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MEDIA RELEASE – FOR IMMEDIATE USE

Slower growth in health insurance a warning for public hospitals: HFANZ

Deteriorating economic conditions slowed the growth of the health insurance sector in the June quarter, which could place more pressure on the public health system, according to the Health Funds Association (HFANZ).

Health insurers recorded an extra 1900 lives covered in the three months to June 30, 2008, bringing the total number of New Zealanders with health insurance to 1.39 million, HFANZ executive director Roger Styles said today.

In the 12 months to the end of June, a net 12,900 more people took out health insurance policies, representing just 0.9% growth on the June 2007 year. Mr Styles cited the current downturn in the economy as the main factor behind the slowdown.

“Most of that growth took place in the last half of 2007 rather than the first half of 2008. There are a lot of people feeling the pinch and this will be affecting both the numbers of new policies taken out and retention rates for existing policyholders,” he said.

“It is likely the industry is moving into a relatively flat period, with low or no growth in the number of lives covered.”

He said the last few years had seen sustained growth in the number of lives covered, as economic conditions were good, the population was increasing, and people were facing increasing difficulties in accessing elective surgery in public hospitals.

“That final point is important. The fact that health insurance coverage is still growing at a time when the economy is in recession shows just how bad the situation with elective surgery has got in the public sector,” Mr Styles said.

“Those with health insurance are actually doing an amazing job relieving pressure from the public system, with the private sector funding around 60% of elective surgery.”

Most new policies were specifically for elective surgery rather than comprehensive coverage, while the trend for growth continued in the June year in the number of those aged under five, 20-29 and 60-64 getting health insurance.

Claims paid in the last year jumped 11.6% to \$657 million. Mr Styles said the tightening up of access to elective surgery in the public sector was a big factor, along with an increase in the costs of treatment and the advanced technology being used in private hospitals.

“The public sector is creaking at the seams and cannot cope with current needs, let alone projected growth in need. If health insurance growth slows or dips slightly, the pressure on public hospitals is going to get much, much worse,” Mr Styles said.

ENDS. (Three-page statistical summary attached.)

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Health Insurance Statistics June 2008

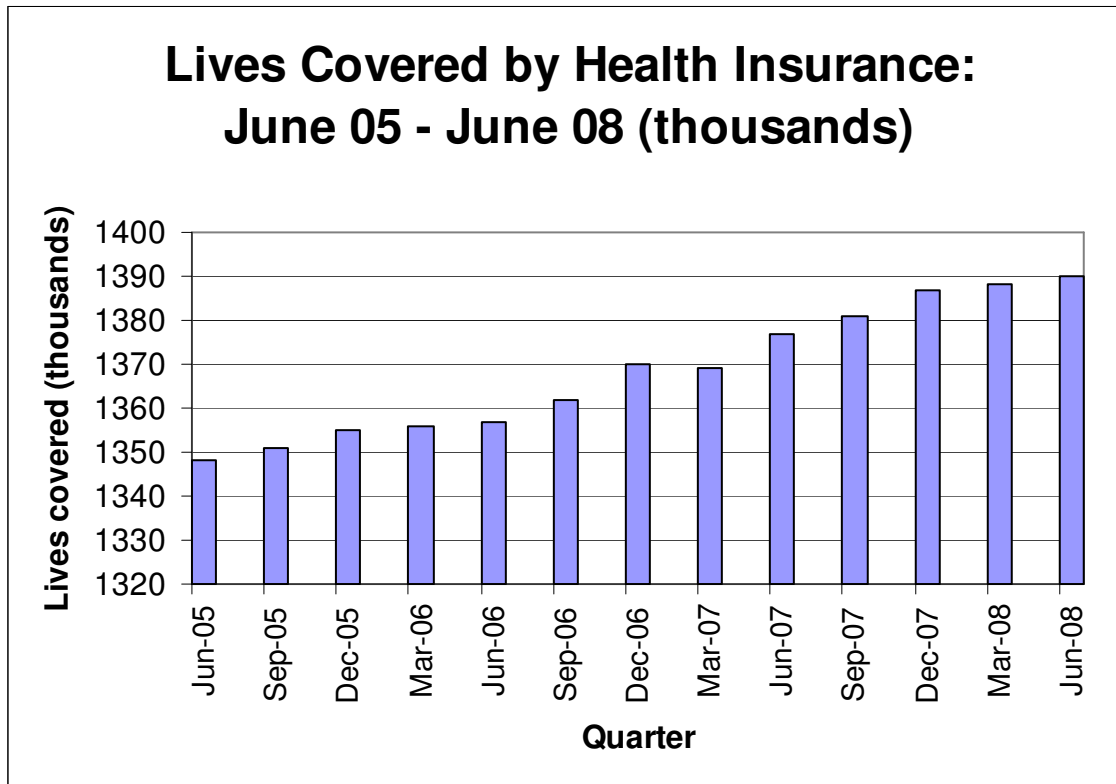


This is a quarterly supplement providing statistical information for the health insurance industry in New Zealand. It contains data on the most recent quarter ended June 30, 2008.

