

# Health Insurance Premiums for Seniors

NZ Society of Actuaries  
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# HI Premiums for Seniors

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- Overview
  - Human Rights Act
  - Claim volatility
  - Community rating stable?
  - Community rating age limit?
  - Affordability
  - Other options

# HI Premiums for Seniors

- Age bands vs community rated
- 1 year to 64, then 65+
- 1 year to 84, then 85+
- 1 year to 69, then 70+
- 5 years to 79, then 80+
- 1 year to 79, then 80+
- 5 years to 64, then 65+
- 1 year to 81, then 82+

# Human Rights Act


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- S48 exemption for age, gender, disability
  - NZSOA Guidance Note 3A
  - Human Rights Commission Guidelines
  - HFANZ Guidance Note
  - Age banded & community rating okay
  - All require justification of premiums wrt claims & expenses

# Claim volatility



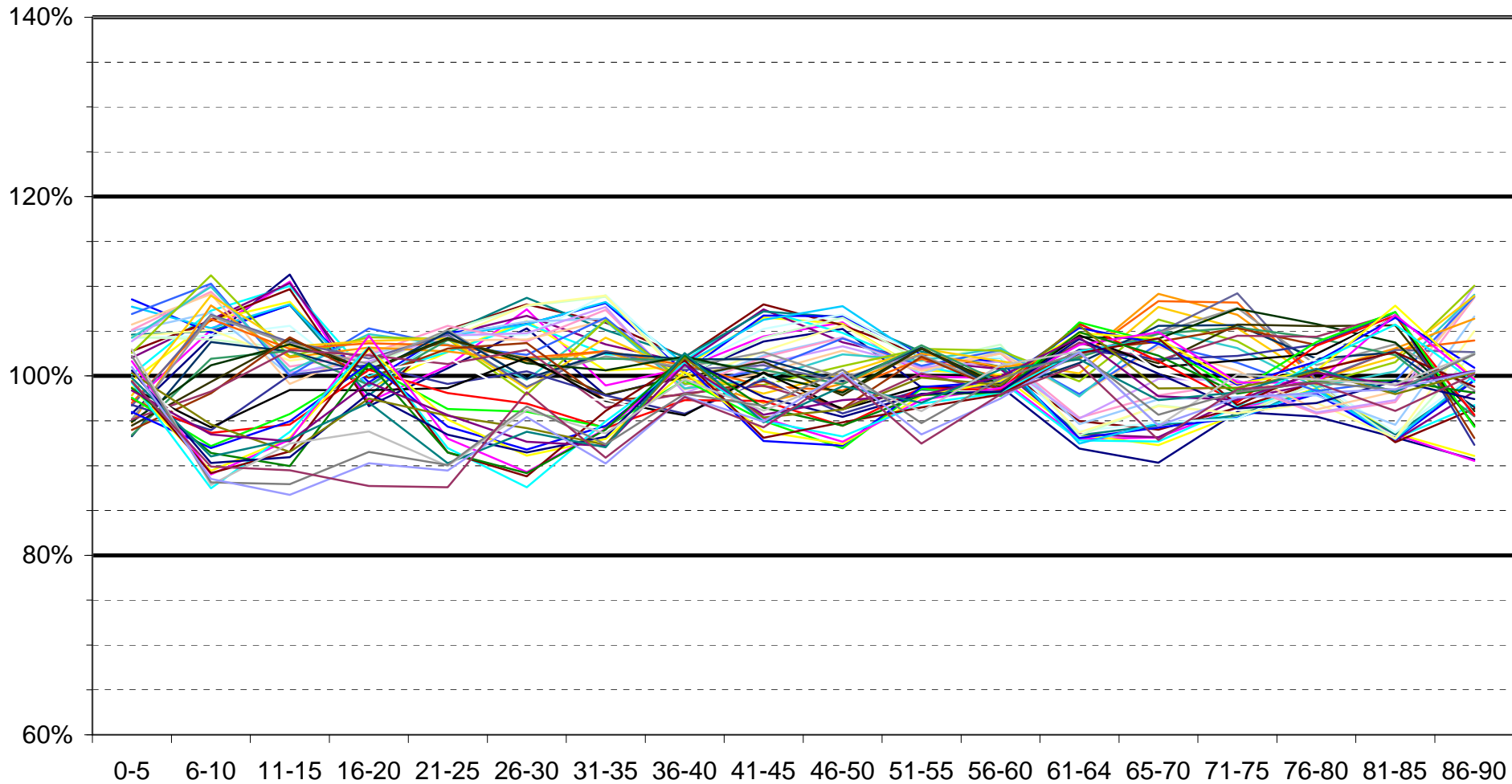
- Function of
  - number of insureds (Regular ~10k, H&S ~3k per age band)
  - claim frequency
  - claim severity

