

Mutuality and Solidarity

Is it possible to solve the crisis in NZ private health insurance?

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Jeremy Holmes

Principal, Melville Jessup Weaver



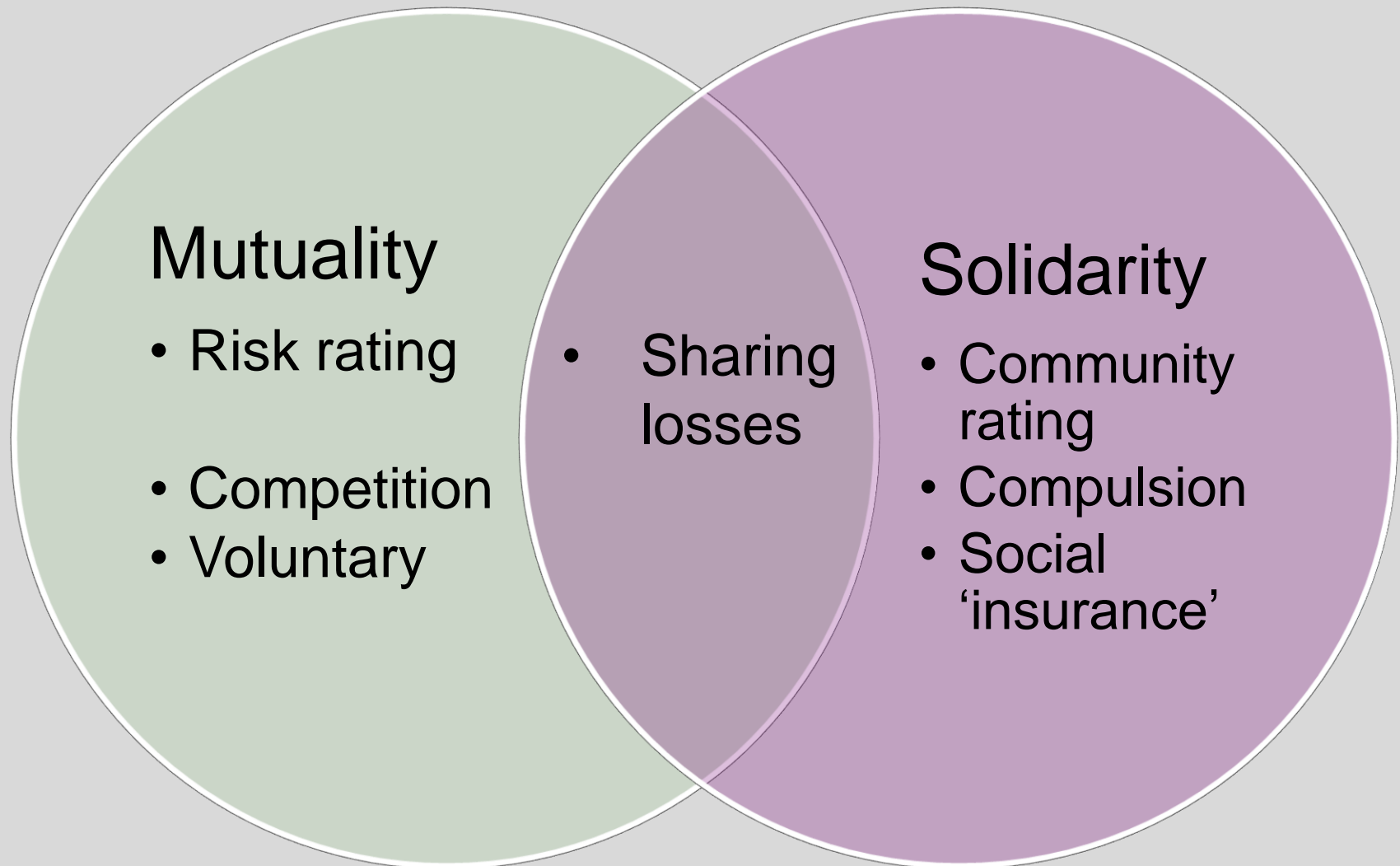
MELVILLE JESSUP WEAVER

Willis Towers Watson Alliance Partner

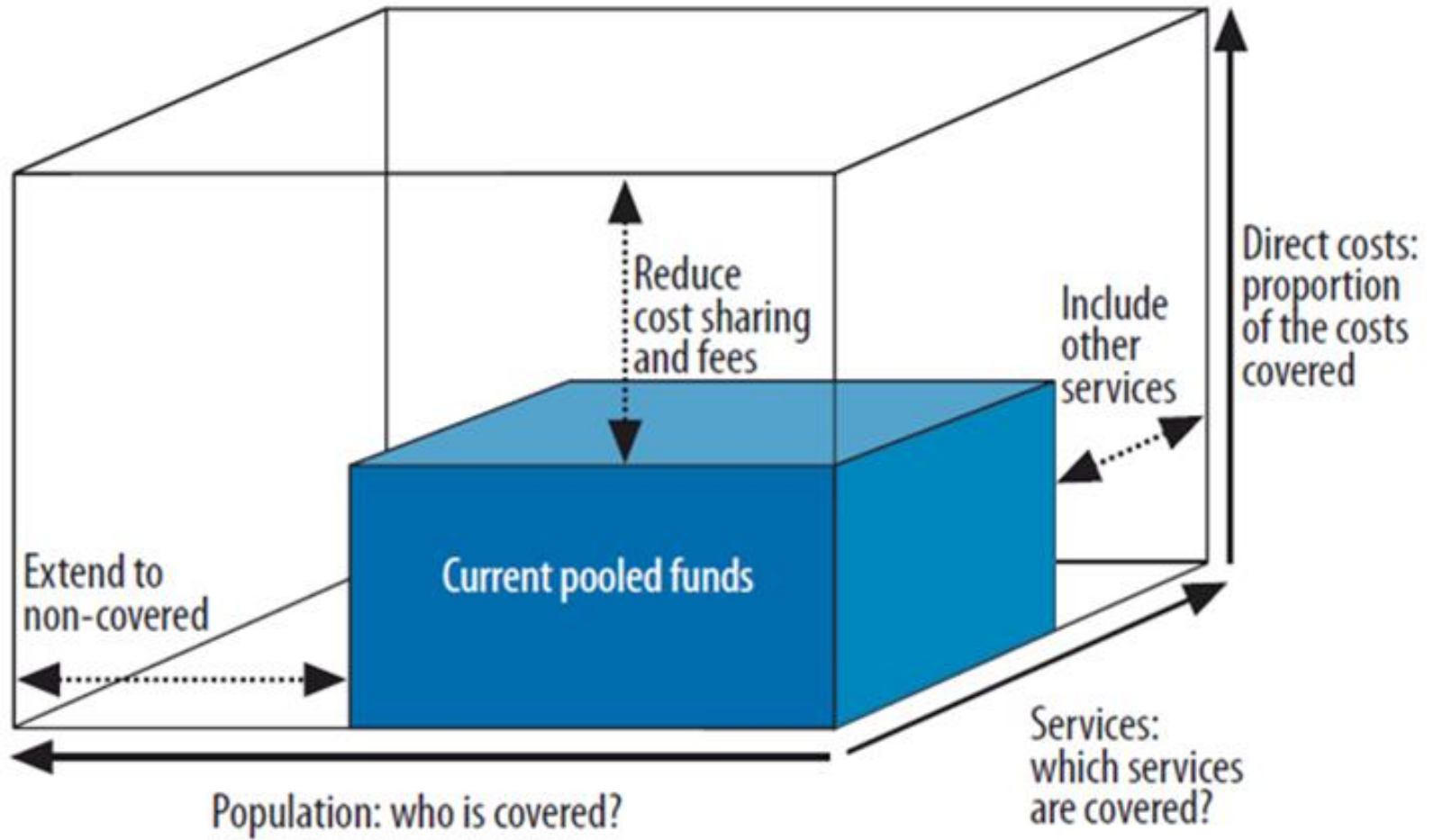
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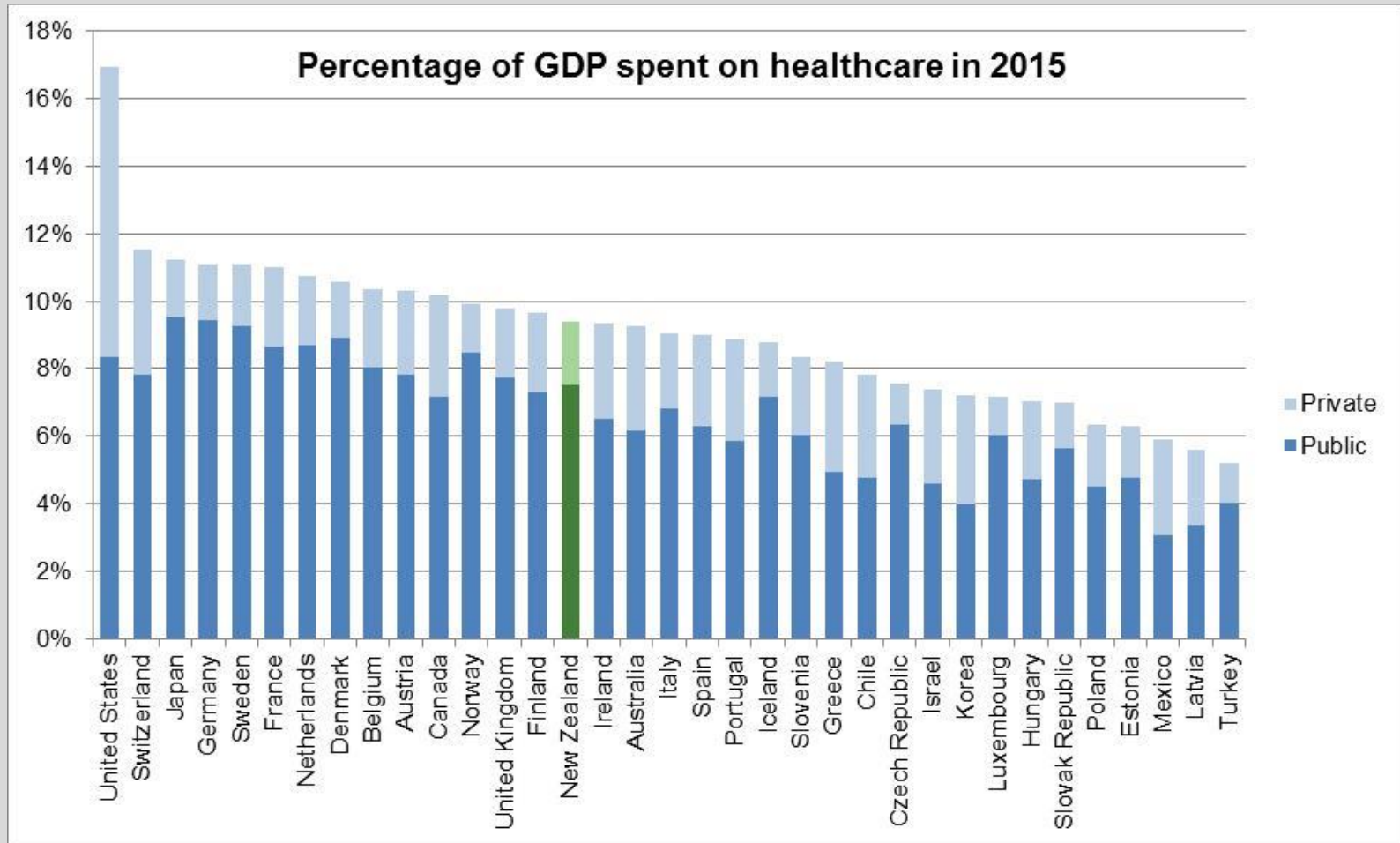
Mutuality vs. solidarity



