Lifetime Community Rating Consultation Paper

A Vhi Insurance DAC submission to the Health Insurance Authority

March 3rd 2017

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1. Introduction

Vhi Insurance DAC (hereafter referred to as 'Vhi') welcomes the opportunity to make a submission to the Health Insurance Authority (HIA) on one of the G overnment's successful initiatives to encourage individuals to take out health insurance and existing customers to remain in the market – The Lifetime Community Rating (LCR) regulation.

The Private Medical Insurance (PMI) market has undergone significant changes in the last number of years. Prior to 2008, PMI membership had been increasing on an upward trajectory with the market peaking in size at ca. 2.3m customers in 2008. However, following the sudden economic downturn in 2008, PMI membership took an immediate decline with ca. 272k customers leaving the market between the years 2008-2014. This downward trend was reversed in 2015 largely due to the recovery in the economy but also as a result of a series of Government measures to help support the sustainability and competitiveness of the PMI market, including LCR and Young Adult Rates (YAR).

Ireland's voluntary community-rated market is an integral part of Ireland's health care system providing healthcare cover for up to 2.1 million people[1]. This system operates on the basis of 'Intergenerational Solidarity' where young and healthy customers support older and sicker customers. Community rating and other regulations ensure that healthcare is affordable and accessible. An affordable, thriving, sustainable voluntary community rated market **must have** a constant stream of young and healthy individuals in order to keep premium prices down. Lifetime community rating and YAR have made **significant** contributions in the recovery of the PMI market[2], where:

1. The number of insured customers grew by 134,496 from 1st January 2015 to 30 June 2016.
2. The largest increases occurred for the age groups under 50 years reflecting ca. 72% of the growth in number of insured lives.

[1] HIA February newsletter 2017
[2] http://www.hia.ie/sites/default/files/Lifetime%20Community%20Rating%20Consultation%20Paper%202017_0.pdf

3. The increase in the number of insured lives will positively contribute to premiums and reduce average claims cost thereby ensuring that health insurance remains affordable for those who wish to purchase it and remain insured.

This submission outlines Vhi's views and recommendations on the existing LCR scheme which took effect from 1st of May 2015. Vhi's response is addressed to the series of questions and issues raised within the HIA consultation document. In the best interests of customers any changes in legislation arising from this consultation process should be implemented on a mandatory basis.

Both LCR and YAR have been central to the improvements that we have seen in the PMI market and Vhi welcomes further discussion on how Ireland's voluntary community-rated health insurance market can be sustained and promoted.

2. Health Insurers Documentation of LCR Loadings

Vhi has made every effort to ensure that our documentation and messaging is clear and concise in relation to LCR and the various structures surrounding its function – such as credit periods granted and premium loadings that exist in addition to the plan premium.

Vhi goes to great lengths to ensure that a customer's age at entry loading is detailed in their membership certificate and accurately reflects those 35 years or older taking out private health insurance for the first time. Currently, our documentation captures a customer's age at entry loading, in percentage terms, and the subsequent penalty gross of premium for each year of age that a person exceeds 34 when they first take out PMI.

Vhi continuously review our documentation with customers in order to try enhance the customer experience, provide greater clarity and meet regulatory requirements.

Navigating the health insurance landscape can be very challenging for an individual. In the first instance you need to choose a health insurance provider and then you need to select the most appropriate health insurance plan appropriate to your healthcare needs. One of the HIA's key roles is to *"increase the awareness of members of the public of their rights as consumers of health insurance and of health insurance services that are available to them"*. In this regard, Vhi would like to take this opportunity to acknowledge the successful communication campaign that the HIA undertook to raise awareness and knowledge of LCR. However, Vhi believe that this can be enhanced and optimised so that customers are armed with sufficient information on LCR and appropriate understanding of the LCR loadings and various credit periods that they can avail of.

