

# Re-thinking the Role of Private Health Insurance in New Zealand

**Bay of Islands**  
**19 November 2012**

integrated  
healing



“No man is an Island, entire of itself;  
every man is a piece of the Continent,  
a part of the main”

John Donne, Meditation XVII



# Agenda

- Consumer Dissatisfaction with PHI Premiums for the Elderly
- Silos in Healthcare
- Stewardship of Health Systems
- Role of PHI in Other Countries
- Regulation of PHI in Australia
- Another Way of Pricing Health Insurance



# **Consumer Dissatisfaction with PHI Premiums for the Elderly**



# Consumer Dissatisfaction

- Stock: “a week of complaints in the media over the soaring cost of health insurance. Elderly people with health insurance have been struggling to cope with rising premiums that, in some cases, are consuming more than 20 per cent of their income and many have switched to "shared cover" policies where they chip in to the cost of operations so they can pay lower yearly premiums.”
- Gibson described Southern Cross as having some 90,000 society members aged over 65, “paying big premiums and upset about the high costs.”

Sources: Stock, R. (2012, 4 March 2012). Health costs enough to make you ill. Stuff by Fairfax Media Digital. URL: <http://www.stuff.co.nz/national/health/6519984/Health-costs-enough-to>

Gibson, A. (2012, 10 March 2012). Health insurer begins check-up on aged fees. New Zealand Herald. URL: [http://www.nzherald.co.nz/nz/news/article.cfm?c\\_id=1&objectid=10791117](http://www.nzherald.co.nz/nz/news/article.cfm?c_id=1&objectid=10791117)



# Southern Cross Investigation

- Southern Cross undertook an investigation into whether member longevity and loyalty could be recognised or whether rates to long term members could be reduced.
- The final report, released in August 2012, did not find any solutions that could be implemented by the Society alone.

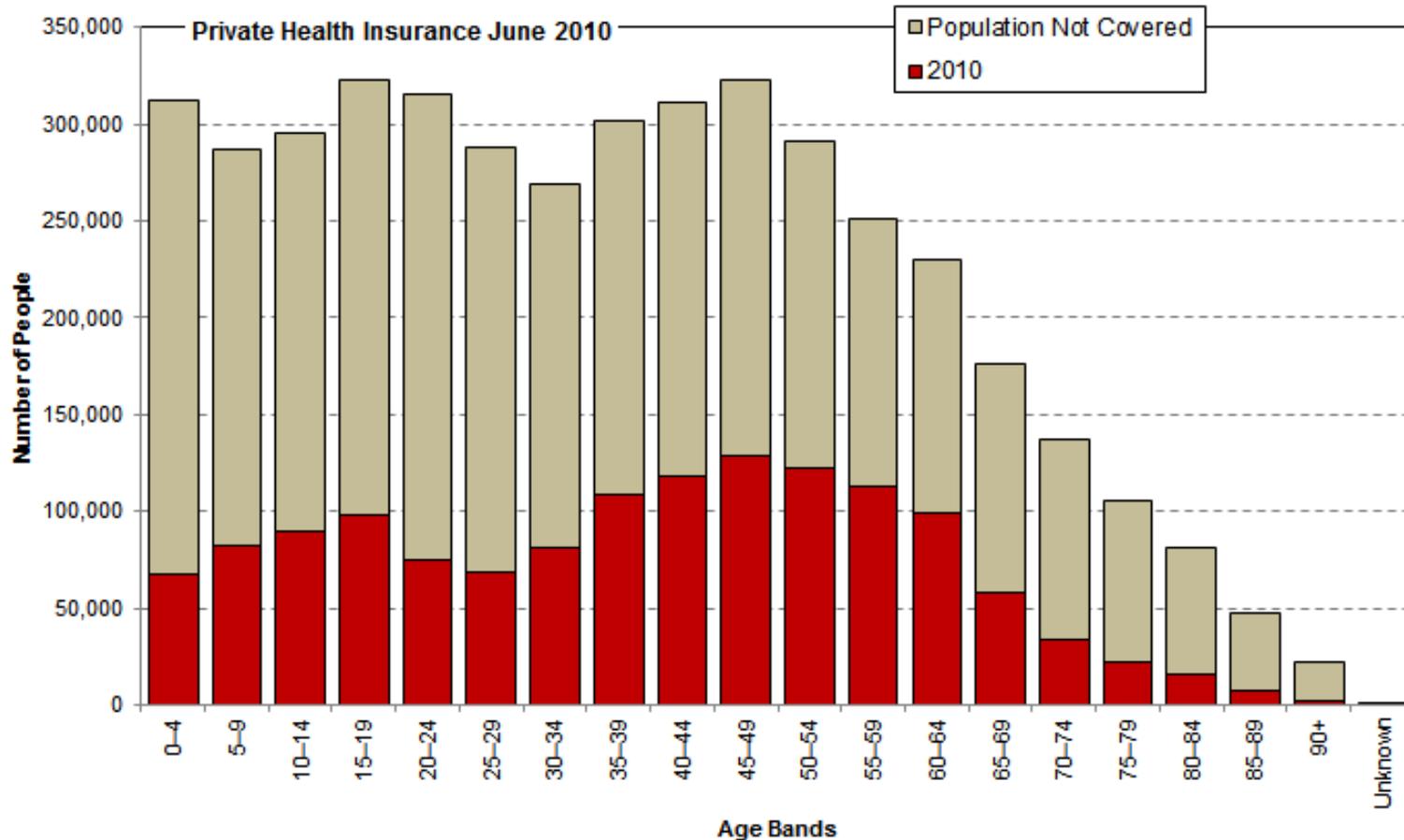
**The issue faces all health insurers in New Zealand and it will only be exacerbated by the ageing population in years to come.**

Source: Southern Cross Health Society (2012). Member Tenure Project: Recognising members of long standing. Report to the Board of the Southern Cross Medical Care Society. August 2012.

URL: <https://www.southerncross.co.nz/about-the-group/governance/society-board-news.aspx>



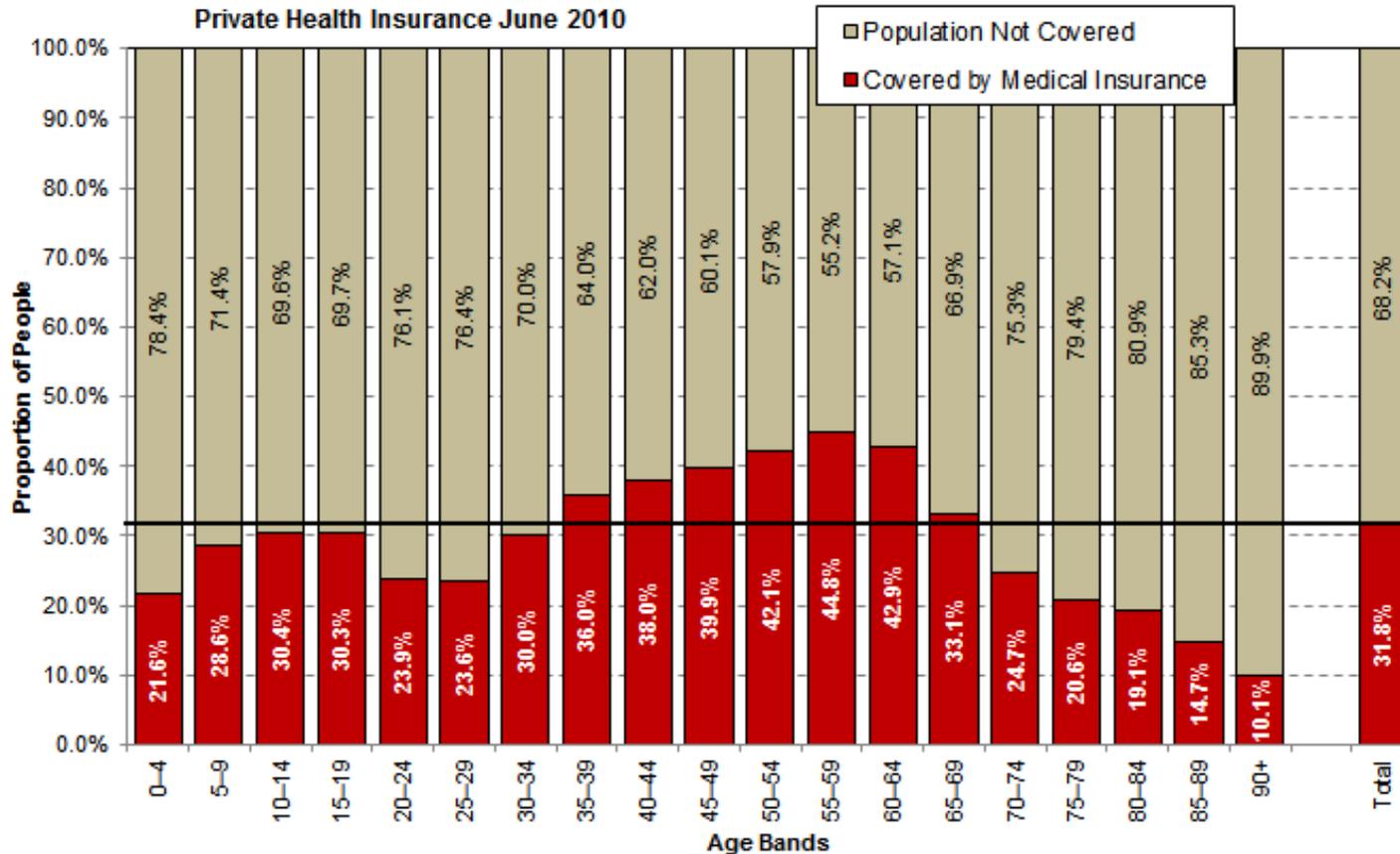
# PHI Coverage New Zealand



Numbers with private cover peak at age 45-49 and decline thereafter.



