An tÚdarás Árachas Sláinte
The Health Insurance Authority

# Annual Report and Accounts **2014**

**The Health Insurance Authority**
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# 1. Chairman's Statement

In accordance with Section 33(2) of the Health Insurance Act, 1994, I am pleased to present the Annual Report and Accounts of the Health Insurance Authority ("the Authority") for the year ending 31 December 2014.

The year was another significant year for the regulation of the private health insurance market in Ireland and for the work of the Authority. In July 2014 the Minister for Health signed a statutory instrument to enact lifetime community rating from 1 May 2015. The purpose of the change is to encourage people to take out private health insurance at younger ages, thereby helping to improve the fairness of the system and to reduce premium inflation for younger joiners and existing insureds. Specifically, anyone taking out private health insurance for the first time after 30 April 2015 will have a permanent age-related loading of 2% per year of age over 34 applied to their health insurance premium.

In December 2014 the Health Insurance (Amendment) 2014 was enacted, which gave effect to a number of further key changes. A sliding scale of premium rates for young adults in the age range 18-25 was introduced to take effect from 1 May 2015. In this context, the requirement for a young adult to be a student or dependent will no longer apply. Credits applying in the risk equalisation scheme will be revised for renewals from 1 March 2015. Age credits for insurers continue to apply for all insured lives over 60 and they will continue to receive credits for each night spent in hospital by one of their customers. For renewals from 1 March 2015 this hospital credit changes from €60 to €90 for each night spent in hospital. The community rating stamp duty is being reduced on non-advanced contracts from 1 March 2015 while stamp duty on advanced contracts stamp duty remains unchanged.

The current Risk Equalisation Scheme was established in 2013 under the Health Insurance (Amendment) Act 2012. In accordance with this, the Authority is responsible for the administration and maintenance of the Scheme. The 2014 accounts of the Risk Equalisation Fund set up under the Scheme are included in this Report. The Fund currently involves cash flows of around €1billion. It is managed on the basis that income and outgo will be in balance over time, annual surpluses and deficits arising from changing experience being taken into account in the annual reviews of stamp duty and premium credits.

The Risk Equalisation Scheme requires continuing fine-tuning to ensure that it remains fit for purpose. One planned enhancement is to improve the health status measure used. The Minister advised insurers in April 2014 of his commitment to implementing a more refined health status measure to better equalise risk in relation to the higher costs of insuring less healthy patients across all ages. As a contribution to this, the Authority submitted a detailed paper to the Minister during 2014 on incorporating diagnosis related groups (DRGs) into the Risk Equalisation Scheme. It will take time, however, to develop the data and systems necessary.

Improvements in the wider economy should help the market for private health insurance. While there was still a year-on-year decline in the number of insured people as at December 2014, the final quarter showed a modest increase in the total number insured and this trend seems to be continuing in 2015. The disproportionate reduction over recent

years in the take-up rate at younger ages remains a concern however. It is to be hoped that the new measures outlined above will help to stabilise the market in this respect by increasing the inflow of new and younger customers. This intergenerational aspect is of key importance for the stability of voluntary community rated health insurance.

In 2014 the Minister for Health published a White Paper on Universal Health Insurance (UHI) which envisaged an expanded role for the Authority in a UHI environment. The Authority continues to liaise with the Department of Health on this matter as required.

The Authority's consumer information function remains extremely popular with members of the public. Contacts increased by 20% to over 600,000 in 2014, mainly through the Authority's award winning website but also through direct contact with the Authority's staff. The information provided enables consumers to compare benefits and prices across the full range of health insurance plans offered by insurers and is intended to assist consumers in accessing the most appropriate policy at the most competitive premium. The Authority also provides information through other channels such as the media, the distribution of consumer information booklets, and material accompanying renewal statements issued by insurers.

I am pleased to recognise the work and dedication of the Members of the Authority during 2014. I would also like to thank the Minister for Health, Dr Leo Varadkar T.D., and his predecessor, Dr James Reilly T.D., as well as officials in the Department of Health, for their support during the year.

Finally, the Authority expresses its appreciation of the work done by the staff of the Authority and the commitment shown by them throughout 2014.

**Mr. Jim Joyce**
*Chairman*

30 June 2015

# 2. Membership and Management of the Authority

## Membership

The Members of the Authority are appointed by the Minister for Health for a term of five years. The Members of the Authority are:

**Mr. Jim Joyce (Chairman)**

Mr. Joyce became Chairman of the Authority on 1 February 2006 and was reappointed on 1 February 2011. Mr. Joyce is a Fellow of the Institute of Actuaries and the Society of Actuaries in Ireland and served as President of the Society for 1999/2000. His early career was in the Civil Service ending as Assistant Secretary in the Department of Posts and Telegraphs, following which he was Executive Director of Telecom Éireann from 1984 to 1992. He was Actuarial Consultant to the Department of Enterprise, Trade and Employment and then to the Irish Financial Services Regulatory Authority from 1992 to 2005.

**Mr. Dónall Curtin**

Mr. Curtin is a founder and Senior Partner of Byrne Curtin Kelly (Certified Public Accountants). He is a member of the Institute of Certified Public Accountants in Ireland. He is a past President of Chambers Ireland and remains a member of the Board.
He is a member of the Institute of Arbitrators with considerable experience in arbitration, mediation and dispute resolution.

### Ms. Sheelagh Malin

Ms. Malin is Managing Director of St. James's Place International plc, which is part of the U.K. wealth management group St. James's Place. She has over 20 years management experience in the life assurance industry, including roles in marketing and product development, financial reporting, compliance and the statutory "appointed actuary" function. She is a Fellow of the Society of Actuaries in Ireland and has participated in actuarial working parties on financial reporting, expense reserving and consumer information for cross-border life assurance business.

### Prof. Anthony Staines

Professor Staines is a public health specialist and the chair of health systems in the School of Nursing and Human Sciences in Dublin City University. A doctor, he has worked as an academic epidemiologist since 1990 in the UK and Ireland. He works with the ICT unit of the System Reform Group in the Health Services Executive. He has particular expertise in health information systems, and health service financing.

### Mr. Paul Turpin

Mr. Turpin is a governance specialist with the Institute of Public Administration (I.P.A.) providing advisory and training services. Before joining the I.P.A. in 2006, he held a number of senior positions in banking and investment management. Previously he has worked in the public sector, including as Economic Adviser to Government Departments, with the National Economic and Social Council and with the European Commission.

# Management

The Management of the Authority are as follows:

**Mr. Liam Sloyan**

*Chief Executive/Registrar – Resigned 16 November 2014*

**Mr. Don Gallagher**

*Chief Executive/Registrar – Appointed 7 December 2014*

Mr. Gallagher holds an MSc in Management from Trinity College, Dublin and is an experienced international Chief Executive who has managed and served on the Board of national and international insurance and wealth management companies. Most recently Mr. Gallagher was CEO and Executive Director of the European subsidiary of a leading global life insurer. Previously Mr. Gallagher had been Senior Vice President and Managing Director with a major Canadian life insurer both in Ireland and Canada.

**Mr. Eamonn Horgan**

*Corporate Affairs Manager/Secretary to the Authority*

Mr. Horgan holds a Master of Science degree, and post graduate qualifications in business and finance and in corporate governance. He held operations and production management positions in private industry before joining the Authority as Corporate Affairs Manager.

**Mr. Brendan Lynch**

*Head of Research/Technical Services*

Mr. Lynch is an economist and also a qualified solicitor. He has a Masters degree in Economics and a Diploma in European Law. He has worked as an economic consultant, stockbroker economist and as an economic adviser to the Minister for Finance.

**Mr. Micheal O'Briain**

*Head of Regulatory Affairs*

Mr. O'Briain is a Fellow of the Society of Actuaries in Ireland. He has over 30 years management experience in the life assurance industry. He was Executive Director and Appointed Actuary of an Irish life assurance company prior to joining the Authority.

**Mr. Colm Farrell**

*Accountant*

Mr. Farrell is a Fellow of the Association of Chartered Certified Accountants. Prior to joining the Authority in 2013, he held a number of senior management positions in the financial services sector.

The offices of The Health Insurance Authority are located at:

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# 3. Functions of the Authority

The Authority was established by Ministerial Order on 1 February 2001 under the Health Insurance Act, 1994 and operates in accordance with the provisions of this Act and the Health Insurance (Amendment) Acts (collectively "the Health Insurance Acts").[1]

The Health Insurance Acts provide for the regulation of the business of private health insurance in Ireland following the enactment of the European Union "Third Non-Life Insurance Directive". This Directive sets out the requirements of the internal market for Member States regarding non-life insurance, including health insurance. This European legislation allows individual Member States to adopt the specific requirements in a manner most appropriate to their particular national legal system and national healthcare system.

The Principal Objective of the Health Insurance Acts is set out in legislation as follows:

"The principal objective of this Act is to ensure that, in the interests of the common good and across the health insurance market, access to health insurance cover is available to consumers of health services with no differentiation made between them (whether effected by risk equalisation credits or stamp duty measures or other measures, or any combination thereof), in particular as regards the costs of health services, based in whole or in part on the health risk status, age or sex of, or frequency of provision of health services to, any such consumers or any class of such consumers, and taking into particular account for the purposes of that objective:

(a) the fact that the health needs of consumers of health services increase as they become less healthy, including as they approach and enter old age,

(b) the desirability of ensuring, in the interests of societal and intergenerational solidarity, and regardless of the health risk status or age of, or frequency of provision of health services to, any particular generation (or part thereof), that the burden of the costs of health services be shared by insured persons by providing for a cost subsidy between the more healthy and the less healthy, including between the young and the old, and, without prejudice to the generality of that objective, in particular that the less healthy, including the old, have access to health insurance cover by means of risk equalisation credits,

(c) the manner in which the health insurance market operates in respect of health insurance contracts, both in relation to individual registered undertakings and across the market, and



[1] The Health Insurance Act, 1994 (Establishment Day) Order, 2001 (S.I. No. 40 of 2001).

(d) the importance of discouraging registered undertakings (health insurers) from engaging in practices, or offering health insurance contracts, whether by segmentation of the health insurance market (by whatever means) or otherwise, which have as their object or effect the favouring of the coverage by the undertakings of the health insurance risk of the more healthy, including the young, over the coverage of the health insurance risk of the less healthy, including the old."

Community rating is defined as any measures that support the principal objective. The Acts also set out the other principles of health insurance regulation, open enrolment, lifetime cover and minimum benefit.

The functions of the Authority are as follows:

- To monitor the health insurance market and to advise the Minister (either at his or her request or on its own initiative) on matters relating to health insurance;
- To monitor the operation of the Health Insurance Acts and, where appropriate, to issue enforcement notices to enforce compliance with the Acts or take prosecutions;
- To carry out certain functions in relation to risk equalisation, including to manage and administer the Risk Equalisation Fund;
- To take such action as it considers appropriate to increase the awareness of members of the public of their rights as consumers of health insurance and of health insurance services available to them; and
- To maintain "The Register of Health Benefits Undertakings" and "The Register of Health Insurance Contracts".

The Authority shall exercise such powers as are necessary for the performance of its functions. The Minister for Health ("the Minister") may assign further responsibilities to the Authority as provided for in the Acts.

## 3.1 Regulation

### 3.1.1 Regulatory Structure of the Market

The Irish private health insurance regulatory system is based on the key principles of community rating, open enrolment, lifetime cover and minimum benefit. It aims to ensure that private health insurance does not cost more for those who need it most. The system is unfunded, meaning that there is no fund built up over the lifetime of an insured person to cover their expected claims cost. Instead, the money contributed by insured people is pooled by each insurer and the cost of claims in any given year taken from the pools.