Australia has a similar scheme to Ireland's LCR initiative. A very effective tool exists on the Australian private health insurance Ombudsman's website which is a 'lifetime health cover calculator'. This feature allows an individual to calculate loadings and enter credit periods should they qualify and ascertain their applicable loadings. A tool of similar structure could be made available on the HIA's website considering its role in providing clear, transparent, independent information and advice to the general public.

3. People moving overseas post 1st of May 2015 and then returning to Ireland

The period after the economic recession saw an increase in Irish citizens emigrating and leaving the State. However, recently we are now seeing more and more Irish citizens returning to work in Ireland. LCR was introduced with the primary purpose to "*encourage people to join the market at a younger age and discourage younger people from exiting the market*[3]". As things currently stand those individuals that have moved abroad post 1st of May 2015 and aged over 35 upon their subsequent return to Ireland will have LCR loadings applied to their premiums.

Vhi is proposing an exemption for persons aged over 35 who have spent periods of more than one year outside the State and who take up residency in the State after 1 May 2015. Such persons will have a twelve month grace period to take out PMI upon their return to Ireland. This would introduce a certain amount of flexibility and allow for periods of emigration or foreign travel. This proposal is a similar measure to what currently exists in Australia.

Vhi holds the view that individuals who choose to go abroad for long periods of time are not making a decision against purchasing PMI. Returning emigrants to Ireland are typically younger and healthier and the PMI market would most likely benefit from their participation where the claims cost associated with an ageing PMI membership would be partly mitigated.

Vhi suggest therefore that these returning emigrants should not be dis-incentivised from entry or from future participation within the PMI market by any action of the State.
In practical terms, the onus will be on the individual to take out a PMI policy before the end of the twelve month grace period to avoid any LCR loading. In addition, individuals who take out PMI on returning to Ireland after the 1st of May will still have to serve 26 weeks initial waiting periods and five years for pre-existing conditions.

[3] Explanatory Note for Draft LCR regulation and Other Measures 06/06/14

Finally, Vhi wishes to note that our proposal for persons who have spent periods of time outside the State for more than one year will not cover persons who have spent shorter periods of time (less than twelve months) outside the State. These persons may incur an LCR loading upon their return. The HIA may wish to consider scenarios involving shorter periods of time outside the State as part of their recommendations.

4. Interpretation of Legislation

The inclusion of defined terms "Principal Residence" and "Ordinarily Resident" in the legislation would be welcomed by Vhi. In advance however of the inclusion of same, a full impact assessment should be carried out to ensure that the wording is sufficiently broad to cover all relevant parts of Irish health insurance and any other relevant legislation, to ensure maximum clarity and consistency of interpretation.

Vhi would seek to ensure that changes for LCR purposes would not inadvertently conflict with related legislation. In seeking to have clarity on residency provided for under LCR legislation, it would be important to ensure that there are no unforeseen impacts on legislative provisions both within the Health Insurance Acts and in related legislation such as the Finance Acts, the Taxes Consolidation Act 1997 and/or relevant provisions of double tax treaties.

5. Self-Insuring Organisations

Vhi is asking for further clarity in relation to the issues posed by the HIA before consideration is given on waiving any LCR loadings for organisations that self-insure their employees.

For example, Vhi wishes to clarify the objective criteria upon which the Defence Forces, or indeed any organisation which self-insurers its employees, should qualify for a waiver of LCR penalties. Vhi is concerned that discretionary issuance of waivers from LCR penalties given to companies that self-insure its employees will create a precedent which ultimately undermines PMI market sustainability. In the absence of the application of LCR loadings, companies could be incentivised to self-insure their low-risk employees and provide private medical insurance for their remaining high-risk employees. This precedent, if widely applied, would not support the key principles of a community rated market.

6. Period of Time that LCR loading apply

Vhi would propose a time limit on LCR loadings instead of maintaining the current system where the relevant LCR loadings apply for a customer's lifetime. Vhi is proposing a similar measure to that in Australia whereby once a customer has paid an LCR loading on a PMI policy for ten continuous years the loading is then removed.

