



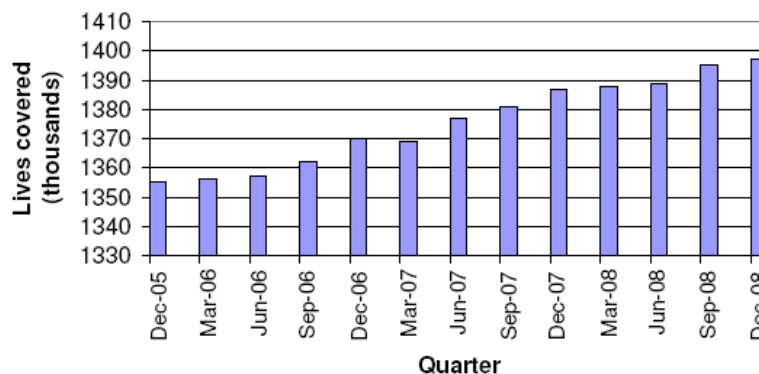
27 people a day taking out new health insurance policies

About 27 New Zealanders a day took out new health insurance policies in 2008, according to figures released by the Health Funds Association (HFANZ).

Health insurers recorded an extra 9700 lives covered in 2008, an increase of 0.7 percent on 2007, bringing the total number of New Zealanders with health insurance to 1.397 million, HFANZ executive director Roger Styles said.

In the three months to December 31, 2008, an additional 1700 health insurance policies were taken out, up 0.1 percent on the September 2008 quarter, despite expectations of a reasonably flat quarter because of the recession.

**Lives Covered by Health Insurance:
December 05 - December 08
(thousands)**



Claims paid in the last year jumped 13.1 percent to \$696 million, an increase of \$81 million on 2007. Claims paid in the December 2008 quarter were \$180 million, down slightly on the September 2008 quarter but up significantly on the \$160 million paid in the December 2007 quarter.

Mr Styles said these costs reflected the greater amount of elective surgery being carried out by the private sector and increasing healthcare costs. With the bulk of claims relating to elective surgery, he said this represented a saving to the public sector of around half a billion dollars annually.

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The National Business Review recently asked Roger's opinion about health insurance in the recession. This column appeared in NBR on February 27.



Roger Styles

Despite spending the whole year in recession, with falling investment returns, volatile consumer prices, and a deteriorating employment outlook, statistics released this week show the number of New Zealanders covered by health insurance has actually increased – by nearly 10,000 in 2008. While most sectors are seeing a downturn, health insurance has become more popular because, paradoxically, in uncertain economic times it actually becomes more important. Health insurance can be seen as discretionary spending, in that households can choose whether or not to have cover. However, unlike other forms of discretionary spending, it is not something which people readily cut back on in uncertain times.

By the end of last year 1.397 million New Zealanders had health insurance, up 0.7 percent on December 2007. However, coverage for those over 65 remains well below average, just at the age when people begin to need health services more. Although nearly 50 percent of those aged 55-59 have medical cover, the level of coverage post-65 is just 25 percent, and could slide even further.

One potential unforeseen impact of measures to tackle the recession is the impact that lower interest rates will have on the discretionary income of retirees. Lower interest rates may be good news for those with mortgages, but for those supplementing NZ Super with interest on savings, they are facing cuts to their incomes over the next year. Of all the factors which are likely to impact on health insurance coverage in 2009, this is potentially the most significant negative factor, which could see thousands of retirees return to the public sector for treatment, blowing out waiting lists and times.

Once people drop their health insurance, it is difficult or near impossible to reinstate on similar terms. Attempting to take out a new policy after age 65 will mean pre-existing conditions and ailments are not covered. So even if the economy picks up, the investment returns of older New Zealanders improve and they all resume health insurance, it is likely the public sector will still be left with a significantly higher volume of elective surgery demand than beforehand. Those who continue with insurance might also opt to wait rather than pay an excess or co-payment.

It may be time to dust off those proposals for a rebate for those aged 65 and over. The Health Funds Association supported calls last year for a rebate for those in this older age group who retain their health insurance, and we will continue to work with the new Government to make this happen. While National's proposal for a 30 percent rebate was dropped from its final health policy in the wake of the country's declining fiscal position, this could easily move from a case of "can't afford to have it" to one of "can't afford not to have it".

Health insurance is mainly taken out by individuals and families who value the peace of mind gained from having prompt access to elective surgery in the event that they need it. The alternative to maintaining health insurance – for those who value prompt treatment – is to pay the full costs of treatment out of pocket. This is not an easy task, with the cost of a joint replacement being up to \$20,000 and more costly procedures such as heart surgery being in excess of \$50,000.

