



# Chairman's Report

In presenting the 2008/09 HCF Annual Report to members, I am conscious of the responsibility I bear as your new Chairman and of the strong leadership and dedication of my predecessor, the late Greg Gardiner, over more than 20 years of service with HCF. Later in this report we pay tribute to his outstanding record and achievements.

## Highlights

We faced a number of challenges and opportunities in the past year which tested the underlying strength of the organisation and the adaptability of its management and staff. I am pleased to report we were able to meet each of these tests and have emerged a much stronger organisation in all aspects at year's end.

The year's highlights were undoubtedly:

- acceptance of our merger proposal by Manchester Unity members and the subsequent successful integration of the two businesses;
- our strong underwriting performance in both the health and life insurance businesses;
- continued strong organic growth in the number of people insured by HCF; and
- launching "MyHealth Guardian", our well being and chronic disease management program.

## How We Performed

The merger with Manchester Unity brought immediate benefits to the HCF Group, adding \$116 million to total health insurance premiums in the second half year and increasing the number of persons covered by our health insurance policies by over 179,000 to 1.3 million.

The health and life insurance businesses achieved a consolidated underwriting profit of \$38 million, 14% higher than last year. Total premiums increased by

21% to \$1.3 billion and total claims paid increased by 20% to \$1.2 billion. We continued to improve productivity reducing the HCF health fund management expense ratio (MER) from the previous year's record low of 7.9% to 7.8%. Once again, our MER is much lower than the industry average of 10% and the published ratios of our major competitors.

In the health insurance sector, the Australian Government's changes to the Medicare Levy Surcharge from January 2009, together with their planned introduction of means testing eligibility for the Private Health Insurance Rebate and consumer concern about the economic outlook saw the growth in the number of people covered by private hospital policies slow from its five year peak of 4.3% in 2007/2008 to 2.2%. In the face of this threat and a substantial increase in marketing expenditure by our major competitors I am pleased to report HCF hospital membership grew by 3.8% for the year and our national market share to 10%. With the addition of Manchester Unity members in December 2008 our national market share increased to 11.7%, making your fund the third largest health insurer in Australia and the largest not for profit fund in our industry.

The Global Financial Crisis has been far reaching in its effect on all businesses and HCF was not immune from reductions in the value of its conservative investment portfolio in the first half of 2008/09. Net investment income for the Group was \$24.2 million negative for the year. This

was offset by the underlying strength of our operating businesses each of which exceeded Board expectations to produce a consolidated net profit after tax of \$21.5 million. Whilst most pundits remain cautious about the strength and speed of the recovery, we note investment returns in the first quarter of the current financial year are positive.

## Long Term Change to Australia's Health System?

The formation of the National Health and Hospitals Reform Commission, (NHHRC) was one of the first major initiatives of the new Australian Government. The Commission's final report has been released and the wide range of recommendations it made for reform of the health system, 123 in all, are being considered by the government. Those that will have the most impact on HCF and other private health insurers, if they are adopted, are:

- Denticare – a proposed national insurance scheme for basic dental care;
- the Healthy Australia Accord, which would see Australia move to one health system of primary, basic dental, public hospital and aged care funded by the Commonwealth over time; and
- Medicare Select, a proposed model to open the health system to greater consumer choice and competition with the ultimate aim of achieving high quality and efficient delivery of health care services.

## Merger proposal accepted by Manchester Unity and transition strategy successfully implemented

## Strong underwriting performance in both health and life insurance businesses

## Continued strong organic growth in number of people insured by HCF

## Well being and chronic disease management program, "MyHealth Guardian" launched

The reform program presented by the NHHRC is ambitious and controversial, which is best demonstrated by the long lead-time allocated for consultation and debate before any decisions are announced. An even longer time frame, stretching into years, would be required to plan and then implement the changes implicit in the Healthy Australia Accord and the Medicare Select initiative. HCF has participated in the consultation process and will continue to do so as a strong advocate of its members' interests. Our assessment is the industry will need some fundamental rethinking of the nature of its business if Medicare Select goes ahead. An assessment of HCF's current and planned strategic capability is that we are well positioned to contribute to and participate effectively in these reforms. Should they not eventuate the steps we are taking to increase our strategic capability will be beneficial to developing our core business.

### More for Our Members

As a not-for-profit organisation, our prime focus will continue to be on delivering outstanding value for members, rather than building wealth for shareholders. Our long standing policy of returning around 90 cents in the dollar of premiums to HCF members by way of better health care benefits was maintained. This year's return was 89.4 cents compared with the average return for all other funds of 87.0 cents.

