



Submission on draft NZ health strategy

December 2015

Summary

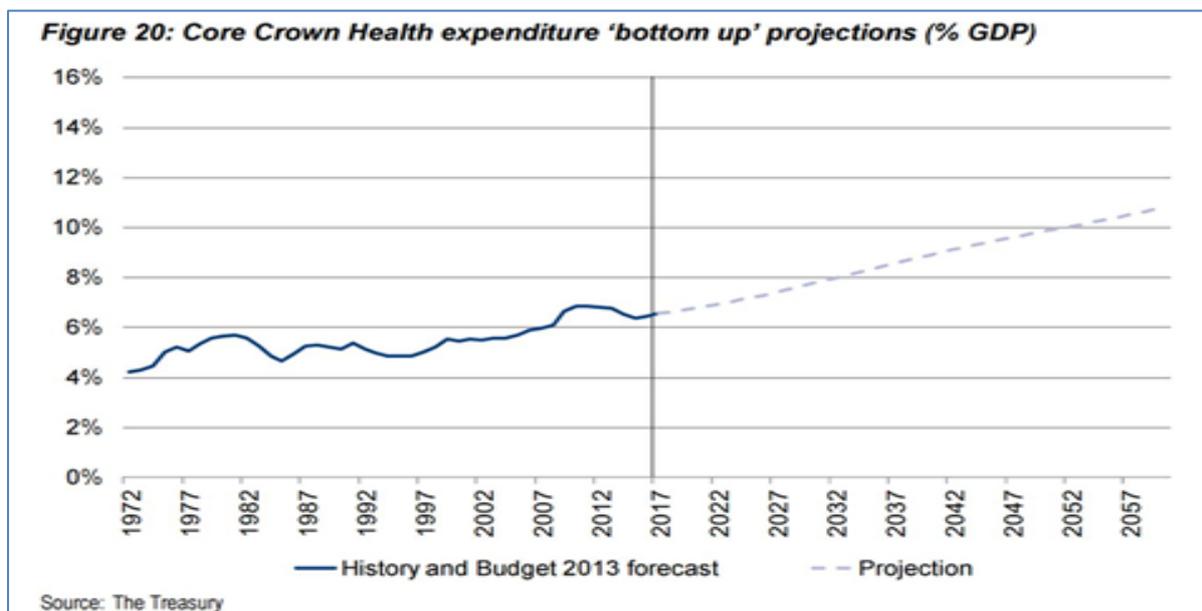
This submission focuses on future healthcare financing. It seeks the addition of a sixth strategic goal to broaden health funding sources, so as to achieve better health outcomes.

HFANZ is the industry association representing health insurers and the 1.3 million people with health insurance in New Zealand. We have a keen interest in the broader health system and a desire to contribute positively to the debate over how to ensure our health system is sustainable into the future.

Focus on health financing

HFANZ is supportive of the need for a health strategy and supports most of the key themes and content. This submission relates to health financing, and concerns a key omission in the draft strategy.

The draft acknowledges the projected rising costs and unsustainability of present system. However there is no acknowledgement of private funding sources, nor discussion of measures which might broaden funding streams to relieve public funding pressures over the longer term.



In recent reviews of the long term fiscal strategy, the Treasury canvassed some broad options for curtailing the unsustainable growth in public funding, including increased use of rationing devices, such as waiting lists, moves to withdraw completely from public provision of certain services, and moves to broaden revenue from user charges (which would also have a demand mitigation effect).