It is in this context that the concept of community rating must be understood. This means that the level of risk that a particular consumer poses to an insurer does not affect the premium paid. In other words, everybody is charged the same premium for a particular plan, irrespective of age, gender and the current or likely future state of their health subject to exceptions in respect of children under 18 years of age, discounts for members of group schemes and young adults and lifetime community rating (the latter two exceptions begin on 1 May 2015).

Open enrolment and lifetime cover mean that, except in very limited circumstances specified in legislation, health insurers must accept all applicants for health insurance and all consumers are guaranteed the right to renew their policies regardless of their age or health status.

Under the Minimum Benefit Regulations, all insurance products that provide cover for inpatient hospital treatment must provide a certain minimum level of benefits. It is considered necessary to regulate the minimum level of benefits because of the complex and specialist nature of private health insurance products, which without regulation, could result in consumers being provided with products that do not provide a sufficiently comprehensive level of cover.

Risk equalisation is a process that aims to address differences in insurers' claim costs that arise due to variations in the health status of their members. Risk equalisation involves payments to or from insurers related to the risk profile of their membership. Risk equalisation is a common mechanism in countries with community rated health insurance.

### 3.1.2 Regulatory Developments in 2014

**Lifetime Community Rating**

The Minister for Health signed a statutory instrument in July 2014 (S.I. No 312 of 2014) that enacted lifetime community loadings from 1 May 2015. The purpose of the change is to encourage people to take out private health insurance at a younger age thereby helping to control premium inflation.

There was a grace period up to 1 May 2015, before which no loadings would apply. After that date, people aged 35 and upwards taking out health insurance for the first time are charged a late entry loading. The loading is 2% of the gross premium for each year in age that the person exceeds 34 when they first take out private health insurance. Credit is given for previous periods of cover and for periods of unemployment since the economic downturn in 2008.

The Authority ran an extensive public information campaign in advance of the 30th April 2015 deadline.

### Young Adult Premium Rates

The Health Insurance (Amendment) Act 2014, which was enacted in December 2014, introduced from 1 May 2015 a sliding scale of premium discount rates for young adults in the age range 18-25. Where an insurer chooses to apply these discounted rates, the discounted rates must apply for the full range of ages. From 1 May 2015 there is no longer a requirement for a young adult to be a student or a dependant in order to qualify for a discounted premium.

### Open Enrolment Regulations

The Minister for Health signed a signed statutory instrument in March 2015 (S.I. No 79 of 2015) with an effective date of 1 May 2015. The Regulations reduce the waiting periods for older ages so that they are the same as those applying for younger ages. The definition of a pre-existing condition was changed to an ailment, illness or condition where the signs or symptoms existed at any time in the period of 6 months prior to the insurance commencing.

The Statutory Instrument also introduced rights for immediate full cover for adopted children added to an insurance policy within 13 weeks of their date of adoption.

### Minimum Benefit Regulations

Statutory Instruments No 612 of 2014 was enacted on 23 December 2014. These regulations clarify that the amount of the charge payable under Section 55 of the Health Act 1970 is payable in respect of services provided in a publicly funded hospital. Statutory Instrument No 96 of 2015 was enacted on 13 March 2015. These regulations clarify the prescribed minimum payments relating to prescribed health services provided by a publicly funded hospital under Section 52(1) and Section 55 of the Health Act 1970.

## 3.1.3 Irish Risk Equalisation Scheme

### Structure of the Irish Risk Equalisation Scheme

2013 saw the introduction of a new Risk Equalisation Scheme, replacing the interim system that had been in place since 2009 when the 2003 Risk Equalisation Scheme was set aside by a decision of the Supreme Court.

The Risk Equalisation Scheme provides that Open Membership Undertakings receive higher premiums in respect of insuring older less healthy people, with the higher amount paid by way of risk equalisation premium credits from the Risk Equalisation Fund. All adults pay the same (community rated) premium amount for a particular level of cover [2]. In addition to the premiums paid by customers to insurers, the insurers receive risk equalisation premium credits in respect of insuring people over age 59. The amounts of risk equalisation premium credits are set out in Appendix F.

The main elements of the Risk Equalisation Scheme are the following:

- Risk equalisation credits are paid from a Fund operated by the Health Insurance Authority.
- Risk equalisation credits are payable in respect of premiums that vary on the basis of age, gender, and level of cover.

2 Discounts for young adults and group schemes and lifetime community rating loadings vary the community rated premiums that customers pay within the parameters set by the Health Insurance Acts.

- Risk equalisation credits are also payable in respect of hospital claims. Specifically, a fixed amount is payable from the Risk Equalisation Fund for each night an insured person spends in private hospital accommodation or in a publicly funded hospital where a charge is payable under Section 55 of the Health Act 1970 for such a stay. This reduces the cost to the insurer of insuring less healthy individuals.
- The cost of the credits is recouped through a community rating levy which varies between children and adults and between two levels of cover (advanced and non-advanced).

Community rating levy payments are paid by insurers to the Revenue Commissioners who in turn transfer the money to the Risk Equalisation Fund. Risk equalisation credits are paid out of the Fund to the insurers by the Health Insurance Authority. Any surpluses or deficits in the Fund are carried forward and allowed for in setting future levy amounts.

The Health Insurance Acts set out the process around setting risk equalisation credits:

- The Authority evaluates and analyses claims data on the insured population and other data included in returns from insurers to the Health Insurance Authority every 6 months.
- Twice a year the Authority issues a report to the Minister on its evaluation and analysis of these returns. The Autumn report includes recommendations on the amounts of the risk equalisation credits and the amounts of the community rating levies. The recommendations have regard to the principal objective of the Health Insurance Acts, the aim of avoiding overcompensation, the aim of maintaining the sustainability of the health insurance market and the aim of having fair and open competition.
- If the Minister proposes to change the risk equalisation credits he does so by proposing amendments to the Health Insurance Acts, where the amounts of the credits are specified.
- The Minister may, having regard to the Authority's Report, the principal objective, the aim of avoiding overcompensation, the aim of maintaining the sustainability of the health insurance market and the aim of having fair and open competition, make recommendations to the Minister for Finance on the amounts of the community rating levies, which are provided for in the Stamp Duties Consolidation Acts.
- The amounts of the risk equalisation credits and the community rating levies become law if and when enacted by the Oireachtas as amendments to the Health Insurance Acts and the Stamp Duties Consolidation Acts.

### Risk Equalisation Rates Applying in 2014

The rates of the risk equalisation credits and the community rating levy that applied to contracts commencing and renewing in 2014 are set out in Appendix F. For contracts written before 1 March 2014, the risk equalisation credits for advanced cover plans were set so that the projected market claim cost (net of risk equalisation) for all age groups would be less than or equal to 140% of the projected market average claim cost. (Without risk equalisation, the projected claim rate for older age groups would be up to 400% of the market average claim rate). For non-advanced cover plans age credits were 85% of the rates applying for advanced cover plans.

The community rating levy was set at the amount projected to fund the credits with the levy for non-advanced plans equalling 85% of the rate applying for advanced plans.

From 1 March 2014, the age related credits were set so that the projected market claim cost (net of risk equalisation) for all age groups would be less than or equal to 133% of the projected market average claim cost.

The community rating levy was set at the amount projected to fund the credits, with the levy for non-advanced plans equalling 75% of the rate applying for advanced plans.

### Risk Equalisation Rates applying from 1 March 2015

During 2014, the Authority received information returns for the second half of 2013 and for the first half of 2014 from each of the open membership undertakings. Reports on the evaluations and analyses of these returns, were submitted to the Minister in April and October 2014. The October 2014 Report included the Authority's recommendation on the amounts of the Risk Equalisation Credits and Community Rating Levies for policies commencing from 1 March 2015.

The rates applying from 1 March 2015 were given effect in the Health Insurance (Amendment) Act 2014 and are set out in Appendix F. These credits were set so that the projected market claim cost (net of risk equalisation) for all age groups would be less than or equal to 130% of the projected market average claim cost.

The community rating levy was set at the amount projected to fund the credits with the levy for non-advanced plans equalling 60% of the rate applying for advanced plans.

### Overcompensation Assessment

The Authority is also required to assess whether the Risk Equalisation Scheme overcompensates any insurer.

- Once a year, by 1 May, insurers are required to provide the Authority with profit and loss accounts and balance sheets insofar as they relate to Irish health insurance business;
- The Authority assesses if any insurer has been overcompensated by the risk equalisation scheme, enabling them to earn in excess of a reasonable profit. Reasonable profit is defined as a return on equity not exceeding 12% per annum on a rolling three year basis using approved accounting standards and having regard to the European Union Framework for State aid in the form of public service compensation. If the Authority determines under the Health Insurance Acts that an insurer (which is a net beneficiary of the risk equalisation scheme) has been overcompensated, the Authority shall issue a draft report to the insurer. The Authority will then take account of any submissions received from that insurer before making a final determination on overcompensation; and
- If the Authority determines that overcompensation has occurred, it issues a report to the Minister and the insurer concerned stating the amount of the overcompensation. The insurer must then refund the amount of overcompensation to the Risk Equalisation Fund.

The annual assessment in 2014 was in respect of the time period 1 January 2011 to 31 December 2013. One undertaking, Vhi Healthcare, was a net beneficiary in this time period. The Authority determined that Vhi Healthcare had not been overcompensated because its average return on equity in the three year period was below 12%.

### Enhancing the Risk Equalisation Scheme

The Minister for Health and the Health Insurance Authority consider that it is necessary to enhance the Risk Equalisation Scheme, in particular by improving the health status measures used. The Minister wrote to insurers in April 2014 committing to implementing a more refined health status measure to equalise risk in respect of the higher costs of insuring less healthy patients of all ages. The Authority submitted a detailed paper to the Minister during 2014 on incorporating diagnosis related groups (DRG's) into the Risk Equalisation Scheme.

A key requirement will be more comprehensive data collection, which is also required in the context of Universal Health Insurance (UHI). As set out in the White Paper on UHI, which was published in April 2014, the Government plans to establish mandatory financial reporting requirements across the public and private sectors. This includes expanding the use of the Hospital Inpatient Enquiry (HIPE) system to encompass full coverage of all public and private hospital treatment. This will support the implementation of a DRG-based health status measure on a phased basis. The full implementation of a DRG-based health status measure will target risk equalisation more accurately in respect of less healthy insured members. This will improve the effectiveness of the Risk Equalisation Scheme. The Authority and the Department of Health will continue to work with insurers, public and private hospitals and all other stakeholders in relation to this matter.

## 3.1.4 The Risk Equalisation Fund ("REF")

The REF was established in 2013 under the Health Insurance (Amendment) Act 2012. Under the Act, the Authority is responsible for administering and maintaining the REF.

The Health Insurance Act 1994 (Risk Equalisation Scheme) Regulations 2013 were introduced in February 2013. These Regulations set out the structures for submitting risk equalisation credit claims and returns by registered undertakings to the Authority and the validation of those claims by the Authority. Interim claims are submitted by the 21st day of the month immediately following the month to which the interim claim relates. Once the Authority is satisfied that the risk equalisation credits claimed are properly due to an undertaking, the Authority arranges payment of the due amount from the REF.

Stamp duty is collected by the Revenue Commissioners from registered undertakings on a quarterly basis. It is due on the 21st day of the second month following the end of each quarter. The quarterly levy amount is then paid by the Revenue Commissioners into the REF's current account. Funds not immediately required in the REF current account are invested in Exchequer Notes, which are short term debt instruments issued by the National Treasury Management Agency.

The Authority engages internal audit consultants to carry out an annual review of the Authority's procedures for administering the REF. Management accounts are prepared and submitted to the Board of the Authority on a monthly basis.

As part of the Authority's role in administering and maintaining the REF, the Authority undertook on-site inspections of each registered undertaking during the last quarter of 2014. These inspections included a review of the procedures and processes in place for completion of interim claims and sample testing of amounts included in monthly interim claims to underlying books and records.