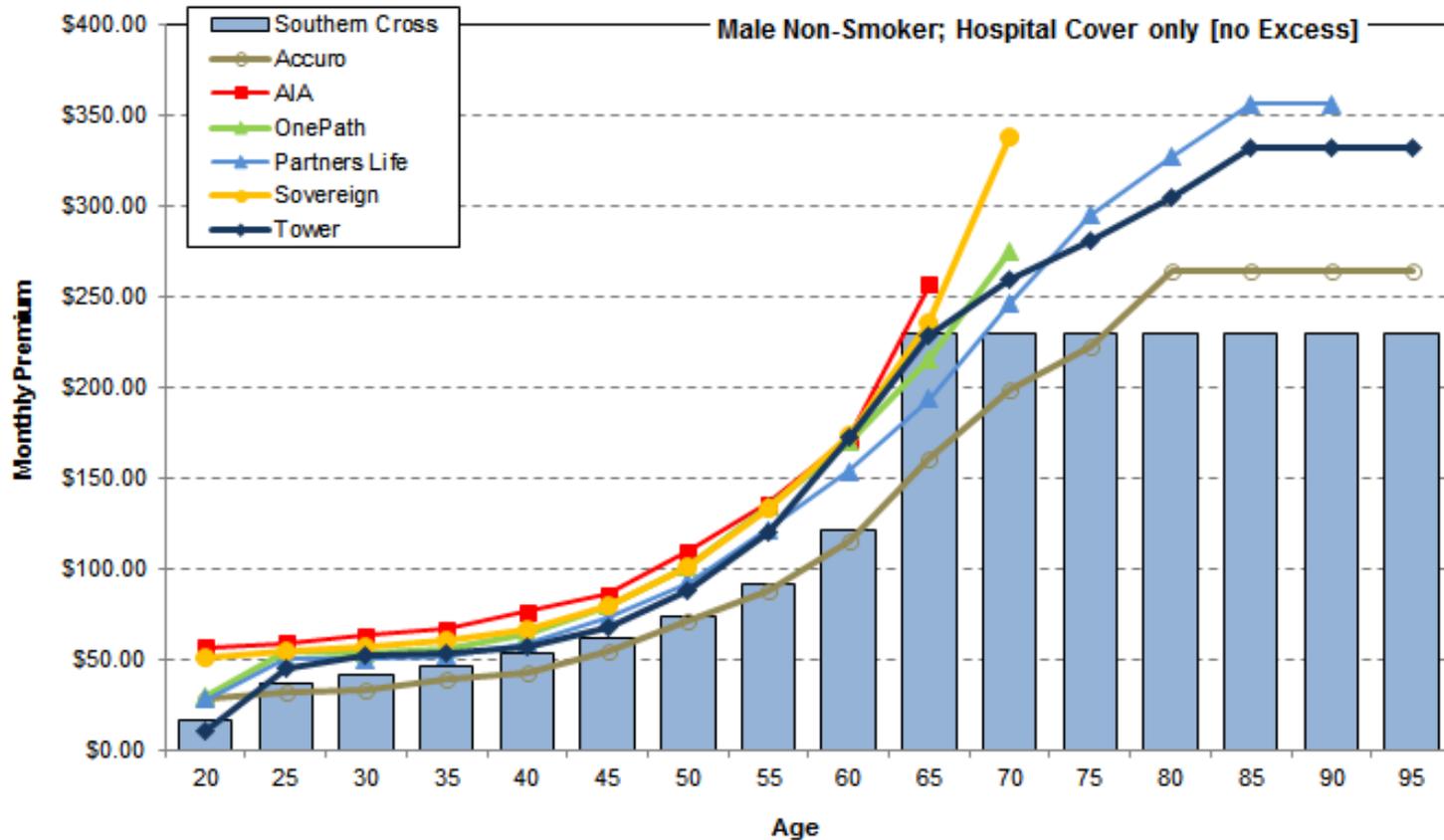
# PHI Coverage New Zealand



Proportion with private cover peaks at age 55-59 and declines steeply from age 65 onwards.



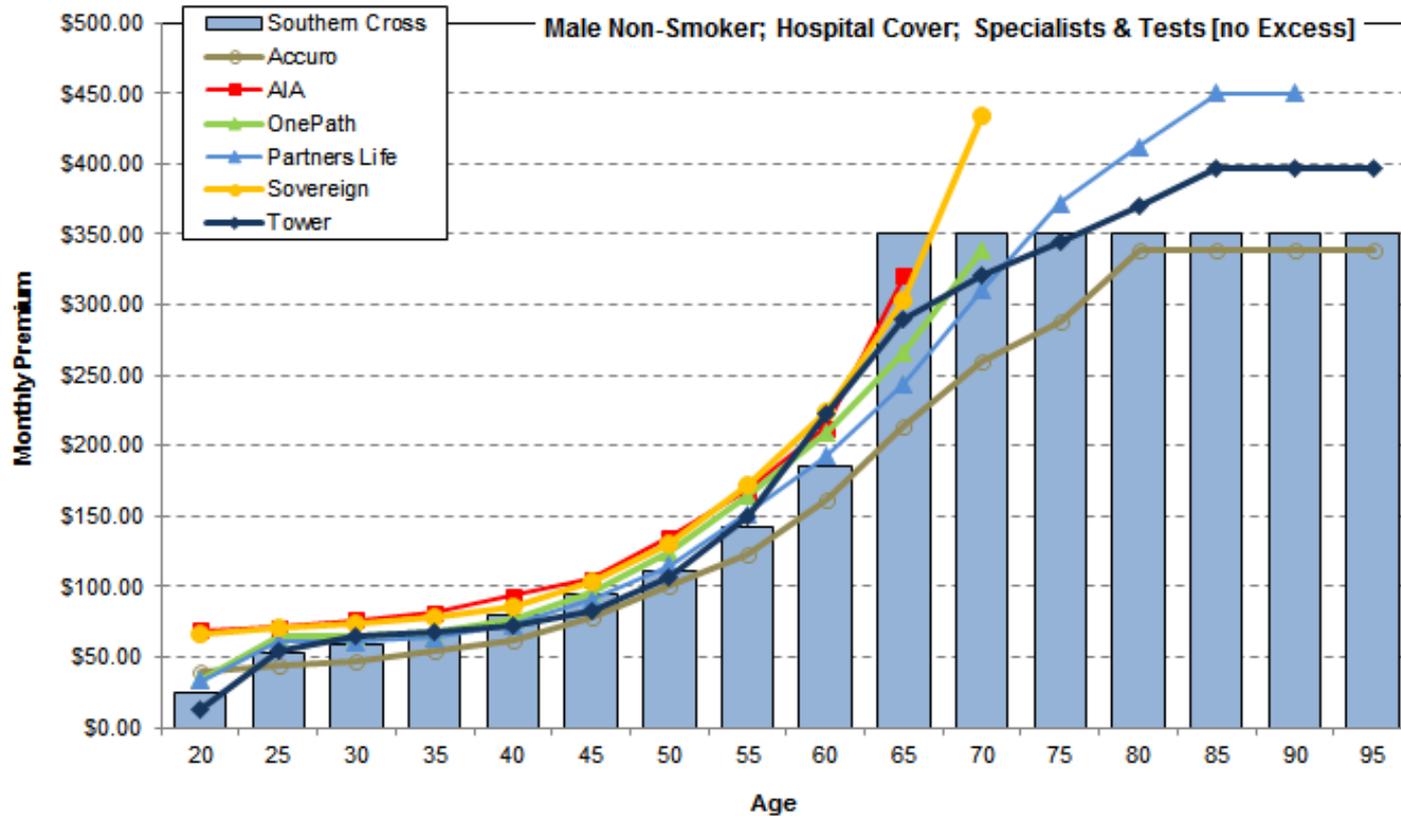
# Comparison of PHI Premiums



Male Non-Smoker, with Hospitals Cover only and with No Excess in September 2012.



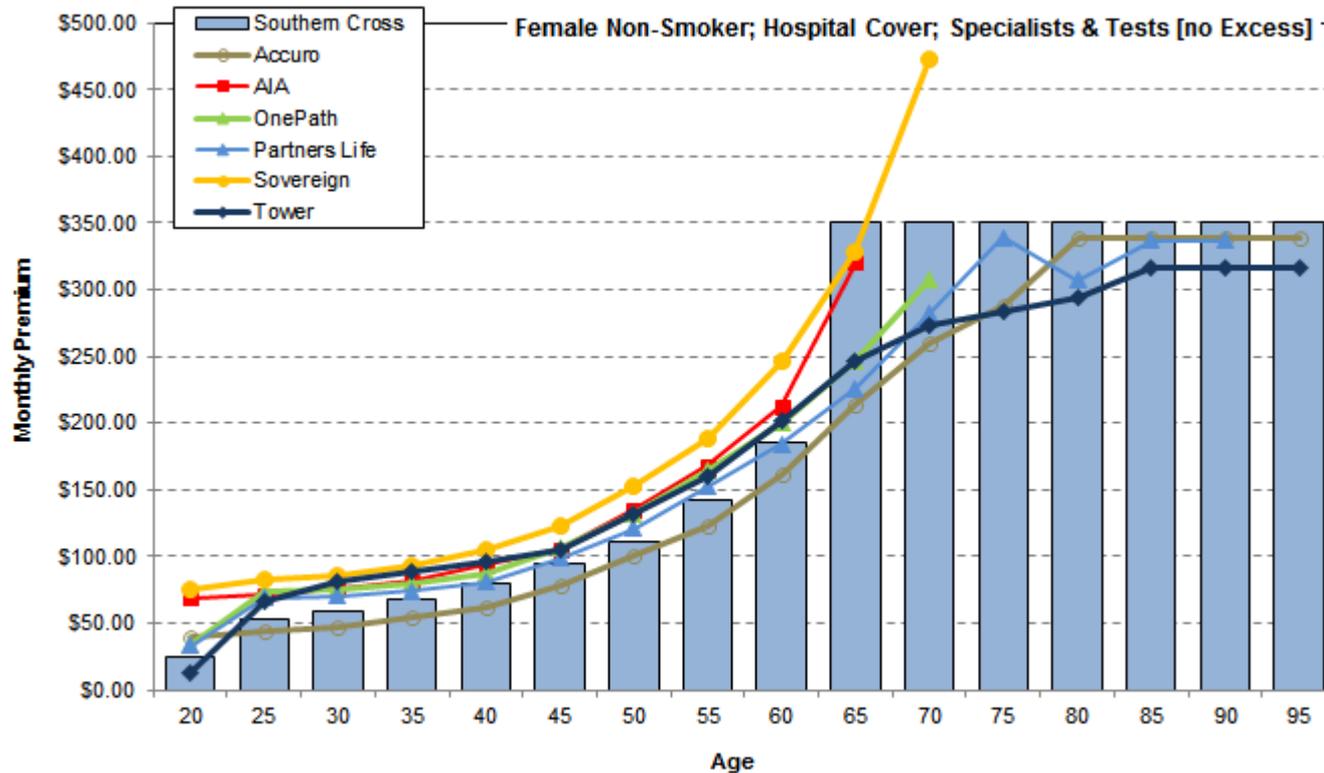
# Comparison of PHI Premiums



Male Non-Smoker, with Cover for Hospitals, Specialists & Tests and with No Excess in September 2012.