Key rationale for this proposal is as follows:

- In practical terms the potential of a loading for 10 years would provide sufficient incentives for younger customers to join. If we were to look at Table Four of the HIA consultation document, it shows that ca. 73% of individuals are currently paying loadings under 20% or loadings for up to ten years (2% a year). This would suggest that there is a large majority of people who are prepared to indefinitely pay loadings of up to 20%. Ten years appears to be a sufficient penalty whereby anything higher is potentially excessive.
- Incentives should always exist for young and healthy customers to enter and remain in the PMI market. Healthy customers can be profitable up to the ages of 60-69 and lifetime penalties could dis-incentivise customers from obtaining PMI. For example a customer in their 50's can still make a valuable contribution to the PMI market for a number of years.
- The existing system is inadvertently promoting anti-selection incentives. Customers who are high risk or have a chronic disease would likely take out a PMI policy irrespective of what premium penalty applies as their underlying claims expenditure will be significantly higher. An LCR loading of indefinite duration is an inappropriate incentive as the market needs sufficient healthy customers of all ages to pay for the sicker customers that join.

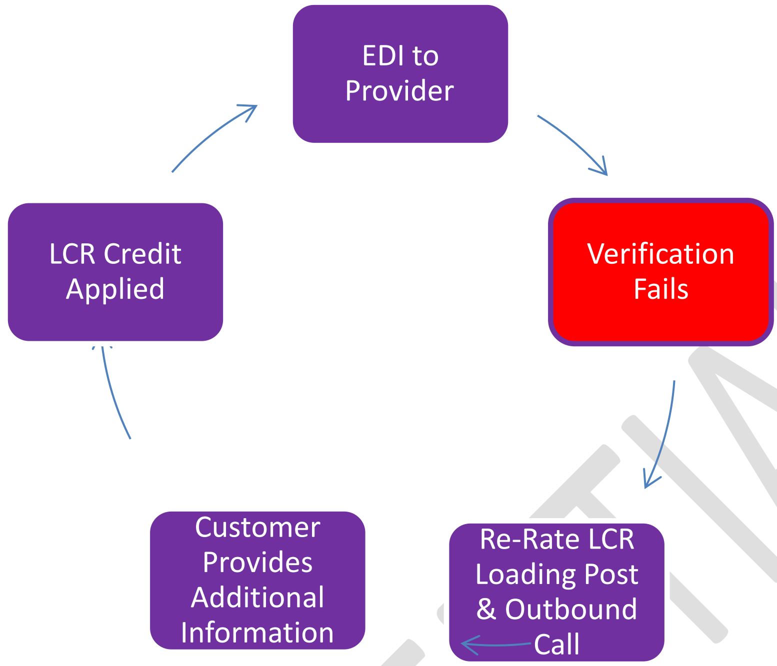
7. Other Issues

7.1 Improved Sharing of LCR information

The introduction of the LCR mandatory loadings brought about complex administration process changes and fundamental document modifications in order to capture the customer’s information with respect to episodes of previous cover and statements of loadings that apply. The LCR administration process has become very complex and it is difficult to obtain a customer’s previous credit periods/statement of loadings when moving from one health insurer to another.