### 3.1.5 The Register of Health Benefits Undertakings

The Authority is responsible for the maintenance of "The Register of Health Benefits Undertakings" ("the Register"). Section 14 of the Health Insurance Acts, provides that any health insurer carrying on health insurance business in Ireland is required to register with and obtain a certificate from the Authority.

Application for renewal of registration is required on an annual basis. Upon registration, a certificate is issued to the health insurer, confirming that the insurer may offer private health insurance in accordance with the terms of its rules and within the relevant legislation.

There are two types of health insurance undertaking in Ireland. Open membership undertakings are health insurers that must accept all customers who wish to obtain private health insurance (subject to certain limited restrictions as specified in the legislation). Restricted membership undertakings are mainly vocational schemes, membership of which is restricted to employees of particular organisations. No new restricted membership undertakings may be established.

### 3.1.6 The Register of Health Insurance Contracts

The Authority is responsible for maintaining the "Register of Health Insurance Contracts". Section 7AC of the Health Insurance Acts states that the Register shall be in such form and shall contain such particulars relating to any type of health insurance contract on offer in the State as may be specified by the Authority. The contents of the Register are available for inspection on the Authority's website at: http://www.hia.ie/consumer-information/register-of-health-insurance-contracts or at the offices of the Authority.

#### Product Notification

Registered Undertakings are required to submit samples of each new or revised contract to the Health Insurance Authority not later than 30 days before first offering such a product.

An undertaking will maintain all offers for not less than 60 days on the same terms and conditions and the product has to be for a period of 12 months unless there is good and sufficient reason for a different term.

Insurers submitted more than 850 samples of new/revised contracts to the Authority in 2014.

#### Review of Product Notifications for Compliance

The Authority reviews the details of all product notifications to ensure that they are not contrary to the Health Insurance Acts. Where the Authority has a concern about a contract, it advises the insurer of the contract features that may be in breach of the legislation and discusses the matter with the insurer. On all such occasions during the year, the insurer addressed the Authority's concerns either by amending the contract or by adequately explaining how the contract complies with legislation.

**Level of Cover**

Under the Health Insurance (Amendment) Act 2012, the Authority determines which types of health insurance contracts are Non-Advanced Contracts, to which the lower levels of risk equalisation credits and community rating levies apply. The definition of a Non-Advanced Contract requires that the contract provides for not more than 66 per cent of the full cost for hospital charges in a private hospital or not more than the prescribed minimum payments under the Minimum Benefit Regulations, whichever is greater. If the Authority is satisfied that a type of health insurance contract is Non-Advanced, it specifies this in Regulations and on the Register of Health Insurance Contracts. There were 5 such Statutory Orders promulgated by the Authority during 2014.

On 31 December 2014 there were 46 types of health insurance contracts specified as being non-advanced by the Authority. Each of the open membership undertakings has at least one type of non-advanced contract. On 31 December 2014 there were 309 advanced types of health insurance contracts specified as being advanced contracts.

## 3.2 Research and Advice

### 3.2.1 Monitoring the Health Insurance Market

**Size of the Market**

The health insurance market is the largest non-life insurance market in Ireland. Premium income in 2014 was €2.4bn. Of the total, €113m was accounted for by restricted membership undertakings. The rate of growth of both claims and premiums per person insured has slowed considerably in 2013 and 2014 from the immediate preceding period.

The number insured in the health insurance market was 2.03m, including children, at end 2014, which represented 44% of the population. After growing for many years, the number insured peaked at 2.3m (50.9% of the population) at the end of 2008 and has now fallen for the last six years. However, numbers insured ceased falling in the third quarter of 2014 (see Appendix A).

The fall in demand for health insurance has been disproportionately manifested in demand from younger adults. Between the end of 2009 and the end of 2014, the number of adults between the ages of 18 and 50 with health insurance fell by 225,000 (-23%), while the number of adults over 50 with health insurance rose by 45,000 (+7%). Consequently, the differential trend in the health insurance market as between age cohorts increases the rate at which the market in total is ageing.

In a voluntary community rated market based on intergenerational solidarity, retention of existing profitable healthier (mostly younger) members and a regular influx of younger employed adults to the market are key to market stability. Two legislative measures were introduced in 2014 in order to support the demand from younger adults; lifetime community rating and tiered discounts for younger adults up to age 25 as summarised in paragraph 3.1.2 of this Report.

There are currently four open membership insurers operating in the main health insurance market. In December 2014, Vhi Healthcare's market share was 53%, having been 95% in the mid-1990s before the market was opened to competition. Laya Healthcare has a 23% market share, Aviva Health has 15% of the market, GloHealth has a 5% share. Restricted membership undertakings have a combined 4% market share. Market shares vary significantly by the ages of the insured. For instance, at the end of 2014, Vhi Healthcare insured 72% (75% at end 2013) of those aged 70-79 with insurance, whereas it insured 51% of those aged below 50. However, the high proportions of the oldest age cohorts insured by Vhi are gradually declining.

There is also one open health insurer, HSF, and a few very small restricted benefit undertakings that offer policies that offer "cash plan" and outpatient benefits only.

### Cost of Health Insurance and healthcare claims costs.

The average health insurance premium for in-patient cover paid in 2014 was €1,200 (for contracts within the scope of the Risk Equalisation Scheme), which represented a 4% increase on the average premium paid in 2013 (€1,150); significantly lower than the 10% increase the previous year. The premiums that consumers pay are reduced by the deduction of income tax relief at source by the insurers. The tax relief was restricted in the 2014 Budget to a maximum premium of €1,000 per adult and €500 per child and therefore to maximum tax reliefs of €200 and €100 respectively.

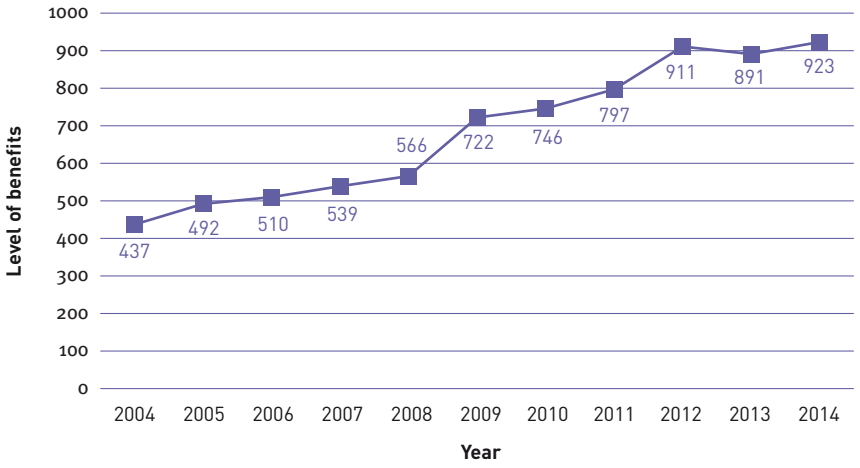
The average of the claims paid per insured person rose by 3% in 2014 after falling by 2% in 2013. The last two years represent a change to a trend of the previous ten years when the average claims per insured person had been increasing significantly. For instance, in the four years between 2004 and 2008, the average claim paid[3] per insured person increased by 6.7% per annum on average, and by 12.6% on average between 2008 and 2012. The number of treatment days in hospital (including day cases as one-day episodes) rose by 4% in 2014 after falling by approximately 3% in 2013.

The new relatively flat trend in claims paid per insured person in the last two years is a favourable development for the sustainability of the health insurance market, especially when considered in the context of acknowledged long-term drivers of healthcare costs, viz; lower tolerance of people towards ill-health, new medical and surgical interventions and population ageing. The relatively low increase in claims in 2014 is also noteworthy in the context of the new charging regime for private patients in public hospitals, which is mentioned below.

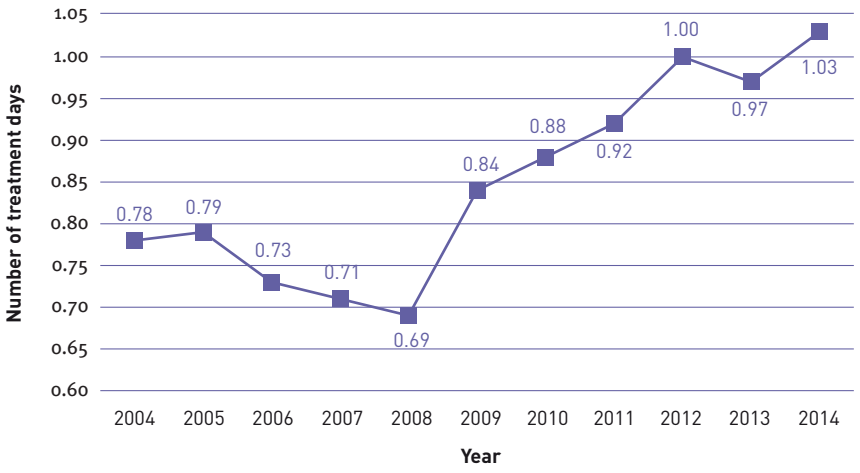
The following charts show how the rates of claims paid and treatment days per insured person have changed between 2004 and 2014. Children are given a weighting of 1/3rd in these calculations to reflect the lower premium paid.

3 "Claims paid" in this analysis are measured by "prescribed benefits" in the Regulations.

## Market prescribed benefits per insured person from 2004 to 2014




## Market treatment days per insured person from 2004 to 2014




## Review of Measures to Reduce Costs in the Private Health Insurance Market

Early in 2013, the Authority reported to the Department of Health in relation its analysis of claims data for 2012. The data showed that the rate of increase in claims cost was once more accelerating, having abated somewhat in 2010 and 2011. The Minister subsequently appointed Mr Pat McLoughlin to Chair a "Review of Measures to Reduce Costs in the Private Health Insurance Market". The Authority played an active role throughout this review. Its work included submitting a Working Paper on claims cost control at the outset of the process, receiving and analysing data from insurers and reporting on its analysis of claims data in June 2014.

Mr McLaughlin submitted his report in October 2014, which was subsequently published by the Minister. The report makes a range of recommendations and the Authority is mentioned as a stakeholder or joint stakeholder for a few of them.

### Changes to Charging Rates for Public Hospitals

From the beginning of 2014, new charges for private accommodation in public hospitals applied as set out in the Health (Amendment) Act, 2013. While some charges were lower than before, the biggest change was that anyone that elected to waive their right to be treated publicly (and thus be a private patient) would be liable to a minimum daily charge of €813 for each night in most acute hospitals, irrespective of the designation of the bed that they occupied. The equivalent charge for a single room is €1,000 and €407 for a day case.

### Product Developments

The number of products being marketed continued to grow in 2014 with 355 products being marketed at end 2014. Features of the market include:

- The market continues to age, primarily because only 29% of the population aged 18-29 now hold private health insurance with an open membership insurer compared to 41% coverage across all ages and 51% coverage across ages 60-74.
- 6% of in force contracts at end 2014 are subject to the lower non-advanced rate of stamp duty.
- At the end of 2014, 4% of the insured population had policies that did not cover all public hospitals.
- The market is heavily segmented by age with Vhi Healthcare insuring 55% of the market but 85% of the insured population aged 80 and above. 85% of those aged 60 and over who are insured with Vhi Healthcare have a product with full orthopaedic cover in a private hospital while only 19% of those under age 60 have such a product.
- The combined effect of this segmentation and the difference in premiums for different products means that those over the age of 60 pay, on average, premiums that are 33% higher than the premiums paid by those under the age of 60 for the most popular levels of cover.

## 3.2.2 Commissioned Research on the Health Insurance Market

The Authority commissions research on the health insurance market every two years. The latest research was commissioned in 2013 and the results were published on the Health Insurance Authority's website in spring 2014. The series of research reports provides valuable information on the health insurance market, including trends over time in the market.