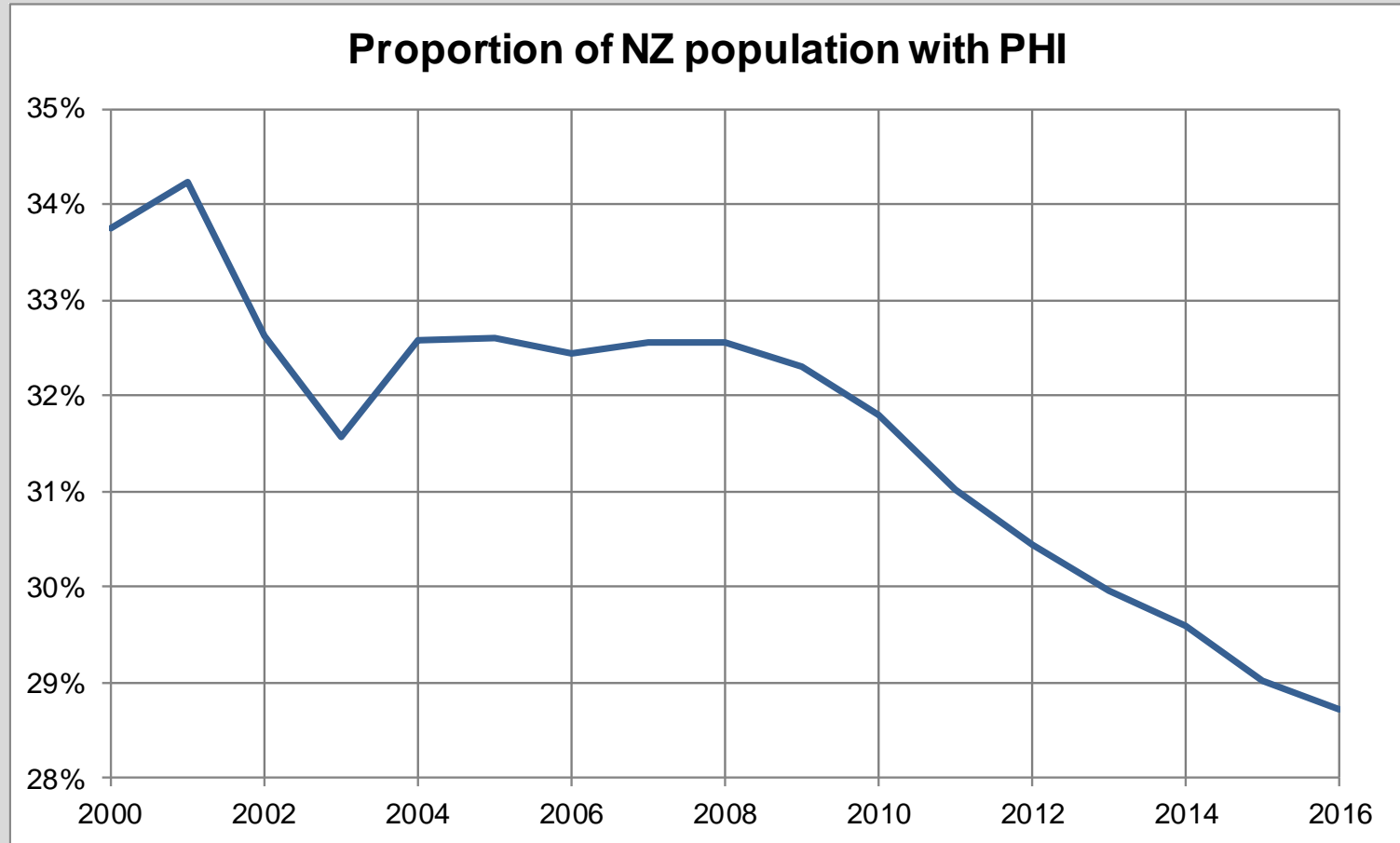
Universal healthcare: World Health Organisation