➤ Lives covered up 0.1% in June Quarter

The number of lives covered continues to increase, although at a far slower rate than observed in recent years. In the three months to June 30, 2008, health insurers reported a net increase in the number of lives covered of 1900 (0.1%) taking the total lives covered to 1.390 million. The 12 month increase of 12,900 represents a 0.9% increase from June 2007.

Most of the annual increase occurred in the first half of the year (July 2007 – December 2007). The rate of growth has slowed down significantly in 2008 as economic conditions have deteriorated. A significant driver of increased coverage in recent years has been the tightening of access to surgery in public hospitals. It now appears as if this is being offset by the impact of the economy moving into a recessionary phase.

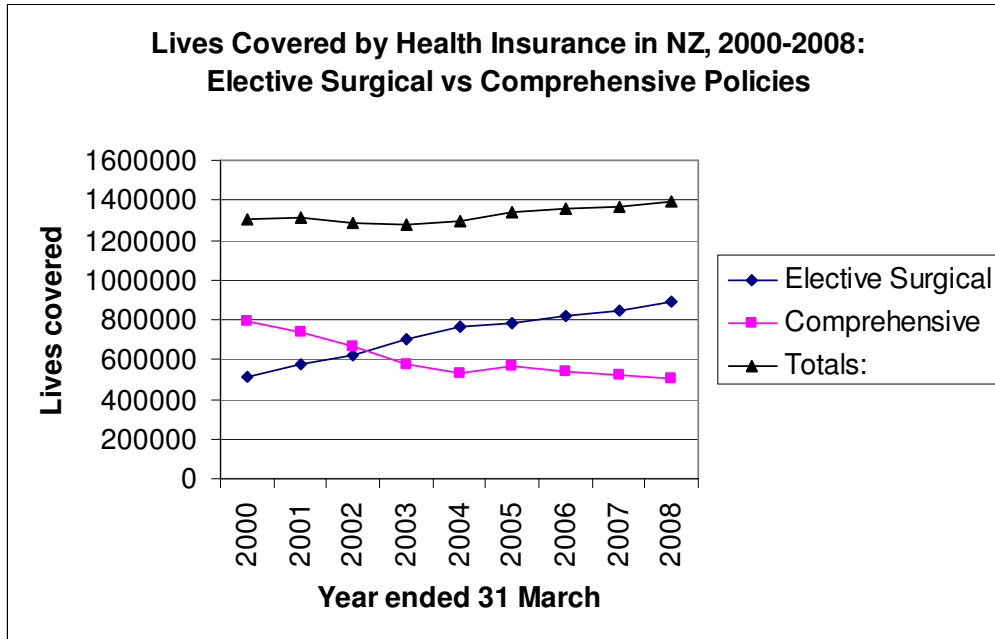


The total growth in lives covered over the three years from June 2005 to June 2008 is 48,000.

➤ **Trend to elective surgical cover**

The trend away from comprehensive policies and towards major medical insurance continues. The net 1900 increase in lives covered represents an increase of 4900 people with elective surgical and specialist cover and a reduction of 3000 having comprehensive insurance policies.

Elective surgical and specialist cover now accounts for 888,800 of the 1.389 million lives covered, or 64.0% of those covered by health insurance. Comprehensive health insurance accounts for just 500,600 lives covered, or 36.0% of policies.



➤ **Lives covered by age**

A breakdown of the lives covered by age group shows significant net gains in the number of lives covered for several age groups in the June year:

- Aged under 5: up 2800 (+4.6%);
- Aged 20-24: up 3300 (+4.7%);
- Aged 25-29: up 2000 (+3.1%).
- Aged 60-64: up 6300 (+7.2%);

However, it is noticeable that despite the aging population, the growth in lives covered for those aged over 65 was less marked than expected, with the 75-79 age group experiencing a reduction in lives covered.

- Aged 65-69: up 1100 (+1.9%);
- Aged 70-74: up 900 (+2.8%);
- Aged 75-79: down 200 (-0.8 %);
- Aged 80-84: up 300 (+1.8%);

➤ **Claims paid up 11.6%**

Health insurance claims paid in the June quarter totalled \$182 million, taking claims paid in the 12 months to June 2008 to \$657 million. This is an increase of \$68 million or 11.6% on the total claims paid in the 12 months to June 2007. The increase is attributable to both an increase in the number of claims and an increase in the costs of treatment.

Many factors contribute to rising claims costs. There are more treatments being performed, together with significant inflation in the broader health sector. In addition, there is a faster adoption of new technology in the private sector, particularly in the area of orthopaedics.

In addition to this, recent years have seen utilisation rates increase, as access to surgery in the public sector has been tightened significantly.