The main reasons cited for having health insurance concern the cost of medical treatment, along with the perceived standard of, and perceived lack of access to, public services. Since the 2011 study, those three factors have increased significantly as reasons for opting for health insurance. Among those who had health insurance, the primary factor given for dropping it was cost. For those who have never had health insurance, the main reason given is cost but 30% of this group cite access to a medical card as a reason. The primary reason given to consider switching insurer remained cost savings.

Satisfaction with all aspects of health insurance had fallen back in the 2013/2014 survey compared to earlier ones with the largest drops being cited in terms of range and cover provided by insurers.

The incidence of employers offering to pay for all, or some, of their employee's health insurance continues to drop.

### 3.2.3 Other Commissioned Research

In cooperation with the Department of Health, the Authority commissioned two research notes from its financial and economic advisers on methodologies for assessing overcompensation with regard to the Risk Equalisation Scheme in the context of EU State Aid law and Services of General Economic Interest.

The Authority also continues to advise the Department separately on the issue.

### 3.2.4 Universal Health Insurance

The Programme for Government provides for the introduction of a system of Universal Health Insurance (UHI). The Minister published a preliminary paper on UHI in 2012 and a White Paper in 2014. The introduction of UHI will involve major changes in the regulation of the Irish health insurance market and the Authority's policy advice to the Minister reflects both the requirements of the current voluntary health insurance system and the need to establish an appropriate regulatory framework for UHI.

The White Paper outlines a proposed expanded role for the Authority in the proposed UHI system. In addition to the Authority's existing roles, including further development of the risk equalisation system, the White Paper proposed that the Authority would have a role in recommending an "efficient market rate" above which the State will not pay financial support. The Authority would be expected to oversee adherence to standard UHI policy terms and conditions, including the standard plan and receive and manage complaints from consumers concerning the health insurance market. It was also suggested that the expansion of the Authority's powers would necessitate a new system for its accountability to the Government and the Oireachtas.

At the request of the Department of Health, the Authority has contributed to ongoing research in relation to UHI.

## 3.3 Consumer Interests

The Authority's functions include taking "such action as it considers appropriate to increase the awareness of members of the public of their rights as consumers of health insurance and of health insurance services available to them" as well as monitoring and, where necessary, enforcing compliance with the Health Insurance Acts.

### 3.3.1 Consumer Queries and Complaints

One of the functions of the Authority, as provided for in the Health Insurance Acts, is "to take such action as it considers appropriate to increase the awareness of members of the public of their rights as consumers of health insurance and of health insurance services available to them".

Within this remit, the Authority aims to increase consumer awareness of their rights and assist them in understanding health insurance products. The Authority also monitors the provision of information to consumers by insurers as well as monitoring compliance with the Health Insurance Acts.

## Consumer Information

The Authority assists consumers by answering queries regarding health insurance and by assisting them in resolving disputes with insurers. In 2014 the volume of queries and complaints received by the Authority increased by 35% to almost 8,000 contacts. The level of queries was significantly higher in January 2014 than in other months of the year with 2,182 calls being logged that month due to the high volume of renewals in January. Topics that were most frequently raised with the Authority were:

- Requests for comparisons between health insurance products;
- Cancellation policies of insurers;
- Rights in relation to switching insurers;
- General queries regarding health insurance products and waiting periods;
- The cost of private health insurance;
- Service standards of insurers; and
- Requests for the Authority's information publications.

During 2014 the Authority intervened successfully on behalf of consumers in relation to issues arising with respect to their health insurance. Two examples of cases addressed by the Authority are set out below.

### Case Study 1

A consumer contacted the Authority to advise that his direct debit with his insurer failed for a number of months unknown to him. When the consumer noticed this he contacted his insurer who advised him that he could make payment for the outstanding amount before a specific date without penalty.

When the consumer called back to arrange the payment he was told that he could not make payment for the outstanding amount and would have to set up a new plan and serve waiting periods. This issue caused a significant problem for the consumer because if the consumer had been told when he originally called that he could not back date the plan he could have joined another insurer and would not have to reserve waiting periods as he was within the 13 week period where his waiting periods would not be effected. When he called his insurer the second time he was outside his 13 week period and would have had to reserve waiting periods with any insurer.

The Authority contacted the consumer's insurer to query the issue and the insurer acknowledged a mistake had been made and the customer could backdate his plan without penalty. They undertook to contact the customer to apologise and to retrain staff. The customer was satisfied with the outcome.

**Case Study 2**

A consumers spouse passed away and when he informed his insurer of this they told him that his renewal date would have to be back dated to the date his wife died. The consumer did not understand why his insurer would do this as he felt he would be then paying two premiums in the same year.

The Authority contacted the consumer's insurer to query the issue and the insurer advised that as the policyholder is deceased, their process is to cancel the policy and set up a new policy for any dependants from the date of cancellation, if that is their wish. Unfortunately, the member could not continue the previous policy as a new contract had to be established with the consumer as the policy holder. However, the member would not be liable to pay two premiums to the insurer. The consumer would be refunded any premiums he had paid on the cancelled policy with effect from the cancellation date. The customer was satisfied with the outcome.

### 3.3.2 Website

The Authority maintains a website, which provides information to consumers in line with the consumer information functions allocated to the Authority in the Health Insurance (Miscellaneous Provisions) Act, 2009. The website includes a plan comparison facility, which allows consumers to choose the most appropriate plans for their circumstances and compare benefits and prices of plans side by side. This comparison facility provides consumers with access to details of every plan on the market and is the only resource where this information is available.

The website received over 594,000 visitors in 2014; a 6% increase on website visitors in 2013 and our Facebook and Twitter pages also experienced significant increases in followers during this year.

The Authority began a redevelopment of the website site in late 2014 that will allow users to compare plans with greater ease. New features will include an excess slider that will allow the consumer to choose plans with an excess that suits their needs and also sliders for displaying various young adult ages. The updated website is scheduled to go live on a phased basis during early 2015.

# 4. Corporate Affairs

## 4.1 Strategy

The Authority was established as an independent regulator for the private health insurance market in Ireland. In fulfilment of this role, the Authority developed its work plan to include a vision, mission and values.

### The Vision of the Authority

The vision of the Authority is "to benefit the common good by supporting Community Rating, Open Enrolment and Lifetime Cover in a competitive health insurance market".

### The Mission of the Authority

The mission of the Authority is to achieve the vision by:

- monitoring and researching health insurance generally;
- advising the Minister on health insurance generally;
- enforcing compliance with the Health Insurance Acts, where necessary;
- carrying out its functions in relation to the Risk Equalisation System;
- implementing other relevant regulations as prescribed;
- providing information to consumers in relation to their rights and options; and
- safeguarding the interests of current and future health insurance consumers.

### The Values of the Authority

The Authority has adopted values to apply in its activities. The values of the Authority are to:

- Maintain its independence;
- Act always with impartiality and integrity;
- Work in a professional and effective way;
- Meet its unique challenges by being receptive to new ideas and suggestions from all sources and innovative in its approach;
- Maintain transparency in all its work; and
- Value its people.

## 4.2 Corporate Governance

### Corporate Governance Code of Practice

The Code of Practice for the Governance of The Health Insurance Authority is based on the updated "Code of Practice for the Governance of State Bodies" issued by the Department of Finance in May 2009.

### Ethics in Public Office

The Authority is included in Statutory Instrument No. 699 of 2004 for the purposes of the Ethics in Public Office Acts, 1995 and 2001. The Members of the Authority and relevant staff have fulfilled their obligations under this legislation.

### Annual Report and Accounts

The Annual Accounts for 2014 were prepared and submitted to the Office of the Comptroller and Auditor General ("the C & A G") for audit. These Accounts have been audited and approved by that office and are set out in section 5 of this Annual Report and Accounts.

### Internal Audit

The Authority's Audit Committee met four times in 2014. The Audit Committee has agreed a programme of internal audits and, during 2014, the Committee directed that a number of audits be conducted on its behalf by BDO, the Authority's appointed internal auditors. The internal auditors conducted separate audits on the internal financial controls for the Health Insurance Authority and the Risk Equalisation Fund. Reports were submitted to the Audit Committee and the Authority. The Audit Committee met with both the internal and external auditors during the year. Action plans were prepared by the Authority's executive to address audit findings and these were monitored by the Audit Committee.

The Audit Committee also reviewed the Authority's financial statements and accounts and provided oversight of the Authority's risk management structure and risk register.

### Official Languages

The Authority is compliant with the Official Languages legislation and maintains contact with the Department of Arts, Heritage and the Gaeltacht in this regard.

### Freedom of Information and Parliamentary Questions

The Authority continues to meet its obligations in relation to responding to freedom of information requests and parliamentary questions.

The Health Insurance Authority came within the scope of the Freedom of Information Act with the passage of the Freedom of Information Act 1997 (Prescribed Bodies) Regulations 2006, effective from 31 May 2006.

In addition to processing requests made under the Freedom of Information Acts as they are received, the Authority published two booklets, "A Guide to the Functions of and Records Held by the Authority" and "A Guide to the Rules, Procedures, and Practices of the Authority", which together guide applicants through the Freedom of Information process. The guides are compiled in accordance with the Freedom of Information Acts and are published on the Authority's website. A new Freedom of Information Act 2014 was signed into law on 14 October 2014 and gave effect to significant changes to the operation of Freedom of Information requests. The Authority has updated its policies and procedures in accordance with the new legislation.

The Authority received two freedom of information requests during 2014 and provided information in respect of 26 parliamentary questions.

### Communications Strategy

The Authority operates a policy of openness, consultation and discussion with relevant interested parties. The Authority welcomes communication with consumers, stakeholders and other interested parties in the provision of a regulatory service and in the performance of its functions.

### Energy Consumption

The Authority has one office which is located in Canal House. The offices are situated on one floor of a multi occupancy office building owned by the Construction Workers Pension Scheme. The Authority reports on its energy performance under SI No 542/2009 – European Communities (Energy End Use Efficiency and Energy Services) Regulations 2009. The report on the energy consumption is based on the proportion of Authority staff within the whole building. This approach has been taken as some floors within the building were unoccupied during the year.

In 2014, the Authority consumed 58MWh of energy, consisting of:

- 21MWh of electricity and
- 36MWh of fossil fuels (heating)

### Actions Undertaken in 2014

- Heating managed in line with current weather conditions; and
- Information Technology and other equipment replaced with more energy efficient equipment as required.

### Actions Planned for 2015

- Procuring energy efficient multi-functional devices when replacing equipment;
- The promotion of increased use of digital correspondence; and
- The continued promotion of responsible energy usage.

## 4.3 Resources

### Staff

The Authority employs eleven members of staff.

### Funding

The operations of the Authority are funded by a levy on registered undertakings in accordance with Section 17 of the Health Insurance Act, 1994. The 2010 Levy Regulations[4] set the rate to be paid by registered undertakings at 0.12% of premium income of registered undertakings. Statutory Instrument 528/2014, Health Insurance Act 1994 (Section 17) Levy Regulations 2014 further amended the income levy setting the rate at 0.01% for 2015 and 2016 and at 0.09% from 2017. The levy is payable to the Authority on a quarterly basis. Registered undertakings are also obliged to submit details of the numbers of insured persons and the premium income. These statistics are summarised in Appendix A. The Register of Health Benefits Undertakings as at 31 December 2014 is set out in Appendix D.



4 The Health Insurance Act, 1994 (Section 17) Levy (Amendment) Regulations, 2010 (S.I. No. 539 of 2010).

# 5. Report and Accounts 2014

## 5.1 The Health Insurance Authority Report and Financial Statements for the year 1 January 2014 to 31 December 2014

### To the Minister for Health

In accordance with the terms of Section 32(2) of the Health Insurance Act, 1994, The Health Insurance Authority presents its Report and Accounts for the twelve-month period ended 31 December 2014.

