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New Zealand's ageing population and health expenditure

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The Report of the Ministerial Review Group, *Meeting the Challenge* (the "Horn Report"), claims that real health care costs will increase by almost 100% in the next 20 years as the population ages "and as more of us live longer with chronic long-term conditions".

This scenario is used to argue that the only way we can afford to "meet the challenge" is for our health services to do more for less. The Government has accepted this argument, but it has not produced the evidence to show how this might be substantially achieved in practice. In fact a growing body of international evidence supports an approach for strong investment in health today in order to reduce health costs tomorrow.

First, it should be recognised that New Zealand has a relatively young population among OECD countries. In 2006 12% of New Zealanders were aged 65 or over, and this is projected to increase to around 17% by 2021. The proportion of the population aged 65+ has already been more than 16% in 13 OECD countries for the past five years or more, including seven countries with more than 17%.[1]

On average, those 13 countries spend 25% more per person than New Zealand. (All except Portugal spend more. Portugal is immediately behind New Zealand on the OECD list of per capita expenditure, although Portugal spends more of its GDP on health than New Zealand).[2] And the sky hasn't fallen anywhere!

A key factor in these countries' ability to serve an older population lies in their continuing investment in health services over the years, which has contributed to relatively good health indicators.

For example, in 12 of those 13 countries, premature mortality rates are better than New Zealand's (Portugal's is slightly less than New Zealand's), and all 13 countries rate high on the WHO's measure of "healthy life expectancy".[3]

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[1] OECD Health Data, 2007 & 2009. The 13 countries are Austria, Belgium, Finland, France, Germany, Greece, Italy, Japan, Portugal, Spain, Sweden, Switzerland, UK.
[2] *Health At A Glance*, OECD 2009
[3] Health Life Expectancy (HALE) is an estimate of how many years a person might live in 'good' health.

In 1999 New Zealand's healthy life expectancy fell below all 13 countries. Since then, following a period when New Zealand's level of health spending started catching up with other comparable countries (though we are still in the bottom 10 OECD countries in terms of expenditure per person), New Zealand's healthy life expectancy rate has overtaken some of those 13 countries. We are now 10th= among WHO member countries.[4]

WHO has found that, in general, every $100 ("international $") per capita spent on health corresponds to a 1.1 year gain in healthy life expectancy. Furthermore, as average levels of health expenditure per capita increase, healthy life expectancy increases at a greater rate than total life expectancy. In New Zealand's case, according to the WHO, total life expectancy at birth increased by two years between 2000 and 2007, while healthy life expectancy increased by nearly three years. (Ministry of Health figures show a similar trend, though at lesser rates).[5]

A Ministry of Health study published last year shows that about a third of the increase in life expectancy is a direct result of better health care, especially for diseases such as stroke, diabetes, heart disease and certain cancers.[6]

Recent health figures show, for example:

- Improvements in diabetes management have resulted in a drop in the number of people with diabetes admitted to hospital with acute coronary syndromes since 2002, in spite of marked increases in the number of people with diabetes, who are all at increased risk of cardiovascular disease.[7]

- Deaths from cardiovascular disease (heart, blood vessel disease and stroke, which is the greatest cause of disability in older people) fell by 35% between 1996 and 2006.[8]

- Five-year cancer survival rates, a direct measure of the effectiveness of the health system in treating cancer, have increased by 5%-6% percent for colorectal, breast and cervical cancers and nearly 13% for prostate cancer between 1997/98 and 2005/06.

- From 2001 to 2006 self-reported disability (through illness and injury) fell by 8% for New Zealanders aged 65 and over and by 11% for all age groups.[9] (Statistics New Zealand urges caution in making comparisons between the 2001 and 2006 Disability Surveys. However, the 2006 survey methodology has been independently reviewed and was judged to be methodologically sound. The 2001 survey methodology was reviewed and no significant errors or differences from the 2006 survey were found.)

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[4] World Health Statistics 2009, WHO

[5] World Health Statistics 2009 and World Health Report 2002

[6] Martin Tobias and Li-Chia Yeh (Ministry of Health). "How much does health care contribute to health gain and to health inequality? Trends in amenable mortality in New Zealand 1981-2004?" *Aust N Z Public Health*. 2009; 33:70-8

[7] *Health and Independence Report 2008*. Ministry of Health

[8] *Annual Report 2009*. Ministry of Health

[9] *2006 Disability Survey*, Statistics New Zealand.

While it may be too soon to be certain about established trends, the early indications are that while New Zealanders are getting older we also appear to be getting healthier, and less dependent in older age, and that this is attributable in part to the increased investment in health over recent times.

This is an important development in the debate about today's health expenditure and meeting the challenges of an ageing population, given the widespread consensus that projected future health care costs can be mitigated by keeping individuals in good health.[10]

It has been estimated that even small improvements in health (a decline in disability rates of 0.5% per year across all age groups in New Zealand) could offset about one-third of the projected extra health care costs resulting from population ageing. Faster declines would produce a larger offset. [11]

The sheer size of the demographic changes will require substantial funding increases, but not to the extent envisaged in the Horn Report. According to one analysis:

> *Once health effects are taken into account, future demographic change is likely to add 0.5 to 0.75 percentages points to annual growth in government health expenditures. This is not trivial, but it is far short of a crisis.* [12]

A key proviso is that the health system is able to maintain and possibly improve upon the momentum it has gained in helping to improve New Zealanders' health over the past decade.

The central policy question today is whether health funding remains sufficient to continue that momentum and ensure a sustainable and effective health service for the future or whether the focus is cost-cutting in the short-term – the latter more likely resulting in the future scenario described in the Horn Report.

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[10] H Oxley, *Policies for Healthy Ageing: An Overview*, OECD Health Working Papers No 42. OECD 2009.
[11] J Bryant, S Sonerson. Gauging the Cost of Ageing, *Finance & Development*, Vol 43, No 3. International Monetary Fund, 2006.
[12] ibid

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