HEALTH FUNDS ASSOCIATION OF NEW ZEALAND
Cover Stories
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PREFUs, projections and assumptions: How can historic health spending trends be sustainable?

The pre-election fiscal update is intended to be an opening of the books before the end of the Government's term in office, in order to show what the future holds. Most of the commentary has focused on the forecast revenue and expenses for the next four years to 2016.

By CEO Roger Styles

This is of some interest from a health perspective, as the provision for new spending over the next four years averages just $1 billion per year – around 1.4 percent of total spending. The bulk of this will likely be required in the health sector alone. (The average annual increase in health spending over the last decade was $0.8 billion). So keeping within the new spending envelope will be challenging to say the least.

Meanwhile, the medium-term projections appear of limited value, with the startling revelation that that if government expenses grow at 2 percent per annum while the economy (and tax) grow at 4 percent a year then the fiscal outlook looks OK.

Sadly, there has been precious little debate on the longer term projections – in particular the validity of the assumptions and modelling which underpin the projections, and the implications in terms of longer term sustainability of current policies.

The long term outlook & historic trends

Notably, the PREFU did not provide a detailed update of the longer term projections in Treasury's 2009 long term fiscal outlook, although the 40-year debt outlook appears to have improved markedly for the 'historic trends' scenario since the 2009 outlook projected debt soaring to 223 percent of GDP by 2050.

The 'historic trends' scenario now points to debt climbing to around 50 percent of GDP by 2055. This is a dramatic turnaround – almost $400 billion in today's terms. But have historic trends changed that much in two short years?

To better understand, you need to delve into the assumptions and workings of the long term fiscal model. The long term projections for the 'historic trends' scenario are based on recent figures – funnily enough including the forecasts for the next four years. Because the plan is for the next four years to be a period of restraint, these forecasts form part of the historical trends formula, despite not having yet eventuated. Roll this 'trend' forward 40 years and the debt situation doesn't look nearly as bad.

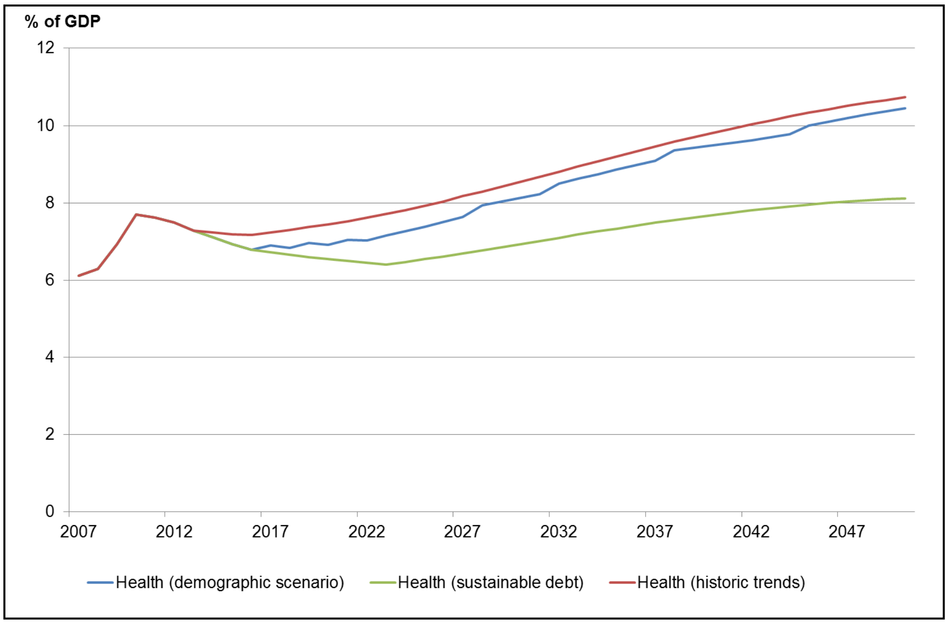
The only problem with this approach is it is not particularly realistic. It actually papers over the true historic trends and downplays the severe pressures which are building due to present policy settings – most notably in health and NZ super – as highlighted in the 2009 Treasury document.

Hopefully the 2012 update will provide the chance to rekindle public debate on these important issues. This is a critical document for assessing the longer term policy changes we need to be making as a country and deserves widespread attention and debate.

(continued on Page 2)

Inside this issue:

(PREFUs continued from p1)



Blowout areas for Government spending

The 2009 long term fiscal outlook showed three big blowout areas from a continuation of present policy settings: NZ super, health spending and debt servicing (the latter due to the first two).

In recent years, New Zealand has had higher than the OECD average growth in public health spending, but lower than average growth in GDP *(Note: the PREFU's medium term projections assume the opposite for the next 14 years).*

My focus here is on the health projections (although similar conclusions can be drawn about the long term sustainability of present NZ super policies).

Treasury's 2009 long term fiscal model charted several projections. Under both the historic trends and demographic projection scenarios, health costs rise from today's 7 percent of GDP to 11 percent of GDP in 2050. Only the sustainable debt scenario shows a more modest rise – to just over 8 percent. We might alternatively call this the fiscal reality scenario – as the others involve debt ballooning to over 200 percent of GDP, and the ratings agencies would have insisted on strict policy measures long before then.