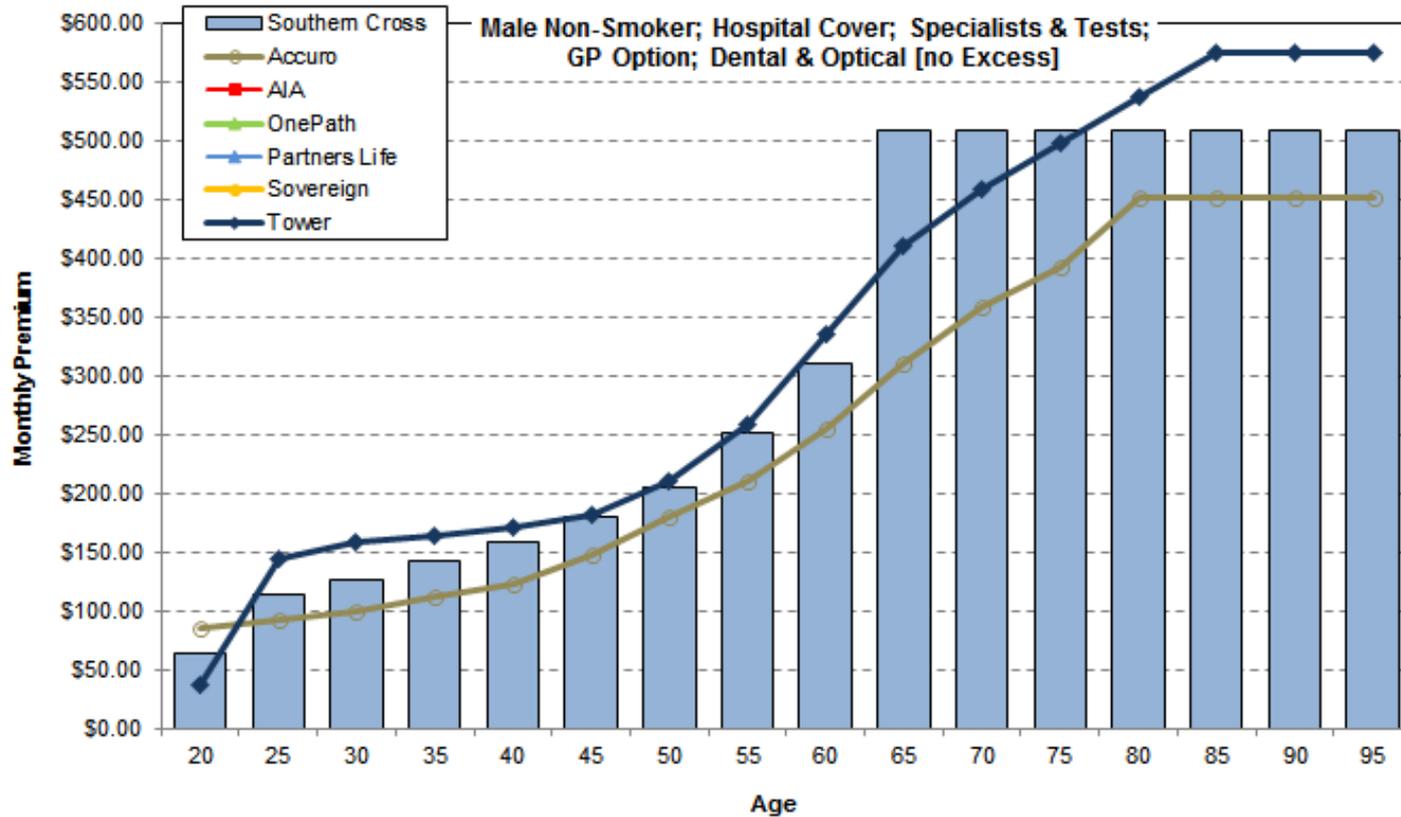
# Comparison of PHI Premiums



**Female Non-Smoker, with Cover for Hospitals, Specialists & Tests and with No Excess in September 2012.**



# Comparison of PHI Premiums



**Male Non-Smoker, with Cover for Hospitals, Specialists & Tests, GP Option, Dental & Optical and with No Excess in September 2012.**



# Monthly PHI Premiums

Health Insurer	Accuro	AIA	OnePath	Partners Life	Southern Cross	Sovereign	Tower
Age 55	\$122.82	\$168.05	\$164.11	\$151.65	\$142.77	\$171.58	\$149.99
Age 65	\$213.34	\$320.85	\$265.13	\$243.73	\$351.37	\$302.76	\$289.15
Age 75	\$288.61	not available	not available	\$372.06	\$351.37	not available	\$345.49
Increase from Age 55 to age 65	174%	191%	162%	161%	246%	176%	193%

**Male, Non-Smoker , Cover for Hospitals, Specialists & Tests and with No Excess in September 2012.**

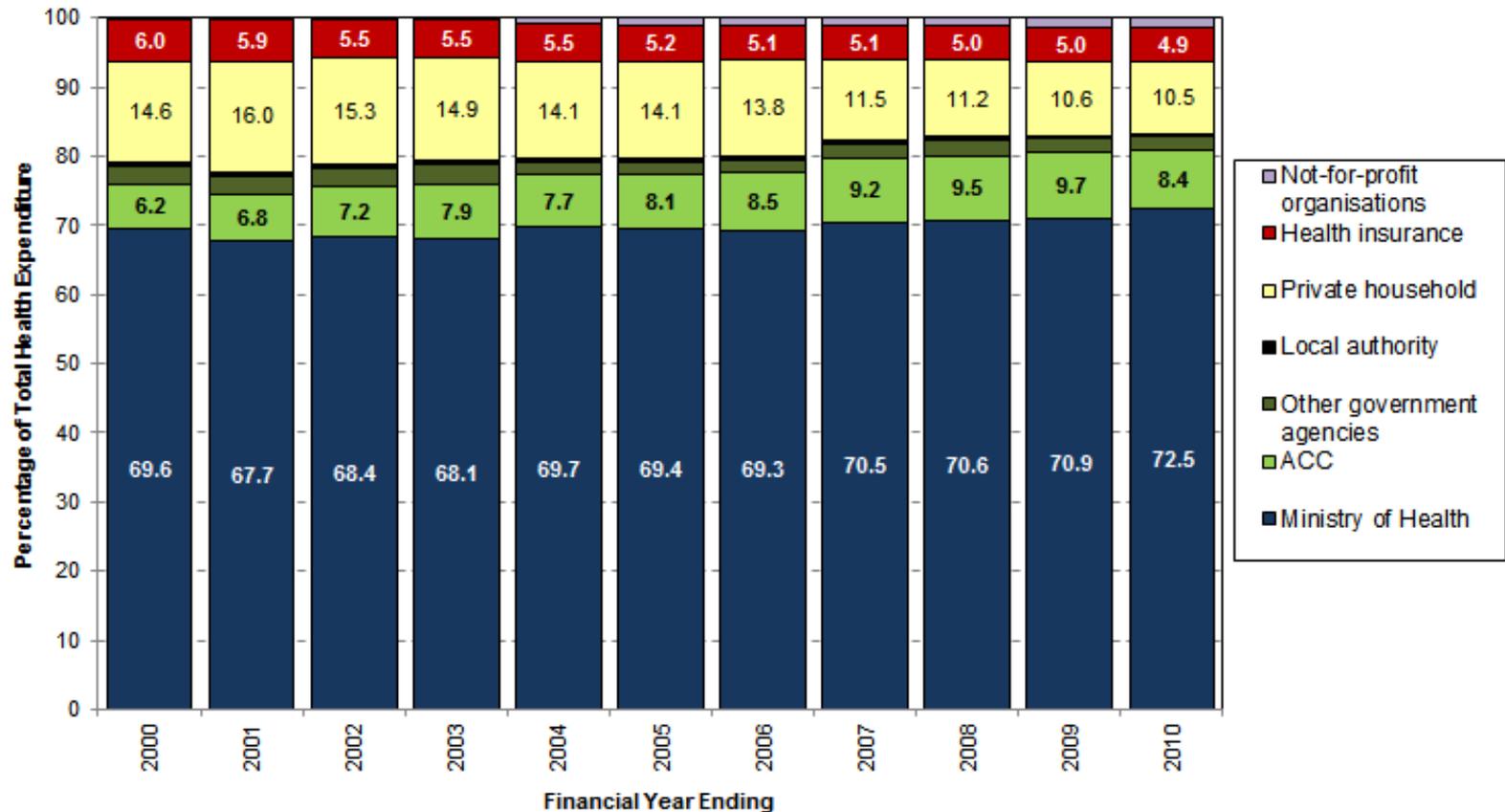
**Monthly premiums for a Southern Cross member increase by 246% from age 55 to age 65.**



# Silos in Healthcare



# Total Health Expenditure



National Health Accounts do consider all sources of funds for healthcare.



# Policy Silos

**Public Health  
Service**

**Ministry of  
Health**

**Accident  
Compensation  
Corporation**

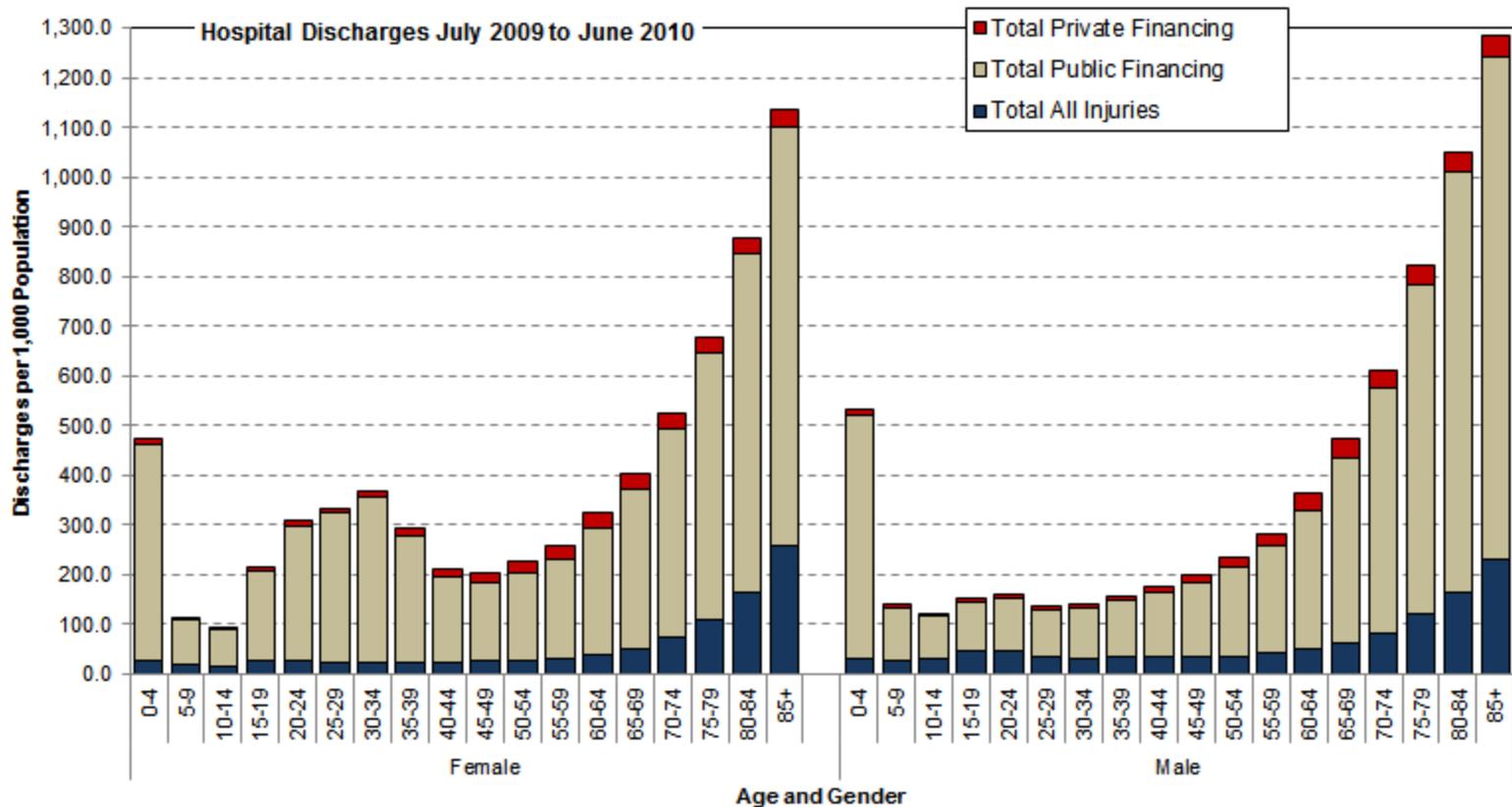
**Ministry of  
Business,  
Innovation  
and  
Employment**