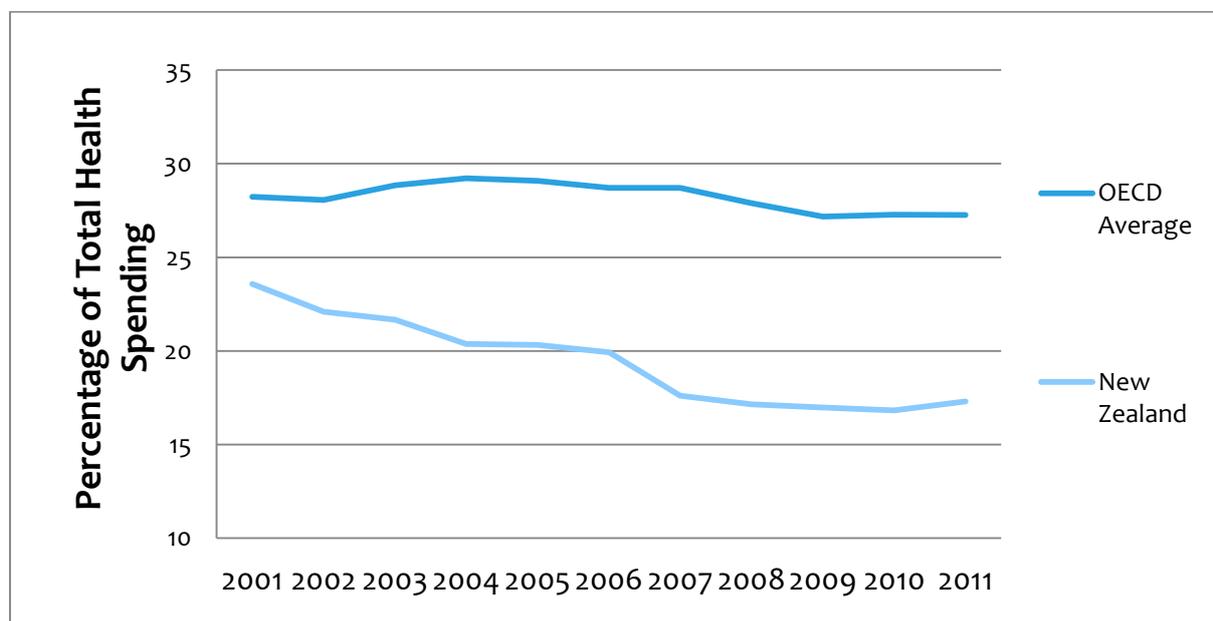
It is understandable that there is generally a lack of political will to implement such measures to any significant level until funding problems move beyond acute into crisis territory.

Whichever option or package of options the government of the day eventually takes, the inevitable result will be a lowering of the percentage funding for health which comes from taxation revenues (currently an unsustainable 83%).

By 2050, the public share of total health spending will likely fall to below 75% and could even fall below 70%. Over the past four decades, the taxation-funded share of health spending has varied significantly – from a low of 74% to a high of 95%. More problematic is the fact that over the past two decades, New Zealand has become more dependent on taxation funding rather than less.

This contrasts with the average OECD average public and private shares of health spending, which have remained remarkably stable over the period. The current OECD average private share of health funding is around 28%, compared with New Zealand's 17%. Since 2001, the gap between New Zealand and the OECD has worsened from just 5% to 11%.

Private share of total health financing: OECD vs NZ 2001-2011



Why is this a key strategic issue?

This is a key strategic issue for the Ministry of Health for two key reasons:

1. Achieving the best possible health outcomes for New Zealanders within the constraints of a limited public budget requires consideration of how the best use might be made of alternative funding streams.

2. The public health sector does not exist in a vacuum. There is a private health sector and the two are interrelated.

HFANZ submits that the draft document fails to adequately acknowledge either of these. Indeed, in a recent funding review, the terms of reference openly prohibited any discussion of the mix of public and private funding. Throughout the draft strategy, the terms 'whole of sector' and 'public sector' appear to be used almost interchangeably.

Fail to plan = plan to fail

If the resulting health strategy fails to explore options for developing alternative funding streams for healthcare, then it is effectively selling New Zealanders short by imposing an unnecessary cap on the level of future health outcomes.

Failure to develop and implement strategies for growing alternative funding sources will also likely expose New Zealand to worsening health inequalities.

As already noted, the share of public spending will fall, irrespective of which package of options the Government of the day implements over coming decades. However, failure to adequately plan and provide people with both clear messages about what the future public system will deliver will effectively rob people of the opportunity to plan adequately for their own healthcare over time.

Such a haphazard and ad hoc transition will mean those with higher incomes and wealth will be better able to deal with minimal notice of changes. Those on lower incomes, or without any accumulated savings, will be less able to cope effectively with sudden changes.

Optimising future health outcomes

HFANZ submits that the overall future health outcomes can best be optimised by making the best use of both taxation funding and private funding streams. The increasing resource constraints facing the public sector will likely lead to growing acceptability of targeted universality – effectively another way of saying those who can afford to pay more will do so.

