Why Health Insurance Premiums Are Rising, and Why Cover Matters More Than Ever

2025

Setting the Scene

In recent years, we've all been feeling the pinch as everyday expenses continue to climb. In amongst this, health insurance premiums have risen at a pace that's even harder to keep up with. This paper outlines the main reasons for these increases, what it means for you as a policyholder, and why maintaining your health cover is more important than ever.

Medical Inflation Is Outpacing Everything Else

What is Medical Inflation?

Medical inflation is the rate at which healthcare costs increase year on year. Unlike general inflation, which measures the price of everyday goods and services, medical inflation tracks changes in the cost of hospital stays, surgeries, consultations, diagnostics, and medications. It reflects the fact that healthcare costs are influenced by medical technology improvements, rising wages for skilled healthcare staff, and higher demand for services.

The NZ Picture

According to Aon's 2025 Global Medical Trend Rates Report, medical inflation in New Zealand jumped from 7.4% in 2024 to 14.5% in 2025 - one of the steepest rises recorded in the Asia-Pacific region. This far exceeds general inflation, which sat at just 2.2% in December 2024. This widening gap means insurers must pay significantly more for claims.

Key Drivers

Advancements in medical treatment, such as robotic and keyhole surgeries, deliver better outcomes but come at a higher price. Diagnostic approaches have also expanded, with more imaging and lab tests becoming standard for early detection and monitoring. For example, joint replacements now typically involve three or more imaging events compared to two a decade ago. In oncology, interim PET-CT scans are now common to track chemotherapy effectiveness, and these all create additional costs.

The Surge in Claims: Growing Numbers and Rising Costs

Claim Volumes Rising

Insurers are handling an increasing volume of claims. Nib, New Zealand's second-largest health insurer, reports that the average number of claims per policy has risen by 43% over the past five years. In 2019, 33% of Southern Cross members made a claim. In 2024, this grew to 50% of members. This growth is largely driven by two factors: a continuing shift in healthcare toward more diagnostic-led treatment, and the post-COVID-19 "catch-up" effect on all the consultations, surgeries, and diagnostics that were delayed during lockdowns.

Higher Value Per Claim

It's not just the number of claims that has risen; the average cost per claim is also climbing. This is due to the rising cost of procedures, higher specialist fees, and the increasing use of expensive medical technology. In 2020, Southern Cross paid $972m across 3m claims – an average cost per claim of $324. In 2024, they paid $1.45bn across 3.2m claims – an average cost per claim of $468, up a staggering 44% in the average cost per claim.

Insurer Impact

With a greater number of claims and higher costs, insurance companies are facing increased financial pressure. Southern Cross, for instance, experienced a 15% increase in claims costs during FY2023–24, while premiums rose by only 9%. The result was a deficit of $88 million. When claims growth outpaces premium increases, insurers face financial strain that can only be addressed through substantial premium increases.

The Aging Population Effect

New Zealand's aging population is another key factor. Baby boomers are now entering life stages where healthcare needs rise sharply. Demand for joint replacements, cataract surgeries, and cancer treatments are growing rapidly. In 2024, Southern Cross paid $70.7 million for knee replacements (up 17.1% from the prior year), $65.8 million for hip replacements, (up 11.1% from the prior year), and $70.2m for colonoscopies (up 17.2% from the prior year).

Pressure From a Struggling Public Health System

The public health system is also under immense strain, with increasing surgical waitlists and limited capacity. This is pushing more people to seek private healthcare to get timely treatment. Private hospitals now perform ~70% of ACC elective procedures. The shortage of specialists, exacerbated by the 'brain drain', allows the remaining practitioners to charge higher fees and has lengthened wait times in the private sector.

Why Insurers Have Had to Act Now

Insurers are facing a perfect storm: persistent medical inflation, rising average costs per claim as treatments grow more complex, and a clear shift toward diagnostics, imaging, and other procedure-heavy care. The post-COVID surge in treatment has not fully settled; deferred care is still coming through while the public-system strain pushes more patients into the private sector. Together, these forces are driving costs faster than premium income. To maintain solvency, keep pace with provider price rises, and ensure they can meet future obligations, insurers have had to act now by significantly increasing premiums.

Real-World Examples: How Premiums Have Changed

Significant premium increases are being experienced across the whole medical insurance market. In 2024/25, Partners Life announced a 20% base premium increase, AIA by 17%, Unimed by 16%, Southern Cross by 21%, and Nib by 33.6%. When combined with rate-for-age increases, we've seen some families with premium increases of >50%.

From a Luxury to a Necessity

Health insurance is no longer a 'nice to have', it's increasingly becoming essential. Access to prompt, high-quality treatment can make a critical difference in health outcomes. Despite the cost, many New Zealanders continue to see health cover as a vital expense to protect their long-term wellbeing and financial stability.

Health is Wealth

Private healthcare means faster diagnosis and treatment, the ability to choose your specialist and hospital, shorter waits for surgery and scans, and clearer follow-ups that reduce time away from work and family. It also brings financial predictability through negotiated fees and cover for big-ticket procedures, plus digital ease with e-claims and virtual consults. The model is shifting from paying claims to whole-person wellness: funded mental-health support, quick GP access and second opinions, preventive screenings, and programmes that manage chronic conditions with lifestyle coaching. For households and employers alike, this adds up to better outcomes, fewer delays, and a sturdier foundation for long-term health.

Looking Ahead, What Can We Expect?

Medical inflation paired with an aging population is likely to remain an issue, and pressures on the public system will continue to drive demand for private care. Premiums will continue to rise, although the rate of increase may fluctuate. Cancelling cover now could mean facing higher premiums or exclusions if you try to rejoin later - especially if your health changes in the meantime.

How to Manage Increasing Costs

Health insurance is usually made up of a base hospital policy with optional extras such as specialist cover, dental/optical, and GP visits. As premiums rise with age, many people first increase their excess, then remove additional options to save money. Over time, some clients keep just a hospital policy with a high excess (up to $10,000), keeping premiums affordable. While this means paying more out of pocket for smaller treatments, it still covers major expenses like an $85,000 valve replacement or private cancer care. The key is finding the right balance between what you pay and the cover you keep.

Key Takeaways

Rising health insurance premiums in New Zealand are the result of a complex mix of factors including medical inflation, increasing and more expensive claims, an aging population, and pressure from an under-resourced public health system. While the cost can be challenging, the value of maintaining cover is greater than ever.

Now is the perfect time to review your policy with a qualified insurance adviser to ensure you have the right level of protection for your needs.

Aynsley & Associates
www.aynsley.co.nz
03 374 9955
hello@aynsley.co.nz