Universal healthcare: publics vs. private funding

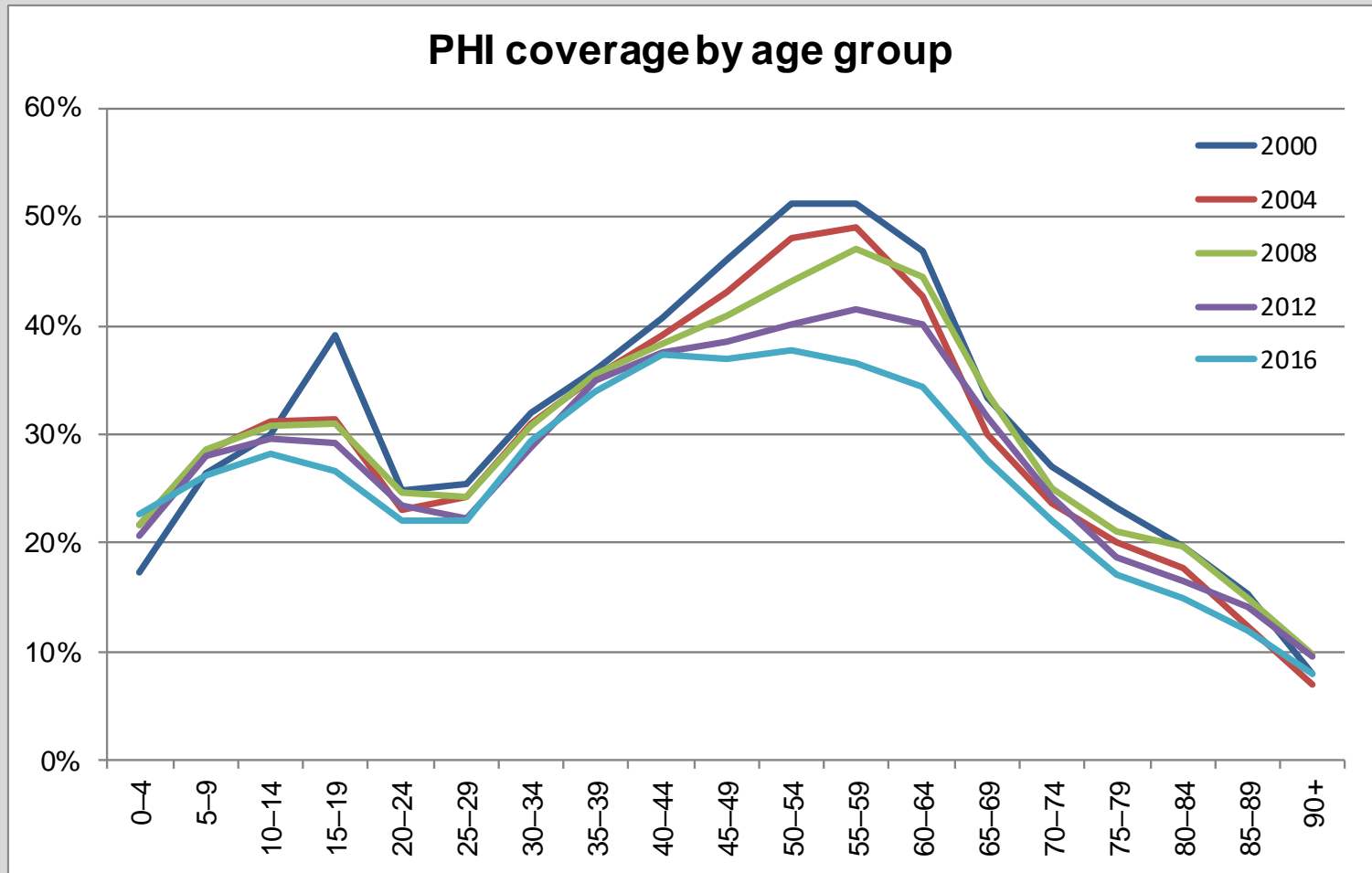


The impending crisis: private spending



Source: HFANZ

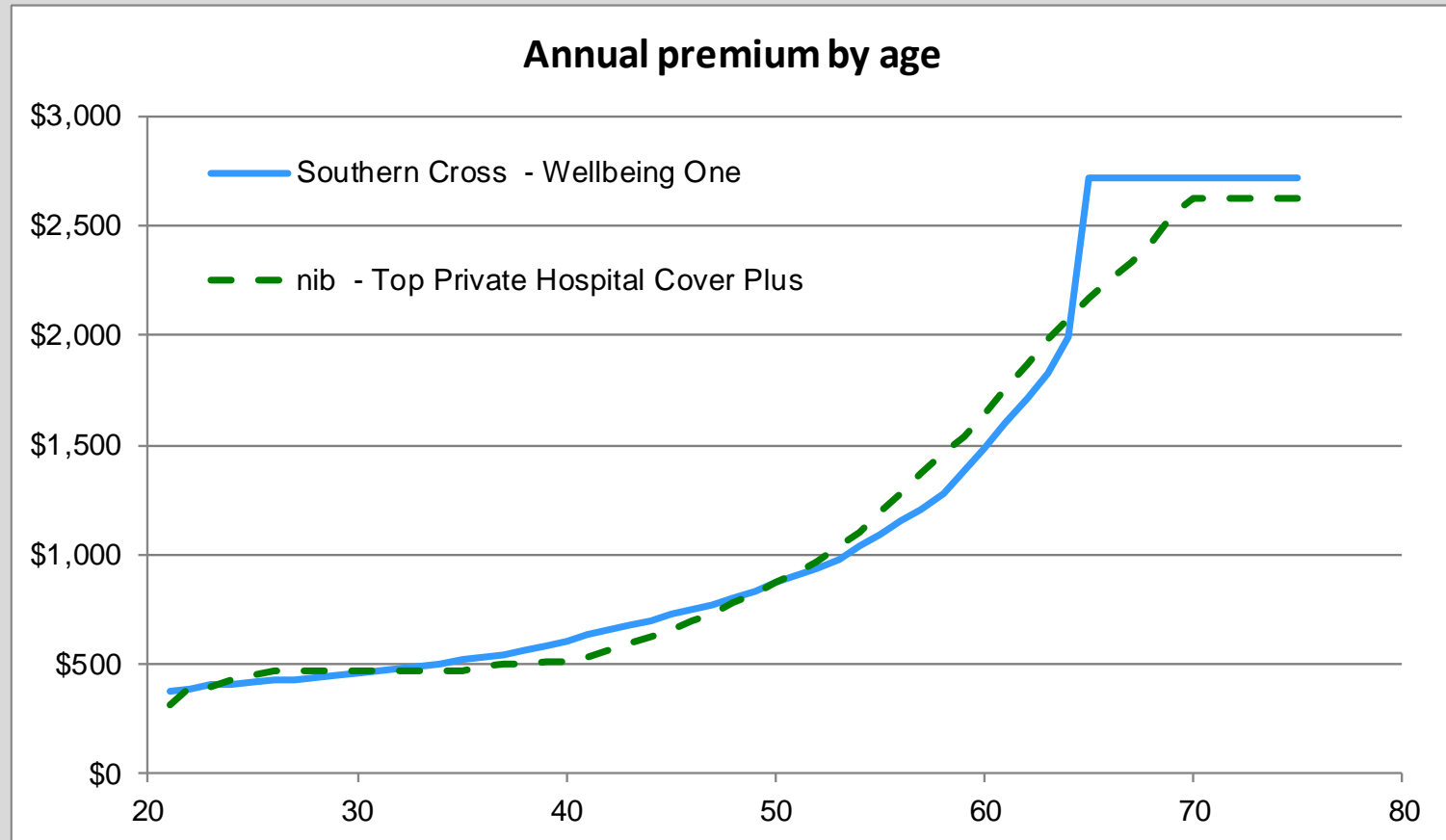
The impending crisis: private spending



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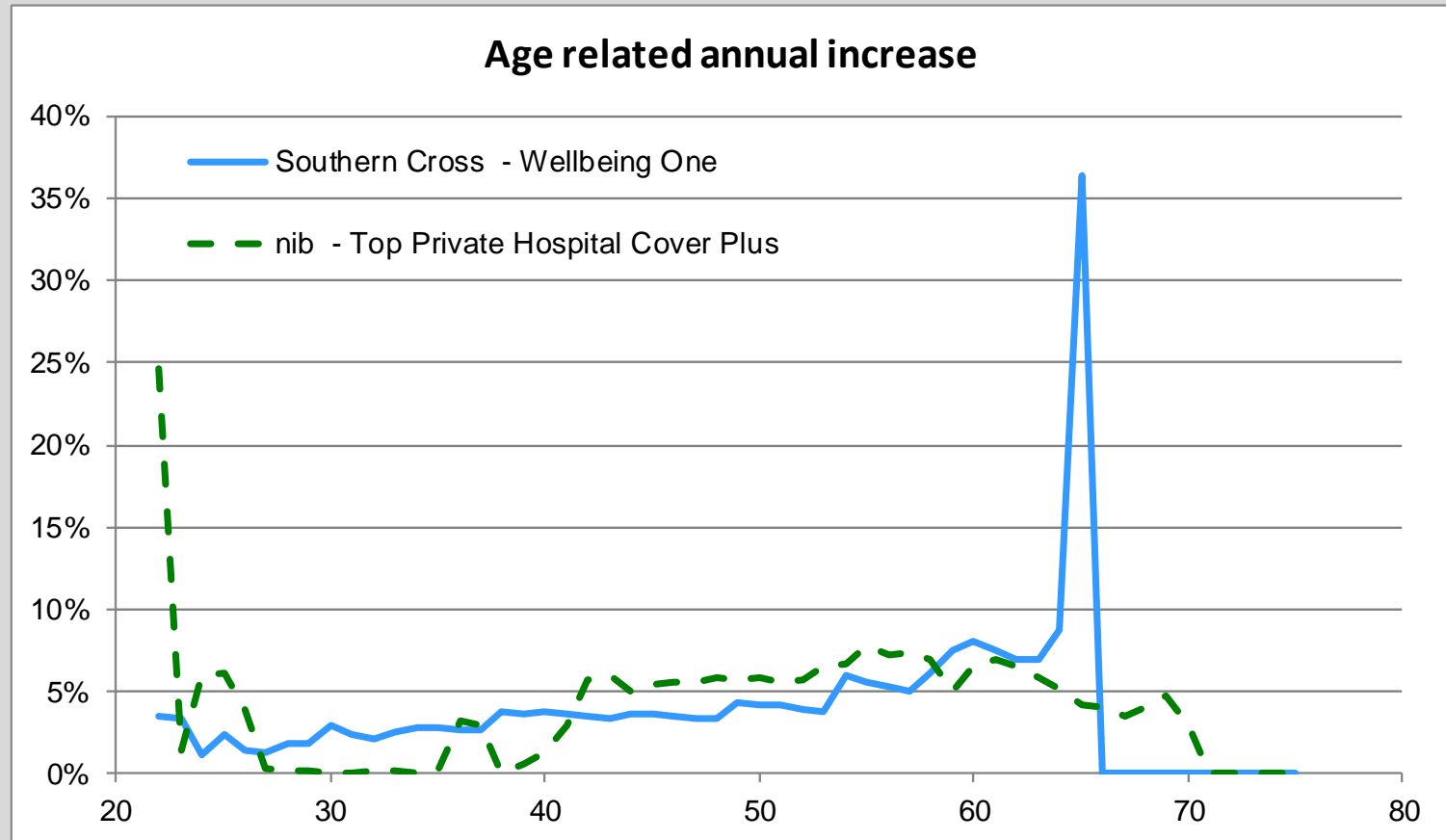


The impending crisis: private spending



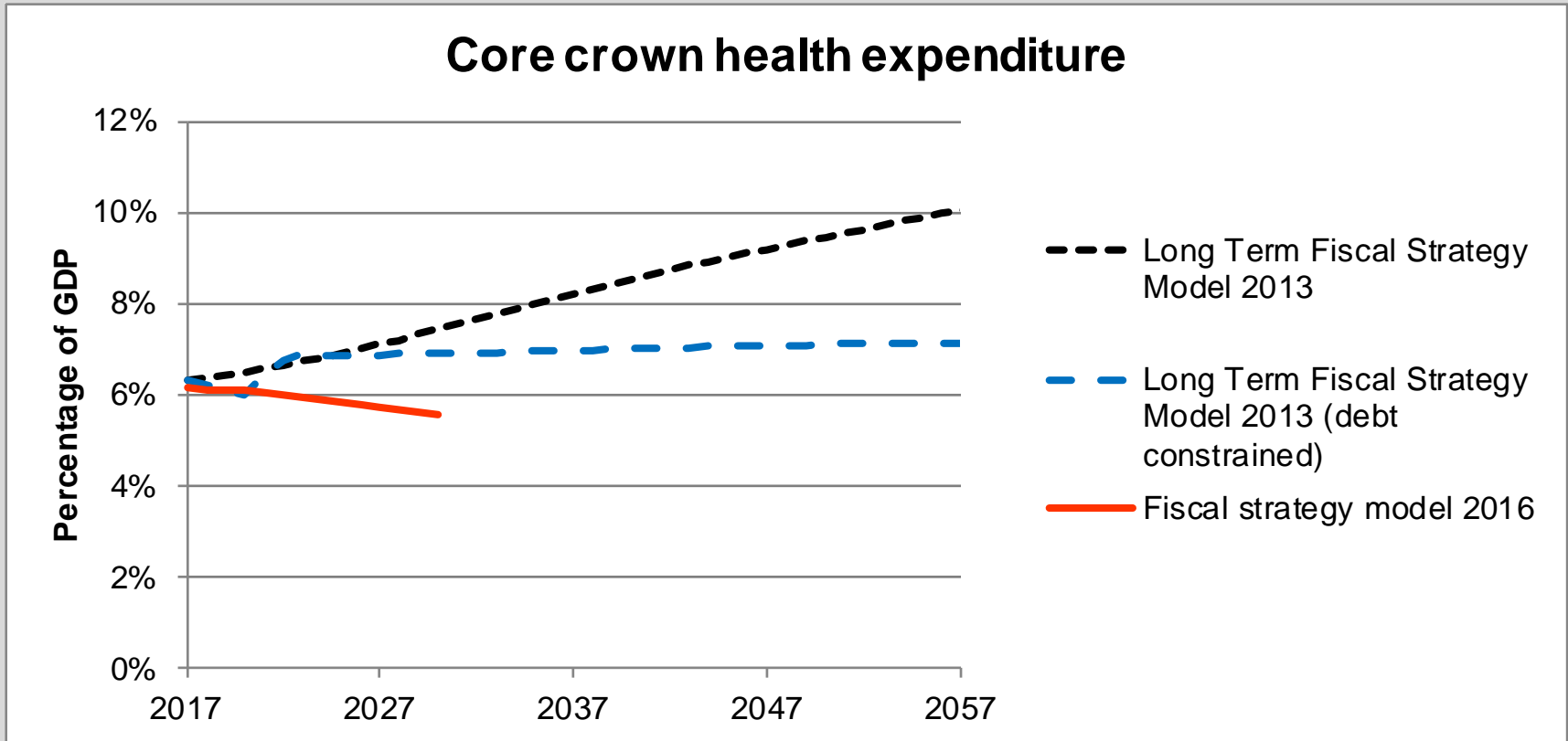
Source: Southern Cross, nib online calculators

The impending crisis: private spending



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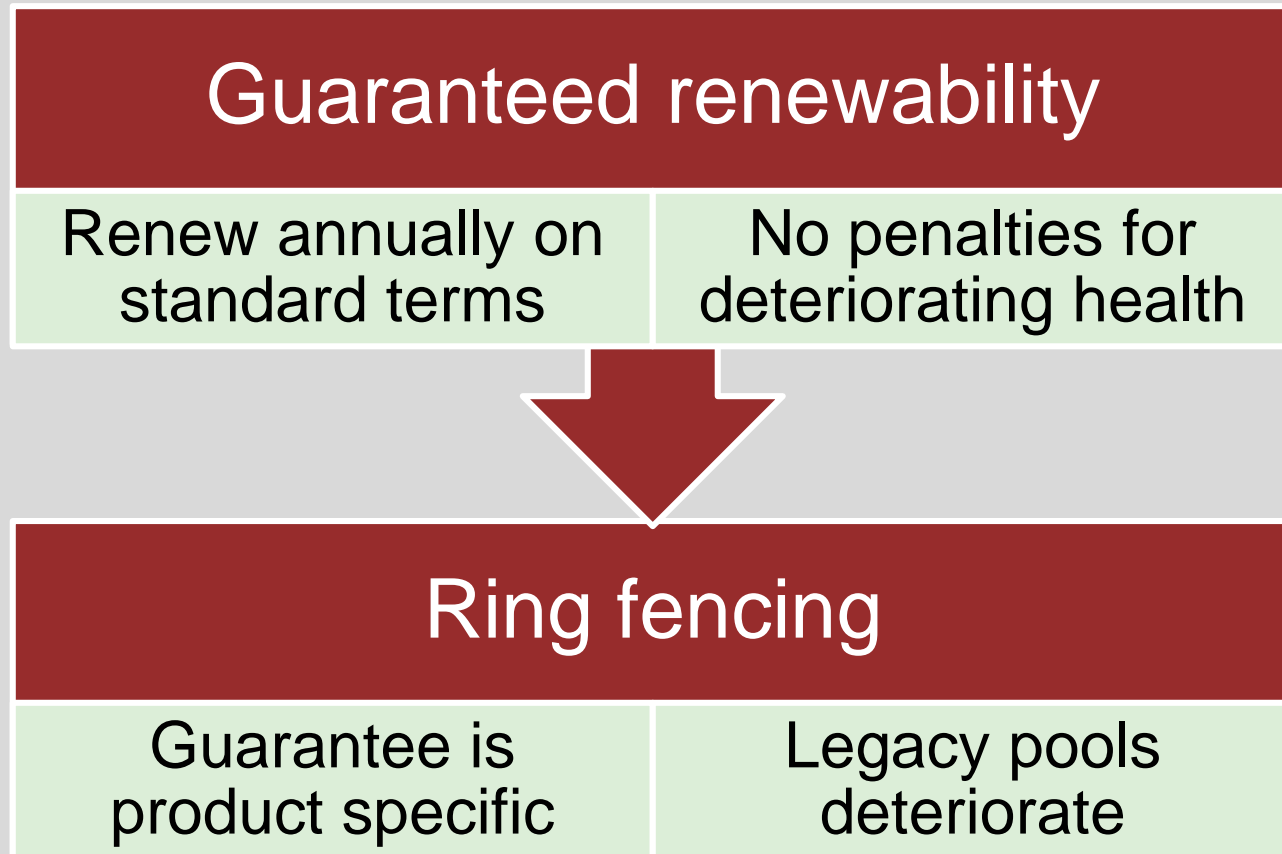
The impending crisis: public spending



Source: The Treasury

“In spite of the potential downsides of PHI, it is likely to increase as a proportion of total health spending”

Mutuality solutions: banning ring fencing



Mutuality solutions: banning ring fencing

Can we ban ring fencing?



