

# THE VALUE OF HEALTH INSURANCE

More New Zealanders are taking out health insurance than ever before, ensuring they and their families are protected from major illness and disability.

The rising cost of medical procedures and the increasing strain on the public health system continue to highlight the importance of health insurance for young and old.

Health insurance gives you the freedom to select the best specialists and best hospitals and, generally, avoid the long waiting lists for essential treatment. More importantly, it provides peace of mind and greater certainty about the most important thing we all need to protect – our health.

## DID YOU KNOW?

Over 1.38 million people<sup>1</sup> in New Zealand now have health insurance. That's close to 1 in 3 New Zealanders who choose to have their medical care funded privately rather than relying on the already stressed public health system.

<sup>1</sup> Health Funds Association of New Zealand report (HFANZ) September 2010

## THE RISING COST OF HEALTH CARE

At Sovereign, we give careful consideration to the setting of health insurance premiums and we're aware of the impact increases can have. We've produced this brochure to help you understand why premiums increase and show you how you can keep these increases to a minimum, while remaining protected.

Two main factors influence the cost of your health cover. These are your age and the general cost of treatment should you need to claim.

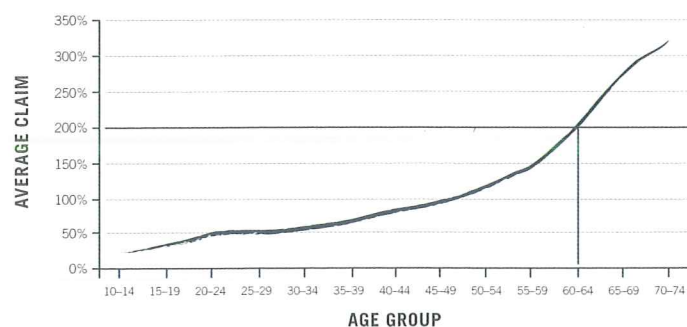
## 1. AGE-RELATED INCREASES

There are two main causes of premium increases due to age. The older we get, the more likely we are to:

- Need more regular medical attention
- Require more expensive treatments

The graph below shows how the average cost of claims by age increase greatly as we get older. For example, claims made in the 60 to 64 age group are two times (200%) more than the average claim amount across all age groups.

AVERAGE CLAIM FOR AGE GROUP AS PERCENTAGE OF TOTAL AVERAGE CLAIM



Statistics sourced from HFANZ (2010)

## DID YOU KNOW?

The quantity and cost of claims paid by Sovereign has more than doubled in the past five years. In the last three years to June 2010, Sovereign paid \$133 million in health claims, with a 25% increase in the value of claims paid in the past year alone compared to 2009<sup>2</sup>.

<sup>2</sup> Sovereign Statistics 2010

## 2. GREATER SOPHISTICATION IN MEDICAL PROCEDURES, EQUIPMENT AND TREATMENTS

As medical procedures, equipment and treatments become more sophisticated – due to technological improvements or medical breakthroughs – the costs ultimately born by insurers and patients increase. New Zealand, in particular, is vulnerable to worldwide technological changes and it can be difficult to absorb the costs of new technology. For example, in 2008, Wellington Hospital installed a new radiation machine<sup>3</sup> called a linear accelerator (which reduces cancer treatment times) at a cost of NZ\$4.9 million.

While very effective, new state-of-the-art equipment, such as the linear accelerator, is adding to the cost of common procedures. And it may be equipment like this that one day provides you with the treatment you need.

Below is a table highlighting the increase in indicative costs for medical procedures that Sovereign has observed over the past few years.

While this increase in costs fuels the rise in insurance premiums, it also highlights the importance of having health insurance. It is now harder than ever to self-insure – to pay for these treatments yourself. Would you be able to pay for any of the treatments if you needed them right now?

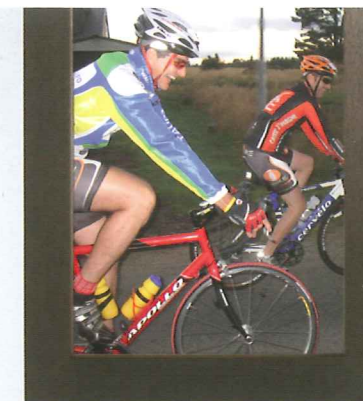
<sup>3</sup> Ministry of Health media statement February 2008

INDICATIVE COSTS OF MEDICAL PROCEDURES IN 2010 VERSUS 2006<sup>4</sup>

PROCEDURE	2006	2010	Average yearly Increase* each year 2006 to 2010
Angioplasty (coronary artery surgery) with stents	\$18,000 - \$21,000	\$27,000 - \$32,000	11%
Angiogram	\$2,600 - \$3,000	\$3,800 - \$4,500	11%
Cardiac bypass (heart surgery)	\$27,000 - \$36,000	\$50,000 - \$65,000	16%
Hip replacement	\$13,000 - \$20,000	\$28,000 - \$35,000	15%
Knee replacement	\$15,000 - \$20,000	\$26,000 - \$30,000	10%
Mastectomy (does not include reconstruction)	\$4,000 - \$8,000	\$18,000 - \$25,000	33%
Prostate brachytherapy (cancer surgery)	\$21,000 - \$28,000	\$28,000 - \$35,000	6%
Valve replacement (heart surgery)	\$35,000 - \$45,000	\$52,000 - \$75,000	13%

\* Average yearly increase was determined using highest values in the cost ranges and CAGR calculation over a four-year period.

<sup>4</sup> Sovereign Statistics 2010



## DID YOU KNOW?

In the 12 months to September 2010, the health insurance industry paid out 10% more in claims than was paid in 2009, and the annualised growth in claims costs over the past five years has been nearly 9 per cent.<sup>5</sup> This continued growth in claims shows people are realising the value of their health insurance, while helping to relieve pressure from the public system.

<sup>5</sup> HFANZ Media Release 2010



# HOW CAN I REDUCE MY PREMIUMS WHILE REMAINING PROTECTED?

While you are unlikely to have any control over the factors that cause your premiums to increase, we can show you ways to change your policy and reduce those increases.

**ONE WAY TO REDUCE YOUR PREMIUM IS TO INCREASE THE EXCESS ON YOUR POLICY.** The higher the excess level you choose, the higher the discount you receive. Sovereign has a range of excess levels from \$300 up to \$4,000, depending on your product.

**WHAT DOES THIS MEAN?** If, for example, you have a \$600 excess, you'll need to pay the first \$600 towards an accepted claim and we'll cover the remaining costs. If you need a hip replacement and the cost of the replacement is \$29,000, you'll pay \$600 and we'll pay the remaining \$28,400.

The excess applies once per life assured, per policy year. If you claim more than once in the policy year, you will need to pay your excess only once. If you make a claim in the following policy year, you'll need to make the payment again.

## FURTHER INFORMATION

If you have any questions regarding your premiums and the options available, contact your adviser or call Sovereign on **0800 500 108**.



### WHY CHOOSE SOVEREIGN AS YOUR HEALTH INSURER?

- Sovereign has a proven reputation for paying claims – in fact, in the 12 months to 30 June 2010, Sovereign paid out more than \$52 million in health claims. That is a 25% increase in claims paid compared to 2009<sup>6</sup>.
- We help give you access to the very best medical care at a time that suits you, in the hospital of your choice.
- You'll generally avoid long waiting lists to receive essential treatment.

<sup>6</sup> Sovereign Statistics 2010



### LIFE INSURANCE • HOME LOANS • INVESTMENTS

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## UNDERSTANDING YOUR HEALTH INSURANCE PREMIUMS



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