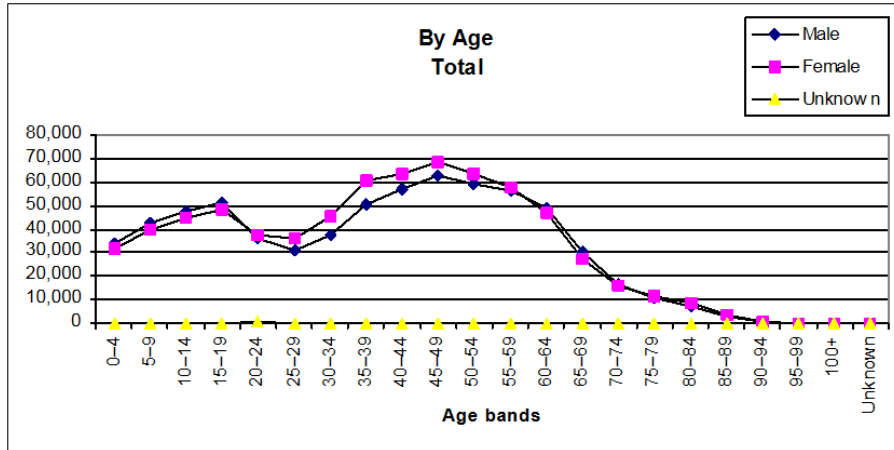
In uncertain economic times, the prospect of readily funding such sums becomes even more daunting, with falling house values, deteriorating investment returns and reduced job security. The problem is compounded because people also have no idea when in the future they are likely to need to meet such costs. Making a judgment call today about whether you will be in a financial position to pay medical bills in two, three or five years' time is fraught with difficulty as there are so many uncertainties.

Last month a Southern Cross Medical Care Society survey found 73 percent of adults in this country would not be able to afford elective surgery costing \$5000 or more. More than half of them would be forced to rely on loans from financial institutions, while a further 16 percent would have to borrow the money from family or friends. The survey found 28 percent of people could rely on savings, but many would only be able to partially fund the surgery and would still have to rely on some level of borrowing.

Nearly one in four New Zealanders (23 percent) simply could not fund it at all, the survey found, and would have to rely solely on the public system.

Health insurance more important in recession

Lives Covered at End of Period *Quarter ended 31 December 2008*



(...Continued from Page 2)

These findings suggest New Zealanders are generally not in a position to fund extraordinary treatment costs out of pocket, and hence health insurance is the only viable option for those who value prompt treatment, especially for elective surgery. Employers who provide subsidised workplace health insurance schemes are doing the country a great service. A healthy workforce benefits the economy all round, and there is evidence these schemes are remaining popular even when times are tough, because employers recognise their value in ensuring workplace continuity and competitive remuneration packages for experienced staff.

In New Zealand, around \$300 million is spent annually on group health insurance schemes, providing coverage for around 620,000 New Zealanders. A 2005 Southern Cross survey found an insured worker with an illness requiring surgery took on average 14 days off work because of the illness compared with 48 days off work for those without insurance. The main factor behind this was the waiting time for treatment in the public system.

During the election campaign last year it was revealed the average waiting time for elective surgery in public hospitals was 75 days, and last week Health Minister Tony Ryall said waiting lists had been manipulated in recent years to hide a growing crisis. The new Government has vowed to increase the use of private services to help reduce waiting lists. This is welcome news, and recognises the importance of taking a balanced approach. The new elective surgery "supercentres" announced this week are needed but will take time to become fully functioning.

The private sector already funds around 60 percent of elective surgery, so people with health insurance are relieving significant pressure from the public system – to the tune of around half a billion dollars annually. Though the public system is stretched at present, it could simply not cope in the absence of health insurance.



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Health Minister Ryall sets direction during first 100 days in office

Health Minister Tony Ryall and the new Government have made a “fantastic start”, according to HFANZ executive director Roger Styles.

“Mr Ryall has a clear understanding of the issues, and has exposed the true state of hospital waiting lists and the increasing health need for elective surgery.”

The Government has announced it plans to build 20 new operating theatres and hire an extra 800 hospital staff to help tackle elective surgical waiting lists.



Mr Styles said that while extra public hospital theatres were part of the mix, the Government also needed to engage the private sector and use capacity which already existed. Currently there are about 150 operating theatres in private hospitals completing around 150,000 elective surgical procedures a year.

“It will be three to four years before the new public theatres are in use, but there is unmet need now, and elective demand is growing,” he said.

Policy measures to stimulate health insurance coverage are part of working towards a balanced health sector. Mr Styles said two potential areas for renewed focus were helping health insurance affordability for older people, and workplace-based health insurance schemes.

Mr Styles welcomed Mr Ryall’s recent announcement of a “public-private relationship desk” at the Ministry of Health to facilitate better services through greater communication with the private sector. A similar model exists in Australia.

“This would take the first step to formally recognise the role and contribution of the private sector at Ministry level. Good things will come of it,” Mr Styles said.

Obama’s fiscal stimulus package includes health insurance boost

United States President Barack Obama's fiscal stimulus package includes massive healthcare insurance reforms, including universal coverage and reduced premiums.

Part of the stimulus bill, signed into law last month, included significant subsidies to help more people afford to keep employer-based coverage once they lose their jobs.

Last month President Obama also signed a bill extending health insurance to millions of low-income children.

The programme is intended for children in families that earn too much to qualify for Medicaid but too little to afford private health insurance.

The bill would enable states to cover more than four million uninsured children by 2013, while continuing coverage for seven million youngsters. Tobacco taxes would be increased to offset the increase in spending, estimated at more than \$32 billion over four and a half years.

While funding such policies presents challenges, it is important to note fiscal stimulus packages need not be limited to infrastructure.



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