Unhealthy policyholders remain covered

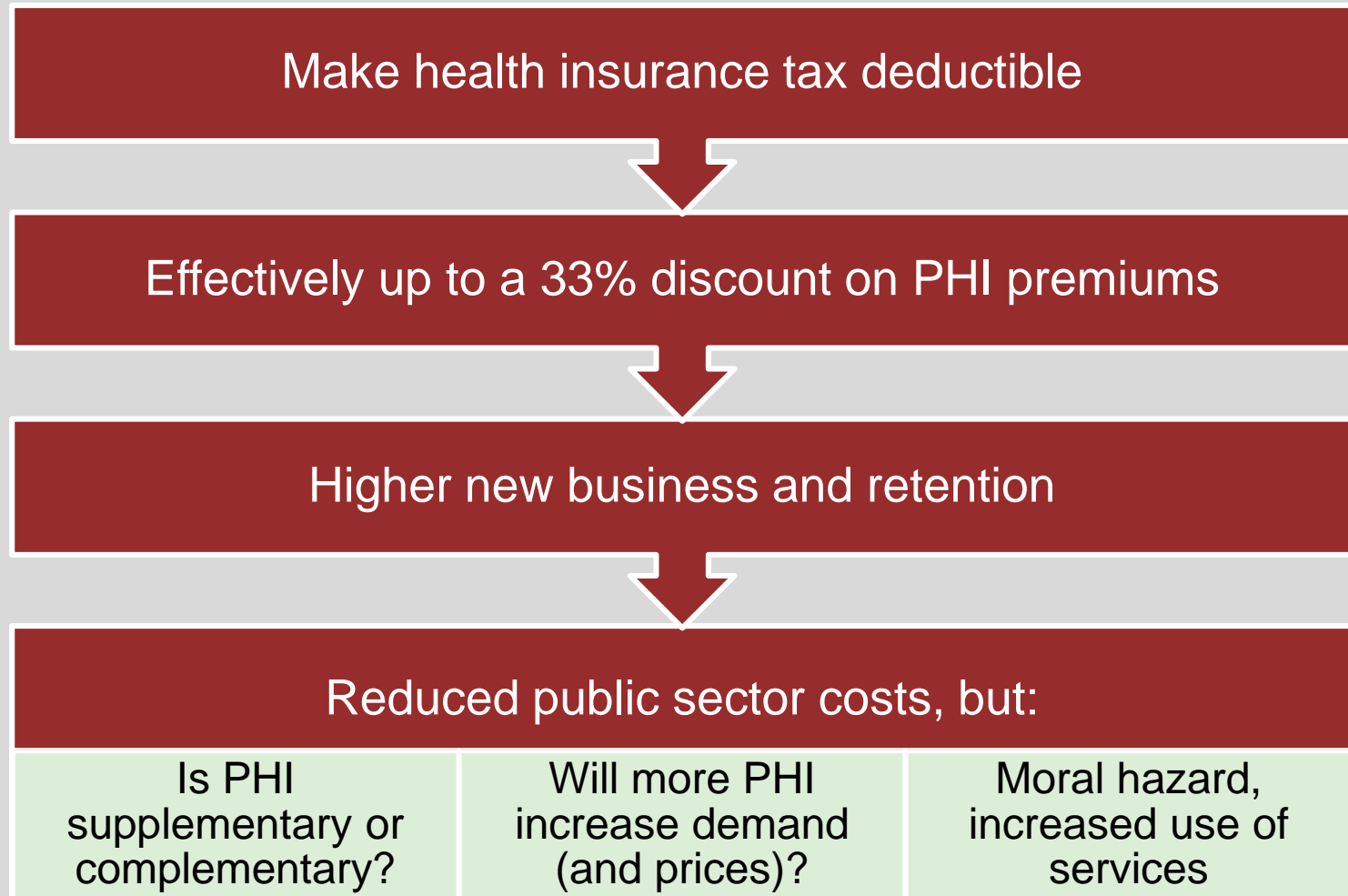


Overall premiums increase

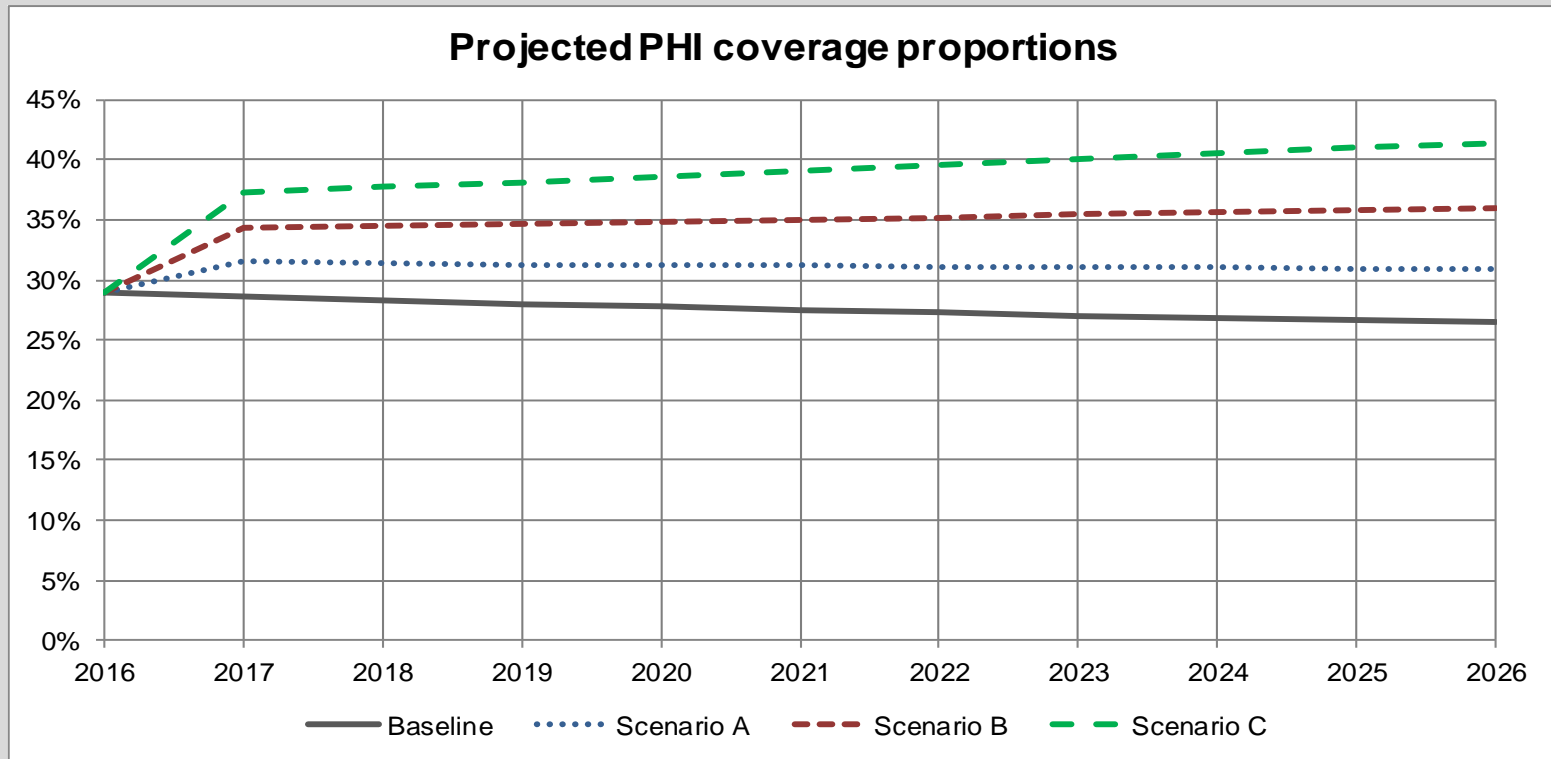


Net impact on PHI coverage?

