Public Consultation
Community-rated health insurance market in Ireland and proposed changes to the Risk Equalisation Scheme

Consultation closes 1 February 2021

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1. Introduction

Ireland's health insurance market is community-rated. The cost of health insurance premiums is not based on individual health status, but rather on the average cost for the lives insured of providing private health services covered by a particular product. Everyone, with certain exceptions, can buy the same policy at the same price. Older and sicker people pay much less for health insurance than they would in a risk rated market.

This means that when you buy health insurance in Ireland, the cost of your premium is based on the services and treatments you want, not on your medical history or previous claims. This is different to other types of insurance, for example motor insurance, where your premium would be directly affected by your driving history.

Community rating is enabled by the Risk Equalisation Scheme ("the Scheme"). The Scheme works by taking a portion of all health insurance premiums as a stamp duty and putting them into a Fund. Credits are then paid from the Fund to insurers who have older customers and customers who attend hospital. This helps to keep insurance affordable for older and sicker customers. The amounts of credits and stamp duties can be found in the Appendix on page 7.

The current Scheme has been operating since 2016. The Department of Health and the Health Insurance Authority are conducting a public consultation on the community-rated health insurance market and the proposed amendments to the design of a new Risk Equalisation Scheme which will run from 2022.

The Department of Health and the Health Insurance Authority are keen to gather responses from all stakeholders in the health insurance market. These stakeholders include members of the public including people who have health insurance, health insurance companies and other interested parties.

2. The four principles of health insurance in Ireland

There are four principles of health insurance in Ireland, including community rating which was described above. These are briefly outlined as follows:

1. **Community Rating:** Community rating is a fundamental cornerstone of the Irish health insurance market. Insurers are not allowed to set premiums on the basis of the risk from claims of individuals. This means that people who are old or less healthy do not have to pay more than the young and healthy for the same product, whereas in some other health insurance systems, insurance premiums vary depending on the level of claim risk. In health insurance, the risk to the insurer is strongly linked to the age and the health status of the insured person. Limited variations in premiums are provided for in the legislation for child and young adult discounts, group discounts and lifetime community rating loadings.
2. **Open Enrolment:** Open enrolment means that, except in limited circumstances specified in legislation, health insurers must accept all applicants for health insurance cover.

3. **Lifetime Cover:** Lifetime cover means that, except in limited circumstances specified in legislation, all consumers are guaranteed the right to renew their policies regardless of their age or health status.
4. **Minimum Benefits:** Under the current 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 in order to support community rating and because of the complex and specialist nature of health insurance products.

These principles are set down in the Health Insurance Acts, which regulate the health insurance market in addition to other insurance regulation. It is important to note that the changes being proposed for the next iteration of the Scheme does not affect the four principles outlined above.

3. Overview of the Risk Equalisation Scheme in the health insurance market in Ireland

The Risk Equalisation Scheme is an essential support to the community-rated private health insurance market in Ireland. With community rating, insurers are not allowed to vary prices according to risk despite the very large differences in the insurance risk between different individuals. The Scheme operates by paying risk equalisation credits to insurers, which subsidise the higher claims costs that insurers generally incur by insuring older and sicker people, who otherwise they would be incentivised to avoid. These risk equalisation credits are funded by a stamp duty on all health insurance contracts and paid to the Revenue Commissioners. In turn, the Revenue Commissioners pay the proceeds of the stamp duty to the Risk Equalisation Fund that pays the credits to the insurers. The stamp duty receipts in 2019 were €762m.

There are two kinds of risk equalisation credits in the current Scheme:

- The first are age-related credits, which are prospective (that is, they are paid to insurers irrespective of actual claims). These are paid to insurers for each customer they have over the age of 65 when the health insurance contract starts. The amount of credit paid varies based on 5-year age brackets, gender, and type of cover. The credits paid for male customers are generally higher than those paid for female customers, as male customers typically have higher claims costs at those ages. The credits paid for advanced cover are higher than those paid for non-advanced cover as, as they lead to higher expected claims levels. Age-related credits provide a subsidy for insurers who provide cover for that cohort, with the objective of bringing the average market claims cost for each cohort closer to the market average claims cost. Age-related credits were calculated in 2020 such that for all age groups from age 65 and over, the net claims cost for those older age groups was no greater than 130% of the market average net claims cost.

- The second kind of credit is the hospital utilisation credit. Insurers receive a hospital utilisation credit each time one of their customers attends a hospital, each for a day case or for an overnight stay. This credit is applied retrospectively.

The purpose of these credits is to subsidise the claims costs of older and sicker people, who typically have much higher claims costs than younger and healthier people. The Risk Equalisation Scheme operates in the background of the health insurance market to compensate insurers for offering health insurance products at the same price for a given product to all customers regardless of risk, as they are required to do by the Health Insurance Acts.

4. Proposed changes to the Risk Equalisation Scheme

The Department of Health are proposing to introduce a new Risk Equalisation Scheme for the Irish health insurance market to commence in 2022 for a period of 5 years. As required by European law, the new scheme will be notified to the European Commission for appraisal under State Aid regulations. The new Scheme uses the current 2016 Risk Equalisation Scheme as a basis and has the same objective of enabling the principal objective of the Health Insurance Acts and supporting the community-rated private health insurance market.