### Contents

# Authority Information

## Members of the Authority

Jim Joyce (Chairman)
Dónall Curtin
Sheelagh Malin
Paul Turpin
Professor Anthony Staines

## Chief Executive/Registrar

Liam Sloyan *(resigned 16 November 2014)*
Don Gallagher *(appointed 7 December 2014)*

## Secretary

Eamonn Horgan

## Bankers

AIB plc.
40/41 Westmoreland Street
Dublin 2

Permanent TSB
56/59 St Stephen's Green
Dublin 2

RaboDirect
Charlemont Place
Dublin 2

## Auditors

Comptroller and Auditor General
Dublin Castle
Dublin 2

## Offices

Canal House
Canal Road
Dublin 6

# Report of the Comptroller and Auditor General

## The Health Insurance Authority

I have audited the financial statements of the Health Insurance Authority for the year ended 31 December 2014 under the Health Insurance Act 1994. The financial statements, which have been prepared under the accounting policies set out therein, comprise the statement of accounting policies, the income and expenditure account, the balance sheet and the related notes. The financial statements have been prepared in the form prescribed under Section 32 of the Act, and in accordance with generally accepted accounting practice in Ireland.

## Responsibilities of the Authority

The Authority is responsible for the preparation of the financial statements, for ensuring that they give a true and fair view of the state of the Authority's affairs and of its income and expenditure, and for ensuring the regularity of transactions.

## Responsibilities of the Comptroller and Auditor General

My responsibility is to audit the financial statements and to report on them in accordance with applicable law.

My audit is conducted by reference to the special considerations which attach to State bodies in relation to their management and operation.

My audit is carried out in accordance with the International Standards on Auditing (UK and Ireland) and in compliance with the Auditing Practices Board's Ethical Standards for Auditors.

## Scope of Audit of the Financial Statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements, sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of

- whether the accounting policies are appropriate to the Authority's circumstances, and have been consistently applied and adequately disclosed
- the reasonableness of significant accounting estimates made in the preparation of the financial statements, and
- the overall presentation of the financial statements.

I also seek to obtain evidence about the regularity of financial transactions in the course of audit.

In addition, I read the Authority's annual report to identify material inconsistencies with the audited financial statements. If I become aware of any apparent material misstatements or inconsistencies, I consider the implications for my report.

# Report of the Comptroller and Auditor General *(continued)*

## Opinion on the Financial Statements

In my opinion, the financial statements, which have been properly prepared in accordance with generally accepted accounting practice in Ireland, give a true and fair view of the state of the Authority's affairs at 31 December 2014 and of its income and expenditure for 2014.

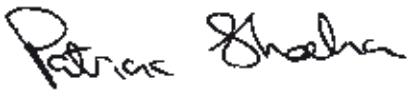
In my opinion, proper books of account have been kept by the Authority. The financial statements are in agreement with the books of account.

## Matters on which I Report by Exception

I report by exception if

- I have not received all the information and explanations I required for my audit, or
- my audit noted any material instance where money has not been applied for the purposes intended or where the transactions did not conform to the authorities governing them, or
- the information given in the Authority's annual report is not consistent with the related financial statements, or
- the Statement on internal financial control does not reflect the Authority's compliance with the Code of Practice for the Governance of State Bodies, or
- I find there are other material matters relating to the manner in which public business has been conducted.

I have nothing to report in regard to those matters upon which reporting is by exception.



**Patricia Sheehan**
*For and on behalf of the Comptroller and Auditor General*

23 June 2014

## Statement on Internal Financial Control

The Chairman and Members of the Authority acknowledge that the board of the Authority is responsible for The Health Insurance Authority's system of internal financial control.

The Chairman and Members also acknowledge that such a system of internal financial control can provide only reasonable and not absolute assurance that assets are safeguarded, transactions authorised and properly recorded and any material errors or irregularities are either prevented or would be detected in a timely manner.

The Members of the Authority have set out the following key procedures designed to provide effective internal financial control within the Authority:

As provided for in Section 26(5) of the Health Insurance Act, 1994, the Chief Executive/ Registrar ("the CE") is responsible for carrying on and managing and controlling generally the administration and business of the Authority and shall perform such other functions as may be determined by the Authority. The Members of the Authority have agreed that the CE and staff are responsible for operational matters. The CE reports to the Members at their meetings which are usually held on a monthly basis.

A formal process for the identification, evaluation, mitigation and management of business risk has been undertaken and includes:

- The identification and nature of risks;
- The likelihood of occurrence;
- The financial or other implications;
- Mitigating factors;
- Measures to manage the identified risks; and
- Monitoring and reporting on the process.

The Members have adopted a Code of Practice for the Governance of The Health Insurance Authority based on the Department of Finance Code of Practice for Governance of State Bodies as updated in 2009. The Members have adopted rules in relation to the procedure and business of the meetings of The Health Insurance Authority for their meetings.

The Authority implements a set of financial procedures setting out the financial instructions, notes of procedures and delegation practices. The Audit Committee reviews the management accounts, annual financial statements, budgeting and financial procedures generally. The Committee met to review the financial matters relating to the year 2014. Consultants have been engaged in key areas where such services were deemed appropriate including accountants and internal audit consultants.

The Authority has in place a computer software system incorporating an accounting package and a payroll package to facilitate the internal financial controls of the Authority.

Due to the size of the organisation and the number of staff employed, the Authority engaged an external accounting firm to prepare and monitor the financial statements for the Authority and to perform a monthly financial reporting mechanism on the management of the accounts generally, including budgets.

## Statement on Internal Financial Control *(continued)*

We confirm that a review of the effectiveness of the system of internal financial controls was carried out in respect of 2014.

**Signed on behalf of the Members of the Authority**

**J. Joyce**
*Chairman*
*The Health Insurance Authority*

19 June 2015

## Statement of Responsibilities of the Authority

Section 32(2) of the Health Insurance Act, 1994, requires the Members of the Authority to prepare financial statements in such form as may be approved by the Minister for Health after consultation with the Minister for Finance. In preparing those financial statements, the Authority is required to:

- Select suitable accounting policies and then apply them consistently;
- Make judgements and estimates that are reasonable and prudent;
- State whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Authority will continue in operation.

The Authority is responsible for keeping proper books of account, which disclose in a true and fair manner at any time the financial position of the Authority and which enable it to ensure that the financial statements comply with Section 32(2) of the Act. The Authority is also responsible for safeguarding the assets of the Authority and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

**J. Joyce**
*Chairman*

**P. Turpin**
*Member*

19 June 2015

# Statement of Accounting Policies

The significant accounting policies adopted in these financial statements are as follows:

## Basis of Accounting

The financial statements are prepared in accordance with generally accepted accounting principles and under the historical cost convention and comply with the financial reporting standards of the Financial Reporting Council.

## Levy Income

The levy income represents the amount receivable by the Authority in respect of the period. This takes account of payments made to the Authority in accordance with the Health Insurance Acts, 1994-2012 and the reasonableness of this figure is checked against the expected levy income based on the Authority's profile of private health insurance schemes.

## Expenditure Recognition

Expenditure is recognised in the financial statements on an accruals basis as it is incurred.

## Tangible Fixed Assets

Tangible fixed assets are stated at cost less accumulated depreciation. Depreciation, charged to the Income and Expenditure Account, is calculated in order to write off the cost of fixed assets over their estimated useful lives, under the straight-line method, at the annual rate of 33 1/3% for computer equipment and 20% for all other assets from date of acquisition.

## Foreign Currencies

Transactions denominated in foreign currencies are converted into euro during the year and are included in the Income and Expenditure Account for the period.

Monetary assets and liabilities denominated in foreign currencies are converted into euro at exchange rates ruling at the balance sheet date and resulting gains and losses are included in the Income and Expenditure Account for the period.

## Superannuation

In accordance with Section 28 of the Health Insurance Act, 1994, the Authority may, with the consent of the Minister for Health and the Minister for Public Expenditure and Reform, make a scheme for the granting of superannuation benefits to staff members of the Authority. The Health Insurance Authority Employee Superannuation Scheme 2014 (S.I. No. 318 of 2014) was signed 3 July 2014. The Authority has drafted a Spouses and Children's scheme based on the Public Service Model and approval by the Minister for Health and Minister for Public Expenditure and Reform is awaited. The Authority is making the necessary deductions from salaries which are retained by the Authority, but are not recognised as income. The Authority is also providing for employer contributions to the Scheme. For the purposes of Financial Reporting Standard 17, the Authority considers the scheme to be equivalent to a defined contribution scheme, from its point of view, and it has accounted for it accordingly.

New Entrant staff employed by the Authority after 1 January 2013 are members of the Single Public Service Pension Scheme in accordance with Public Service Pensions (Single Scheme and Other Provisions) Act 2012. The Authority makes the necessary deductions from salaries for staff who are part of the scheme. Employee and employer contributions are transferred to the Department of Public Expenditure and Reform on a monthly basis in accordance with the Public Service Pensions (Single Scheme and Other Provisions) Act 2012.

## Risk Equalisation Fund

The Risk Equalisation Fund (the Fund) was established on 1 January 2013 under the Health Insurance (Amendment) Act 2012. The Authority is responsible for maintaining, protecting, administering and applying the Fund and recoups the costs incurred from the Fund. The basis for recouping costs comprises full apportionment of costs which are directly related to the Fund and partial apportionment of costs incurred by the Authority as set out in Note 12 of the financial statements. Separate financial statements are prepared by the Authority on an annual basis.

# Income and Expenditure Account

**for the year ended 31 December, 2014**

| | *Notes* | **12 months ended 31 December 2014** | **12 months ended 31 December 2013** |
|---|---|---|---|
| | | **€** | **€** |
| Income | *1* | 2,963,172 | 2,826,681 |
| Administration Costs | *2* | (1,432,780) | (1,365,954) |
| **Excess of income over expenditure** | | 1,530,392 | 1,460,727 |
| Interest Receivable | | 86,724 | 126,475 |
| **Surplus for the year** | | **1,617,116** | **1,587,202** |
| Accumulated Surplus at beginning of year | | 10,156,277 | 7,111,180 |
| Transfer from General Reserve | *9* | – | 1,457,895 |
| **Accumulated Surplus at end of year** | | **11,773,393** | **10,156,277** |

There are no recognised gains or losses, other than those dealt with in the Income and Expenditure Account.

**J. Joyce**
*Chairman*

**P. Turpin**
*Member*

19 June 2015

The Statement of Accounting Policies and notes 1 to 13 form part of these Financial Statements.

## Balance Sheet

**at 31 December 2014**

| | *Notes* | **2014** | **2013** |
|---|---|---|---|
| | | **€** | **€** |
| **Fixed assets** | | | |
| Tangible assets | *5* | 92,324 | 73,674 |
| **Current assets** | | | |
| Bank and Cash | | 12,400,137 | 10,721,994 |
| Prepayments and other debtors | *6* | 947,535 | 913,224 |
| | | 13,347,672 | 11,635,218 |
| **Creditors (amounts falling due within one year)** | | | |
| Creditors and accruals | *7* | (1,666,603) | (1,552,615) |
| **Net current assets** | | 11,681,069 | 10,082,603 |
| **Total assets less current liabilities** | | 11,773,393 | 10,156,277 |
| **Net assets** | | 11,773,393 | 10,156,277 |
| **Representing** | | | |
| Accumulated excess income over expenditure | *9* | 11,773,393 | 10,156,277 |
| | | 11,773,393 | 10,156,277 |

**J. Joyce**
*Chairman*

**P. Turpin**
*Member*

19 June 2015

The Statement of Accounting Policies and notes 1 to 13 form part of these Financial Statements.