# Claim volatility

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- Oldest ages have high claim volatility
  - Community rating reduces claim volatility
    - bigger population
    - little weight on oldest ages

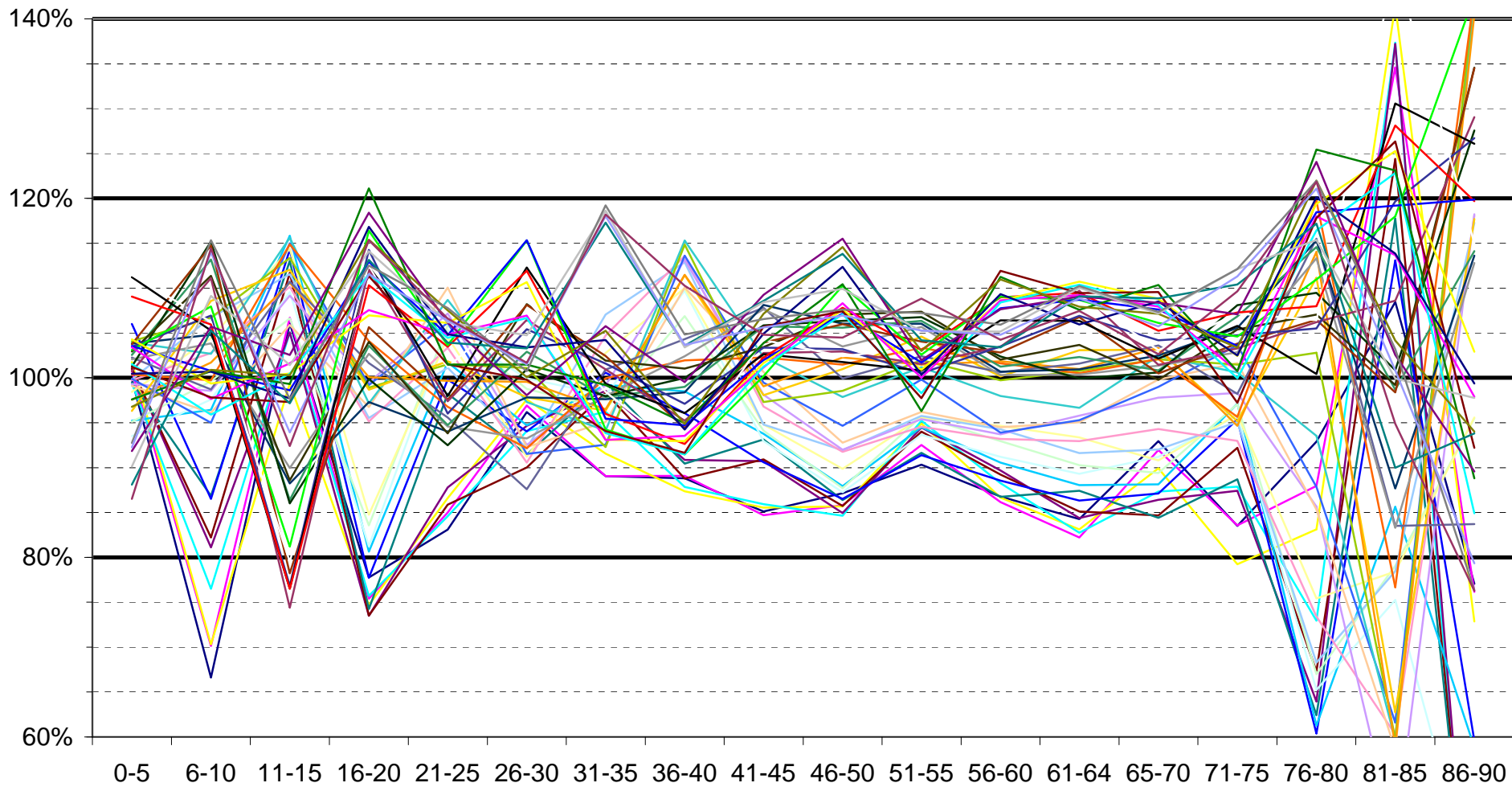
# Claim volatility

**Inflated Scaled Claims for Regular Care**




# Claim volatility

## Inflated Scaled Claims for Hospital&SpecialistCare





# Affordability


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- Health insurance premiums are significant % of income for seniors
  - Typical taxable income 65+ is \$15-19k pa (source Stats NZ)
  - Surgery only, with co-pay, premium 6-8% of income
  - Comprehensive, premium 9-12%

# Affordability a fundamental problem



- High premiums at old ages  
= cancellation,  
when insurance most needed
- As claims continue to rise faster than incomes, problem gets bigger over time