Mutuality solutions: tax incentives

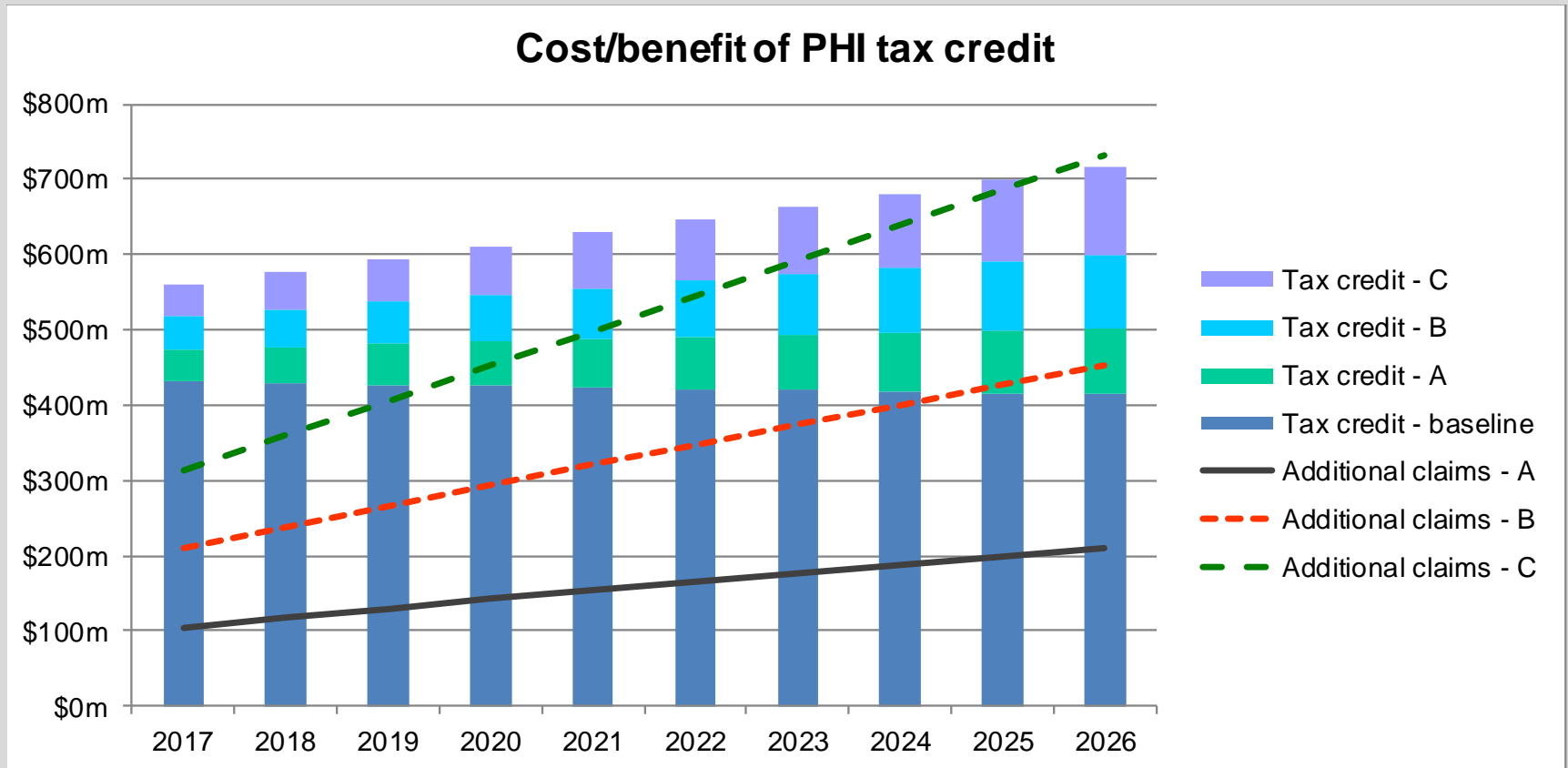


Mutuality solutions: tax incentives

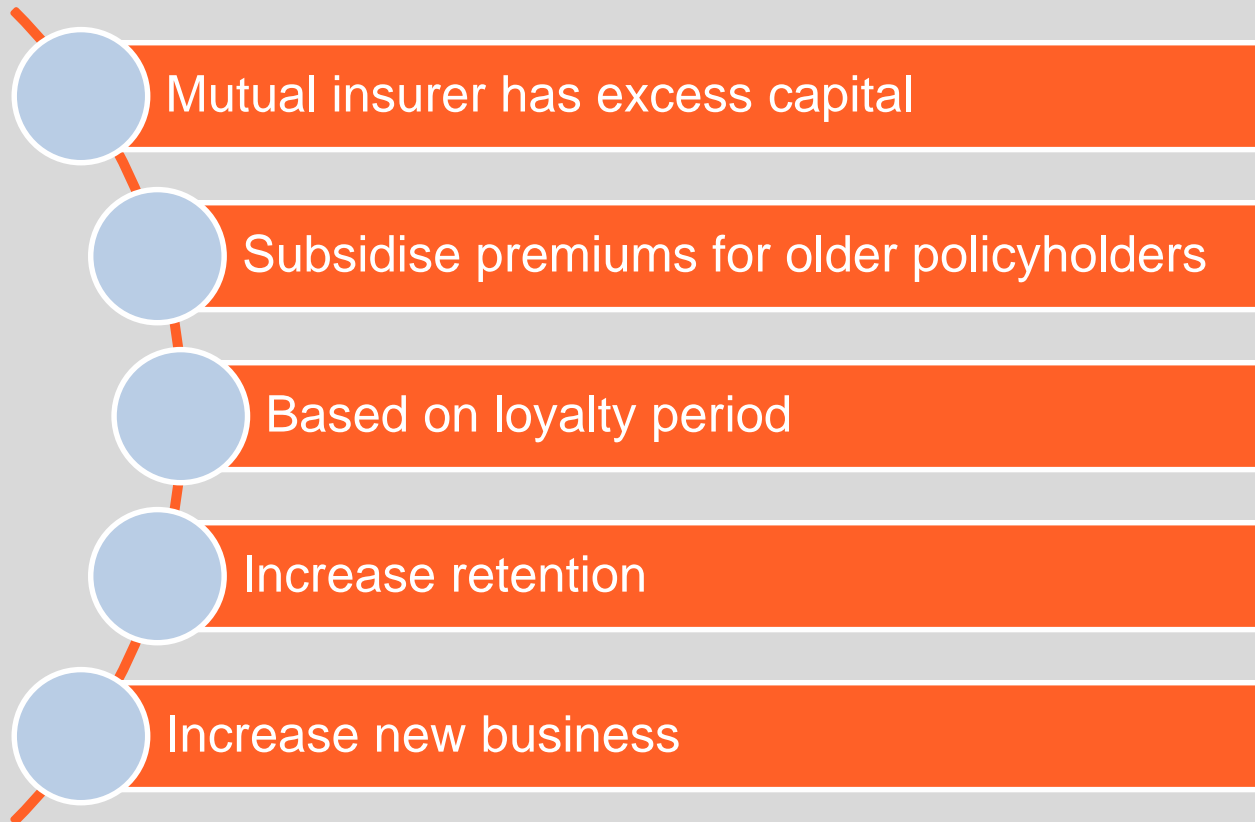


	Initial impact on policy holders	Decrease to lapse rates
Baseline	None	None
Scenario A	10%	20%
Scenario B	20%	40%
Scenario C	30%	60%