**Private  
Health  
Insurance**

**Reserve Bank  
(regulator  
and  
supervisor of  
insurers)**



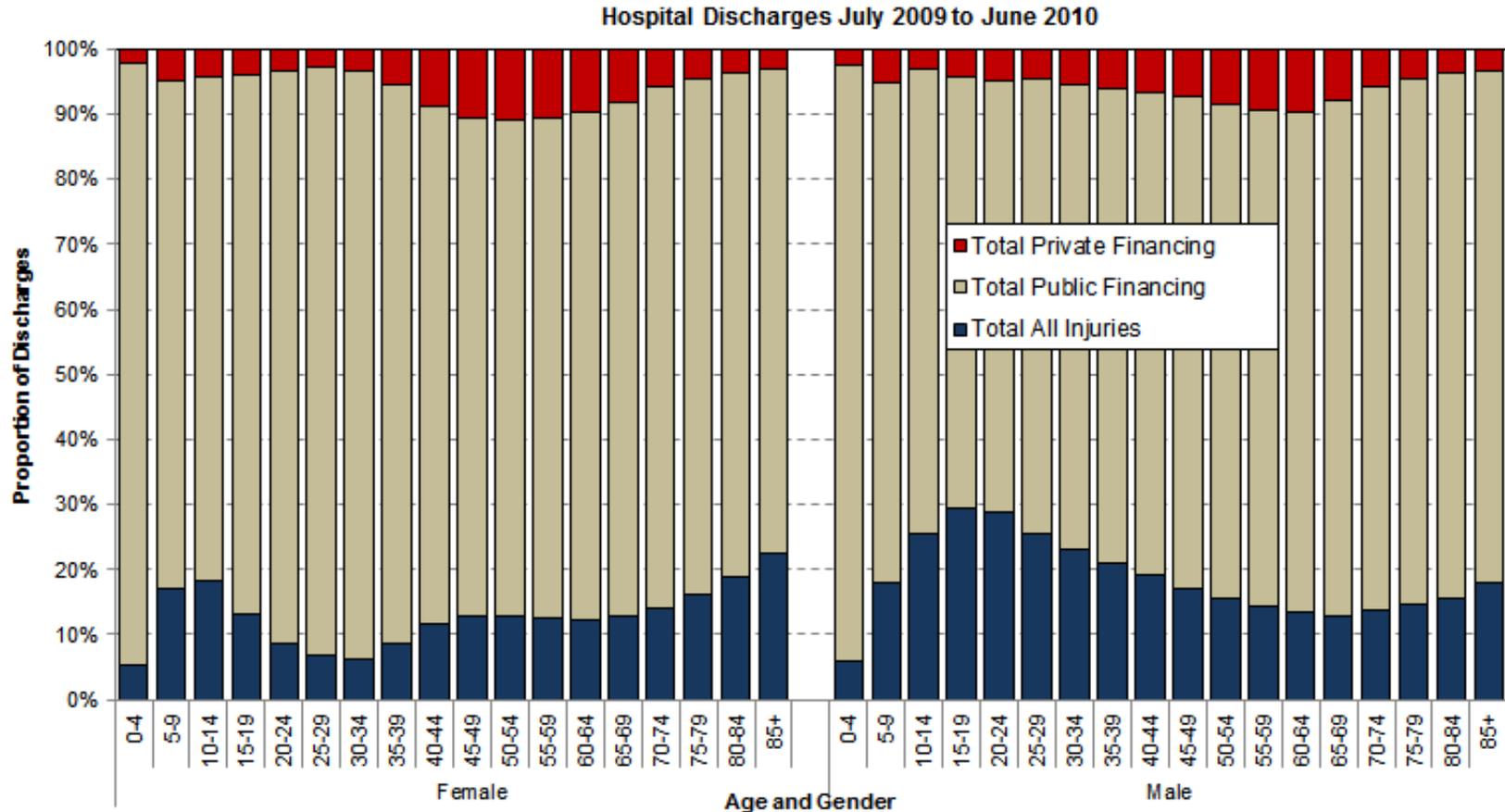
# Hospital Discharges 2009/10



Clear and expected patterns by age and gender



# Hospital Discharges 2009/10



Surprisingly high injury



# Effect of Policy Silos 1991

- Despite the best intentions, the health system does not treat all users fairly. For instance, an elderly woman who is having difficulty walking and requires a hip replacement, may have to queue for years to have the operation done at a public hospital. If she wants to have it done sooner in a private hospital she will have to pay. However, a person injured playing sport, who requires elective (non-urgent) surgery to allow them to get back to work, will be able to get tax-payer-funded treatment in a private hospital, through the Accident Compensation Corporation.



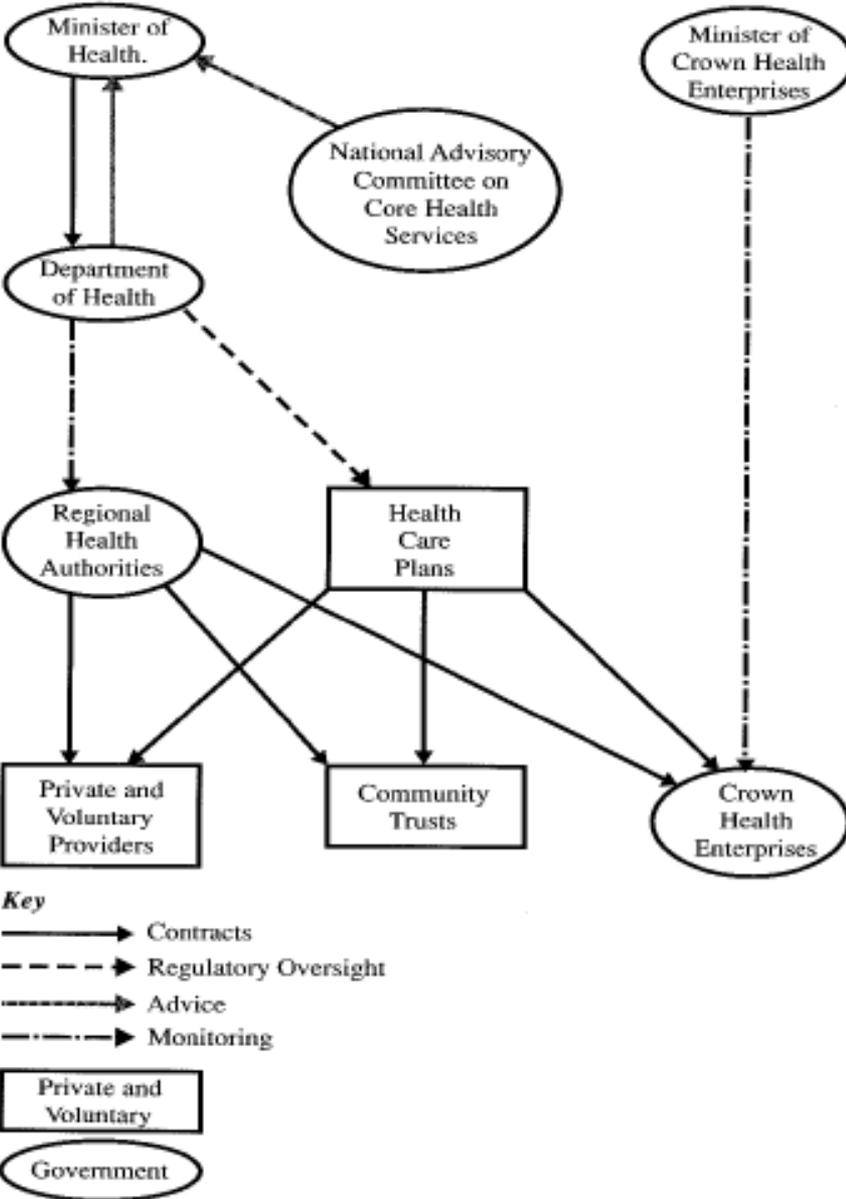
Your  
Health

& the  
Public  
Health

A STATEMENT  
*of*  
GOVERNMENT  
HEALTH POLICY  
*by the*  
HON. SIMON UPTON  
MINISTER  
OF HEALTH  
1991

# Health Policy 1991





# Health Policy 1991

**Purchaser-provider split**

**Core health services to be defined**

**Regional Health Authorities to purchase on for DoH and ACC – no difference in treatment by cause of injury**

**Choice of purchaser: PHI to compete with RHAs as purchasers of the defined package**

**Government subsidy to follow the person, with risk adjusted payments to health plans**

**“To protect clients, health plans will operate within limits set by regulation”**



# Effect of Policy Silos 2012

- “A Cambridge multiple sclerosis sufferer has backed calls by Labour ACC spokesman Andrew Little to remove an "injustice" in the no-fault scheme by extending it to cover incapacity caused by illness or disease, as well as accident.”
- “Melanie Trevethick, who was diagnosed with the disease in 1996 and is now restricted to a wheelchair, took on a fight with the Government eight years ago when she discovered there was no assistance when she needed to buy a \$92,000 wheelchair-friendly vehicle. By contrast, an ACC victim would receive full payment for the vehicle, which costs up to \$110,000.”
- "I hate injustice within our health system ...”
- "All I want is for New Zealanders who suffer serious illness to be entitled to the same level and quality of care as people who suffer an injury," she said.

Sources: Cuming, A. (2012, 6 November 2012). Sufferers seek changes to 'unjust' ACC system. Stuff by Fairfax Media Digital.

