

# Future Pathways

Fresh perspectives from actuaries of the future

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Fresh perspectives from actuaries of the future

## Protecting Your Most Important Asset

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# Agenda

- Accident insurance in NZ under ACC
  - how to ensure this is fair and reasonable
- Private health insurance in NZ
  - current state of public health insurance market in NZ
  - the role of public health & ACC
  - what we need to know about health insurance
  - designing products for affordability

# Background

ACC is a statutory monopoly providing 24-hour injury cover

**Reduce the incidence and severity of injury** where it is cost effective to do so.

**Rehabilitate injured people** in New Zealand more effectively.

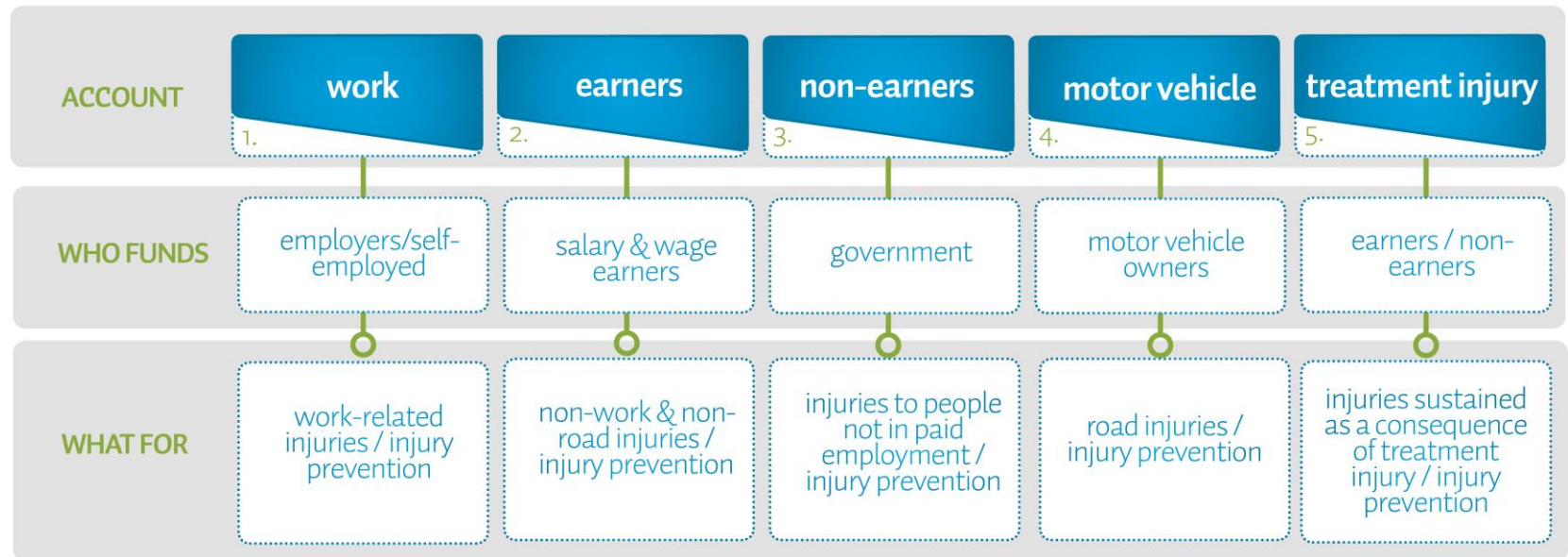
Deliver **levy stability** by achieving long-term financial stability.