# Notes

**(forming part of the financial statements)**

## 1. Income

Section 17 of the Health Insurance Act, 1994 provides for the payment of an income levy by registered undertakings to the Authority every quarter in order to fund the operations of the Authority and make adequate provision for contingencies. The Health Insurance Act, 1994 (Section 17) Levy Regulations, 2001 set the rate for the income levy at 0.14% of the assessable amount paid to all commercial and restricted undertakings in Ireland. The rate was subsequently reduced to 0.12% by the Health Insurance Act 1994 (Section 17) Levy (Amendment) Regulations 2010. Statutory Instrument 528/2014, Health Insurance Act 1994 (Section 17) Levy Regulations 2014 further amended the income levy setting the rate at 0.01% for 2015 and 2016 and at 0.09% from 2017.

| | 2014 | 2013 |
|---|---|---|
| | € | € |
| Income Levy | 2,805,955 | 2,671,800 |
| Recharged Risk Equalisation Fund costs **(Note 12)** | 157,187 | 154,851 |
| Freedom of information | 30 | 30 |
| | **2,963,172** | **2,826,681** |

## 2. Administration Costs

| | 2014 | 2013 |
|---|---|---|
| | € | € |
| Salaries, pension cost and other staff costs **(Note 3)** | 760,362 | 761,706 |
| Training costs | 13,454 | 13,151 |
| Directors Fees **(Note 3)** | 20,948 | 20,948 |
| Recruitment | 16,943 | 95 |
| Rent, Service Charges and Maintenance | 94,921 | 81,143 |
| Consultancy **(Note 4)** | 360,466 | 329,419 |
| Insurance | 20,898 | 17,987 |
| Computer and Stationery Costs | 38,028 | 31,990 |
| Other Administration Costs* | 35,557 | 31,939 |
| Consumer Information | 34,264 | 49,383 |
| Audit | 8,380 | 14,680 |
| Depreciation | 28,559 | 13,513 |
| | **1,432,780** | **1,365,954** |

## 2. Administration Costs *(continued)*

The Health Insurance Authority rents offices at Canal House, Canal Road, Dublin 6 at a cost of €50,000 per annum. The Authority entered into a 10 year lease for the offices in May 2012.

Administration expenses of €157,187 (2013: €154,851) in respect of the Risk Equalisation Fund are recouped from the Fund and treated as income (see Note 12).

The amount expended on foreign travel in the year was nil (2013: nil).

* Other Administration Costs include €1,328 (2013: €1,216) in relation to staff and board related events.

## 3. Directors Fees and CEO Remuneration

Fees payable to individual board members for 2014 were Jim Joyce (Chairman) €8,978 (2013: €8,978), Dónall Curtin €5,985 (2013: €5,985), Sheelagh Malin €5,985 (2013: €5,985), Paul Turpin €0, Prof Anthony Staines €0. No expenses were paid to board members.

The Chief Executive Liam Sloyan's salary for 2014 was €96,925 (2013: €103,536). The CEO Liam Sloyan (resigned 16 November 2014) received travel and subsistence expenses of €1,490 (2013: €539) and €0 (2013: €0) in respect of other expenses. The CEO Don Gallagher's (appointed 7 December 2014) salary for 2014 was €2,330, he received no travel and subsistence or other expense reimbursement. The CEO's pension entitlements are in line with standard entitlements in the model public sector defined benefit superannuation scheme. The CEO did not receive any perquisites or benefits in 2014.

The number of staff employed by the Authority at 31 December 2014 was 10 or 9.6 WTE (2013: 11 or 10.6 WTE). The Authority reports 11 staff under the employment control framework.

## 4. Consultancy Costs

| | 2014 | 2013 |
|---|---|---|
| | € | € |
| Accountancy | 41,060 | 55,021 |
| Actuarial Services | 142,145 | 103,285 |
| Legal Services | 23,609 | 55,034 |
| Public Relations | 44,280 | 44,280 |
| Research | 24,418 | 20,279 |
| Superannuation | 1,220 | 663 |
| Translation Services | 2,662 | 1,658 |
| Economic consultancy | 81,072 | 49,199 |
| | **360,466** | **329,419** |

## 5. Tangible Fixed Assets

| | Computer Equipment | Office Fitting, Furniture & Equipment | Website Development | Office Fit Out | Total |
|---|---|---|---|---|---|
| | € | € | € | € | € |
| **Cost** | | | | | |
| At 31 December 2013 | 54,150 | 328,354 | 51,080 | 49,005 | 482,589 |
| Additions during year | 8,024 | – | 36,808 | 2,378 | 47,210 |
| Disposals during year | (3,271) | – | – | – | (3,271) |
| At 31 December 2014 | 58,903 | 328,354 | 87,888 | 51,383 | 526,528 |
| **Depreciation** | | | | | |
| At 31 December 2013 | 42,830 | 320,123 | 43,512 | 2,450 | 408,915 |
| Charge for year | 6,209 | 1,935 | 10,614 | 9,801 | 28,559 |
| Depreciation on disposals | (3,271) | – | – | – | (3,271) |
| At 31 December 2014 | 45,768 | 322,058 | 54,126 | 12,251 | 434,203 |
| **Net Book Value** | | | | | |
| At 31 December 2014 | 13,135 | 6,296 | 33,762 | 39,132 | 92,324 |
| At 31 December 2013 | 11,320 | 8,231 | 7,568 | 46,555 | 73,674 |

## 6. Prepayments and other debtors

| | 2014 | 2013 |
|---|---|---|
| | € | € |
| Levy income receivable | 698,258 | 661,368 |
| Accrued interest | 16,425 | 20,776 |
| Prepayments and Other Debtors | 48,661 | 52,251 |
| Travel Cards | 566 | 1,458 |
| Cycle to Work | – | 346 |
| Risk Equalisation Fund | 183,625 | 177,025 |
| | **947,535** | **913,224** |

## 7. Creditors (amounts falling due within one year)

| | 2014 | 2013 |
|---|---|---|
| | € | € |
| Trade creditors and accruals | 107,495 | 174,317 |
| Pensions provision **(Note 8)** | 1,508,743 | 1,337,805 |
| Pension levy | 2,041 | 3,064 |
| Single Public Service Pension Scheme | 151 | – |
| PAYE/PRSI | 13,089 | 17,130 |
| Professional Services Withholding Tax | 25,046 | 4,609 |
| Value Added Taxation | 10,038 | 15,690 |
| | **1,666,603** | **1,552,615** |

## 8. Pensions Provision

The Authority has a defined benefit pension scheme for its employees. The scheme structure is based on the Public Service Model and was approved by the Minister for Health and the Minister for Public Expenditure and Reform on 3 July 2014. The Authority has drafted a Spouses' and Children's Superannuation Scheme based on the Public Service Model and approval by the Minister of Health and the Minister of Public Expenditure and Reform is awaited.

Contributions including employer contributions are at a rate of 25% from July 2006 (16.66% previously) of pensionable pay and are charged to the Income and Expenditure Account. The accumulated contributions for both schemes are held for the account of the Minister for Health, and the Minister has agreed to reimburse the Authority in respect of benefits arising under the scheme. The following contributions are included in the heading "Salaries and Staff Costs" (Note 2):

| | 2014 | 2013 |
|---|---|---|
| | € | € |
| At beginning of period | 1,337,805 | 1,165,141 |
| Employee Contributions | 30,614 | 31,105 |
| Employer Contributions | 140,324 | 141,559 |
| **Total** | **1,508,743** | **1,337,805** |

In addition €37,661 (2013: €37,796) was deducted from staff by way of pension levy and was paid over to the Department of Health.

In December 2014 an amount of €151 was deducted from staff in respect of the Single Public Service Pension Scheme; this amount was transferred to the Department of Public Expenditure and Reform in January 2015.

## 9. Accumulated Surplus on Income and Expenditure Account

| | 2014 | 2013 |
|---|---|---|
| | € | € |
| At beginning of period | 10,156,277 | 7,111,180 |
| Transfer from General reserve | – | 1,457,895 |
| Surplus for period | 1,617,116 | 1,587,202 |
| Retained surplus | 11,773,393 | 10,156,277 |

The Authority built up a General Reserve balance of €1,457,895 at the end of 2012. The General Reserve was established to fund additional costs should they arise given the Authority's role as the regulator and advisor for the Irish Health Insurance Market.

In 2013, the Authority considered that it no longer required a general reserve in view of its accumulated revenue reserves.

## 10. Capital Commitments

There were no commitments for capital expenditure at 31 December 2014.

## 11. Disclosure of Interests

The Authority has adopted procedures in accordance with the guidelines issued by the Department of Finance in relation to the disclosure of interests by Authority Members and the Authority has adhered to these procedures. There were no transactions in the year in relation to the Authority's activities in which board members had an interest.

## 12. Risk Equalisation Fund

The Health Insurance (Amendment) Act 2012 provides for the establishment of the Risk Equalisation Fund (the Fund) from 1 January 2013. Stamp Duty payments for policies commencing or renewing on or after 1 January 2013 are paid by insurers to the Revenue Commissioners who in turn transfer the money to the Fund. Risk Equalisation Credits are paid, on behalf of consumers, out of the Fund to the health insurance undertakings by the Health Insurance Authority. Separate financial statements are prepared in respect of the Fund on an annual basis. The Authority is responsible for administering and maintaining the Fund.

## 12. Risk Equalisation Fund *(continued)*

There are no employees directly employed by the Fund. Total costs of €157,187 (2013: €154,851) in respect of the Fund were charged by the Authority for 2014 as follows:

| Type of cost | Total recharged to Fund 2014 € | Total recharged to Fund 2013 € |
|---|---|---|
| Salary and staff costs | 123,938 | 126,419 |
| Rent, service charges and maintenance | 14,653 | 12,329 |
| Computer and stationery costs | 4,183 | 5,082 |
| Other administrative costs | 14,413 | 9,896 |
| Other consultancy costs | – | 1,125 |
| | **157,187** | **154,851** |

## 13. Approval of Financial Statements

The Financial Statements were approved by the Members of the Authority on 25 May 2015.

# The Risk Equalisation Fund Report and Accounts 2014

## 5.2 The Risk Equalisation Fund Report and Financial Statements for the year 1 January 2014 to 31 December 2014

### To the Minister for Health

In accordance with the terms of the Health Insurance Act 1994 (as amended), The Health Insurance Authority presents the Financial Statements of the Risk Equalisation Fund for the twelve month period ended 31 December 2014.

### Contents

# The Risk Equalisation Fund

## Report of the Comptroller and Auditor General

I have audited the financial statements of the Risk Equalisation Fund for the year ended 31 December 2014 under the Health Insurance Act 1994 (as amended). The financial statements, which have been prepared under the accounting policies set out therein, comprise the statement of accounting policies, the income and expenditure account, the balance sheet, the cash flow statement and the related notes. The financial statements have been prepared in the form prescribed under Section 11D(8) of the Act, and in accordance with generally accepted accounting practice in Ireland.

### Responsibilities of the Health Insurance Authority

The Health Insurance Authority is responsible for the preparation of the financial statements, for ensuring that they give a true and fair view of the transactions of the Fund and of the state of its affairs and for ensuring the regularity of transactions.

### Responsibilities of the Comptroller and Auditor General

My responsibility is to audit the financial statements and report on them in accordance with applicable law.

My audit is conducted by reference to the special considerations which attach to State bodies in relation to their management and operation.

My audit is carried out in accordance with the International Standards on Auditing (UK and Ireland) and in compliance with the Auditing Practices Board's Ethical Standards for Auditors.

### Scope of Audit of the Financial Statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements, sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of

- whether the accounting policies are appropriate and have been consistently applied and adequately disclosed
- the reasonableness of significant accounting estimates made in the preparation of the financial statements, and
- the overall presentation of the financial statements.

I also seek to obtain evidence about the regularity of financial transactions in the course of audit.

In addition, I read the Health Insurance Authority's annual report to identify material inconsistencies with the audited financial statements. If I become aware of any apparent material misstatements or inconsistencies, I consider the implications for my report.

# Report of the Comptroller and Auditor General *(continued)*

## Opinion on the Financial Statements

In my opinion, the financial statements, which have been properly prepared in accordance with generally accepted accounting practice in Ireland, give a true and fair view of the transactions of the Fund for the year ended 31 December 2014 and the state of its affairs at that date.