URL: <http://www.stuff.co.nz/national/health/7909948/Sufferers-seek-changes-to-unjust-ACC-system>

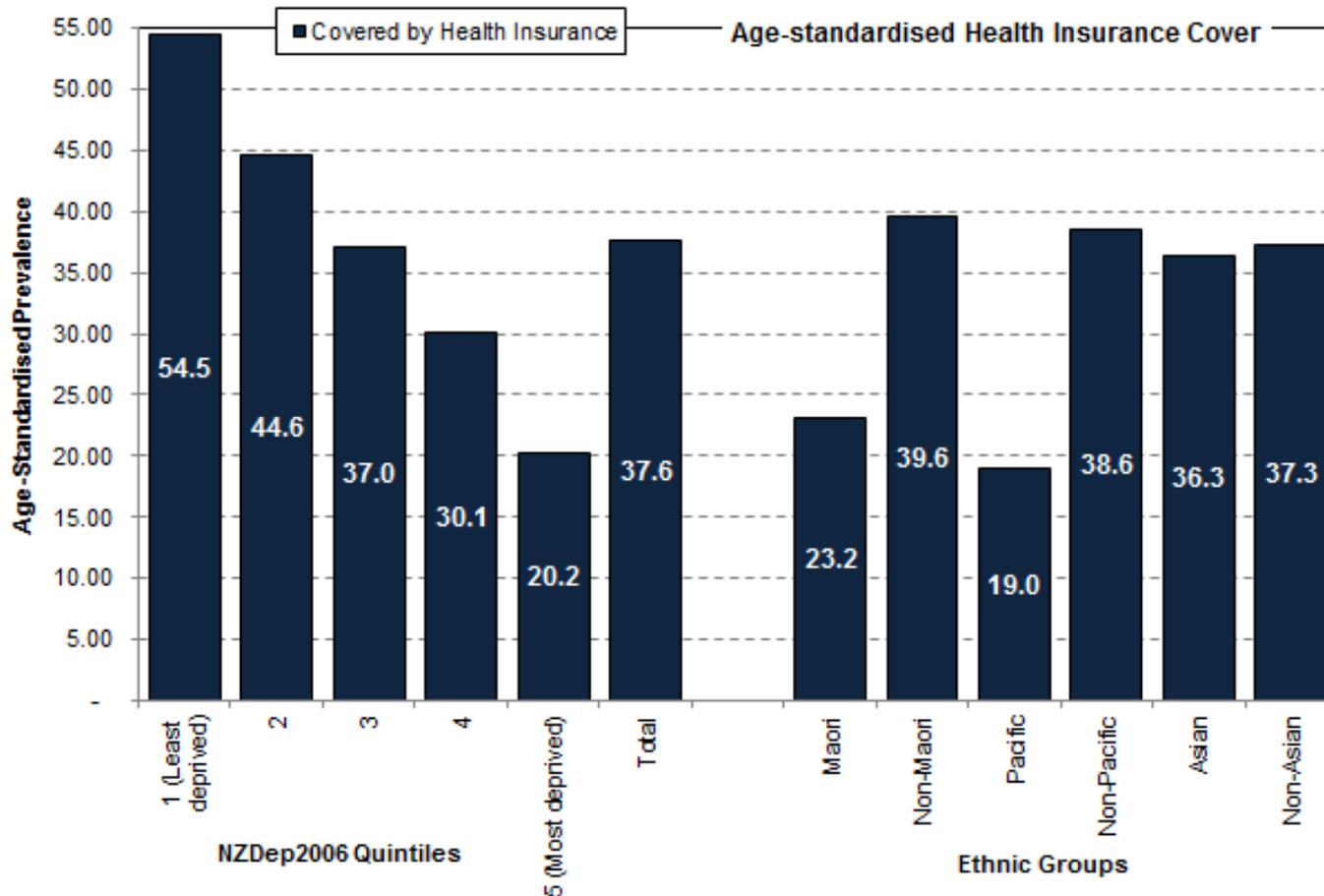


# Reserve Bank Supervision

- “Prudential supervision is about the regulation and monitoring of financial institutions and infrastructure, in order to enhance the soundness and efficiency of the financial system. .... The most compelling reasons for regulating and supervising financial institutions are to prevent the failure of one institution from affecting the financial system and the economy more widely (spill-overs and negative externalities), and to offset the negative consequences of players not bearing the full cost of their actions when things go wrong (moral hazard).”
- “Consumer protection, the attainment of predefined social goals and constraining market power are also often cited as rationales for public intervention – but prudential supervision is not generally the best tool for addressing these issues and they do not form the basis for prudential supervision in New Zealand.”



# No Equity in Access



**Differential access to elective surgery by Maori and Pasifika populations, which is at odds with explicit equity goals in the public health sector.**



# Stewardship of Health Systems



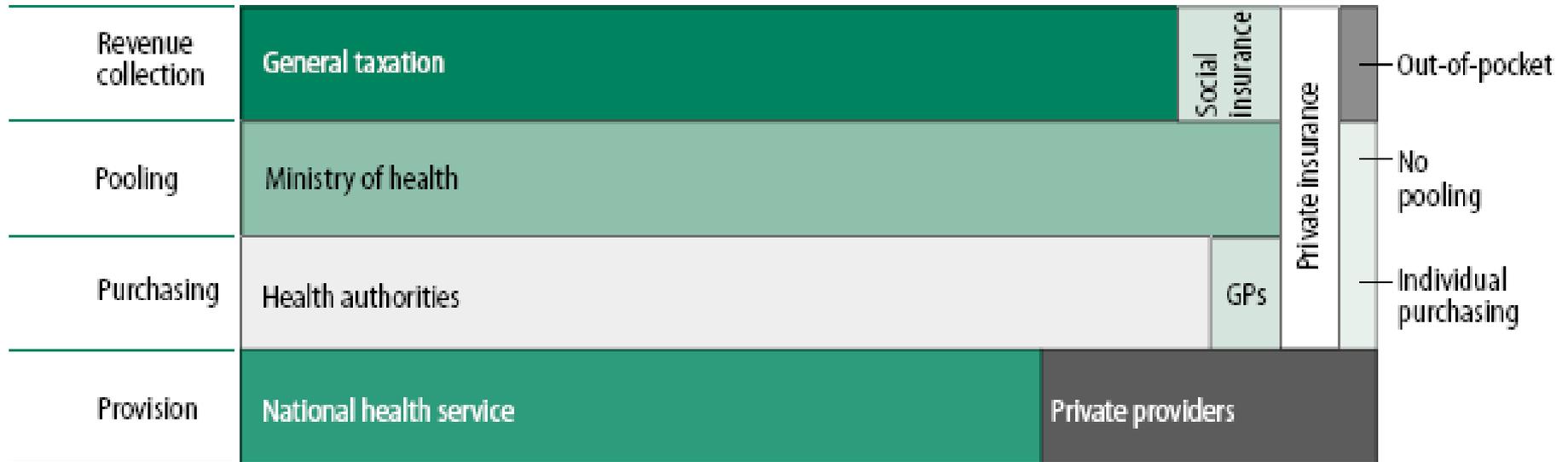
# Functions of a Health System

- **Revenue collection** is the process by which the health system receives money from households and organizations or companies, as well as from donors.
- **Pooling** is the “insurance function” within the health system. The main purpose is to share the financial risk associated with health interventions for which the need is uncertain.
- **Purchasing** is the process by which pooled funds are paid to providers in order to deliver a specified or unspecified set of health interventions. Purchasing can be passive or strategic and uses different instruments for paying providers, including budgeting.
- **Provision and Delivery** of healthcare.



# United Kingdom

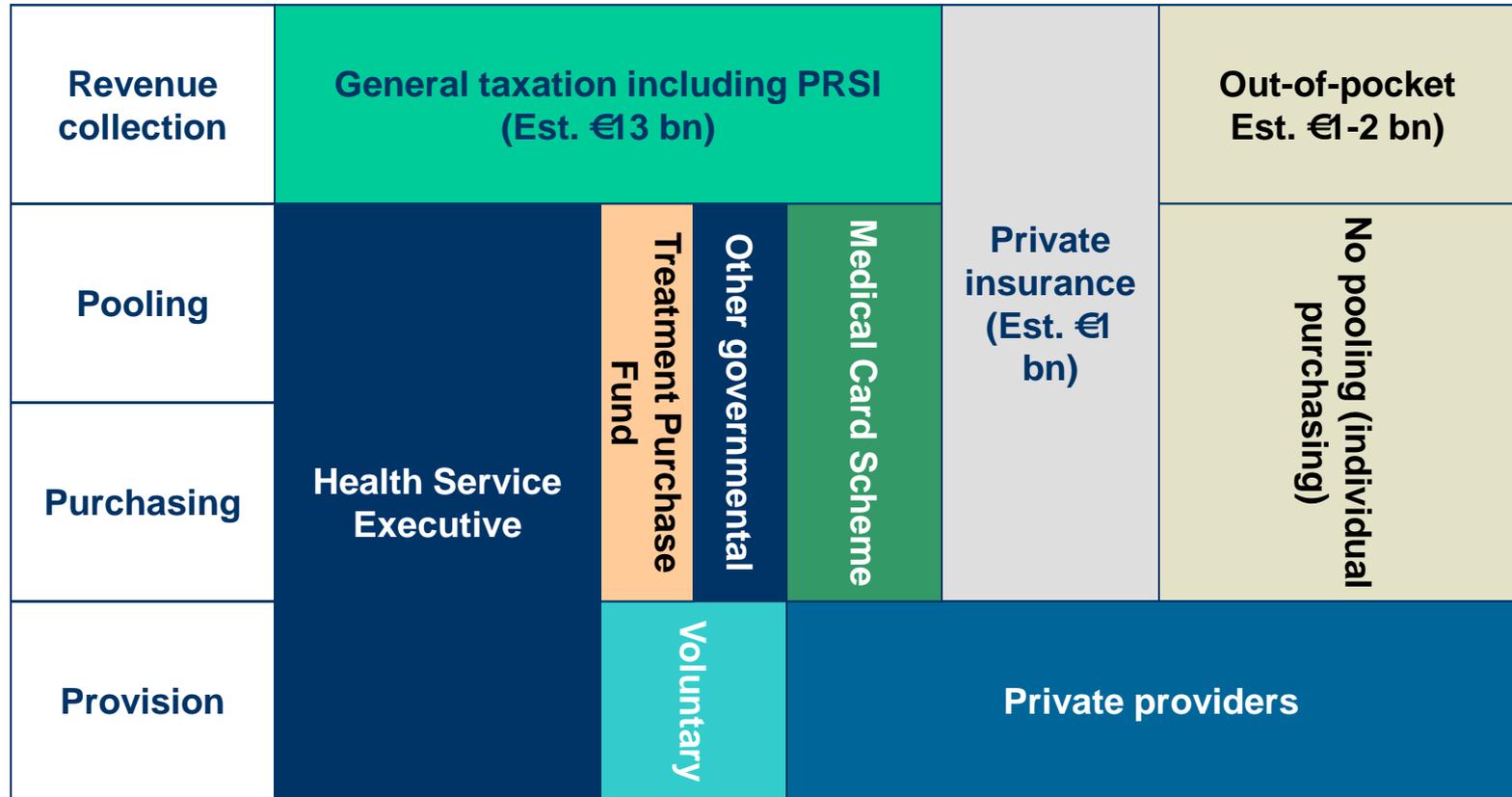
United Kingdom (1994/95)



