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MEDIA RELEASE – FOR IMMEDIATE USE

Warning over future health costs as health cover dips

A further dip in health insurance coverage has sparked a warning from the Health Funds Association (HFANZ) over the growing public/private imbalance in the health sector.

The number of New Zealanders with health insurance cover has decreased by 24,500, or 1.8 percent, in the year ended September 30, 2011, according to HFANZ figures released today.

Chief executive Roger Styles said the private share of total health spending had been slipping already over the last decade, and the recent developments should be of concern to policymakers.

“Perhaps as important as the retirement age debate is the question of funding future health care costs in New Zealand. The reality is that, in coming decades, people are going to have to pay a greater share of their health care costs than they do at present,” he said.

Mr Styles quoted OECD data showing New Zealand had slipped to below 20 percent private share of total health spending, well below the OECD average of 28 percent and even further behind Australia’s 33 percent.

“We appear to be moving in the opposite direction to everyone else on this. At some point, policymakers will need to confront the growing imbalance, and the longer the issue is put off the more painful the adjustment is likely to be,” he said.

“Redressing the imbalance will mean serious consideration of measures to lift the number of New Zealanders with health cover.”

HFANZ has recently advocated two low-cost measures to help in this regard – a rebate for health premiums for those aged over 65, and removal of fringe benefit tax on employer contributions to group health plans.

Mr Styles said health systems and funding were rapidly becoming major economic issues for many countries, and were likely to be a significant focus for ratings agencies in coming years.

The total number of New Zealanders with health insurance was now 1.36 million, or 31 percent of the population.

Premium income for the year ended September 30 totalled \$1.02 billion, with claims paid amounting to \$824 million for the year.

ENDS (Three-page statistical summary follows)

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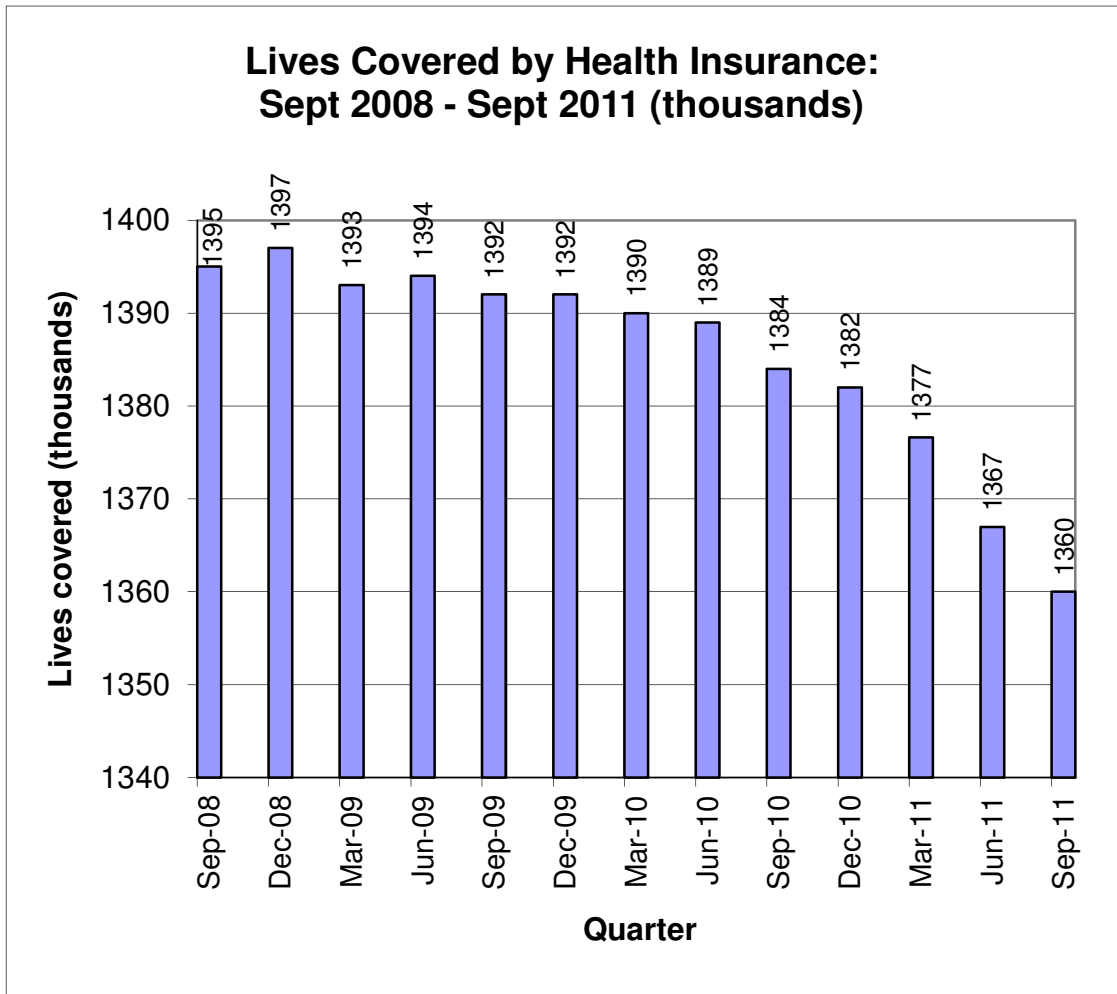
Health Insurance Statistics September 2011