# Legislation says:

## LEVY SOURCES

Funded, by New Zealanders under 5 Accounts



# Legislation says:

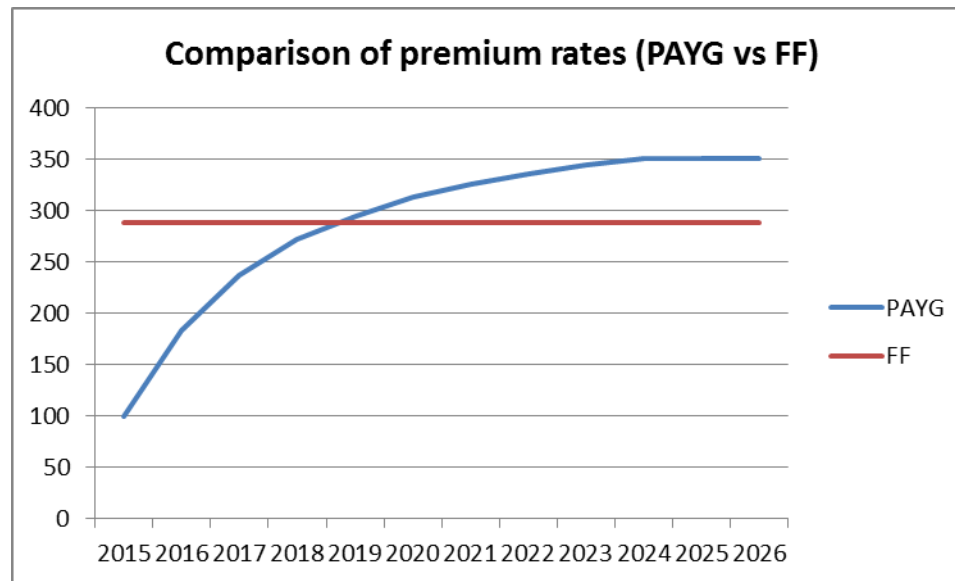
- Levies can be **class rated**
- Levied accounts must be **FULLY FUNDED (FF)**:

*the outstanding claims liability must be offset by an adequate level of assets having regard to uncertainty in forecasting and the objective of levy stability over time*

The alternative is **PAY AS YOU GO (PAYG)** funding.

# PAYG or Full Funding?

- ACC essentially operated on a Pay-as-You-Go basis until 1999.



- Nowadays ACC is mostly operated on a FF basis.

Note: changing between FF and PAYG typically creates significant inequity!

# But what is full funding ... actually?

- Full funding: having sufficient assets to meet liabilities  
**having regard to uncertainty**

How should this be interpreted?

ACC is required to hold a risk margin

Is having assets 100% of liabilities enough?

Or should ACC have a buffer?



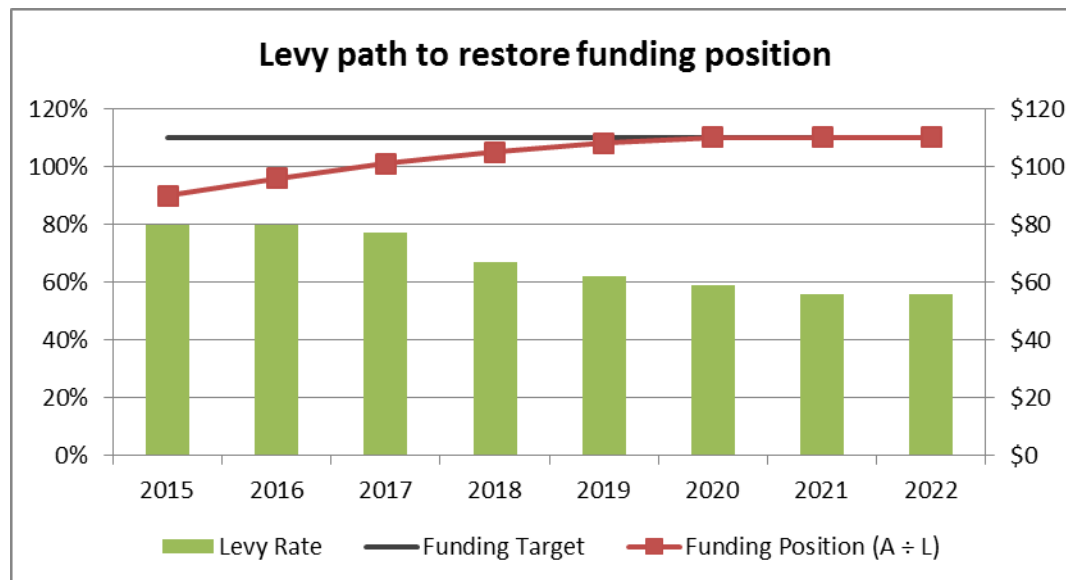
Some of the uncertainty can be managed using a funding horizon.