HCF member satisfaction remains among the highest in the industry at 95%. Our private hospital and health insurance packages were accorded "5 Star" recognition this year by the prestigious financial services rating organisation, Canstar Cannex.

It is pleasing to note HCF members are now taking advantage of the excellent Manchester Unity retirement villages and aged health care facilities. Conversely Manchester Unity members

now have full access to all HCF branches, dental centres, eyecare clinics and health care provider networks as well as improved benefits by aligning their policies with HCF's "more for members" policy.

In May, HCF launched "MyHealth Guardian", the \$100 million preventative health and chronic disease management program for our members. This is aligned with key recommendations of the Commonwealth National Preventative Health Taskforce, recently released by Health Minister, Nicola Roxon.

### Meeting Our Social Responsibility

The Group's operations this year generated \$146.1 million in gross economic value added. From this we paid \$47.1 million in federal and state taxes, ambulance levies and staff superannuation and \$76.6 million in salaries to our 1,238 employees.

HCF believes that our activities should be economically viable, environmentally sound and socially responsible. The health and life insurance services we provide contribute to social wellbeing as they help to share risk and create financial security. Even though returns on our investment funds were down we donated \$1 million to the HCF Health and Medical Research Foundation, increasing its corpus to \$26 million. The Foundation approved research grants to benefit all Australians of \$1.2 million this year.

In 2007 Manchester Unity initiated a five year funding agreement to support research by HeartKids Australia into the single biggest cause of death amongst Australian children, congenital heart disease. HCF willingly agreed to maintain this very worthwhile initiative.

### Looking Ahead

The outlook for HCF and the private health insurance market remains positive.

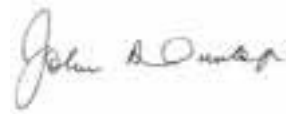
We are confident our financial strength will ensure our long-term viability and allow us to take advantage of opportunities or meet threats which may emerge.

The proposed changes by government will present increased challenges and we will continue to represent our members' welfare and their rights to access private care health benefits at an appropriate cost. HCF will play an increasing role in sourcing and funding disease management programs which are effective in slowing the onset of disease and improving the health of members suffering from chronic disease.

We are on track to achieve the full value of the considerable synergies from our merger with Manchester Unity this year and expect the combined group to provide increased member benefits which would not otherwise be available.

I have appreciated the strong support of my fellow directors since I assumed the role of Chairman, and I pay tribute to the Chief Executive and his management team, who work so effectively to maintain our progress.

The critical factor in our continuing success is our people; they demonstrate dedication, strength of purpose and produce quality service. My fellow directors join with me in thanking all of our people, including those who have joined us from Manchester Unity, for their enthusiasm, ability to produce excellence in performance and commitment to providing more for our members.



**John Dunlop AM**  
Chairman

28 September 2009  
Sydney



# Greg. J. Gardiner

BEC (Syd), FCPA, FAICD

It was with deep regret that we reported the passing of our former Chairman, Greg Gardiner, on 14 May 2009, after a brief illness.

The Board, management and staff of HCF Group will miss his strong leadership and his guidance which has seen HCF grow and prosper to become one of Australia's leading health funds, with an enviable reputation for excellence in governance, operational management and industry leading service to our members.

Greg Gardiner was appointed to the Board of HCF by the Minister for Health (NSW) on 12 October 1988. At that time HCF operating revenue was \$242 million, net assets were \$76 million and we had 301,000 members. This year the group operating revenue was over \$1.3 billion, net assets were \$580 million and membership now exceeds 1 million.

In 1994 he led the successful negotiation with the NSW Minister for Health to enable the election of four HCF members to our Board. We were the first major health fund operating in Australia to do so. In 1995, he was elected by members to a three year term and re-elected for three subsequent terms, before becoming an appointed independent director in November 2007.

His career included an extensive background in finance and merchant banking at Development Finance Corporation Limited and in industry as Deputy Managing Director of Pioneer International Limited. He was appointed Chief Executive Officer of John Fairfax Limited at age 37 and guided that organisation through some troubled times. He made a significant contribution to community welfare, including serving as President of the Juvenile Diabetes Foundation of Australia and as a Governor of the Curran Foundation.

The recent merger with Manchester Unity was successfully completed under his stewardship and its subsequent seamless integration into the HCF Group would have been a source of great satisfaction to him, fulfilling his long held commitment to providing more for our members.

He loved business and its nuances, the land, and the family who survive him: his wife, Marilyn; children Anthea and Nicholas; and grandchildren Zoe and Charlie.

In a tribute to his leadership, HCF Chief Executive Officer, Terry Smith, said "Whilst Greg's many other achievements could be listed, it is not what is done that is important but how it was achieved that is the measure of outstanding leadership. In this regard we believe he was without peer".