The $6 billion health funding gap

If only finding solutions was as easy as constructing a model. The sustainable debt scenario merely assumes a way has been found of keeping the increases in health spending under the rate of inflation every year for 40 years (never mind it hasn't been done once in the last decade).

The model is less informative as to how this might be done. Let's start with the gap in 2050 between the level of government spending under the scenarios – about 3 percent of GDP. In present terms, that equates to around $6 billion, or around $1400 per annum for every person in New Zealand.

Given that total health costs are likely to keep increasing over the next 40 years, if the amount of public spending is reduced, then the private share must inevitably increase. This means the 'gap' of $6 billion represents the amount that people will have to fund privately – either out of pocket or through health insurance – on top of what they already pay.

New Zealand private spending on health is currently 20 percent of total health expenditures. The OECD average is closer to 30 percent. The $6 billion shift from public to private outlined above would take New Zealand to around 35 percent private – not too dissimilar from where Australia is currently. Regardless of the scenario, it is clear that a massive rebalancing of our health system will take place in coming decades.

Luckily, New Zealand has room to move and time to make policy choices, although that time is running out. As Treasury rightly points out in their outlook, it is better to debate the policy choices sooner rather than later.

ELECTION 2011: UNITEDFUTURE HEALTH POLICY WELCOMED

UnitedFuture's health policy recognises the contribution the private sector makes to providing for New Zealand's healthcare needs, says Health Funds Association chief executive Roger Styles.

Their proposal of introducing tax concessions for those who take out health insurance was commonplace in many countries and would need to be considered if New Zealand was serious about having a balanced health sector in 20 years' time, Mr Styles said.

The initial focus on those aged 65 and over was sensible, and had been promoted in recent years by HFANZ.

In the last year, health insurers funded more than $800 million in claims – mainly for elective surgery – and saved the public sector hundreds of millions of dollars in the process.

UnitedFuture's health policy is available at:

http://www.unitedfuture.org.nz/health/

AUSTRALIAN PETITION TO SAVE HEALTH INSURANCE REBATE

Private Healthcare Australia (PHA) has attracted more than 104,000 signatures on its current petition against proposed means testing of the rebate Australians receive on their health insurance premiums.

The PHA, formerly known as the Australian Health Insurance Association, said that in the 2011 Australian Budget, the Gillard government confirmed its plans to push ahead with a 2009 Budget measure proposing that the 30 percent rebate on premiums paid by private health insurance holders would be subject to a means test.

The proposed policy change introduced three 'Private Health Insurance Incentive Tiers' based on income thresholds.

The PHA said it was meant to target the rich, but a new report had shown that as health fund members dropped or downgraded their cover, health insurance would become more expensive for everyone.

Watch the PHA campaign ad on You Tube:

http://www.youtube.com/watch?feature=player_embedded&v=0C9SF-Yoy40#!

HEALTH FUNDS ASSOCIATION OF NEW ZEALAND

Street address

Level 5
Deloitte House
10 Brandon Street
Wellington

Postal address

PO Box 25161
Wellington 6146

Telephone 04 499 0834

Facsimile 04 499 0813

Chief Executive

Roger Styles

roger@healthfunds.org.nz

Mobile 027 480 0072

Office Manager

Sharon Cossar

sharon.cossar@healthfunds.org.nz

Media Advisor

Andrea McKay

andrea@healthfunds.org.nz

Mobile 027 555 7783

General Inquiries

admin@healthfunds.org.nz

Check out our website:

www.healthfunds.org.nz

Contact us

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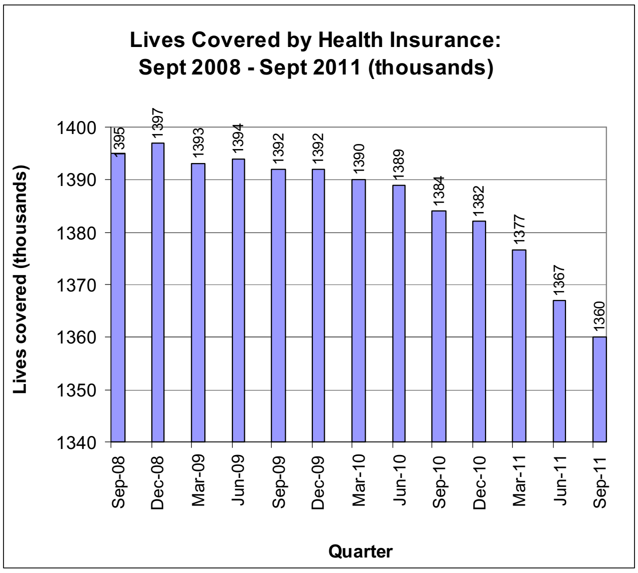
Health Insurance News

Warning over future health costs as insurance cover dips



A further dip in health insurance coverage has sparked a warning from 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 the latest figures.

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.

Read our latest brochure “Making sense of health insurance”.
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www.healthfunds.org.nz

or you can order a copy by e-mailing your details to:
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