



27 May 2013

2013 Review of Retirement Income Policy
New Zealand Retirement Commissioner
PO Box 12-148
The Terrace
Wellington 6144

Email to: 13review@cflri.org.nz

Dear Sir/Madam

Re: 2013 review of retirement income policy

1. Background

I am writing on behalf of the Southern Cross Healthcare Group regarding the review of retirement income policies the Retirement Commissioner is undertaking this year.

As you outline in your points of reference, retirement income in New Zealand is a mix of public and private provision. Of particular interest to Southern Cross is the assessment of the role of private savings for retirement and the role of the financial services sector in helping to ensure the adequacy of retirement income for New Zealanders.

Under current New Zealand Government policy there is a very real likelihood that the long term demand for healthcare - and the cost to finance that demand - will outpace the Government's ability to fund it. At Southern Cross, we are acutely aware of the need to address the issue of healthcare costs in relation to retirement savings and how New Zealand can provide what citizens want and need.

About the Southern Cross Health Care Group (Southern Cross):

Southern Cross was founded in 1961 as the country's first health insurer. Since then, Southern Cross has evolved into a group of four independent businesses (Hospitals, Travel Insurance, Primary Care and Health Insurance) that share a common brand, a not-for-profit ethos and a desire to improve the health and wellbeing of New Zealanders. This country's largest non-public healthcare organisation, collectively the Southern Cross businesses reach around one million New Zealanders each year as members, patients and policyholders.

This submission is being made on behalf of Southern Cross as outlined below:

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2. Healthcare funding and affordability

Health sector funding is coming under significant pressure. This is being exerted from several directions – an ageing population, proportionately fewer taxpayers, rapidly increasing incidence of

lifestyle related chronic diseases, and increasing demand for healthcare services as medical technology expands our options.

This is highlighted in the most recent Treasury projections around national demand for healthcare which show public spending significantly increasing as a share of GDP. Data from the Government's next long-term fiscal position forecasts health spending to rise from 6.9% of GDP to 10.1% by 2050.

Historically, healthcare costs have grown at a rate that exceeds inflation. From 1950 to 2010, crown health expenditure per capita grew at a rate nearly three times that of GDP per capita. This issue will be exacerbated further by an ageing population. Statistics New Zealand predicts that by 2051, 24% of the population will be aged 65 plus, up from 13% in 2011.

To manage this growth in costs, there is likely to be greater co-payments and increased service rationing, particularly for non-urgent treatments. We are already starting to see this happen – for example, the rise in prescription cost co-payments from \$3 to \$5. Further, the National Health Committee is developing a work programme to look at disinvestment of some publicly funded elective procedures.

To be clear, there is no indication that the public system won't be able to provide healthcare, rather there will be incrementally increasing pressure on Government funds and individuals over time and some important policy decisions will need to be made.

Already, around half of all elective surgical procedures undertaken in New Zealand are self-funded either through health insurance or some other out of pocket contribution. Though this will continue to increase, the public provision available and the amount of individual provision that will be required in the future for personal healthcare is not clearly known - and yet to be raised as a widely discussed national topic.

New Zealanders expect to have access to healthcare when they need it, particularly as they move towards and into retirement. However, research recently undertaken has shown a significant proportion are not confident that this will be assured through the public system.

A September 2012 TNS survey of 2,006 New Zealanders showed that the proportion of people who expect their health care costs in retirement to be covered by free Government services decreases as they get younger. Whereas 77% in those aged over 50 expect to have free Government services in retirement, this decreased to 62% in those under 40.

Further, this research highlighted the gap between public perception of healthcare affordability and the actual costs. The survey showed that 79% of New Zealanders think they will have to pay for some of their elective healthcare in retirement. However only one in five had started saving and many thought that savings of less than \$10,000 would be sufficient.

In reality, a knee replacement costs between \$19,000 - \$28,000, cardiac bypass surgery between \$35,000 - \$57,000 and one course of radiation therapy between \$15,000 - \$27,000.

The 2010 review of retirement income policy observes that deprivation among the retired can occur in vulnerable groups in situations where expenses are high and it is difficult for them to be managed; costs related to healthcare over and above those normally covered under the public health system included.

With this in mind, we would like to highlight data released earlier this year showing Southern Cross' top surgical claims for 2012 (which showed those receiving the top ten highest claim payments of up to \$160,000) were aged from 64 to 76 years. This underlines the heightened demand for costly health services people have as they age and the increasing complexities of the procedures they require.

Southern Cross acknowledges that some insured, particularly older New Zealanders, find it difficult to maintain health insurance. Many older members choose to downgrade from full cover plans to simple surgical only plans to continue their insurance. For a person aged 65 or over, the cost of these latter types of plans starts at around \$1800 a year.

However the core issue is a much bigger one than Southern Cross health insurance premiums. Whether funded by the insured, through tax or directly out of pocket, the real issue is about the cost of healthcare and how a country with limited finances can provide what citizens want and need.

3. What Southern Cross is doing

Southern Cross strongly believes that individual New Zealanders will need to take more personal responsibility for the costs of their non-urgent healthcare in the future - and this can be expensive.

In order to assist New Zealanders to make provision for greater personal healthcare costs, there is the requirement for a mechanism that enables people to make effective provision during their working life for healthcare costs – and particularly for their retirement years when healthcare needs are greatest.

Currently, there are a number of existing initiatives that Government could enact which might be used alone or in combination.

- Improve productivity of the health sector
- Increase cost sharing and/or service rationing
- Prioritise health spend over other sectors
- Support savings for healthcare
- Increase the tax take
- Remove Fringe Benefit Tax (FBT) on employer-paid health insurance
- Health insurance market regulation and/or rebates for those with insurance

Though the above options provide a starting point, Southern Cross would like to work more closely with Government and appropriate organisations to help develop tangible long-term solutions for New Zealanders.

Southern Cross has already been looking at ways to deliver better value healthcare for New Zealanders through a variety of means including smarter contracting, investment in hospitals and primary care and facilitating different models of care. We expect that individual choice with respect to healthcare will drive increased competition and cost-effectiveness among providers as well as addressing the overconsumption of unnecessary procedures.

We are mindful that when it comes to making provision for future costs that to-date there isn't one magic solution and further, that just one option won't suit everybody.

With the need to work out how to provision for the share of future health expenditure that will need to be personally funded rather than funded solely by the Crown and how to best communicate this, we ask that:

the Retirement Commissioner take into account the need for more education and a mechanism to save for healthcare costs in retirement - such as including a 'health savings' subsection on the sorted.org.nz website.

Thank you for the opportunity to participate in this review of retirement policies and we look forward to further discussions and the release of the interim reports.

Kind regards,



Aimee Bourke
Group Communications Manager
SOUTHERN CROSS HEALTHCARE GROUP