A similar principle should be applied to effectively plan for a rising private share of health funding. The strategy should aim to research and set achievable targets for the growth of the private share of health funding. It should also explore policy options for moving in the right direction – beyond the Treasury suggestions which appear solely focused on cuts to public spending.

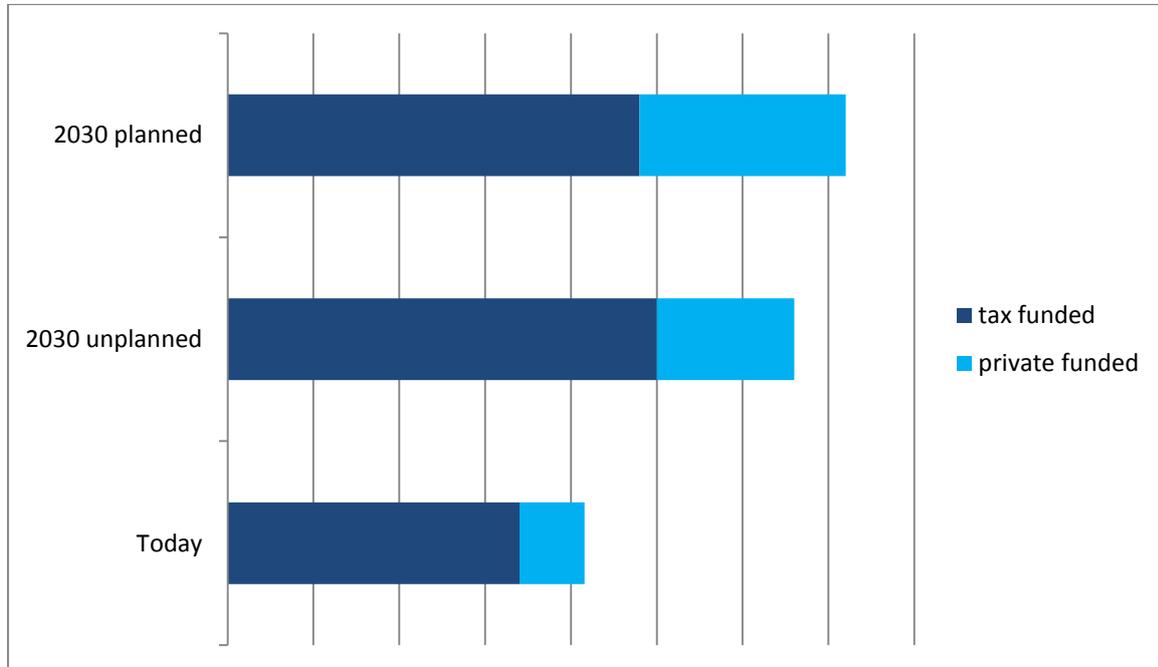
Recent research by NZIER suggests that health insurance could feasibly be funding up to three times its current level of healthcare if New Zealand could match what the best performing countries with similar health and taxation systems were achieving. In simple terms, this would equate to an additional \$2 billion in today's dollars – significant enough to warrant further investigation.

Possible fiscal effects

For any future given level of tax-funded spending on healthcare, raising the level of private spending will permit higher overall outcomes. Notwithstanding this, a planned transition which leads to a significantly higher level of private funding may also permit some reduction in fiscal cost while still achieving higher overall health outcomes than possible without a planned approach.

This effect is illustrated in the chart below, which compares the impact of a planned transition resulting in a third of health spending being private, with an unplanned one which sees a lower increase in private spending to just a quarter.

Simulated future health funding scenarios



There are three key benefits from a planned transition:

- higher overall level of health outcomes attained than from unplanned transition;
- lower levels of health inequalities than for unplanned transition;
- some fiscal savings possible without compromising the above outcomes.

The sixth strategic goal

HFANZ submits that the potential costs and benefits are so significant that the draft strategy must include a goal to increase the share of private funding, along the lines of the following:

“To plan for a sustainable and equitable increase in non-taxation funding for healthcare, so as to increase overall health funding and improve overall health outcomes.”

As an association, HFANZ has a strong commitment to ensuring New Zealand has a sustainable health system which meets the needs of all New Zealanders into the future. We have particular strengths and capabilities which may be of use in helping model impacts of various options for improvements in the private financing of healthcare. To this end, HFANZ is willing to engage and assist collaboratively in the identification of possible options which might help form part of the road map of actions.