In developing the proposal for the new Risk Equalisation Scheme, the Department of Health has the following aims:

- Improve the overall effectiveness of the Scheme in terms of distributing funds from insurers with lower levels of risk to those with higher levels of risk;
- Reduce the incentives for risk selection so that insurers are indifferent (or at least less incentivised) to target less risky and more profitable customers;
- Encourage younger and healthier lives into the market by keeping stamp duties at acceptable levels for younger policyholders;
- Promote efficiency in the market by compensating for risk differences and not structural or expense differences;
- Avoid overcompensation within the marketplace;
- Fair and open competition in the health insurance market;
- Maintain stability in the market such that there are no sharp shocks that could disrupt and potentially destabilise the market.

The proposed new Scheme differs from the current Scheme by including a High Cost Claims Pool. A High Cost Claims Pool will involve compensating insurers directly for individual claims costs which are much higher than the market average. The aim is to target high cost low incidence claims.

Introducing a High Cost Claims Pool increases the element of risk sharing based on actual claims experience similar to hospital utilisation credits as opposed to risk indicators/predictors such as age and sex and as such can be considered a better measure of health status and improves risk sharing. This will increase the effectiveness of the Risk

Equalisation Scheme in terms of distributing funds from insurers with lower levels of risk to those with higher levels of risk.

It has been proposed that the High Cost Claims Pool will initially be set at 40% quota share and €50,000 excess. This means it will compensate 40% of the cost of claims that are in excess of €50,000 in respect of a specified period of cover. Based on claims data emerging from 2016 sales, less than 1% of the insured population made claims in excess of €50,000 but their claims represent a much higher percentage of total claim amounts (c16%). The average claim per person in this cohort was €80,000 compared to the market average claim of €1,100 observed in the same period. The market average claim for 2019 as per data received by the Health Insurance Authority was €1,093[1].

Even with the existing Scheme, there is a commercial incentive for insurers to avoid insuring such risky customers, because they could result in extremely high claims costs. Insured customers whose treatment results in such high claims costs often have complex medical needs, including chronic conditions such as cancer. Some health insurance products are designed so that benefits which are attractive for older and sicker customers, such as certain types of orthopaedic care like joint replacements, have a special high excess payment. This can have the effect of discouraging older customers from purchasing particular products, and these customers can frequently end up purchasing more expensive products that do not have a high excess payment for orthopaedic care. (An example of such a special excess payment might be approximately €2,000 for a hip replacement). This type of product differentiation to direct higher risk individuals to higher cost products is called market segmentation.

The purpose of a High Cost Claims Pool is to share risk for low incidence and high cost claims. The High Cost Claims Pool will help target risk sharing of high-risk lives of all ages and can reduce insurers incentives to avoid insuring these individuals. The exact parameters of a High Cost Claims Pool will influence the effectiveness of the Risk Equalisation Scheme and a careful balance has to be struck when calibrating the High Cost Claims Pool so as not to reduce or discourage claims cost efficiency among insurers relating to high cost claims.

The Department of Health are recommending that the High Cost Claims Pool will be introduced as an additional element of the Risk Equalisation Scheme in a phased manner. The longer-term aim will be to increase the element of credits payable in respect of High Cost Claims Pool gradually whilst meeting the aims outlined above. It is proposed that the introduction of the High Cost Claims Pool would be done on a phased basis with a view to maintaining market stability and to provide the opportunity to monitor market reaction and recalibrate the High Cost Claims Pool appropriately over time.

5. Public Consultation

Your views are now sought, will be very welcome and will be considered carefully. Addressing the benefits and challenges in developing the next version of the Risk Equalisation Scheme makes this consultation exercise relevant to everyone involved in the private health insurance market in Ireland.

[1] Average "returned benefit" per insured member as per Information Returns provided to the Health Insurance Authority in respect of calendar year 2019. Not all benefits are included in "Returned Benefits".

To make a submission as part of this public consultation please send your submissions to Consultation@hia.ie before the deadline of 1 February 2021.

Alternatively, post your submissions to:

Risk Equalisation Scheme Consultation,
Health Insurance Authority
Beaux Lane House
Mercer Street Lower
Saint Peter's
Dublin 2

In particular we would welcome your views on the following:

(1) Given that Ireland has a voluntary community rated market for health insurance, do you agree with the principle and overall substance of the Risk Equalisation Scheme?

(2) Would the changes proposed affect your involvement in the private health insurance market?

(3) Are there risks or vulnerabilities that do not feature and should be included, and why

(4) Do you have additional suggestions for refinement of the Risk Equalisation Scheme in Ireland?

Personal, confidential or commercially sensitive information should **not** be included in your submission. All submissions will be subject to Freedom of Information and to Data Protection legislation. Submissions may be made available on the Department of Health's website.

Department of Health & Health Insurance Authority,
4 January 2020

Appendix

The following age-related credits will apply from 1 April 2021:

Age Bands	Age / gender / level of cover credits from 1 April 2021			
	Non-advanced		Advanced	
	Men	Women	Men	Women
64 and under	€0	€0	€0	€0
65-69	€350	€200	€1,025	€550
70-74	€550	€400	€1,675	€1150
75-79	€825	€625	€2,500	€1,800
80-84	€1,025	€700	€3,150	€2,250
85 and above	€1,250	€825	€3,750	€2,550

The hospital utilisation credit amounts from 1 April 2021 will be €125 for an overnight hospital stay and €75 for a day case admission.

The stamp duty on health insurance contracts that will apply from 1 April 2021 are as follows:

Age Bands	Stamp duties from 1 April 2020 to 31 March 2021	
	Non-advanced	Advanced
17 and under	€52	€150
18 and over	€157	€449