

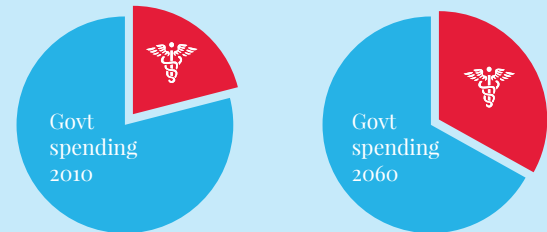
New Zealand's increasing healthcare expenditure is a long-term problem, compounded by our ageing population

For some time it has been recognised that health expenditure is increasing at a faster pace than GDP.¹

Treasury has predicted that health spending will increase from 6.8 percent of GDP in 2010 to 11.1 percent of GDP by 2060.²

Vote Health now amounts to 20 percent of core Crown expenditure,³ accounting for 80.1 percent of the total health expenditure in New Zealand, with 19.9 percent being privately financed, mostly through private health insurance.⁴

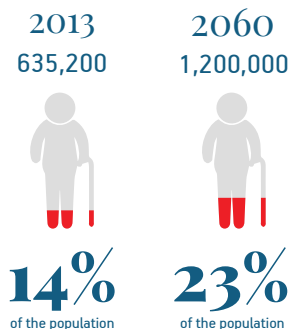
Health expenditure as a percentage of total government expenditure is steadily increasing.⁵



Older bodies need more healthcare than younger bodies

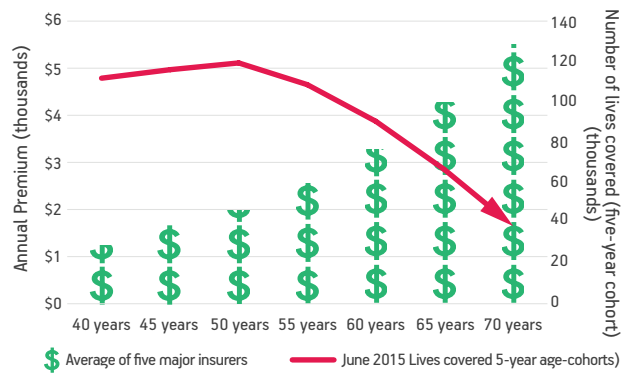
Older New Zealanders' high use of public hospitals is partly due to the rapid drop-off in health insurance as people age.⁶

The number of New Zealanders aged 65+ has doubled since the mid-1980s and is predicted to double again in the next 20 years.^{7,8}



The 14 percent of New Zealanders aged 65+ accounted for over 30 percent of admissions and procedures in our public hospitals during 2012/13.⁹

With age, premiums increase and number of lives covered falls¹⁰



The private health industry has an important part to play in rebalancing New Zealand's health expenditure

¹ Ministerial Review Group (2009) *Meeting the Challenge: Enhancing sustainability and the patient and consumer experience within the current legislative framework for health and disability services in New Zealand*, Report of the Ministerial Review Group, 31 July 2009, Available online: <http://www.beehive.govt.nz/sites/all/files/MRG%20Report%20Meeting%20the%20Challenge.pdf> accessed 4 September 2015

² New Zealand Treasury (2012) *Health Projections and Policy Options for the 2013 Long-term Fiscal Statement: Draft paper for the long-term fiscal external panel*, The Treasury, Wellington

³ New Zealand Treasury (2012) *Health Projections and Policy Options for the 2013 Long-term Fiscal Statement: Draft paper for the long-term fiscal external panel*, The Treasury, Wellington

⁴ Social Protection © OECD, http://stats.oecd.org/Index.aspx?DataSetCode=HEALTH_PROT, accessed 10 September 2015

⁵ New Zealand Treasury (2012) *Health Projections and Policy Options for the 2013 Long-term Fiscal Statement: Draft paper for the long-term fiscal external panel*, The Treasury, Wellington

⁶ Ministry of Health (2012) *Health Expenditure Trends in New Zealand 2000 – 2010*, HP5215, Ministry of Health, Wellington

⁷ Office for Senior Citizens (2013) *Older New Zealanders: Healthy, independent, connected and respected*, Ministry of Social Development, Wellington

⁸ Statistics New Zealand (2011) *National Population Projections 2011 (base) to 2061, median projection*, July 2012, Statistics New Zealand, Wellington