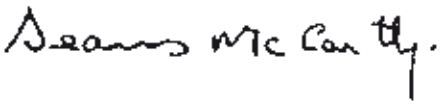
In my opinion, proper books of account have been kept by the Health Insurance Authority. The financial statements are in agreement with the books of account.

## Matters on which I Report by Exception

I report by exception if

- I have not received all the information and explanations I required for my audit, or
- my audit noted any material instance where money has not been applied for the purposes intended or where the transactions did not conform to the authorities governing them, or
- the information given in the Health Insurance Authority's annual report is not consistent with the related financial statements, or
- I find there are other material matters relating to the manner in which public business has been conducted.

I have nothing to report in regard to those matters upon which reporting is by exception.



**Seamus McCarthy**
*Comptroller and Auditor General*

23 June 2015

# The Risk Equalisation Fund

## Statement of Responsibilities

Section 11D(8) of the Health Insurance Act of 1994 (as amended) (the 'Act') requires the Health Insurance Authority (the 'Authority') to prepare financial statements. In preparing those financial statements, the Authority is required to:

- Select suitable accounting policies and then apply them consistently;
- Make judgements and estimates that are reasonable and prudent;
- State whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Fund will continue in operation.

The Authority is responsible for keeping proper books of account, which disclose in a true and fair manner at any time the financial position of the Fund and which enable it to ensure that the financial statements comply with Section 11D(8) of the Act. The Authority is also responsible for safeguarding the assets of the Fund and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

**J. Joyce**
*Chairman*

**P. Turpin**
*Member*

19 June 2015

# The Risk Equalisation Fund

## Statement of Accounting Policies

The significant accounting policies adopted in these financial statements are as follows:

### Basis of Accounting

The financial statements have been prepared on an accruals basis, under the historical cost convention and in accordance with generally accepted accounting practice in Ireland. Financial reporting standards of the Financial Reporting Council are adopted as they become applicable.

The Fund was established under Section 11D of the Act. The Fund was established by and is administered and maintained by the Health Insurance Authority. The Act provided that all stamp duty paid by virtue of the Section 125A of the Stamp Duties Consolidation Act 1999 in respect of health insurance contracts commencing on or after 1 January 2013 be paid into the Fund.

Payments out of the Fund include:

- Risk equalisation premium credit – Registered undertakings (health insurers) receive higher premiums in respect of certain higher risk groups on the basis of age and gender, but the additional amounts charged are paid by the Fund to the registered undertakings on behalf of insured persons so that the net payment made by the insured person is not affected by age or gender.
- Hospital bed utilisation credit – a payment to registered undertakings on behalf of insured persons by the Fund of part of each health insurance claim involving payments in respect of qualifying overnight stays in private hospital accommodation or in a publicly funded hospital.

The current Risk Equalisation Scheme is provided for in the Act. This replaced the Interim Risk Equalisation Scheme of age related tax credits and community rating levy which had operated since 2009 and was administered by the Revenue Commissioners.

### Accounting Period

The financial statements are for the year from 1 January 2014 to 31 December 2014.

### Income

Stamp Duty income is recognised in the financial statements over the term of the relevant insurance contract, assumed to be twelve months in all cases. Stamp duty on policies commencing on or after 1 January 2013 is paid by registered undertakings to the Revenue Commissioners on a quarterly basis. The stamp duty is then paid into the Fund. The receipts of the Fund in the financial year are adjusted to take account of:

- Accrued stamp duty which represents outstanding stamp duty due to the Fund at the year end and represent amounts payable by registered undertakings in relation to the last quarter of the financial year. This amount due is recorded as a debtor to the Fund.

- Un-earned stamp duty represents the proportion of stamp duty paid into the Fund during the financial year and accrued at year end which relates to the unexpired term of the relevant insurance contracts at the balance sheet date. This amount is recorded as un-earned stamp duty at the balance sheet date (see Note 6 – Creditors and accruals).

## Expenditure Recognition

Expenditure is recognised in the financial statements on an accruals basis as it is incurred.

## Risk Equalisation Premium Credit

Risk equalisation premium credit is accounted for on an accruals basis. Insurers claim risk equalisation premium credit from the Fund on a monthly basis. In determining the amount to be recognised as an expense in the financial year, the payments made from the Fund are adjusted to take account of:

- Amounts claimed and payable to registered undertakings which have not been paid at the balance sheet date.
- Un-expensed risk equalisation premium credit – a majority of individuals pay insurance policies either by monthly instalments or annually in advance. Credits claimed in relation to monthly instalments are expensed in the month to which the claim relates. Credits claimed for policies paid annually in advance are expensed uniformly over the twelve months of the contract. At the balance sheet date any amounts paid to insurers which have not been expensed are recognised as a debtor (See Note 2).

## Hospital Bed Utilisation Credit

The hospital bed utilisation credit is accounted for on an accruals basis. In determining the amount to be recognised as an expense in the financial year, the payments made from the Fund are adjusted to take account of:

- Amounts claimed by and payable to registered undertakings which have not been paid at the balance sheet date.
- A provision for hospital bed utilisation credit arising in respect of hospital episodes which had occurred in the financial year but had not been claimed by registered undertakings at year end. The provision assumes that the number of nights in private hospital accommodation is uniform across contracts commencing on different dates and that hospitalisation occurs uniformly throughout the policy period. The settlement period for hospital claims can vary considerably. This may result in registered undertakings making a claim for hospital bed utilisation credit a year or more after a hospital episode.

# The Risk Equalisation Fund

## Income and Expenditure Account

**for the year ended 31 December 2014**

| | *Notes* | **12 months ended 31 December 2014** | **12 months ended 31 December 2013** |
|---|---|---|---|
| | | **€000** | **€000** |
| **Income** | | | |
| Stamp Duty | 1 | 570,344 | 316,938 |
| **Expenditure** | | | |
| Risk equalisation premium credit | 2 | 479,228 | 319,151 |
| Hospital bed utilisation credit | 3 | 79,128 | 20,952 |
| Staff and other costs | 4 | 183 | 193 |
| Total Expenditure | | 558,539 | 340,296 |
| **Excess of income over expenditure/ (expenditure over income)** | | 11,805 | (23,358) |
| Investment income | | 211 | 54 |
| **Surplus/(Deficit) for the year** | | **12,016** | **(23,304)** |

There are no recognised gains or losses, other than those dealt with in the Income and Expenditure Account.

**J. Joyce**
*Chairman*

**P. Turpin**
*Member*

19 June 2015

The Statement of Accounting Policies and notes 1 to 10 form part of these Financial Statements.

# The Risk Equalisation Fund

## Balance Sheet

**at 31 December 2014**

| | *Notes* | **2014** | **2013** |
|---|---|---|---|
| | | **€000** | **€000** |
| **Current assets** | | | |
| Short term deposits | | 173,314 | 113,504 |
| Bank | | 17 | 50 |
| Prepayments and other debtors | *5* | 174,019 | 159,822 |
| | | **347,350** | **273,376** |
| **Creditors (amounts falling due within one year)** | | | |
| Creditors and accruals | *6* | (326,234) | (284,557) |
| Provisions | *7* | (32,404) | (12,123) |
| | | (358,638) | (296,680) |
| **Net liabilities** | | (11,288) | (23,304) |
| **Representing** | | | |
| Accumulated excess expenditure over income | | (11,288) | (23,304) |

**J. Joyce**
*Chairman*

**P. Turpin**
*Member*

19 June 2015

The Statement of Accounting Policies and notes 1 to 10 form part of these Financial Statements.

# The Risk Equalisation Fund

## Cashflow Statement

**for the year ended 31 December 2014**

| | *Notes* | **2014** | **2013** |
|---|---|---|---|
| | | **€000** | **€000** |
| **Reconciliation of operating surplus/(deficit) to net cash inflow from operating activities** | | | |
| Operating surplus/(deficit) for year | | 12,016 | (23,304) |
| Increase in debtors | *5* | (14,197) | (159,822) |
| Increase in creditors | *6 & 7* | 61,958 | 296,680 |
| Net cash inflow from operating activities | | 59,777 | 113,554 |
| **Increase in cash** | | 59,777 | 113,554 |
| Net funds at 1 January | | 113,554 | – |
| Net funds at 31 December | | 173,331 | 113,554 |
| **Increase in cash** | | **59,777** | **113,554** |

**J. Joyce**
*Chairman*

**P. Turpin**
*Member*

19 June 2015

The Statement of Accounting Policies and notes 1 to 10 form part of these Financial Statements.

# The Risk Equalisation Fund

## Notes

**(forming part of the financial statements)**

## 1. Income

Stamp duty payments for policies commencing or renewing on or after 1 January 2013 are paid by registered undertakings to the Revenue Commissioners who in turn transfer the money to the Risk Equalisation Fund.

| | 2014 | 2013 |
|---|---|---|
| | €000 | €000 |
| Stamp duty paid into the Fund | 581,709 | 412,930 |
| Stamp duty receivable movement in year | 11,134 | 111,632 |
| Un-earned stamp duty movement in year | (22,499) | (207,624) |
| | **570,344** | **316,938** |

## 2. Risk equalisation premium credit

| | 2014 | 2013 |
|---|---|---|
| | €000 | €000 |
| Payments made to registered undertakings | 472,652 | 294,812 |
| Risk equalisation premium credit payable to registered undertakings movement in year | 9,612 | 72,519 |
| Un-expensed risk equalisation premium credit movement in year | (3,036) | (48,180) |
| | **479,228** | **319,151** |

## 3. Hospital bed utilisation credit

| | 2014 | 2013 |
|---|---|---|
| | €000 | €000 |
| Payments made to registered undertakings | 49,287 | 4,608 |
| Risk equalisation premium credit payable to registered undertakings movement in year | 9,560 | 4,221 |
| Un-expensed risk equalisation premium credit movement in year | 20,281 | 12,123 |
| | **79,128** | **20,952** |

## 4. Staff and other costs

| | 2014 | 2013 |
|---|---|---|
| | €000 | €000 |
| **Health Insurance Authority re-charged costs:** | | |
| Salaries and staff costs | 119 | 121 |
| Training costs | 2 | 2 |
| Directors Fees | 2 | 4 |
| Rent, service charge and maintenance | 16 | 12 |
| Insurance | 3 | 3 |
| Computer and stationery | 4 | 5 |
| Other administration costs | 7 | 6 |
| Depreciation | 4 | 2 |
| | **157** | **155** |
| **Costs directly charged to the Fund:** | | |
| Consultancy | 9 | 23 |
| Audit | 13 | 10 |
| Legal | 2 | 3 |
| Insurance | 2 | 2 |
| | 26 | 38 |
| | **183** | **193** |

Re-charged costs are included in the expenditure side of the Health Insurance Authority accounts.

Pre-establishment costs of the Fund were not re-charged by the Health Insurance Authority.

## 5. Prepayments and other debtors

| | 2014 | 2013 |
|---|---|---|
| | €000 | €000 |
| Un-expensed risk equalisation premium credit | 51,216 | 48,180 |
| Accrued stamp duty receivable | 122,766 | 111,632 |
| Accrued investment income | 37 | 10 |
| | **174,019** | **159,822** |

## 6. Creditors and accruals

| | 2014 | 2013 |
|---|---|---|
| | €000 | €000 |
| Stamp duty un-earned* | 230,123 | 207,624 |
| Risk equalisation premium credit payable | 82,131 | 72,519 |
| Hospital bed utilisation credit payable | 13,781 | 4,221 |
| Health Insurance Authority | 183 | 177 |
| Accrued expenses | 16 | 16 |
| | **326,234** | **284,557** |

* Stamp Duty un-earned of €207,624 was classified as a provision in the prior year's financial statements.