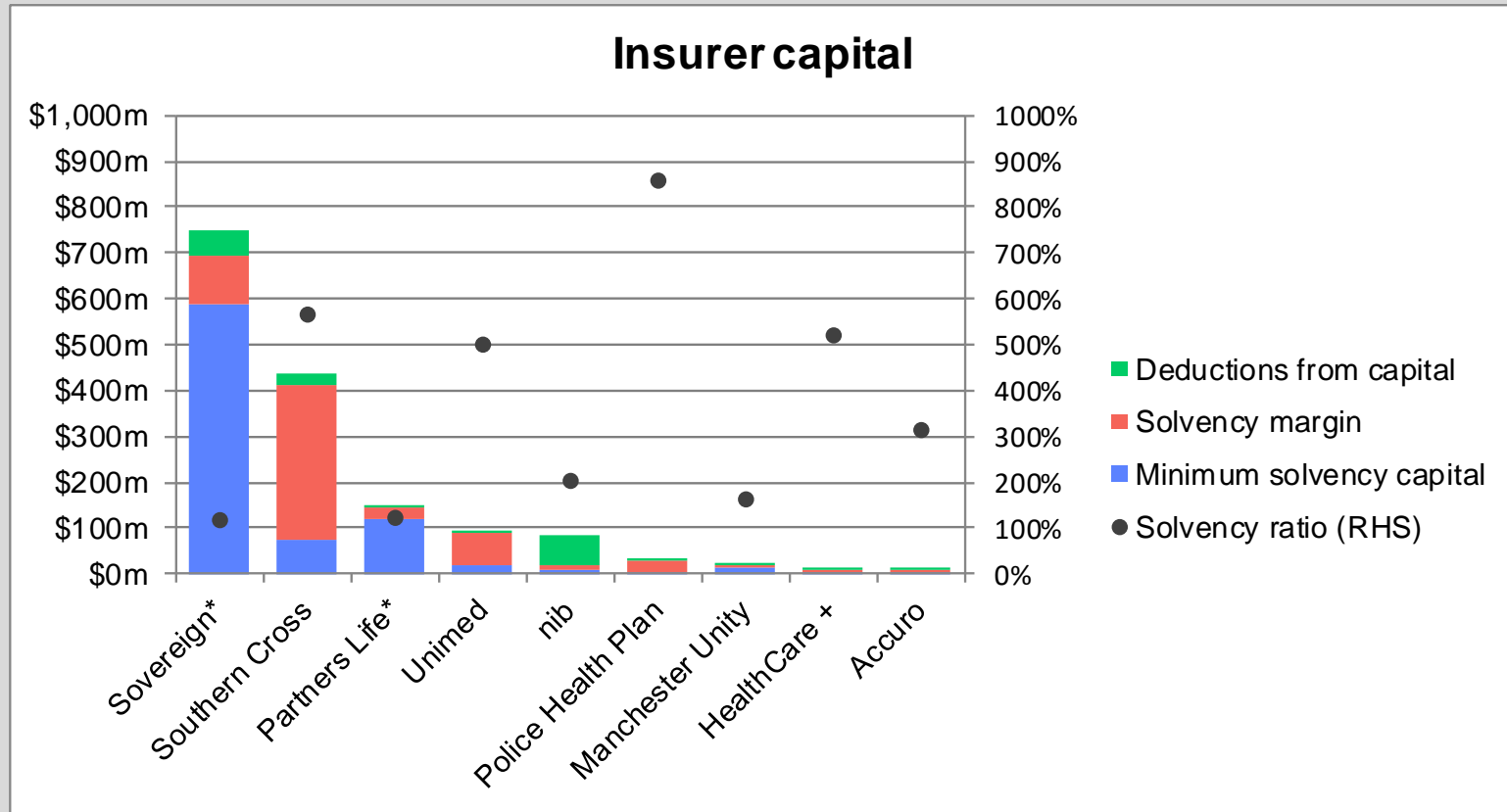
Mutuality solutions: tax incentives



Mutuality solutions: age discounting



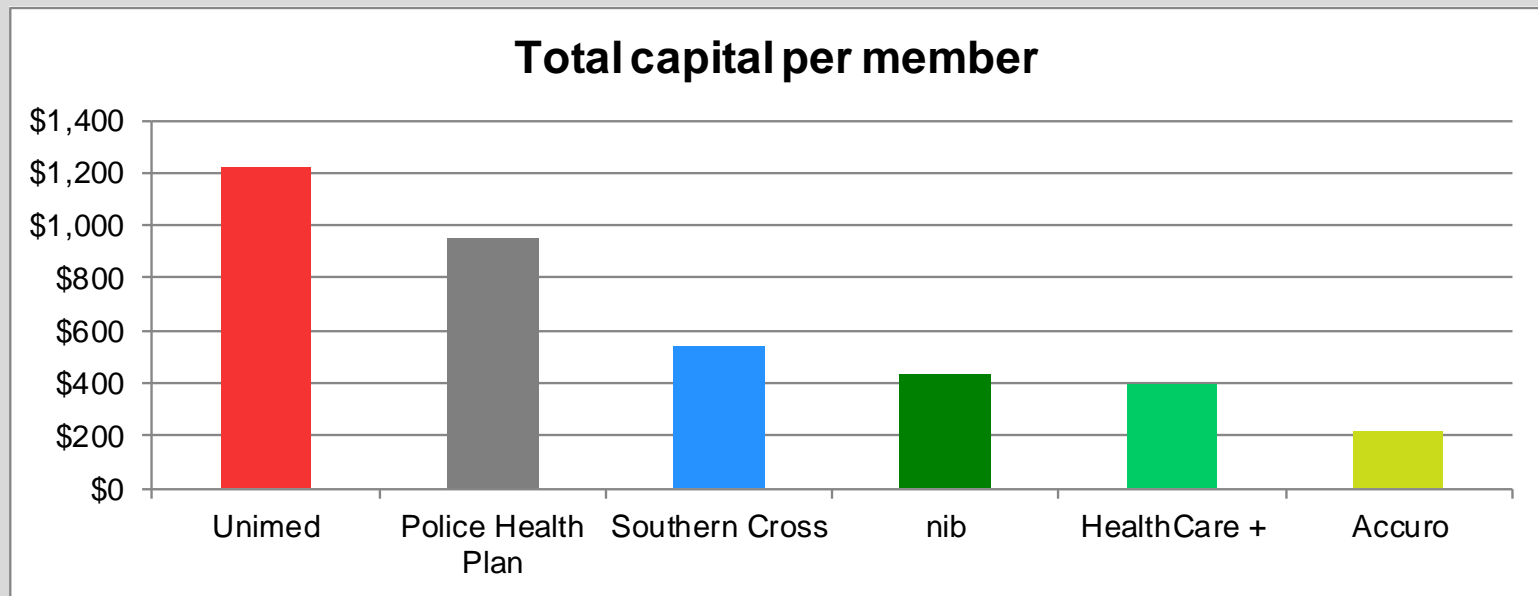
Mutuality solutions: age discounting



*includes life insurance

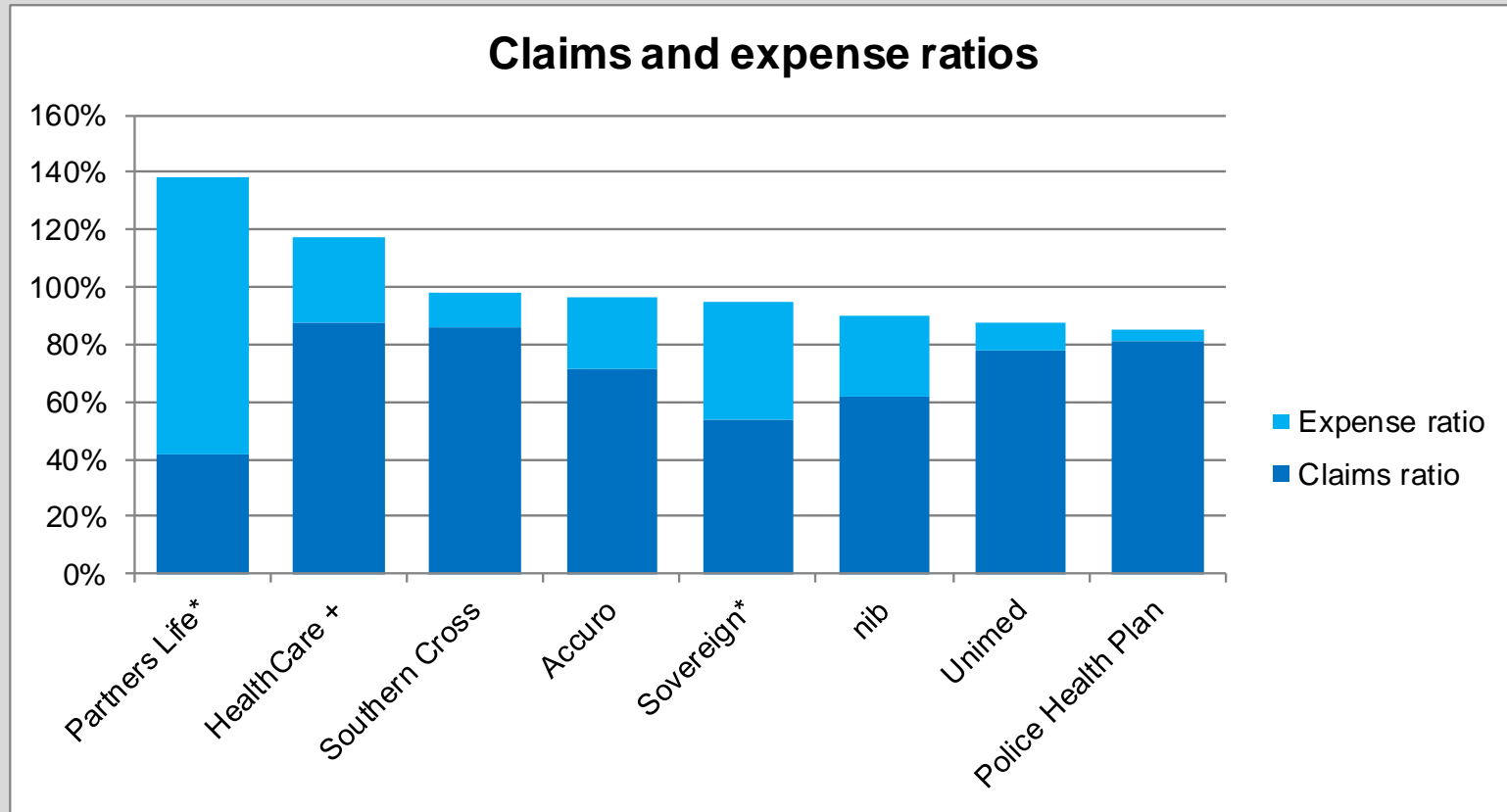
Sources: Companies Office and insurer websites

Mutuality solutions: age discounting



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Mutuality solutions: age discounting



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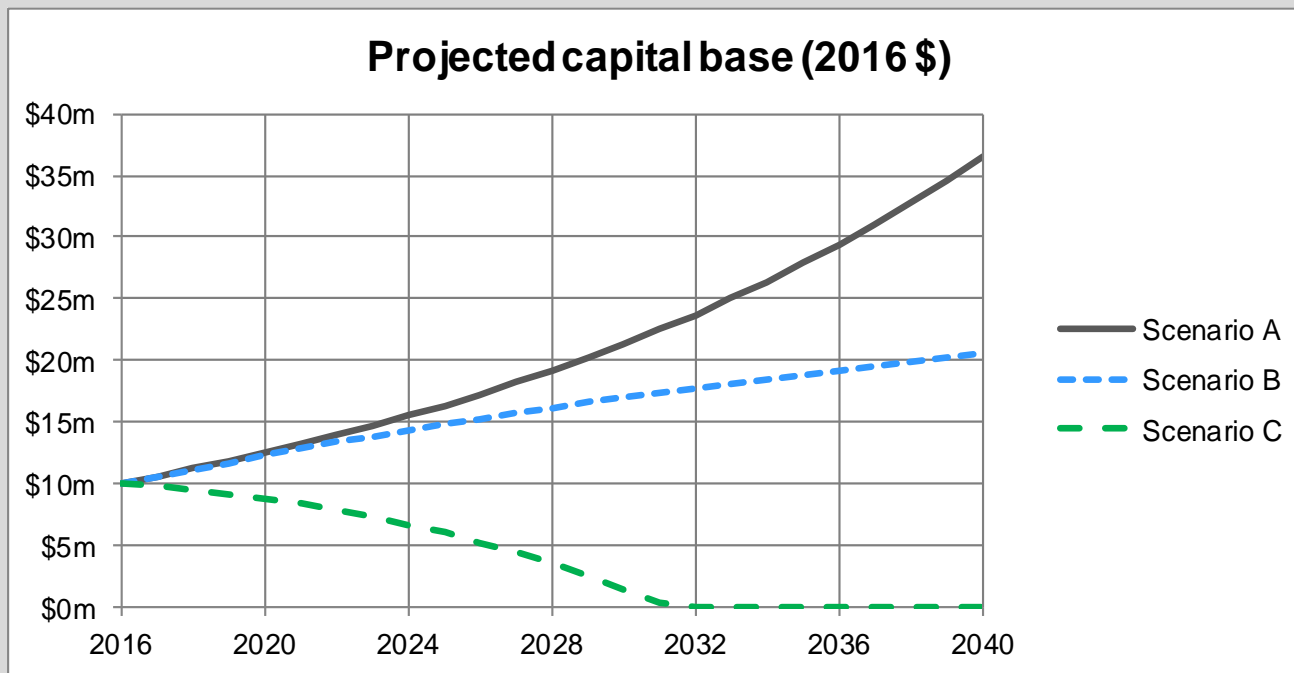
Mutuality solutions: age discounting

The model:

- Loss ratio: 80%
- Expense ratio 10-15%
- Premiums capped from age 65
- 10 year loyalty requirement
- Real investment returns 3-6%
- Lapse rates decrease
- Potential surge in new business at age 55

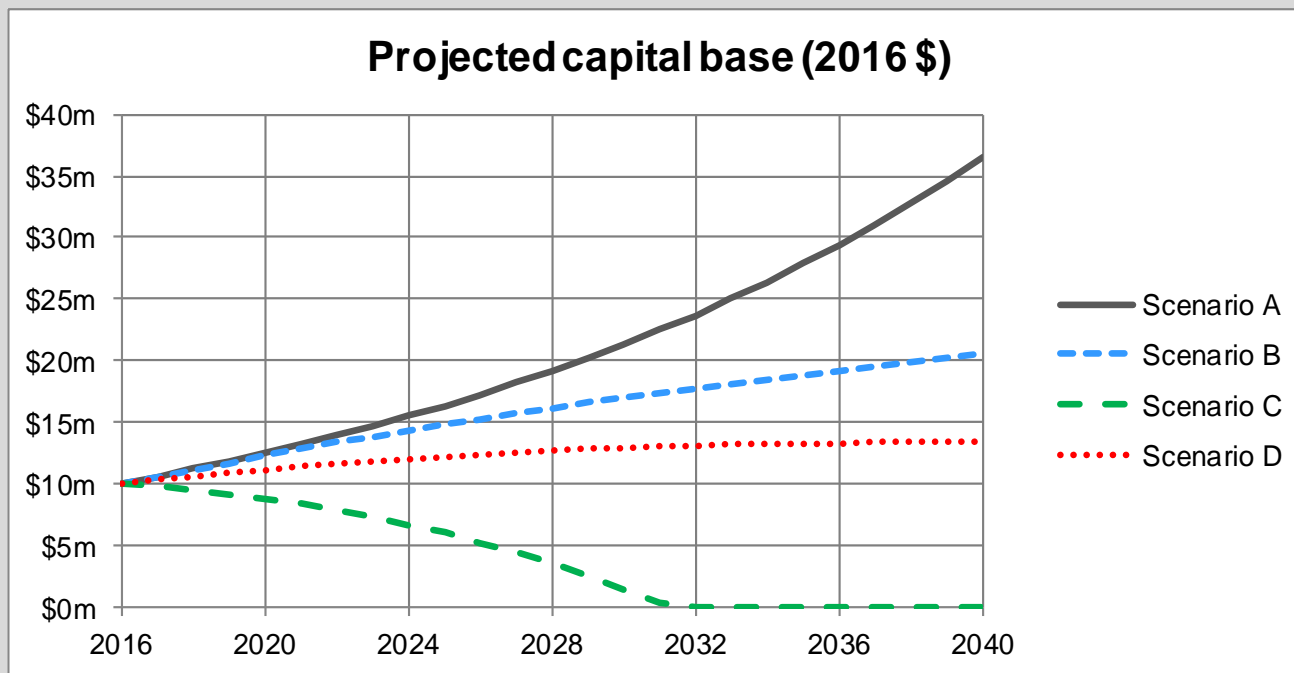
Mutuality solutions: age discounting

- Scenarios:
 - A: expense ratio 10%, inv. return 6%, lapses unchanged
 - B: as for A but lapses halved after 65
 - C: as for B but expenses 15% and inv. return 3%



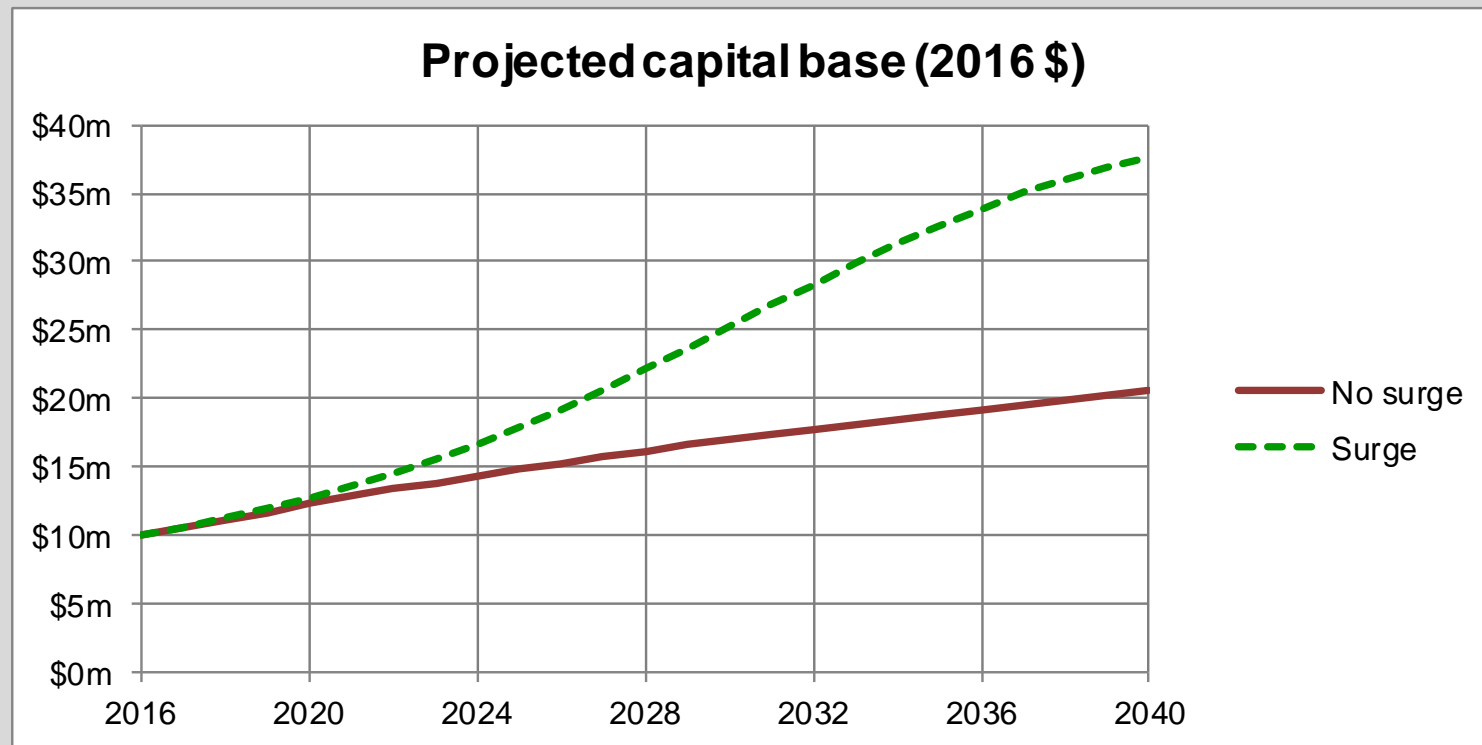
Mutuality solutions: age discounting

- Scenarios:
 - A: expense ratio 10%, inv. return 6%, lapses unchanged
 - B: as for A but lapses halved after 65
 - C: as for B but expenses 15% and inv. return 3%
 - D: as for C but premiums capped from age 72