From the time that a new customer incepts cover and provides information regarding previous health insurance, health insurers have a window of opportunity to ensure that the LCR/waiting period provider verification process is concluded efficiently for the customers at the outset. It was the intention of the LCR administration process, agreed amongst health insurers, to provide a seamless transition for a new customer joining an insurer with any periods of LCR credit allowing a reduction in overall premium loading. However, where the EDI verification process fails to match the customers expected period of credit, the verification process can evolve into a repetitive cycle of communication to the customer with a requirement to submit multiple verification requests to the other health insurers. In such cases the customer enters the **LCR “cycle”** resulting in multiple re-rating of their premium

Figure 1: Failed Verifications from EDI files



The current process is resulting in unnecessary delays and frustration for customers. Scenarios arising from current issues with the EDI transfer process for LCR that negatively impact customers include, but are not limited to:

- Customers not receiving their full entitlement of LCR periods of credit resulting in paying an incorrect loading
- Poor customer experience as a result of over communication with some customers in an attempt to match records
- Delay in concluding on the final premium due for records that are still in the "LCR cycle"
- Customers who do not challenge their LCR loading may continue to move between insurers with an incorrect history of periods of credit
- Risk to the integrity of data due to over reliance on manual intervention
- Customers may not be treated in a consistent manner

To facilitate the successful transfer of a customer's LCR history and ensure customers do not experience any of the undesired implications as outlined in the above bullet points, Vhi would make the following two recommendations:

1. To increase successful matching rates, Vhi is proposing the mandatory expansion of the EDI file to include enhanced member matching criteria; for example phone numbers and email addresses.
2. Develop a centralised database which would contain information on historical periods of PMI cover for all members. This proposed database would be similar to what currently exists for the motor insurance industry. Motor insurers keep a centralised claims database that is run by a third party and this database is used when querying insured person declarations on past claims. A system of similar design could be explored for the purpose of the health insurance industry and managed by an independent third party e.g. HIA.

7.2 Ongoing LCR consultation

Vhi would strongly support an ongoing consultation process on LCR similar to the existing review – say, every two years. The PMI market is constantly evolving and Vhi believe a structured open consultation process is a suitable forum to establish practicable and sensible solutions to any issues that may arise in the ongoing LCR measures.

7.3 Market Sustainability

Expanding on the proposal to review and examine the workings of LCR in a structured and regular manner, Vhi is also proposing that a similar structured and regular consultation process would be introduced to consider the wider issue of market sustainability. Market sustainability is the most pressing issue for a voluntary community rated market.

While lifetime community rating and YAR have been successful in supporting and promoting Ireland's voluntary community-rated market, affordability still remains one of the biggest issue for health insurers.

The growth in average private health insurance premiums in Ireland has consistently outstripped individual's earnings growth and it is expected that this will continue to be the case in the future[4]. Escalating claims costs is a key concern for the PMI market both now and into the future. Historical claims inflation of ca. 4% per annum (before ageing) is projected to continue for the foreseeable future with the ageing of PMI membership currently adding an additional ca. 3% to claims inflation[5]. In the longer-term, Vhi does believe that the PMI market can withstand such inflationary cost pressures.

Both LCR and YAR have had a direct impact on the PMI market in 2015/2016 by supporting a greater uptake of PMI participation and ensuring individuals remain in the market – the consequence being, more favourable ageing of the insured population in 2015 resulting in the reduction in the average claims cost.

We must continue to build on the recent success of the initiatives introduced by the Government and to this end Vhi would recommend an ongoing structured consultation process to allow all stakeholders to make proposals to ensure an affordable and sustainable PMI market. Sensible proposals for consideration could include the expansion of existing regulatory initiatives. For example, Young Adult Rates could be expanded up to the age of 34 which coincides with the commencement of LCR loadings. Currently, Young Adult Rates provide for a sliding scale for maximum chargeable rates up to the age of 26. To maximise the participation within a very price sensitive cohort Vhi would suggest expanding this sliding scale of maximum chargeable rates up to the age of 34.

Vhi welcomes the HIA consultation process and appreciates this opportunity to give its views. It is committed to supporting the market and it is in this context that its proposals for legislative, operational and administrative changes are made. It would welcome the opportunity to discuss these proposals further with the various stakeholders.

[4] Society of Actuaries 2016
[5] Report to the Minister for Health on an evaluation and analysis of returns for 1 July 2014 to 30 June 2015 including advice on risk equalisation credits 2015