# Community rate

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- Stability depends on changes in age profile over time
  - If pool ageing then premiums rise more than inflation
  - Current cohort effect means stable in short term at least
  - Higher age threshold = less stable

# Community rate age threshold



- Market ranges from 65 to 85.
- Balance between
  - affordability
  - premium jump when age into the community rate
  - maximum cross-subsidy within community rate

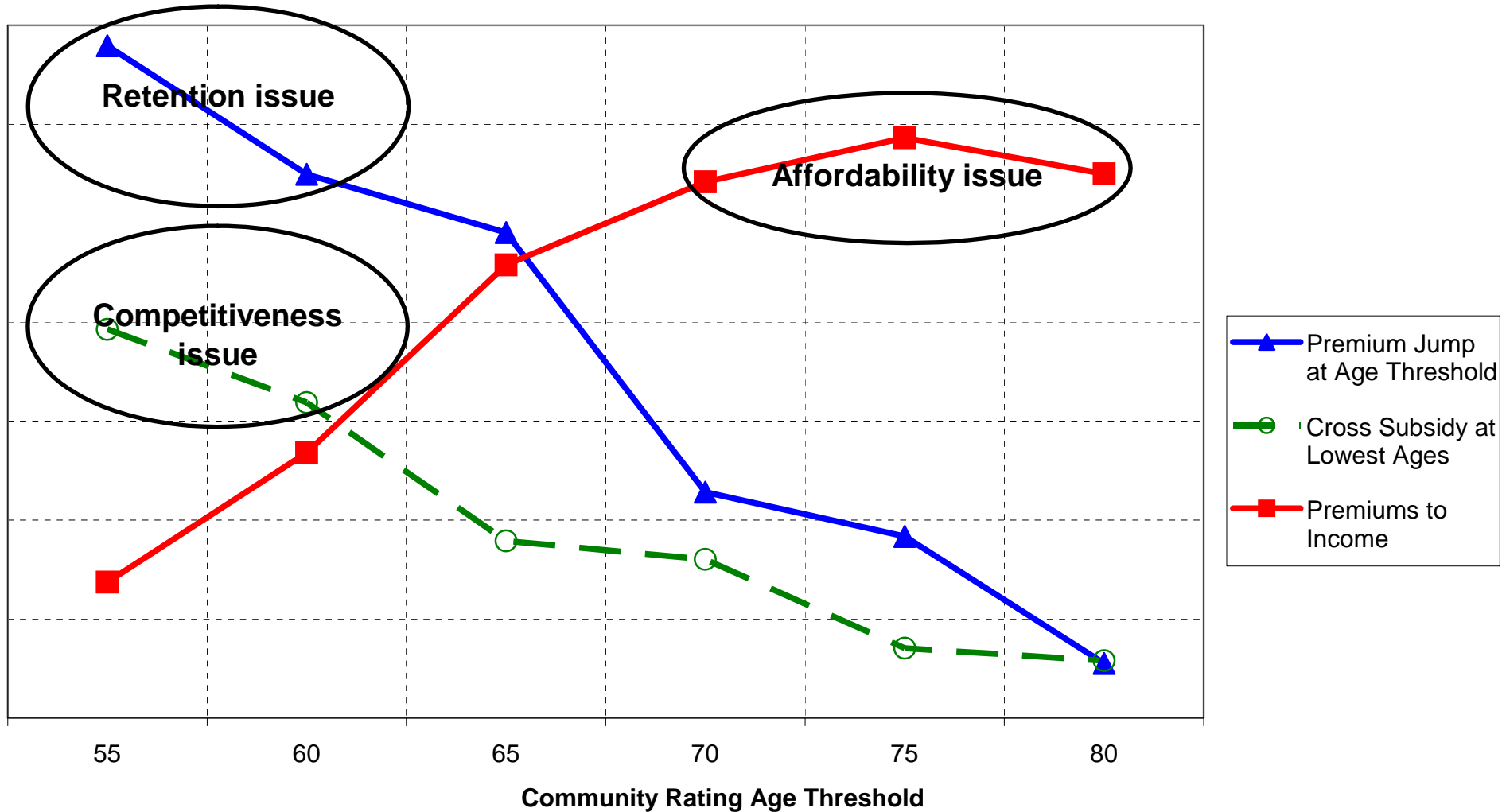
# Community rate age threshold



- Better affordability the lower the age threshold.
- Better (smaller) premium jump the higher the age threshold.
- Smaller cross-subsidy the higher the age threshold.

# Community rate age threshold

Illustration of Age Threshold Choice



# Other options



- In Australia tax rebate
  - 30% all ages, 35% 65-69 & 40% 70+
- In Australia compulsory reinsurance pool, over 65s
- Regulated approach to pricing (eg community rating over age xx)?

