


Health Insurance Premiums for Seniors

NZ Society of Actuaries
November 2008


HI Premiums for Seniors

- 
- 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


- 
- 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



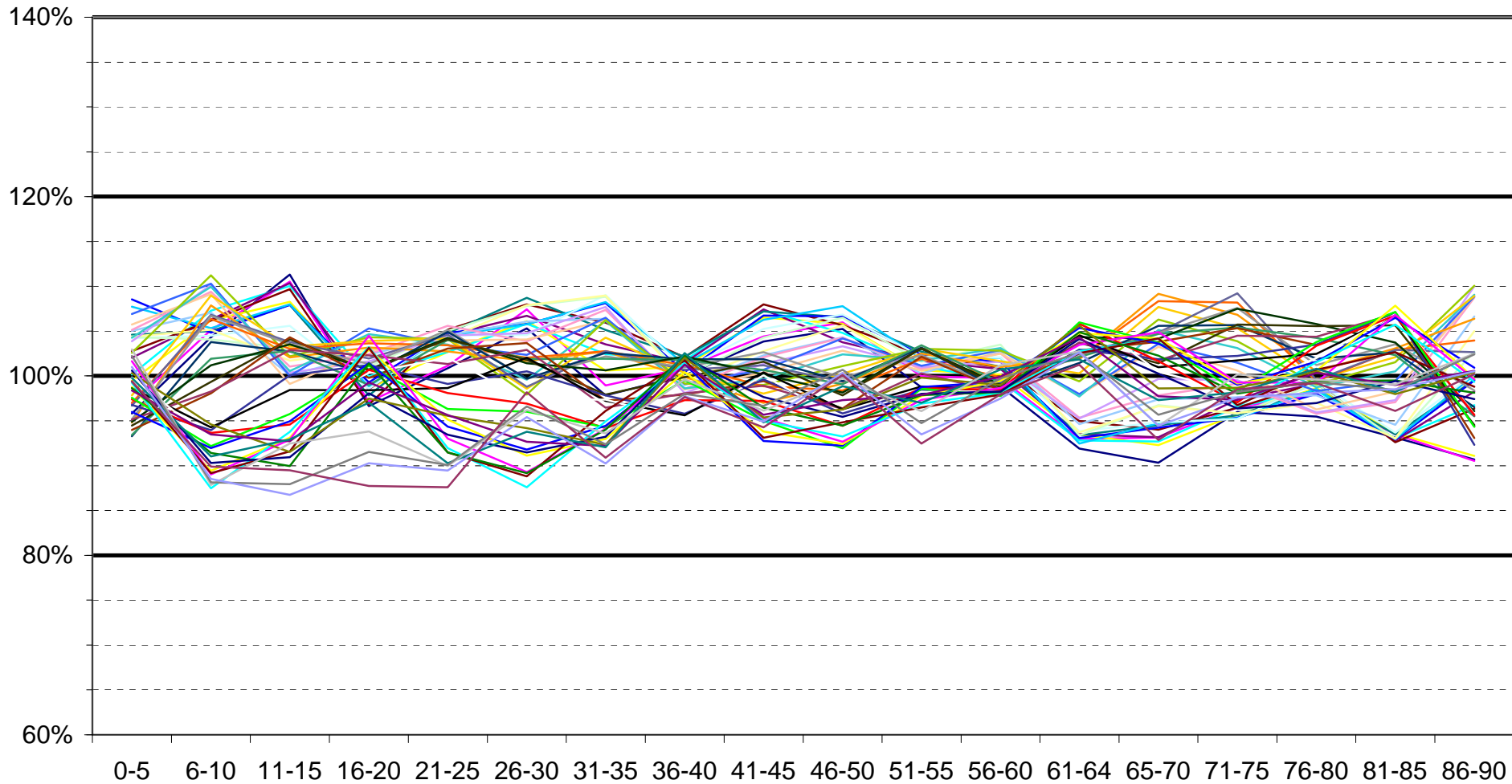
- Function of
 - number of insureds (Regular ~10k, H&S ~3k per age band)
 - claim frequency
 - claim severity