# Funding horizon

Once a funding target has been chosen, ACC must be able to **restore** any **deficit/surplus** in the scheme over a period of time.



This period of time is known as the **funding horizon**. Using a funding horizon allows ACC to strike a balance between **fairness** and **stability**.



Dynamic financial analysis can help assess different options.

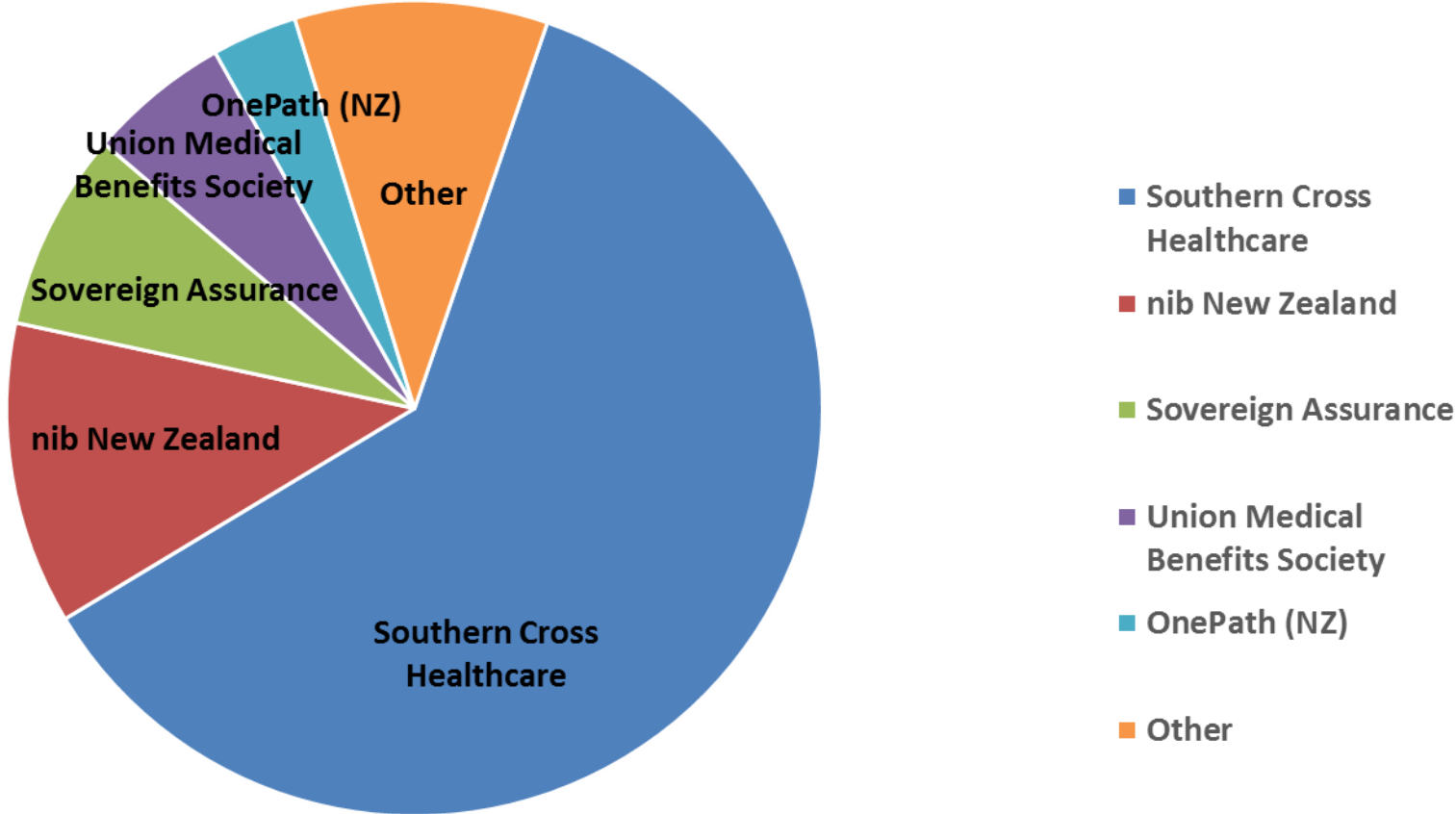
# Current Private Health Insurance Market