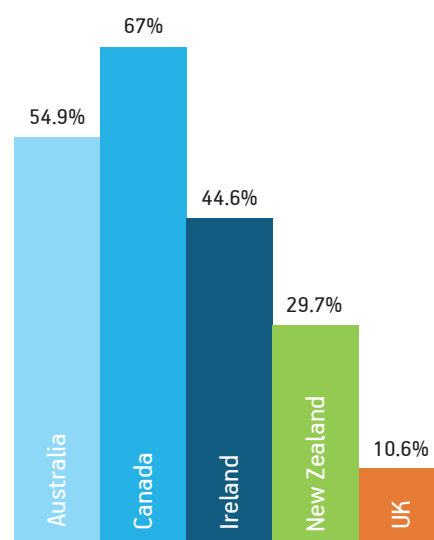
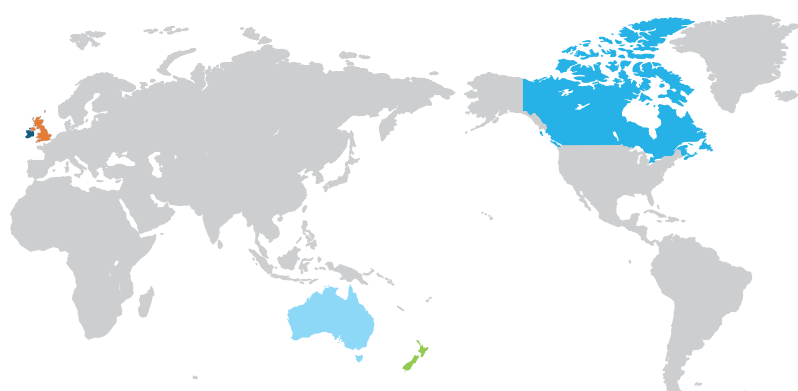
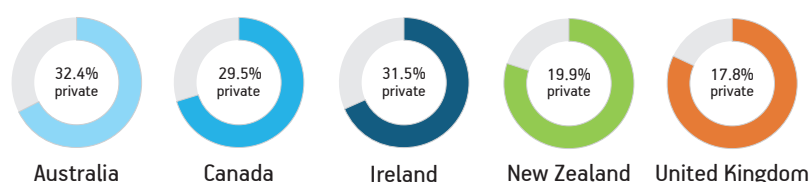
⁹ Ministry of Health (2015) *Publicly funded hospital discharges - 1 July 2012 to 30 June 2013*, <http://www.health.govt.nz/publication/publicly-funded-hospital-discharges-1-july-2012-30-june-2013>, last updated 15 August 2015, accessed 4 September 2015

¹⁰ The data shown as 'lives covered by cohort' was accessed from the Health Funds Association New Zealand, using data available from their website: www.healthfunds.org.nz accessed 4 September 2015. We used an online calculator to determine annual health insurance premiums. The scenario we used was for a non-smoking couple of the same age, with no dependent children and no pre-existing conditions, buying basic hospital and surgical cover with a \$500 excess. It is possible, however, that the premium paid for a new policy as a 55 year old couple may differ to the premium paid by a 55 year old couple who have held private health insurance with the same company for a number of years. The online calculator we used is available at: http://www.lifedirect.co.nz/health-insurance/default_compare.aspx accessed 4 September 2015

We are not alone:

The need to manage increasing health expenditure compounded with an ageing population is a common experience in countries similar to New Zealand

Private health expenditure as a share of total health expenditure (2012)¹¹



Percentage of population who had some degree of private health coverage in 2013¹²

	Australia	Canada	Ireland	New Zealand	United Kingdom
Government incentives to carry private health insurance	✓ Tax Rebate ✓ Levy penalty for non-compliance ¹³	✓ 15% tax rebate (capped) ¹⁴	✓ 20% tax rebate ⁵		
Disincentives to carrying private health insurance				✗ FBT paid on employer contributions	✗ Tax paid on health insurance ¹⁶
Private Health Insurance model	✓ Community-rated ¹⁷	✓ Community-rated ¹⁸	✓ Community-rated ¹⁹	✗ Private risk-rated	✗ Private risk-rated ²⁰

The OECD has described different models of private health insurance:

- Community-rated health insurance: where insurers cannot vary premiums within a geographic area on the basis of age, gender, health status, etc.
- Private risk-rated health insurance: where insurers apply risk-related premiums, by taking into account the personal attributes of the insured, such as age, gender, and their health status, which may include things such as smoking. This means older people pay higher premiums.