Claim volatility

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

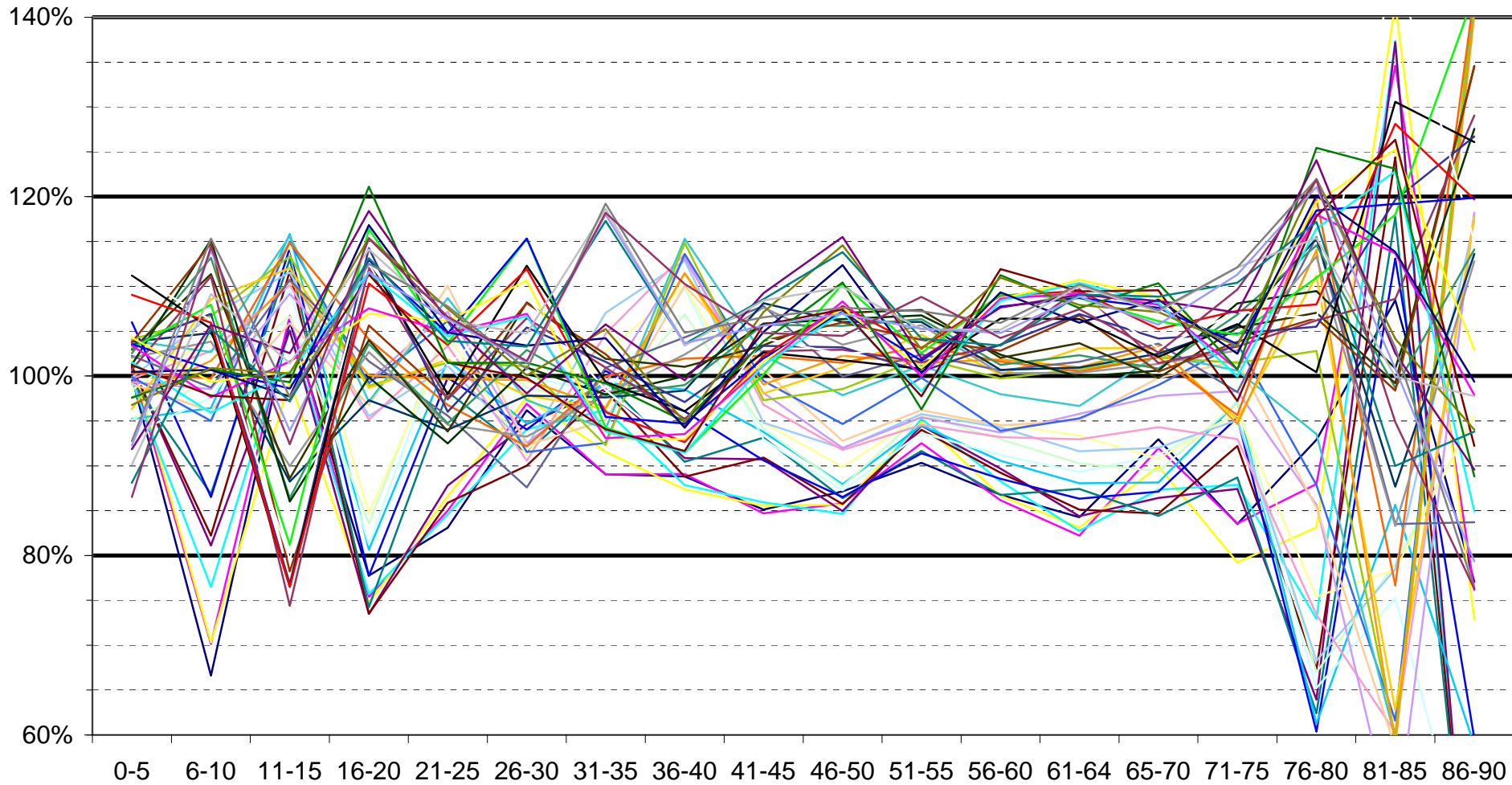
Claim volatility

Inflated Scaled Claims for Regular Care




Claim volatility

Inflated Scaled Claims for Hospital&SpecialistCare



Affordability