Kutzin Framework diagram



# Ireland



**Kutzin Framework diagram**

Source: John Armstrong, VHI, Dublin

\*\* Other Governmental refers to Department of Social Welfare, Education, direct Department of Health and Children involvement

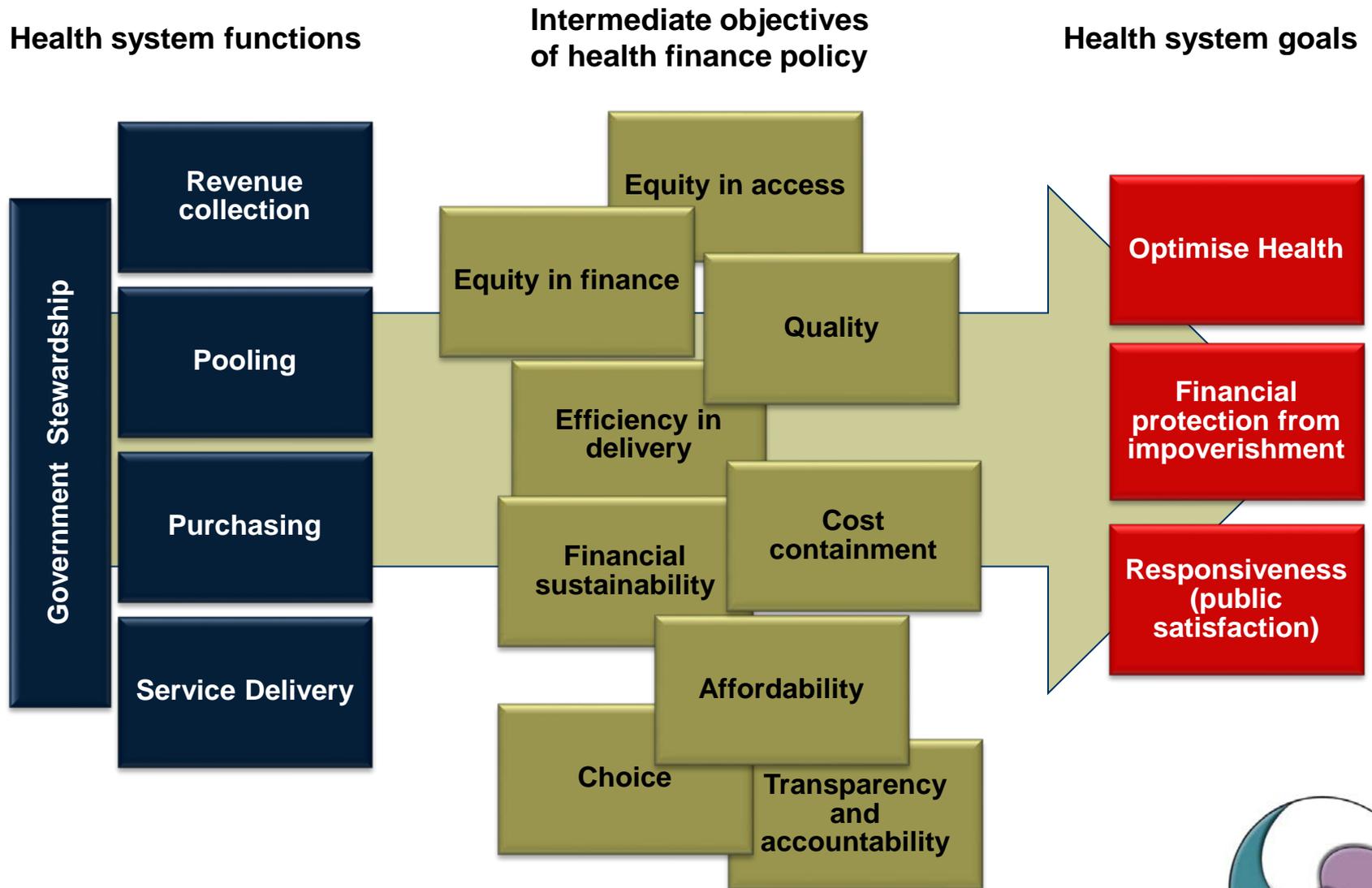


# WHO on Health Systems

- “Stewardship ... is arguably the most important. It ranks above and differs from the others ... for one outstanding reason: the ultimate responsibility for the overall performance of a country’s health system must always lie with government.
- Stewardship not only influences the other functions, it makes possible the attainment of each health system goal: improving health, responding to the legitimate expectations of the population, and fairness of contribution.”



# Functions, Objectives and Goals

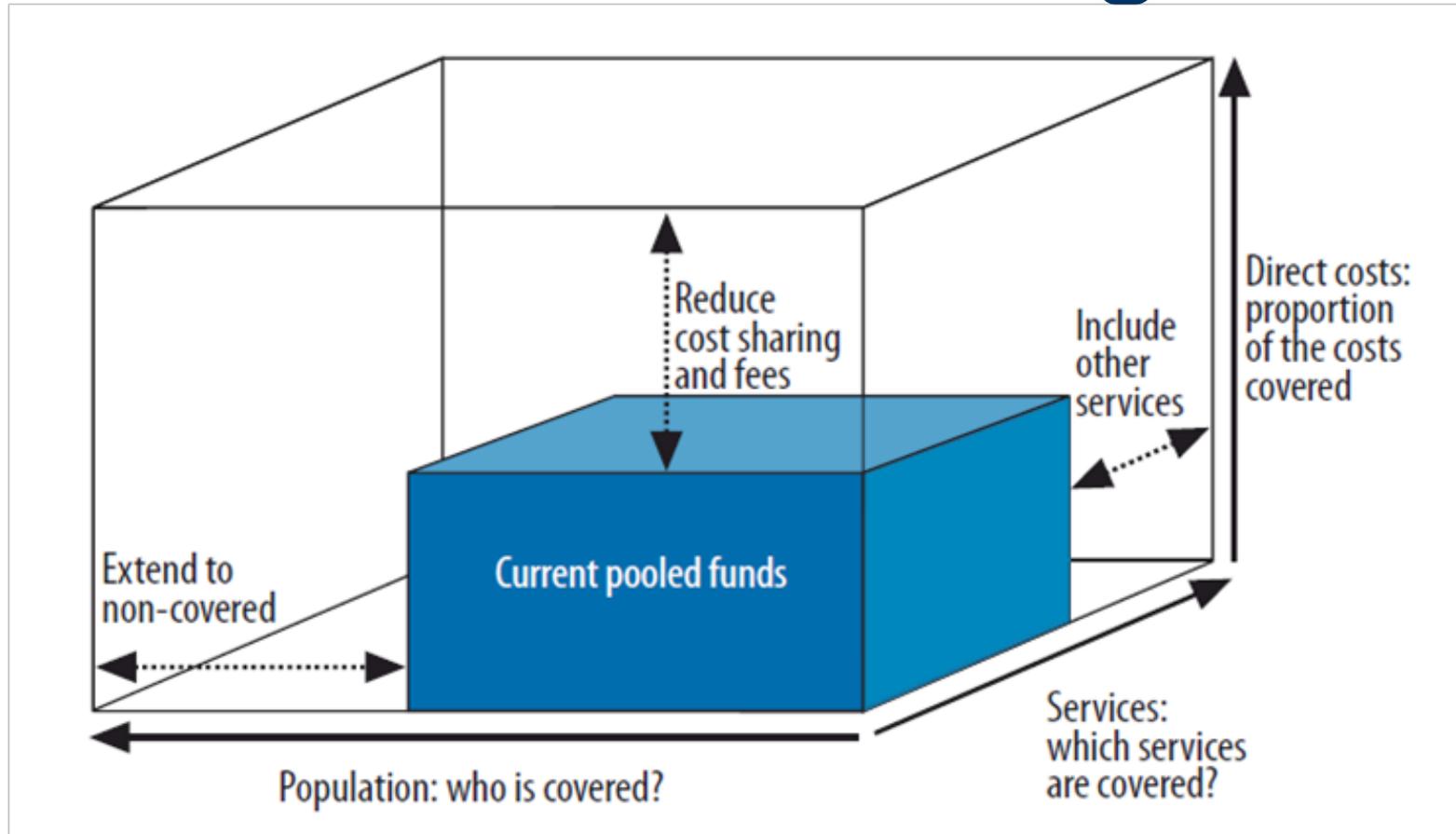


# WHO on Stewardship

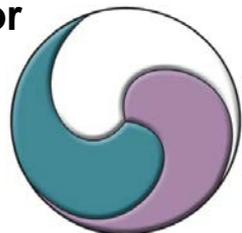
- “The notion of stewardship over all health actors and actions [emphasis added] deserves renewed emphasis. .... The harm caused by market abuses is difficult to remedy after the fact.”
- “Stricter oversight and regulation of private sector providers and insurers must be placed high on national policy agendas. Good policy needs to differentiate between providers (public or private) who are contributing to health goals, and those who are doing damage or having no effect, and encourage or sanction appropriately. Policies to change the balance between providers’ autonomy and accountability need to be monitored closely in terms of their effect on health, responsiveness and the distribution of the financing burden.”



# Universal Coverage



**Universal coverage is not, as sometimes simplistically presented, only that everyone is covered. The definition requires a reference to who is covered, for what package of healthcare and to what degree.**



# Universal Health Coverage

- “Universal health coverage (UHC) – or fairer, more efficient health financing that pools risk and shares healthcare costs equitably across the population – is about improving access to health services and reducing poverty from catastrophic healthcare expenditure.”
- “Momentum towards UHC has resulted in a growing global community of policymakers, practitioners, researchers and other international development partners who promote and support UHC.”
- PARTICIPANTS at the Second Global Symposium in Health Systems Research, in Beijing, China, in November 2012 have intensified pressure on the United Nations for a declaration on universal health coverage.
- The World Health Organisation (WHO) defines universal health coverage as ‘securing access to adequate health care for all at an affordable price.’ The organisation sees this as the single most powerful concept that public health has to offer.