## Private Health Insurance market statistics as at 31 Dec 2013

- 1.34 million lives covered
- \$1.14 billion annual premium , 4.3 percent  in 2012;
- \$943 million claim paid , 7.7 percent  in 2012
- 11 health insurance companies , the coexistence of **stock and mutual** private health insurers

*Data from HFANZ: The Health Funds Association of New Zealand Inc (HFANZ) is the industry body representing health insurers*

# 2013 Private Health Insurance Market Share



*Other is comprised by Accuro, AIA, EBS, Manchester Unity Friendly Society, Partners Life, Police Health Plan Limited*

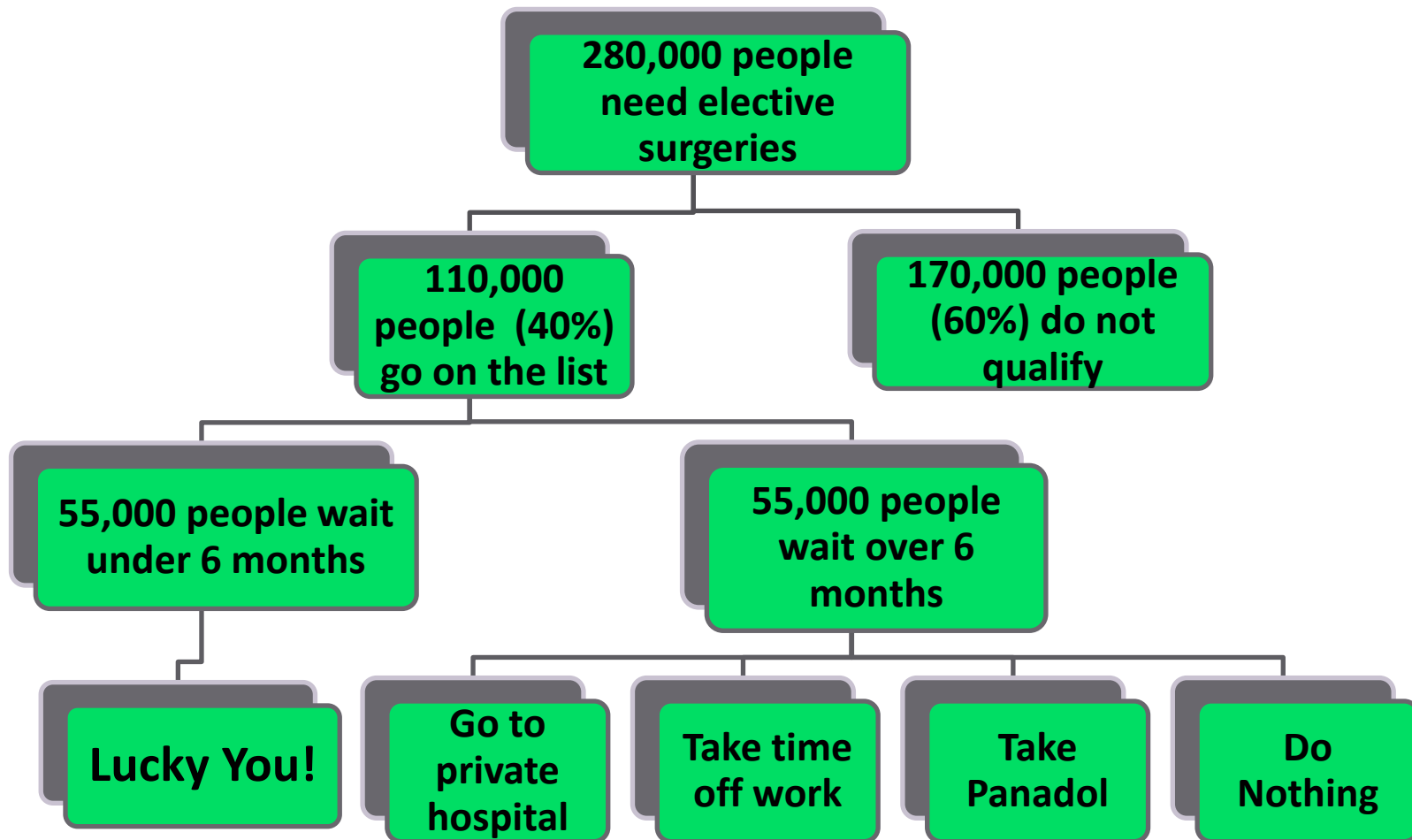
# An Overview of Public Health System



## NZ public health system:

- provides immediate care in an emergency
- covers for injuries and rehabilitation resulting from accidents (ACC)
- has very limited resource in its ability to deal with non-urgent treatment
- 350,000 New Zealanders have some form of elective surgery every year

# An Overview of Public Health System



*Elective surgery: is any surgery that is non-acute (requiring immediate treatment) that can be booked ahead*  
 Data extracts from  
[http://www.nzherald.co.nz/nz/news/article.cfm?c\\_id=1&objectid=11169539](http://www.nzherald.co.nz/nz/news/article.cfm?c_id=1&objectid=11169539)



# What Do We Need To Know About Private Health Insurance Products



## Two main types of products:

- Comprehensive Care
- Elective Surgical and Specialist Care

## PHI provides:

- Quicker treatment
- Financial support
- Greater choice
- Latest medical procedures
- Greater certainty

## Your PHI premium is calculated based on:

- Your risk profile e.g.  