## 7. Provisions

| | 2014 | 2013 |
|---|---|---|
| | €000 | €000 |
| At start of year | 12,123 | – |
| Arising during the year | 84,128 | 20,952 |
| Utilised during the year | (58,847) | (8,829) |
| Reversal of unused amounts | (5,000) | – |
| **At end of year** | **32,404** | **12,123** |

## 8. Financial Position of the Risk Equalisation Fund

The Income and Expenditure Account shows a surplus of €12.0m in 2014 compared with a deficit of €23.3m in 2013. The surplus in 2014 consists of a surplus of €36.2m on contracts taken out in 2013 and a deficit of €24.2m on contracts taken out in 2014. This reflects the fact that older people, on average, renew earlier in the calendar year than younger people resulting in risk equalisation premium credit costs being higher than stamp duty earned in the year contracts commence. The net surplus on 2013 contracts is €12.9m at the end of December 2014. Any surplus or deficit arising in respect of a contract period is taken into account when making recommendations to the Minister on risk equalisation credits and stamp duty.

At 31 December 2014, the Risk Equalisation Fund held cash and short term deposits of €173.3m (2013: €113.6m).

## 9. Disclosure of Interests

The Authority has adopted procedures in accordance with the guidelines issued by the Department of Finance in relation to the disclosure of interests by Authority Members and the Authority has adhered to these procedures. There were no transactions in the year in relation to the Fund's activities in which Authority members had an interest.

## 10. Approval of Financial Statements

The Financial Statements were approved by the Members of the Authority on 25 May 2015.

# 6. Appendices

## Appendix A

### Statistics Relating to the Private Health Insurance Market in Ireland, 2014

**Table 1: Insured Persons**[5] [6]

| Year Ended | Total Insured Persons (000s) | Private Health Insurance Coverage as % of Population |
|---|---|---|
| December 2001 | 1,871 | 48.2% |
| December 2002 | 1,941 | 49.2% |
| December 2003 | 1,999 | 49.8% |
| December 2004 | 2,054 | 50.2% |
| December 2005 | 2,115 | 50.4% |
| December 2006 | 2,174 | 50.3% |
| December 2007 | 2,245 | 50.5% |
| December 2008 | 2,297 | 50.9% |
| December 2009 | 2,260 | 49.7% |
| December 2010 | 2,228 | 48.8% |
| December 2011 | 2,163 | 47.2% |
| December 2012 | 2,099 | 45.7% |
| December 2013 | 2,049 | 44.6% |
| December 2014 | 2,025 | 43.9% |

5 All figures relate to the total private health insurance market, i.e. open enrolment and restricted undertakings.

6 Population figures are based on Central Statistics Office population estimates.

## Table 2: Premium Income

| Year | Total Income (€m) | Year | Total Income (€m) |
|---|---|---|---|
| 2002 | 821.9 | 2009 | 1,846.7 |
| 2003 | 978.2 | 2010 | 1,949.1 |
| 2004 | 1,061.1 | 2011 | 2,061.4‡ |
| 2005 | 1,152.7 | 2012 | 2,240.7‡ |
| 2006 | 1,299.5 | 2013 | 2,388.5‡ |
| 2007 | 1,477.8 | 2014 | 2444.9‡ |
| 2008 | 1,652.2 | | |

‡ includes HSF from 2011 when they were first registered with the Authority

## Market Shares+

The following table shows how market shares have changed since the establishment of the Authority.

| December | Aviva Health* % | Laya Healthcare** % | Vhi Healthcare % | GloHealth % | Restricted Membership Undertakings*** % |
|---|---|---|---|---|---|
| 2001 | – | 13% | 82% | – | 5% |
| 2002 | – | 15% | 80% | – | 5% |
| 2003 | – | 17% | 78% | – | 5% |
| 2004 | – | 19% | 76% | – | 5% |
| 2005 | 1% | 21% | 74% | – | 4% |
| 2006 | 3% | 21% | 72% | – | 4% |
| 2007 | 5% | 21% | 70% | – | 4% |
| 2008 | 8% | 22% | 67% | – | 4% |
| 2009 | 10% | 23% | 63% | – | 4% |
| 2010 | 14% | 21% | 62% | – | 4% |
| 2011 | 18% | 21% | 57% | – | 4% |
| 2012 | 17% | 22% | 56% | 1% | 4% |
| 2013 | 15% | 23% | 54% | 4% | 4% |
| 2014 | 15% | 23% | 53% | 5% | 4% |

\+ Numbers insured with in-patient cover

* In respect of 2007 and earlier years the data relates to VIVAS Health.

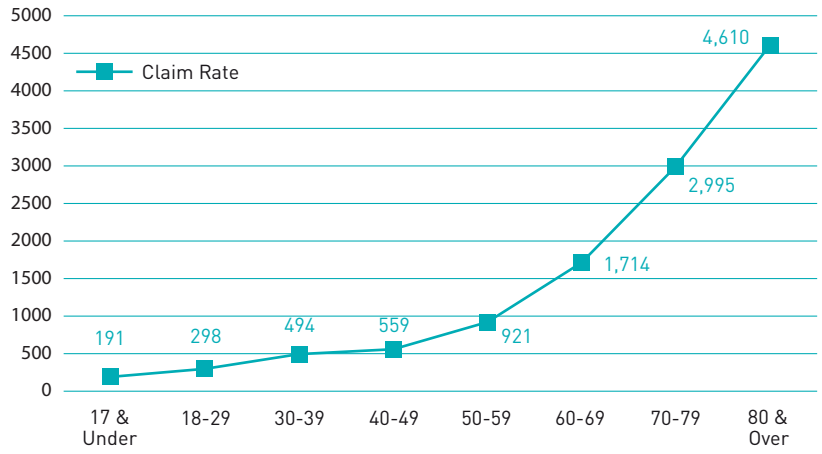
** In respect of 2012, the data is a sum of the market shares of Quinn Insurance Ltd (Under Administration) and Elips Insurance Ltd. Previous years relate to Quinn Healthcare or (2006 and earlier) BUPA Ireland.

*** Theses mainly consist of the Garda, ESB and Prison Officer Schemes.

# Appendix B

## Claim Variation by Age

**Claims included in Returns per Insured Person in 2014**



# Appendix C

## Age Structure of Market

The following table shows how the age structure of the market has changed since the end of 2011. The tables in this section are based on information returns received from open membership insurers. The data in these returns differs from data included in earlier tables in that it excludes people who are serving initial waiting periods, people who are insured with restricted membership undertakings and people who are insured with products that are not subject to the health insurance stamp duty and the age related health credits.

| | Numbers insured in 000s | | | |
|---|---|---|---|---|
| Age Group | 2011 | 2012 | 2013 | 2014 |
| 0-17 | 495 | 479 | 462 | 454 |
| 18-29 | 256 | 230 | 211 | 203 |
| 30-39 | 331 | 312 | 295 | 281 |
| 40-49 | 308 | 302 | 296 | 293 |
| 50-59 | 269 | 266 | 263 | 261 |
| 60-69 | 208 | 211 | 215 | 217 |
| 70-79 | 110 | 114 | 119 | 125 |
| 80+ | 44 | 46 | 49 | 52 |

The following table shows how market shares varied with age at the end of 2014. The table below refers to open membership insurers only and excludes the restricted membership undertakings.

| Age Group | Aviva Health % | Laya Healthcare % | Vhi Healthcare % | GloHealth % |
|---|---|---|---|---|
| 0-49 | 16% | 25% | 51% | 7% |
| 50-59 | 18% | 24% | 56% | 3% |
| 60-69 | 16% | 24% | 59% | 2% |
| 70-79 | 10% | 18% | 72% | 1% |
| 80+ | 6% | 9% | 85% | 0% |
| Total | 16% | 24% | 55% | 5% |

# Appendix D

## The Register of Health Benefits Undertakings as at 31 December 2014

### Open Membership Undertakings

1. Aviva Health Insurance Ireland Limited (trading as Aviva Health);
2. Elips Versicherungen AG (Elips Insurances Ltd.) (trading as Laya Healthcare);
3. Great Lakes Reinsurance (UK) PLC (trading as GloHealth);
4. H.S.F. Health Plan Limited (trading as Hospital Saturday Fund); and
5. The Voluntary Health Insurance Board (trading as Vhi Healthcare).

### Restricted Membership Undertakings

1. E.S.B. Staff Medical Provident Fund;
2. Irish Life Assurance Plc Outdoor Staff Benevolent Fund;
3. Irish Life Medical Aid Society;
4. New Ireland/Irish National Staff Benevolent Fund;
5. Prison Officers' Medical Aid Society;
6. St. Paul's Garda Medical Aid Society; and
7. The Goulding Voluntary Medical Scheme.

# Appendix E

## Attendance of Authority Meetings for 2014

| Authority Member | Meetings Attended* |
|---|---|
| Mr. Jim Joyce, Chairman | 11 |
| Mr. Donall Curtin | 10 |
| Ms. Sheelagh Malin | 11 |
| Prof. Anthony Staines | 10 |
| Mr. Paul Turpin | 10 |

* There were a total of eleven Authority meetings held in 2014.

# Appendix F

## Risk Equalisation Rates

### Rates Applying for Contracts Commencing/Renewing from 31 March 2013 to 28 February 2014

*Risk Equalisation Premium Credits*

| Contract Type | Non-Advanced | | Advanced | |
|---|---|---|---|---|
| | Male | Female | Male | Female |
| 60-64 | €375 | €250 | €425 | €275 |
| 65-69 | €900 | €650 | €1,050 | €775 |
| 70-74 | €1,450 | €975 | €1,700 | €1,150 |
| 75-79 | €2,050 | €1,550 | €2,425 | €1,800 |
| 80+ | €2,850 | €1,925 | €3,375 | €2,275 |

A hospital bed utilisation credit of €75 is paid in respect of each qualifying night spent in hospital by an insured person.

*Community Rating Stamp Duties*

| Community Rating Stamp Duties | Non-Advanced | Advanced |
|---|---|---|
| Adult | €290 | €350 |
| Child | €100 | €120 |

## Renewals from 1 March 2014 to 28 February 2015

*Risk Equalisation Premium Credits*

| Contract Type | Non-Advanced | | Advanced | |
|---|---|---|---|---|
| | Male | Female | Male | Female |
| 60-64 | €250 | €200 | €450 | €325 |
| 65-69 | €575 | €400 | €1,150 | €775 |
| 70-74 | €925 | €625 | €1,850 | €1,200 |
| 75-79 | €1,200 | €950 | €2,500 | €1,925 |
| 80-84 | €1,575 | €1,150 | €3,200 | €2,250 |
| 85+ | €1,975 | €1,325 | €4,000 | €2,725 |

A hospital bed utilisation credit of €60 is paid in respect of each qualifying night spent in hospital by an insured person.

*Community Rating Stamp Duties*

| Community Rating Stamp Duties | Non-Advanced | Advanced |
|---|---|---|
| Adult | €290 | €399 |
| Child | €100 | €135 |

## Renewals from 1 March 2015

*Risk Equalisation Premium Credits*

| Contract Type | Non-Advanced | | Advanced | |
|---|---|---|---|---|
| | Male | Female | Male | Female |
| 60-64 | €200 | €150 | €425 | €300 |
| 65-69 | €525 | €350 | €1,075 | €725 |
| 70-74 | €825 | €600 | €1,750 | €1,200 |
| 75-79 | €1,025 | €800 | €2,250 | €1,700 |
| 80-84 | €1,475 | €1,025 | €2,975 | €2,125 |
| 85+ | €1,750 | €1,125 | €3,725 | €2,475 |

A hospital bed utilisation credit of €90 is paid in respect of each qualifying night spent in hospital by an insured person.

*Community Rating Stamp Duties*

| Community Rating Stamp Duties | Non-Advanced | Advanced |
|---|---|---|
| Adult | €240 | €399 |
| Child | €80 | €135 |

# Notes