This is a quarterly supplement providing statistical information for the health insurance industry in New Zealand. It contains data on the most recent quarter ended September 30, 2011.

➤ Lives covered fall 0.5 percent in September Quarter

The number of lives covered fell by 7000 (0.5 percent) in the September 2011 quarter, taking total lives covered to 1.360 million. This is a decrease of 24,500 (-1.8 percent) compared with September 2010.



The last three years from September 2008 to September 2011 has seen a decline of 35,000 lives covered, with overall lives covered down 37,000 from its recent peak in December 2008.

➤ **Trend to elective surgical cover**

The trend away from comprehensive health insurance towards elective surgical and specialist cover continues. The net 24,500 decrease in lives covered over the year represents a decrease of 9700 people with elective surgical and specialist cover and a reduction of 14,800 having comprehensive insurance policies.

Elective surgical and specialist cover now accounts for 913,300 of the 1.360 million lives covered, or 67.2 percent of those covered by health insurance. Comprehensive health insurance coverage accounts for just 446,300 lives covered, or 32.8 percent of policies.

➤ **Lives covered by age**

A breakdown of the lives covered by age group indicates the reductions have been spread across most age groups. The year has seen a significant reduction in lives covered among working age and children, suggesting a drop in the number of family health insurance policies. It is noted that the decline in coverage for those aged between 35 and 49 accounts for nearly half of the total reduction across all age groups.

At the same time, coverage for older age groups has declined, despite the demographic movements and increase in population in older age groups. The year saw a reduction of 2200 in the number of people aged 60 and over with health cover.

The table below shows the overall movements for the year for each five year age band.

Table: Lives Covered by Age group: September 2010 and September 2011

Age	Sep 2010	Sep 2011	Change	Percent
0-4	67,012	65,760	-1252	-1.9%
5-9	81,612	80,320	-1292	-1.6%
10-14	89,149	86,735	-2414	-2.7%
15-19	96,339	92,494	-3845	-4.0%
20-24	76,689	77,908	1219	1.6%
25-29	68,021	67,167	-854	-1.3%
30-34	80,548	79,819	-729	-0.9%
35-39	106,654	100,745	-5909	-5.5%
40-44	118,501	117,643	-858	-0.7%
45-49	127,211	123,137	-4074	-3.2%
50-54	122,792	122,284	-508	-0.4%
55-59	111,896	110,047	-1849	-1.7%
60-64	98,655	97,570	-1,085	-1.1%
65-69	58,505	58,397	-108	-0.2%
70-74	34,702	35,781	1079	3.1%
75-79	21,286	20,381	-905	-4.3%
80-84	15,318	14,061	-1257	-8.2%
85-89	7027	7001	-26	-0.4%
90+	2216	2345	129	5.8%
Totals	1,384,146	1,359,607	-24,539	-1.8%

➤ **Premiums paid up 8.6 percent**

Health insurance earned premiums in the September 2011 quarter were \$261 million, compared with \$255 million for the June 2011 quarter. Premium income for the full year ended September 30, 2011 totalled \$1020 million, an increase of \$81 million or 8.6 percent on the \$939 million in premium income for the September 2010 year. Increased premium income reflects adjustments following rapid growth in claims costs over recent years.

➤ **Claims paid up 0.7 percent**

Health insurance claims paid in the September 2011 quarter totalled \$221 million, taking claims paid in the 12 months to September 2011 to \$823 million. This is an increase of \$6 million or 0.7 percent on the total claims paid in the 12 months to September 2010. Growth in claims costs has been running at a high level over recent years due to increased demand, expansion of services funded, and medical inflation.

The 0.7 percent annualised claims growth is the lowest since March 2004 and continues a downward trend since claims cost growth peaked at 13.2 percent in the December 2008 quarter. While the decline in lives covered has influenced this, it appears that broader insurer measures to help address medical inflation are starting to have an impact.

