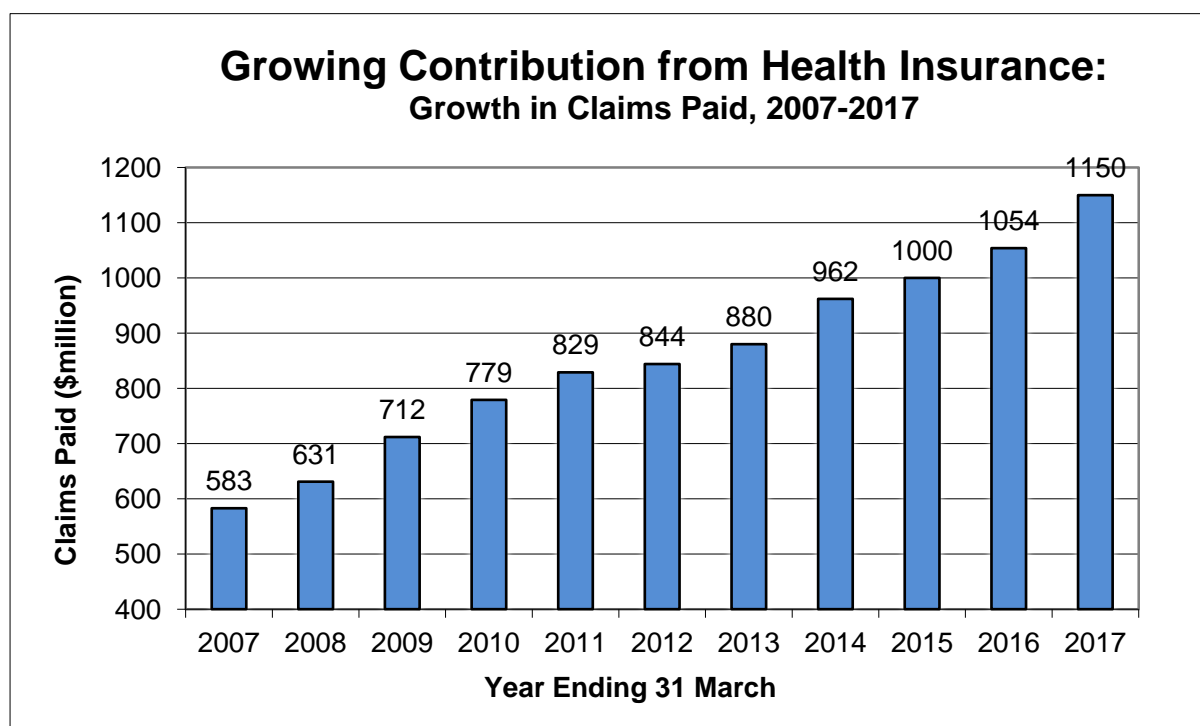
Premium income for the year ended 31 March 2017 was \$1.379 billion, up 6.3 percent or \$82m on premium income for the March 2016 year.

The rate of premium growth had slowed over recent years, although has increased slightly over the past year or two, with the return to growth in lives covered together with increased claims and cost of claims.

### **▲ Claims paid up 9.5 percent**

Claims paid for the 12 months ending 31 March 2017 were \$1.150 billion, up 9.5 percent on March 2016 year claims. The record increase of around \$100 million in claims for the year was largely due to a significant increase in the volume of elective surgery funded by health insurance over the year.

Claims for the March 2017 year at \$1.150 billion are double what they were a decade ago. This underpins the valuable contribution health insurance makes to healthcare funding in New Zealand.





## Regional snapshot of health insurance coverage

During the year, HFANZ surveyed members to establish a regional breakdown of the level of health insurance coverage in New Zealand.

The chart below sets out the percentage of the population covered by health insurance in different regions.

There is significant variation in coverage across the regions, with the highest coverage seen in the Auckland region. The other main urban regions of Canterbury and Wellington also show coverage levels above the average of 29 percent.

With the significant contribution to overall healthcare funding in New Zealand – in excess of \$1 billion annually – the variation in the level of coverage in different regions and DHB areas may have implications for future healthcare planning, funding and provision in the public sector.