age & gender & smoking status & health condition
- Your level of cover e.g.  
benefit level & pre-existing cover & excess options

# What Do We Need to Know About Private Health Insurance Products

How much it will cost you **NOW**:

500 excess annual premium for hospital cover			
	Pre-existing cover	No pre-existing cover	
30's couple with 2 children	\$ 1,600	\$ 1,500	
40's couple with 2 children	\$ 2,000	\$ 1,800	
50's couple with 2 children	\$ 3,000	\$ 2,800	
60's couple with 2 children	\$ 4,000	\$ 3,500	

How much it will cost you after **X** years?

# Designing Products for Affordability

## Example costs of treatment

Cardiac bypass (heart surgery) \$35,000-\$57,000

Prostate removal (cancer) \$25,000-\$35,000

Radio therapy (one course of treatment): \$18,000-\$30,000

Hysterectomy (surgery) : \$12,000-\$18,000

Hip or knee replacement \$8,000-\$29,000

Gall Bladder (surgery) \$6,800-\$11,000

## Designing products to control claim costs:

- Offering a pre-approval
- Applying usual, customary, reasonable prices (UCR)
- Contracting with providers/a negotiated flat rate



# Designing Products for Affordability

## Designing products to reduce adverse selection

- Co-payment up to an agreed annual limit
- No/Low claim discount
- Waiting period
- Profit/loss share

# Designing Products for Affordability

## Product Availabilities and attractions

“ The main impact of fewer people choosing to take out health insurance was in the reduction of choice.”

Professor Toni Ashton at the University of Auckland

- Small covers & simple application process
- Your specific needs





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