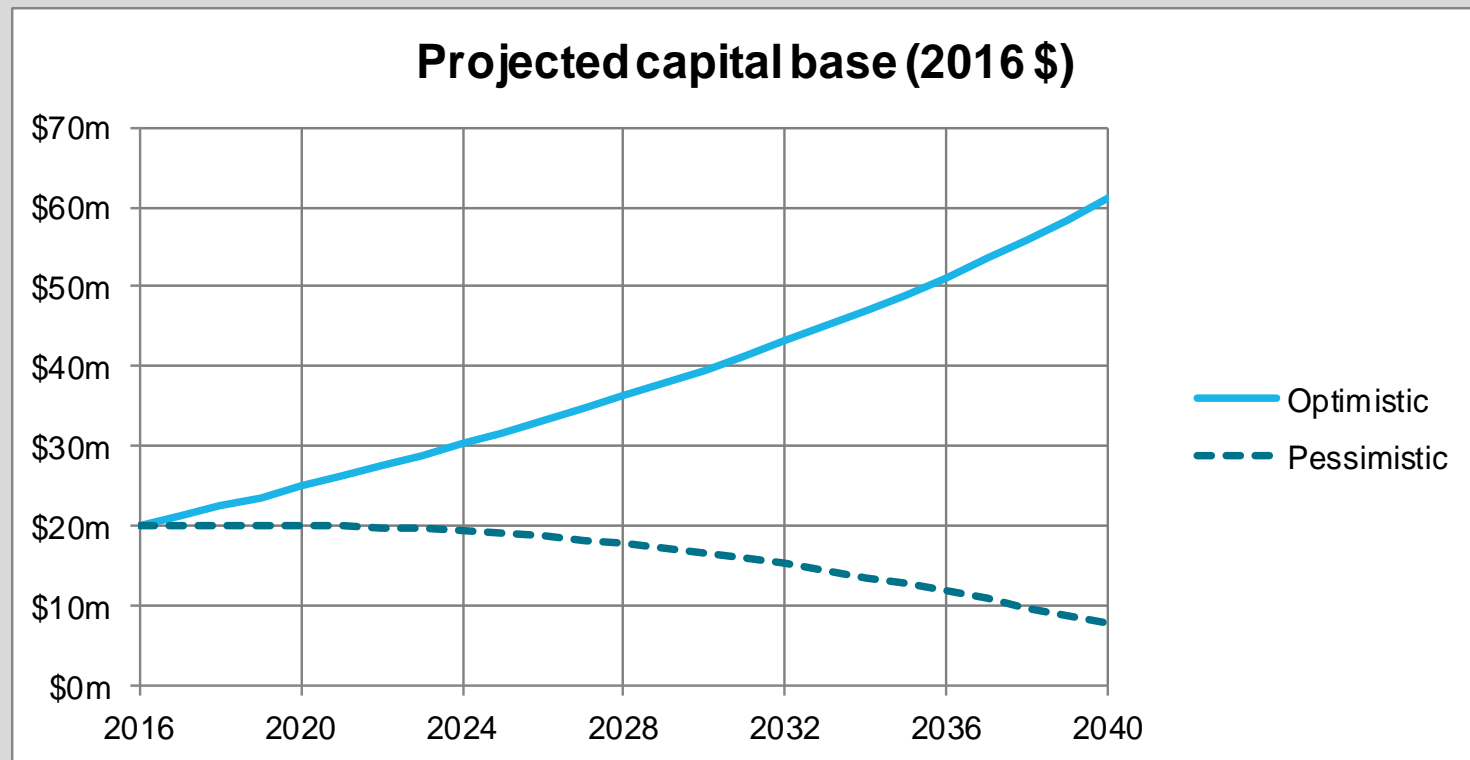
Mutuality solutions: age discounting

- Impact of new business surge at age 55



Mutuality solutions: age discounting

- Higher initial capital base



Solidarity solutions: elements of solidarity



Solidarity solutions: the Aussie model

Minimum benefits

- Products are categorised

Open enrollment

- Insurers cannot decline cover or impose special rates
- Up to 12 month wait for PECs (doesn't apply when switching insurers)

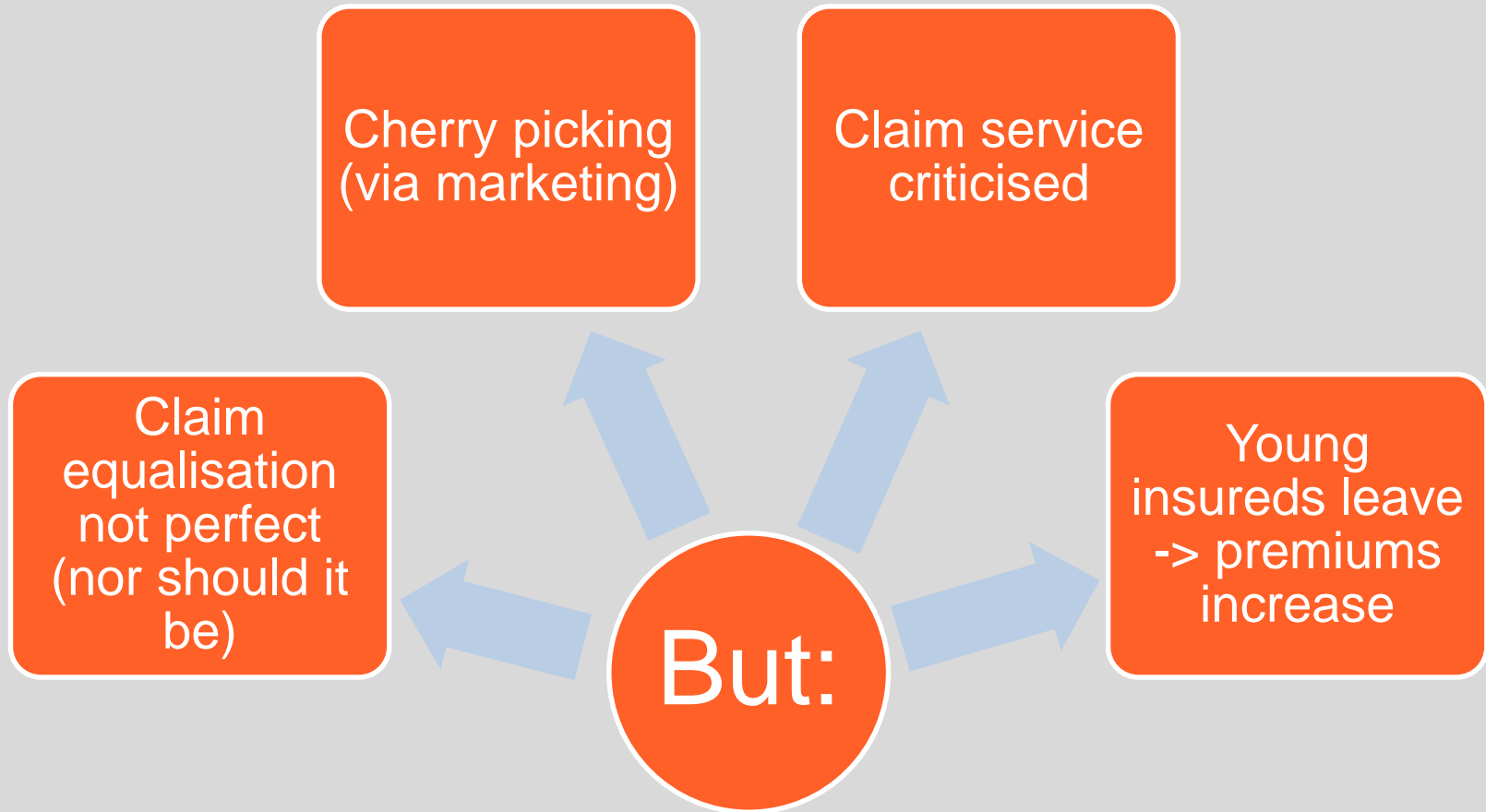
Community rating

- One premium per product
- LHC loading dependent on age first joined (max 10 years)