# ILO on Universal Coverage

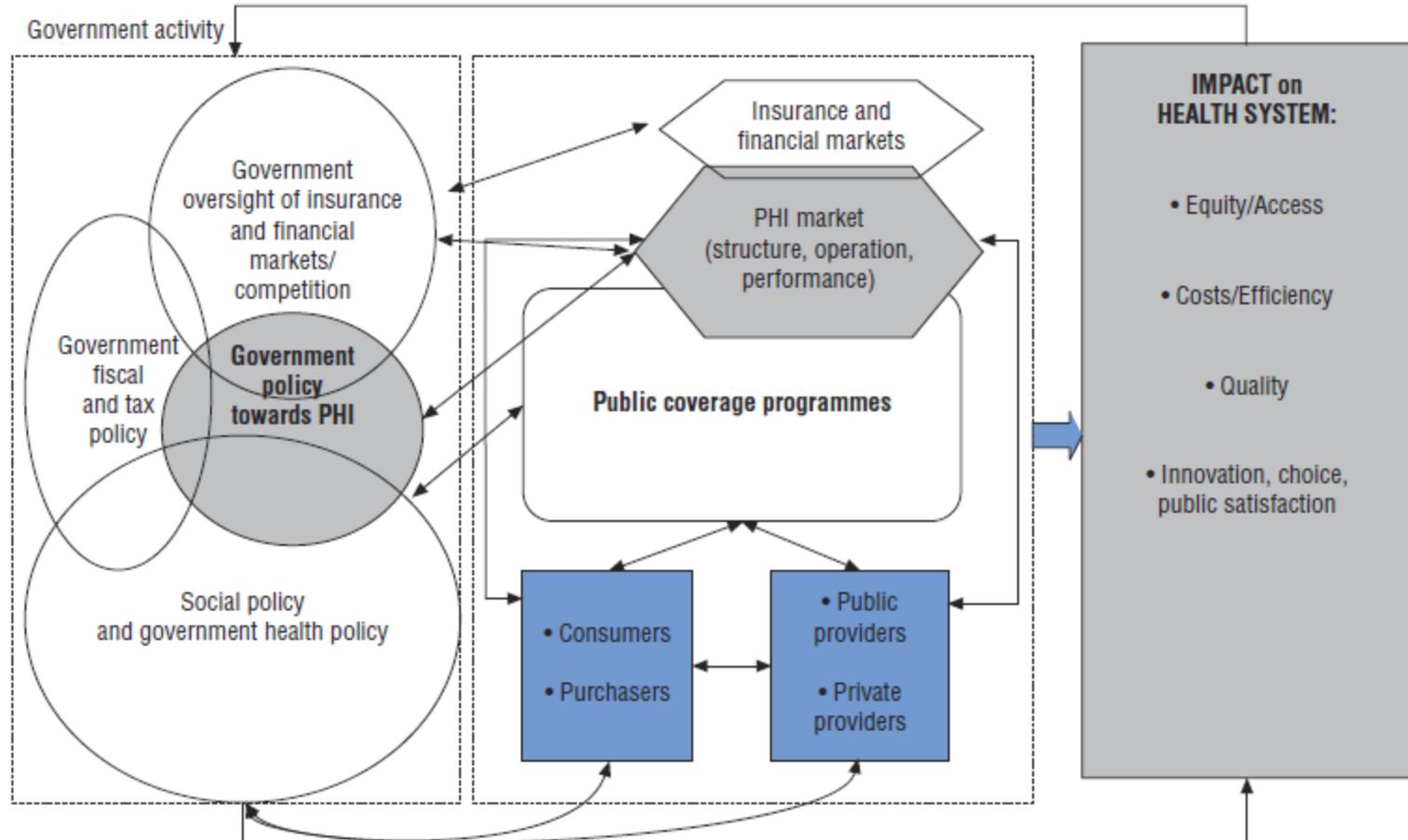
- “The approach explicitly recognizes the contribution of all existing forms of social health protection and optimizes their outcomes with a view to achieving universal coverage.”
- “Financing mechanisms of social health protection range from tax-funded National Health Service delivery systems to contributions-financed mandatory social health insurance financed by employers and workers (involving tripartite governance structure) and mandated or regulated private non-profit health insurance schemes (with a clearly defined role in a pluralistic national health financing system comprising a number of different subsystems), as well as mutual and community-based non-profit health insurance schemes.”

**Source:** International Labour Organization. Social Health Protection. An ILO strategy towards universal access to health care. A consultation August 2007. Global Campaign on Social Security and Coverage for All. Issues in Social Protection, Discussion paper 19; 2007.

URL: <http://www.ilo.org/public/english/protection/secsoc/downloads/healthpolicy.pdf>



# Government Policy on PHI



Framework for government policy on private health insurance.



# Evaluating the Impact of PHI

The OECD recommends formally evaluating the impact of PHI on the health system in the following areas:

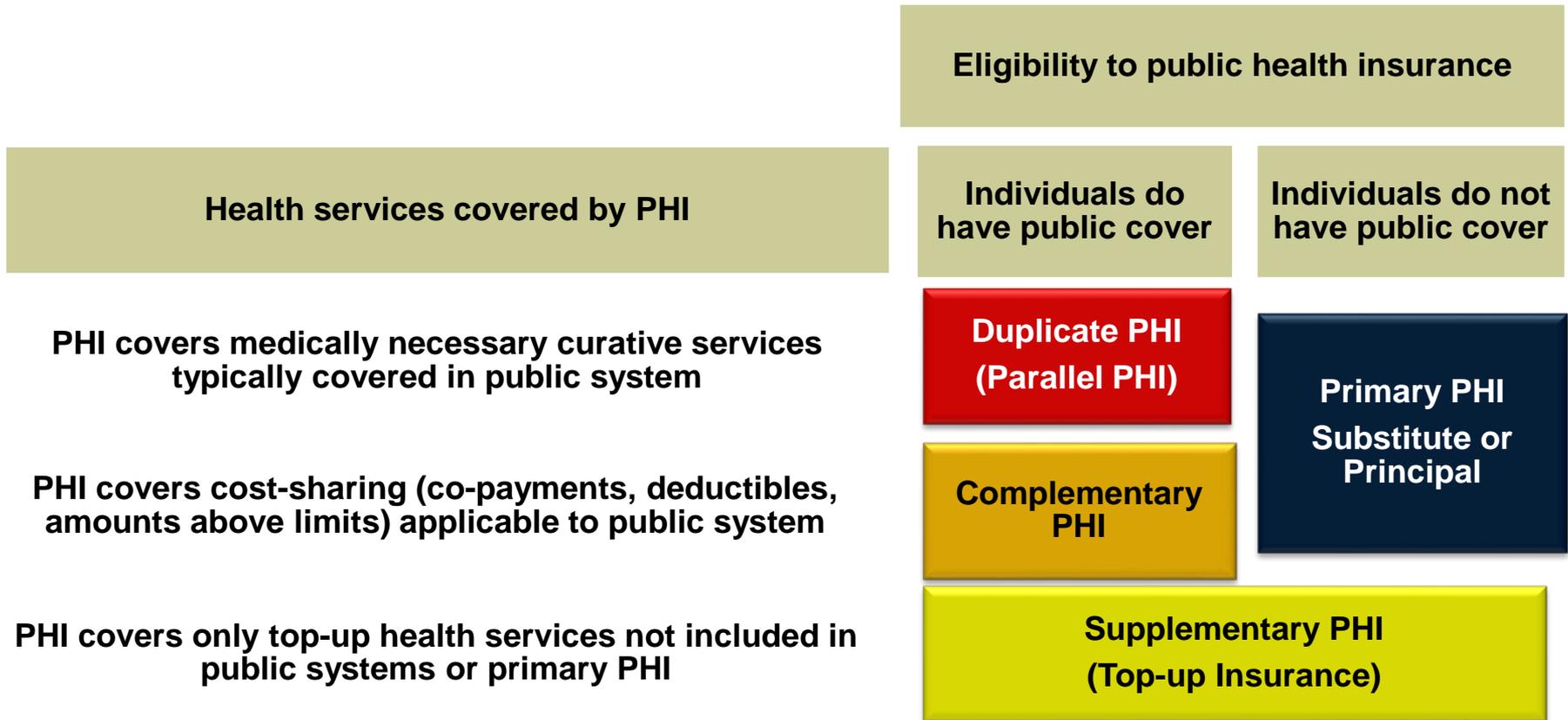
- **“Equity:** financing equity, equity of access for those without PHI.
- **Cost/efficiency:** impact on utilisation in the public and private sector (volume / mix of services), impact on health prices, cost of subsidies (if any), insures / providers incentives to consume.
- **Quality:** impact on evidence-based medicine and quality of care.
- **Responsiveness:** public satisfaction, choice, impact on waiting times, perceptions of quality of care.”



# Role of PHI in Other Countries



# Potential Role of PHI



Source: Private Health Insurance in OECD Countries, 2004.  
As amended.



# Potential Role of PHI

- **Primary PHI**: only available access to basic health cover; do not have public health insurance.
  - **Principal**: where social security scheme does not apply. Could be employer or union-based compulsory schemes.
  - **Substitute**: substitutes for public cover or employer cover.
- **Duplicate cover**: cover already included under public insurance. Does not exempt individuals from contributing to public health insurance. Can offer access to different providers or levels of service.
- **Complementary cover**: covers all or part of the costs not otherwise reimbursed (e.g. co-payments).
- **Supplementary cover**: cover for additional health services not covered by public scheme. May include services not covered by public system such as luxury care, elective care, long-term care, dental care, pharmaceuticals, rehabilitation, alternative or complementary medicine, or superior hotel and amenity hospital services.



# PHI in Competitive Markets

- Germany, the Netherlands, Belgium, Switzerland, Israel
- “From the mid-1990s citizens ... have a guaranteed periodic choice among risk-bearing sickness funds, which are responsible for purchasing their care or providing them with medical care. ...
- To achieve solidarity, all five countries have implemented a system of risk-adjusted premium subsidies (or risk equalization across risk groups), along with strict regulation of the consumers’ premium to their sickness fund.”
- “The conclusion, again, is that good risk adjustment is an essential pre-condition for reaping the benefits of a competitive health insurance market. Without good risk adjustment the disadvantages of a competitive health insurance market may outweigh its advantages.”

**References:** van de Ven, W. P. M. M., Beck, K., Buchner, F., Chernichovsky, D., Gardiol, L., Holly, A., Lamers, L. M., Schokkaert, E., Shmueli, A., Spycher, S., Van de Voorde, C., van Vliet, R. C. J. A., Wasem, J., & Zmora, I. (2003). Risk adjustment and risk selection on the sickness fund insurance market in five European countries. *Health policy (Amsterdam, Netherlands)*, 65(1), 75-98. URL: <http://linkinghub.elsevier.com/retrieve/pii/S0168851002001185?showall=true>

van de Ven, W. P. M. M., Beck, K., Van de Voorde, C., Wasem, J., & Zmora, I. (2007). Risk adjustment and risk selection in Europe: 6 years later. *Health policy (Amsterdam, Netherlands)*, 83(2), 162-179. URL:

<http://linkinghub.elsevier.com/retrieve/pii/S0168851007000024?showall=true>



# PHI in Voluntary Markets

- Ireland, Australia, South Africa
- “We conclude that the objectives of risk equalisation, in VHI [voluntary health insurance] markets are no different to those in countries with mandatory insurance systems. ...
- Our overall conclusion is that also in voluntary health insurance markets risk equalisation has a role in meeting the related public policy objectives of risk solidarity and affordability, and without it these objectives are severely undermined.”