¹¹ Social Protection © OECD, http://stats.oecd.org/Index.aspx?DataSetCode=HEALTH_PROT, accessed 10 September 2015

¹² Social Protection © OECD, http://stats.oecd.org/Index.aspx?DataSetCode=HEALTH_PROT, accessed 10 September 2015

¹³ In Australia there is a matrix of rebates and levies that vary according to both age and income. See: <http://www.privatehealth.gov.au/healthinsurance/incentivessurcharges/insurancerebate.htm> accessed 10 September 2015

¹⁴ In Canada private health insurance is included in a comprehensive list of 'Medical Expenses' that qualify toward an annual tax rebate of 15% (capped at \$2208). See: <http://www.taxplanningguide.ca/tax-planning-guide/section-2-individuals/medical-expenses/> accessed 10 September 2015

¹⁵ In Ireland tax relief on private health insurance is handled in several ways, according to the policy type (group, personal, paid personally, paid on behalf, etc) with an effective tax relief rate of 20%. See: <http://www.revenue.ie/en/tax/it/reliefs/medical-insurance.html> accessed 10 September 2015

¹⁶ In the UK additional taxes are paid by employers and employees for the provision of medical insurance, but there is a list of exemptions that incentivise assisting low-paid employees. See: <https://www.gov.uk/tax-company-benefits/other-company-benefits-youll-pay-tax-on> accessed 10 September 2015

¹⁷ Turner, B, Shinnick, E (2011) *The Effect of Community Rated Private Health Insurance on the Irish Public Hospital System*, Working Paper # 11-02, Department of Economics, University College Cork, Working Paper Series

¹⁸ In the absence of any evidence to the contrary coupled with tacit suggestions to the affirmative, it is assumed that private health insurance providers in Canada use a community-rated model.

¹⁹ In the absence of any evidence to the contrary coupled with tacit suggestions to the affirmative, it is assumed that private health insurance providers in Ireland use a community-rated model.

²⁰ In the absence of any evidence to the contrary coupled with tacit suggestions to the affirmative, it is assumed that private health insurance providers in the United Kingdom use a private risk-rated model.

The Affordable Healthcare Bill is one way to begin rebalancing our national health expenditure

Most New Zealanders (76 percent) agree that people who can afford to contribute to their own healthcare costs should be encouraged to do so.²¹ This suggests that many New Zealanders consider population health will be enhanced when direct social services can be readily accessed by the most vulnerable amongst us.

One way to encourage personal contribution to healthcare costs is to incentivise private health insurance.

PROVIDE a 25 percent rebate on private health insurance (capped at \$500pa) to people aged 65+



20,000 people retaining their health insurance amounts to 8,400 additional elective surgeries each year in private rather than public hospitals.²²

It has been estimated that such a rebate would cost the Government \$70m pa.²³

REMOVE fringe benefit tax from employer contributions to private health insurance



Almost 60 percent of organisations that do not presently provide private health insurance to their employees would consider doing so if FBT were removed.²⁴

It has been estimated that the removal of FBT would cost the Government \$50m pa.²⁵

REQUIRE Parent Category immigrants to have private health insurance and retain it for ten years



There is a small number of people (~5700 annually) who arrive in New Zealand under the Parent Category, joining family members who have already migrated to New Zealand. Parent Category immigrants have relatively good financial security, and they are known to be in good health upon arrival.²⁶ Nevertheless, it is estimated that requiring this group to have private health insurance for the first ten years they are in New Zealand would save the Government \$500m over ten years.²⁷

²¹ Health Funds Association of New Zealand (2014) *Public reject Treasury proposals for cutting public health costs*, in Cover Stories: Health Insurance News, Vol 8:1 p2, <http://www.healthfunds.org.nz/pdf/cover-storiesFeb2014.pdf> accessed 4 September 2015

²² Health Funds Association of New Zealand (2015) *Summary Paper: Health Insurance Rebate for those aged 65+*

²³ Health Funds Association of New Zealand (2015) *Summary Paper: Health Insurance Rebate for those aged 65+*

²⁴ Southern Cross and Business New Zealand (2015) *Wellness in the Workplace: Survey Report 2015*, www.businessnz.org.nz/_data/assets/pdf_file/0013/108400/Wellness-in-the-Workplace-Survey-Report-2015.pdf accessed 1 September 2015

²⁵ Health Funds Association of New Zealand (2015) *Removal of FBT key to improved wellness in the workplace Media Release*, 31 August

²⁶ Immigration New Zealand Operational Manual, Section F4 Parent Category, <http://www.immigration.govt.nz/opsmanual/> accessed 1 September 2015

²⁷ Health Funds Association of New Zealand (2015) *Summary Paper: Parent Migrants*

Where to from here?

It is time for a conversation.

The private health industry can be a productive partner in our nation's efforts to address the long-term problem of increasing healthcare expenditure coupled with our ageing population.

We propose a joint government and industry group be established to explore options for supporting private health insurance amongst those who can afford it.

In the meantime, we recommend that Parliament advance the Affordable Healthcare Bill to Select Committee – this is a good place to start the conversation.



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