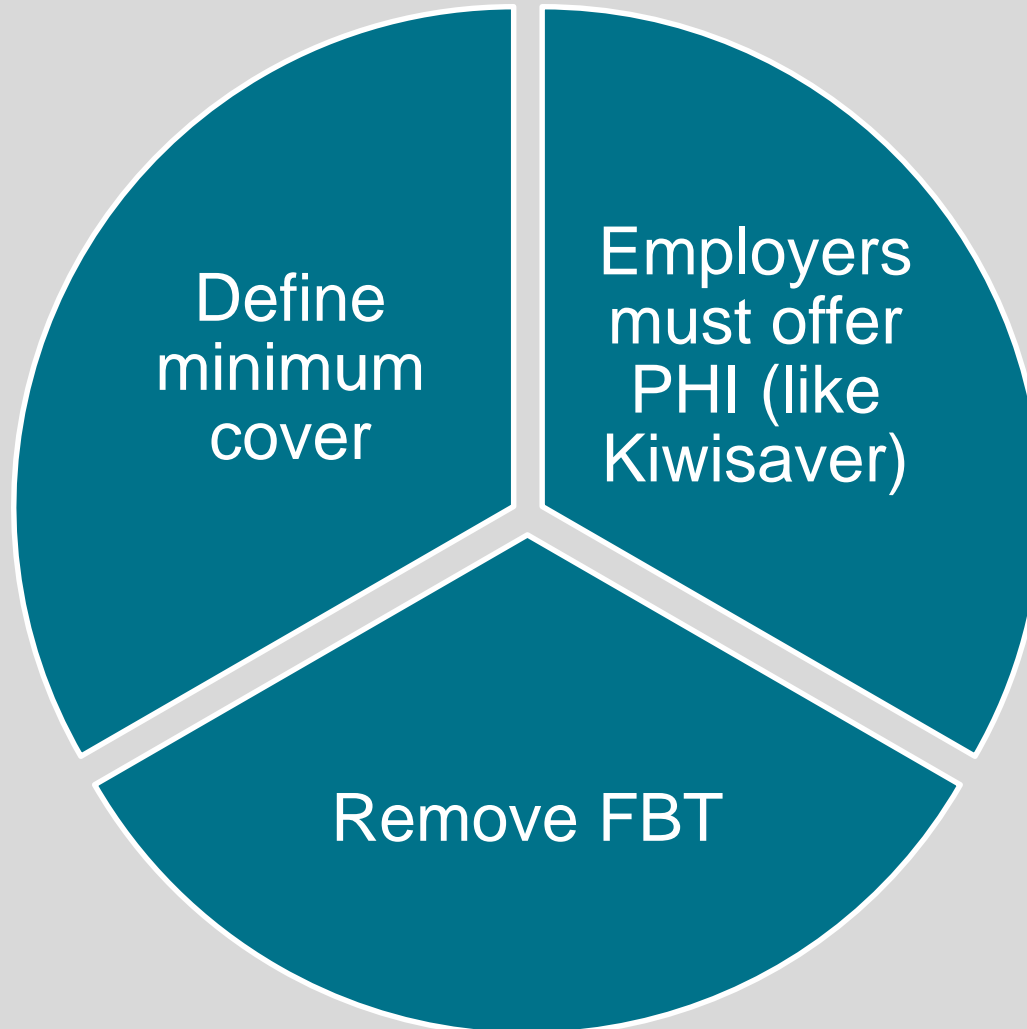
Risk equalisation

- Risk Equalisation Special Account

Solidarity solutions: the Aussie model



Solidarity solutions: Compulsory employer PHI



Solidarity solutions: Compulsory employer PHI



Pros

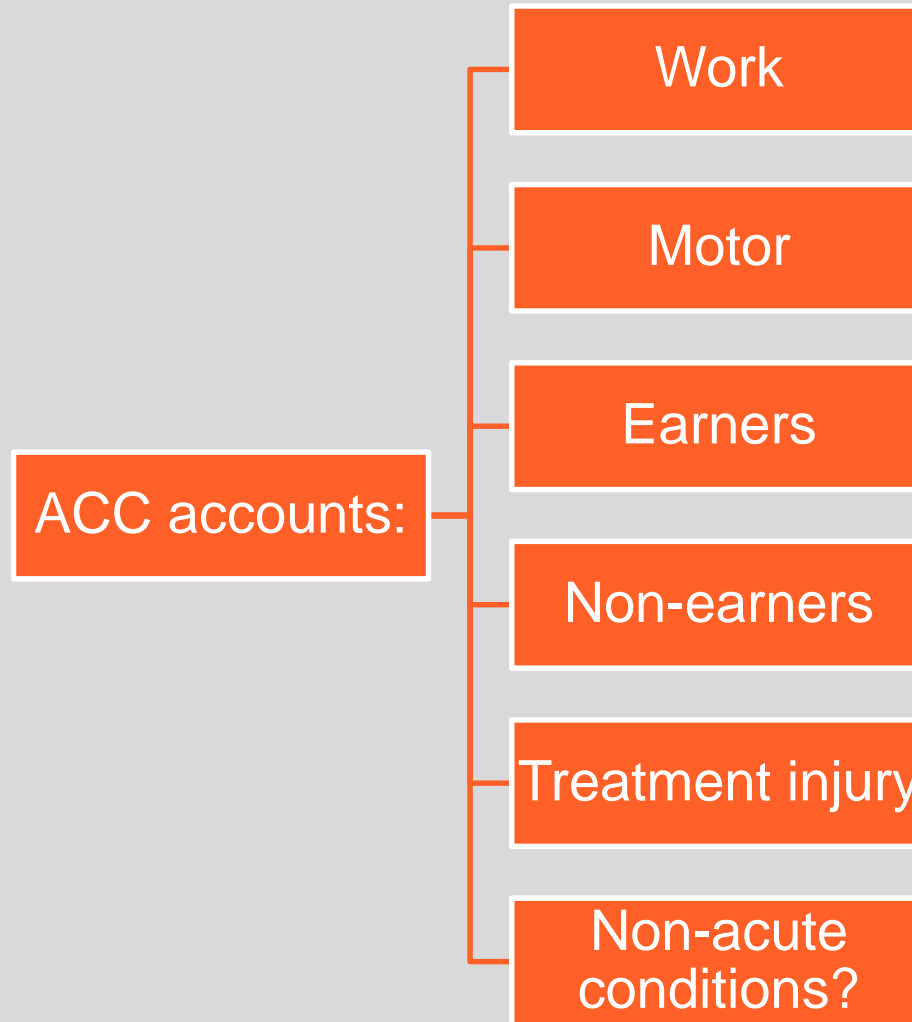
- Increased PHI uptake
- Larger schemes can cover PECs
- Reduced anti-selection



Cons

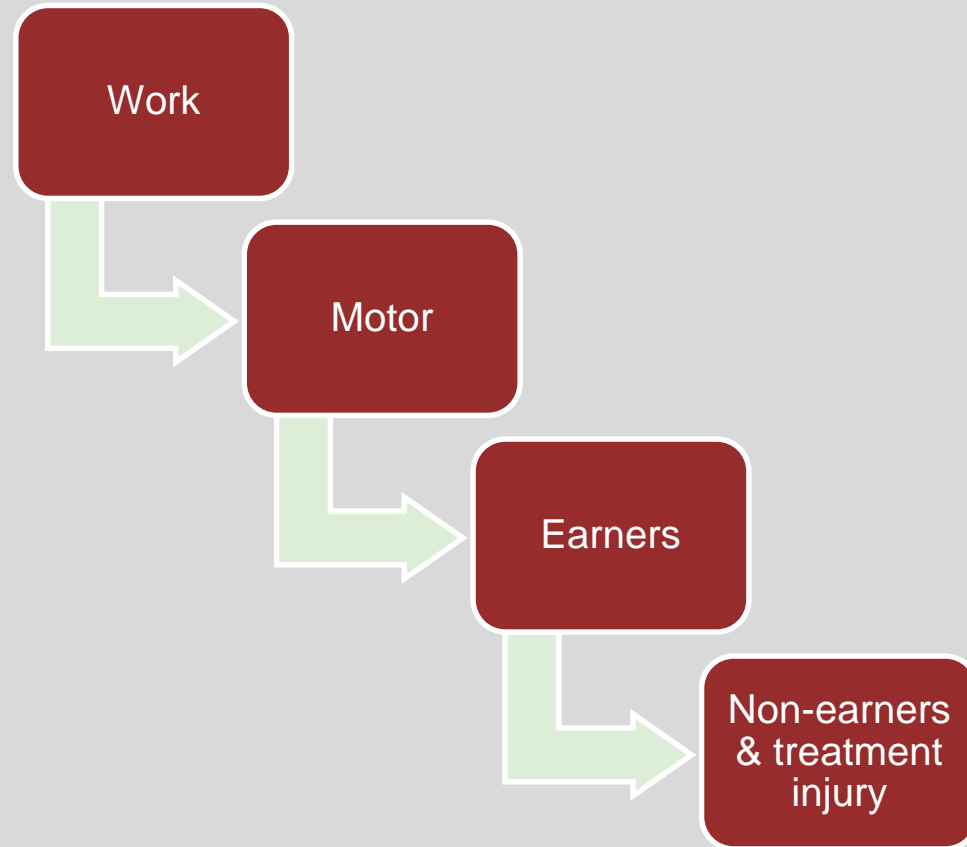
- Retired people
- People not employed
- Cost of removing FBT
- Disincentive to employ older people

Solidarity solutions: an ACC-style approach

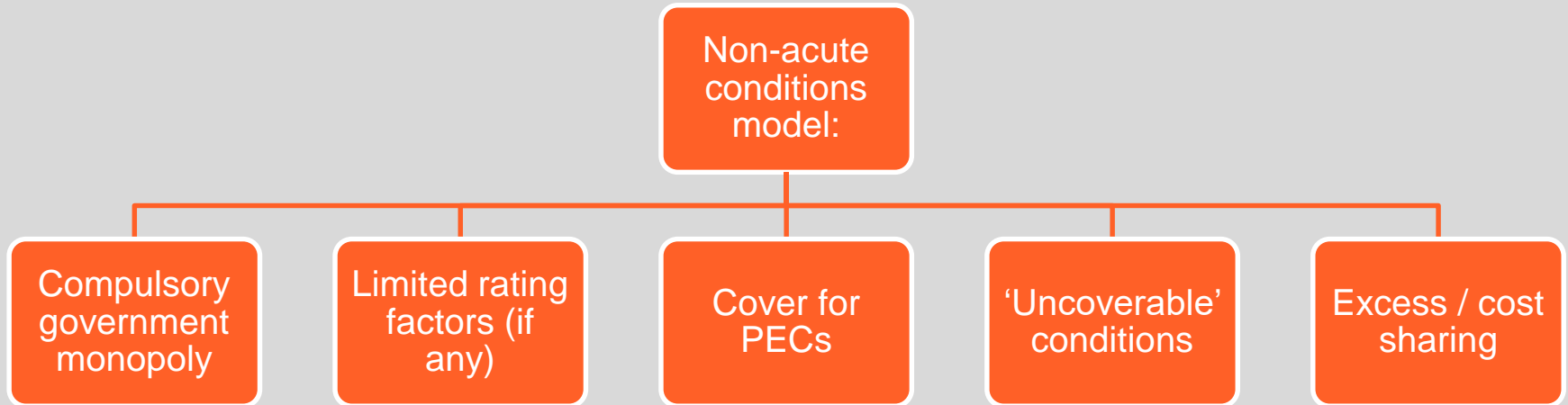


Solidarity solutions: an ACC-style approach

- Degrees of mutuality:

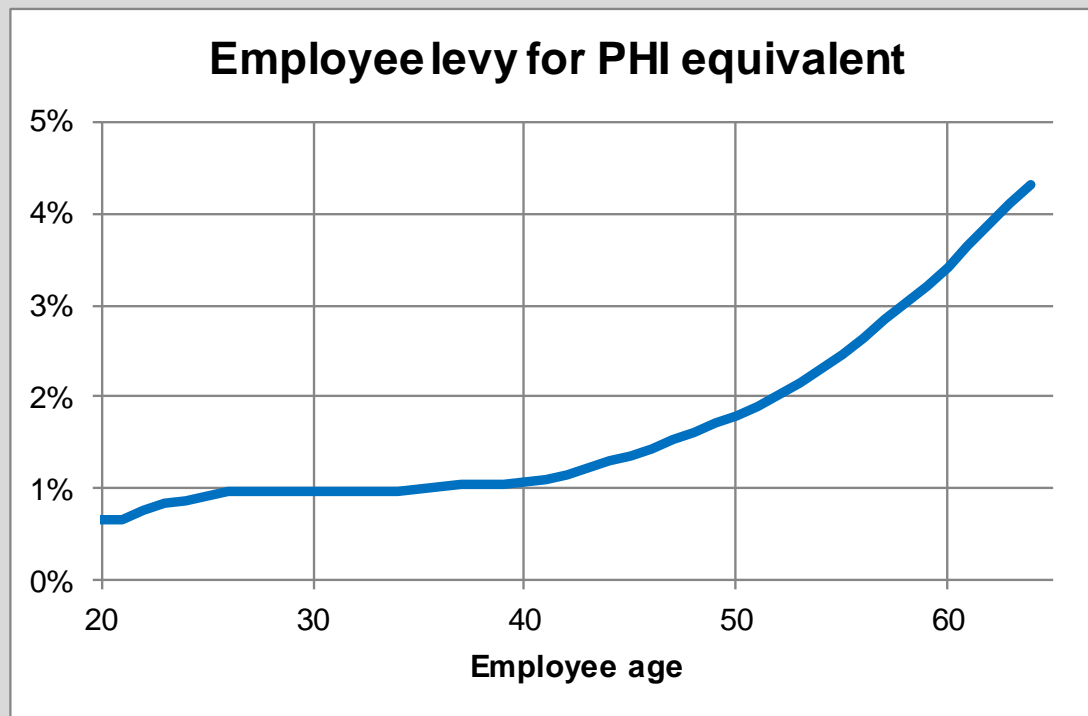


Solidarity solutions: an ACC-style approach



Solidarity solutions: an ACC-style approach

Age / employment group	Approximate population	Average PHI premium	Total cost of PHI equivalent (\$m)
18-65 employed	2,420,000	800	1,936
18-65 not employed	430,000	800	344
<18 or >65	1,800,000	1,600	2,880
Total	4,650,000	1,100	5,160



Solidarity solutions: an ACC-style approach

Cost issues

- Covering PECs costs money
- Covering the 'uncoverable'
- Reduced underwriting costs
- Administrative burden is shifted
- Utilisation (moral hazard)

Role for private insurers?

Conclusion

The problem:

- Healthcare costs going up
- Private sector to pick up more?
- Something's got to give

The solution?

- Tweaks to the mutuality model will help
- But we need solidarity

Actuaries need to think about the big picture

Mutuality and solidarity in NZ private health insurance

Q & A