**Reference:** Armstrong, J., Paolucci, F., McLeod, H., & van de Ven, W. P. M. M. (2010). Risk equalisation in voluntary health insurance markets: A three country comparison. *Health Policy*, 98 39-49.

URL: <http://www.healthpolicyjrn.com/article/S0168-8510%2810%2900167-3/abstract>





# Private Medical Insurance in the United Kingdom

Thomas Foubister  
Sarah Thomson  
Elias Mossialos  
Alistair McGuire

# PHI in the UK

Health economists are beginning to focus on the role of PHI in the UK.

“Despite regularly being presented as the archetypal system of supplementary VHI, little has been written about the market for PMI. ...

Our aim in this study is to help to rectify this situation – something we believe has acquired a certain urgency .”

“We aimed to provide an introduction to an often overlooked, under-researched and important component of the United Kingdom’s health care financing mix.”



# PHI in the UK

- Has been seen as an “extra” or as a luxury item, and has not been made subject to regulation (other than to ensure company solvency).
- Recently, the selling of PMI has come under statutory regulation.
- In the absence of product and price regulation the PMI market appears to behave as predicted by economic theory, in a form that approximates monopolistic competition, with insurers competing through product differentiation rather than simply on the basis of quality and price. Facilitated by the nature of pricing in this market, whereby personal characteristics affect the final price charged. ”



# PHI in the UK

- “Although PMI operates alongside the public system, it does not operate in isolation from it.
- It is possible that the existence of PMI frees up resources in the public system ... However, it is also possible that because these patients are drawing on human resources that would otherwise be engaged in delivering publicly financed care, the existence of PMI may actually have adverse effects on the operation of the public system.
- ... evidence that is available suggests that adverse consequences are likely to outweigh any beneficial effects.”



# PHI in the UK

- Public systems, such as the NHS, which provide universal cover for a comprehensive range of benefits on the basis of need alone, tend to elicit public support for reasons that relate to equity. They reflect a broad societal consensus around the existence of some form of (equal) social right to health care.”
- “... the existence of a supplementary VHI market based on the UK model threatens the de facto emergence of what is usually referred to as a “two-tier health-care system” – thereby undermining the equity underpinnings of the wider health-care system as a whole.”



# PHI in the UK

- “Arguments for providing public subsidies to subscribers to supplementary VHI are weak. ... the only strong reason for providing such subsidies is to cater to a core-voter constituency.” “This argument is weak, both technically and ethically.”
- “Given the principle of actuarial fairness that governs supplementary VHI pricing, in conjunction with the market’s freedom to select (services and risks), such a situation could lead to significant access problems further down the line.”



# Regulation of PHI in Australia



# Regulation of PHI in Australia

- **REGULATION OF INTERACTION WITH PUBLIC COVERAGE**

- Ensure sustainable and fair public health insurance
  - Coverage of services allowed to PHI
  - Provider coverage (stays in public hospitals by private patients and services provided by private hospitals).

- **FINANCIAL REGULATION**

- Promoting fund's financial stability
  - Solvency
  - Capital adequacy



# Regulation of PHI in Australia

- **REGULATION OF HEALTH FUNDS OFFERINGS AND ACTIVITIES**
- Ensuring equity of PHI coverage
  - Open enrolment
  - Community rating
  - Product approval
  - Minimum benefits
- Guaranteeing affordable coverage and financing equity
  - Premium approval
  - Gap cover scheme
- Ensuring fair competition
  - Risk-adjustment between funds



# Regulation of PHI in Australia

- **REGULATION OF HEALTH FUNDS OFFERINGS AND ACTIVITIES**
- Protecting consumers and building confidence
  - PHI Ombudsman
  - Informed financial consent
  - Information disclosure requirements
  - Portability of cover
- Protecting insurers against adverse selection
  - Waiting period
  - Pre-existing ailments
  - Exclusions and front-end deductibles
  - Lifetime cover



# Another Way



# Mutuality

- Is the normal form of commercial insurance, whether or not it is run by a mutual insurance company or one owned by shareholders.
- Applicants contribute to the pool through a premium that relates to their particular risk at the time of the application, perceived as well as it can be at that time on the basis of all the facts that are available and relevant, ...
- The pooled funds then pay those insured who suffer losses in accordance with the scale of their losses for things like fire, household and marine insurance, or in accordance with the agreed sum assured for life insurance.

**Mutuality = commercial insurance**  
**Voluntary membership. Risk-rating and underwriting.**  
**Contribute according to risk.**



# Solidarity

- Is a concept that has some similarity to mutuality, but also a profound difference. The similarity is that losses are paid according to need, and the difference is that contributions are made not in accordance with the risks that each applicant brings in with him, but perhaps according to ability to pay, or just equally.
- Solidarity is the basis of what goes under a variety of names, such as social security, social insurance or national insurance - some measure of universality and some measure of compulsion.
- Usually it is necessary that contributions have been paid, but there may be no direct relationship between the amount of contribution and the amount of benefit.

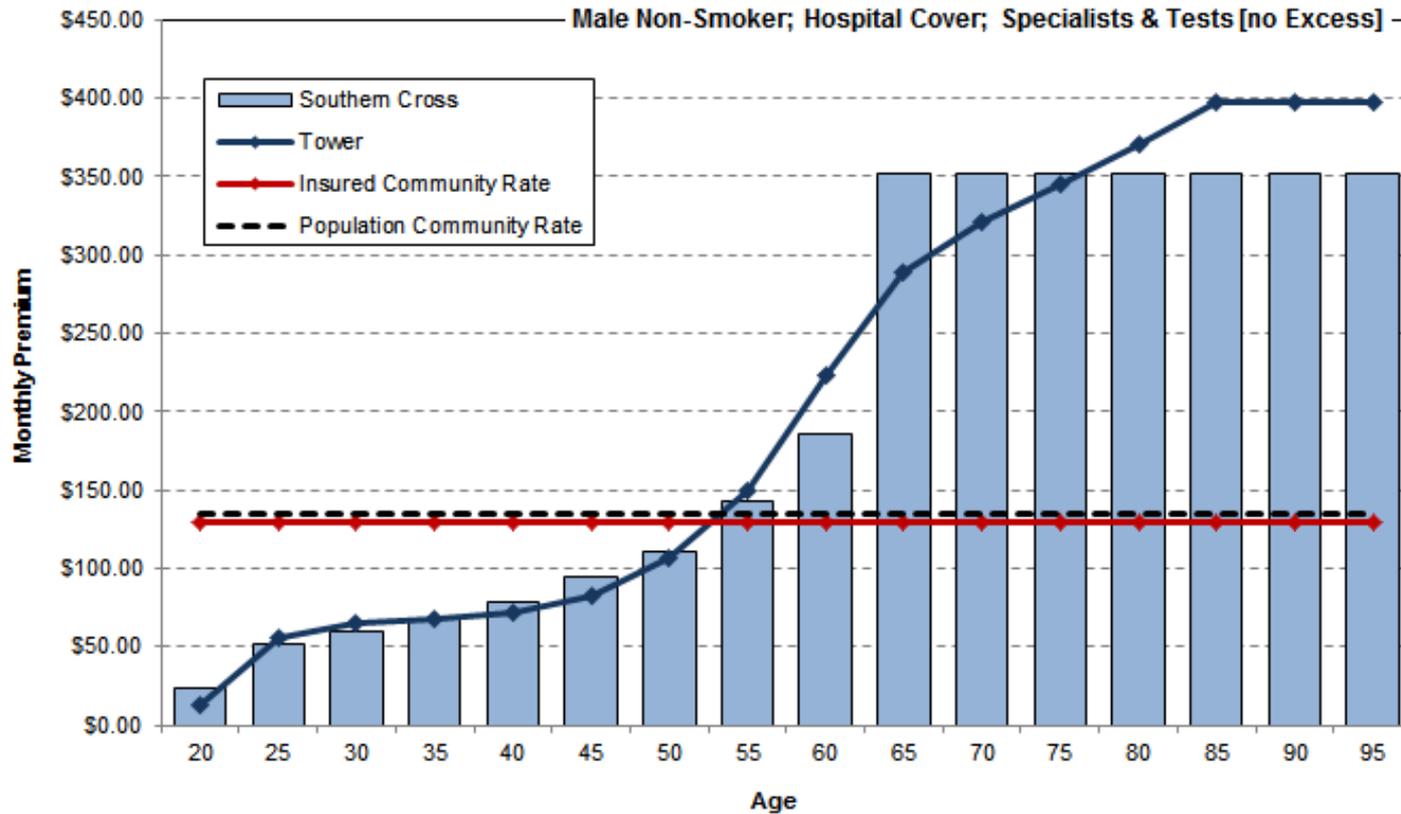
**Solidarity = social insurance**  
**Compulsory membership for all or defined group.**  
**Contribute equally or according to ability to pay.**

# Equity and Fairness

- Fairness of financial risk protection requires the highest possible degree of separation between contributions and utilization. This is particularly so for interventions that are high cost relative to the household's capacity to pay. In addition to affording protection against having to pay out of pocket and, as a result, facing barriers to access, prepayment makes it possible to spread the financial risk among members of a pool.
- In practice, in the majority of health systems, risk and income cross-subsidization occurs via a combination of two approaches: pooling and government subsidy.
- Cross-subsidization can also occur among members of different pools (in a multiple pool system) via explicit risk and income equalization mechanisms.



# Rough Community Rate



**Very rough – to illustrate the principal for Southern Cross. Community rate \$128.96 using insured population and \$134.90 using total population.**

**Derivation:** using quotes September 2011 with industry and total population 2010. Would need to combine male and female, non-smoker and smoker, and include children in the calculation.



# Suggested Key Elements

- Open enrolment
- Community-rating
- Defined benefit package or packages
- Common date for changes and increases
- Portability between insurers
- Risk equalisation between insurers
  
- Protection against adverse selection:
  - Waiting periods for individuals; waive for groups
  - Late-joiner penalties



# Conclusions

- The Ministry of Health has not yet set any “rules of the game” for the operation of PHI in New Zealand.
- The Ministry of Health should acknowledge the need for stewardship of all healthcare, including private health insurance, and begin to explore the need for formal regulation of PHI.
- A discussion document on the role of PHI in the New Zealand health system and on models adopted in similar markets is needed in order to initiate wide consultation and stimulate research.
- Actuaries are called to change their viewpoint from seeing each health insurer as an island, to seeing the continent of the whole health system. In doing so, actuaries have an opportunity to improve equity and outcomes for users of private health insurance.



“No man is an Island, entire of itself;  
every man is a piece of the Continent,  
a part of the main”

John Donne, Meditation XVII



integrated  
healing



Body, Mind, Soul

**Professor Heather McLeod**

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