- 
- 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

- 
- 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

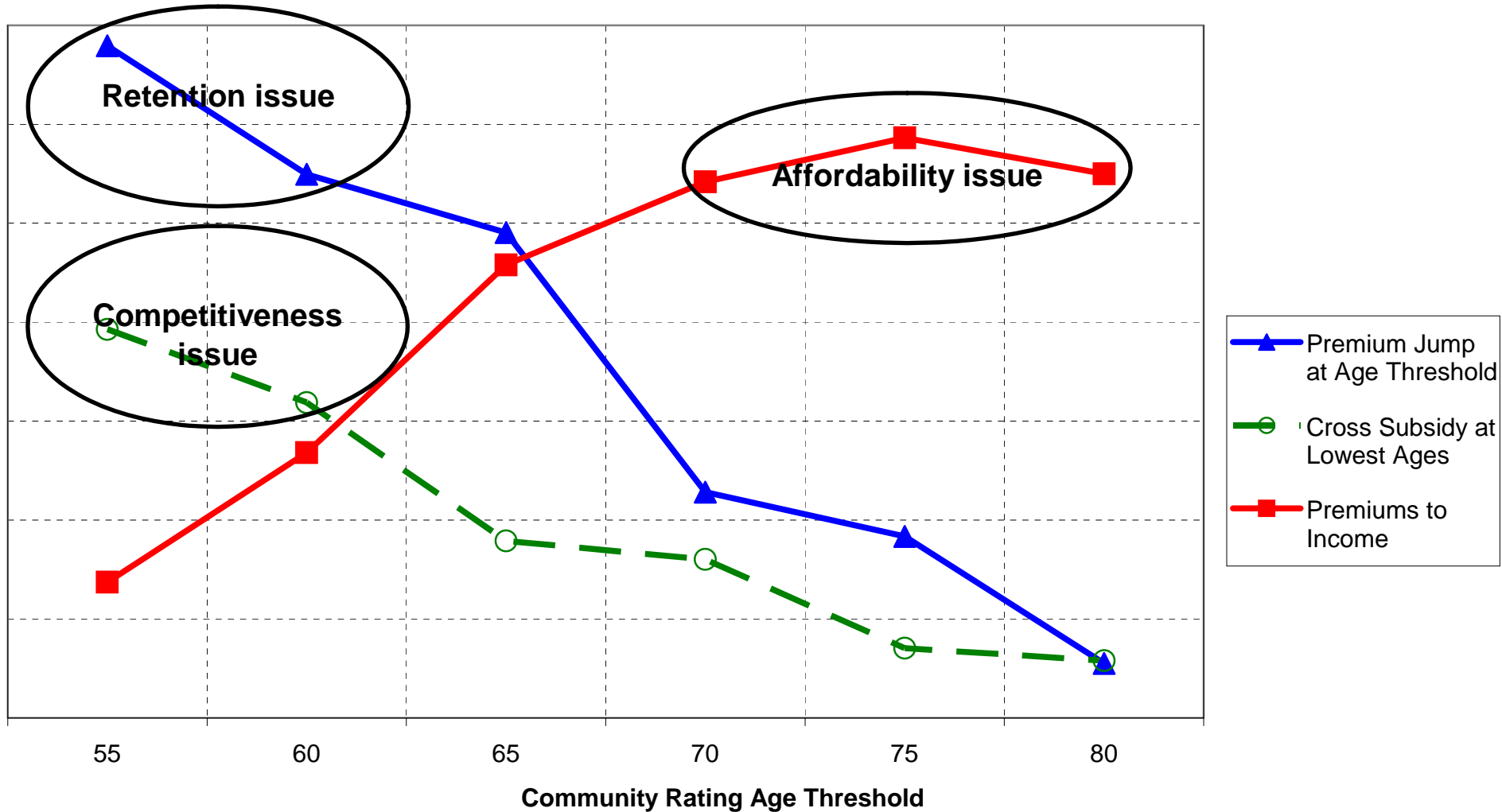
Community rate age threshold



- 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)?

