

March 2011

Dear Members

At last year's AGM I undertook that the Society's Board would discuss matters raised from the floor regarding the affordability of premiums paid by long-standing members aged over 65 years, and historical changes made to the Society's premium structures - from community rating to risk-rated age-banding. I also undertook to communicate back to the membership via the web site about this discussion.

I am pleased to confirm to the membership that the Board held this discussion at its February meeting. While historical in nature, my fellow directors and I found it useful to revisit some of the events that have shaped the Society and the health insurance market.

Following are some of the key points regarding these historic changes:

- By the late 1990s it was apparent that the Society's premium structure, based on three broad "community rated" groups (0-18 years, 19-64 and 65+) was unsustainable. Competing health insurers were using different premium structures to successfully attract younger members, leading to the rapid ageing of the Southern Cross book (from an average age of 34.4 years in 1990 to 39 years in 1999). The Society had no choice but to change its premium structures to remain competitive.
- The transition to 'risk rating' and annual 'age bands' was communicated and implemented in a staged process over two years leading up to mid 2002. The guiding principle – common to most insurance - was that premiums should reflect the 'risk' of a member claiming.
- A resolution initiated by a member representative group was passed at the 2002 AGM asking the Board to review the change to risk-rated age banding. A subsequent independent actuarial review by PriceWaterhouse Coopers in 2003 confirmed the age-related approach to premiums was the only practical option for the Society to achieve a sustainable solvency position.
- Following this, the Board reached agreement with a member representative group to establish an actuarial working group (AWG) to look at the appropriateness of a "loyalty" scheme for longer duration members. The AWG in 2004 concluded that there was no actuarial basis for an ongoing loyalty discount for long-standing members. However, it did find that members who had joined the Society prior to 1982 had made a positive contribution to the Society's reserves which it would be appropriate to

recognise through a short term premium discount funded from capital reserves. This led to the introduction in 2005 of the Founding Members Reward which returned \$26m to 130,000 long-standing members by way of a premium discount over a two year period.

The changes to premium structures were designed to be fair and equitable for members while ensuring that the Society would remain financially sustainable. Had the Society not taken each of these steps, its existence (and hence its ability to help members with their future healthcare needs, or those of subsequent generations) would have been threatened.

The historical record shows that these changes were the subject of considerable external scrutiny at the time (including the High Court, Commerce Commission, the Registrar of Friendly Societies and the Human Rights Commissioner). None of these external parties found anything to question the validity of the premium changes made by the Society.

I appreciate that a key issue, underlying the matters raised at the AGM, is the cost of health insurance for older members. There are no easy answers on this front. Healthcare funders all around the developed world are facing the same challenges associated with the rising cost of care. And Southern Cross is doing what it can to moderate the impact of those rising costs on members premiums.

Our initiatives include expanding our Affiliated Provider programme, working to ensure ACC pays for surgical claims arising from accidents, lobbying the Government for tax rebates for members aged 65+, resisting cost-shifting from the public health system and actively reviewing new medical technology to ensure it adds value and not just cost for members' treatment. The Chairman and Chief Executive Officer's reports in the 2010 Annual Report (available online) outline more on these subjects should you wish to read them.

I want to assure members that providing the best possible, sustainable value for young and old, is at the top of the Board's agenda.

Yours sincerely



**Graeme Hawkins**  
Chairman