



## **Consultation Paper**

### **Risk Equalisation in the Private Health Insurance Market in Ireland**

19 February 2002

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## 1. Introduction and purpose

The purpose of this consultation paper is to seek representations on issues relating to risk equalisation from stakeholders and interested parties in the private health insurance market in Ireland. It is understood that risk equalisation regulations will be issued by the Minister for Health and Children in the near future. The existing legislation on health insurance requires that these regulations give The Health Insurance Authority (“the Authority”) a role in any decision to implement a risk equalisation scheme. The Authority now wishes to seek the comments of stakeholders and interested parties on how it should exercise these responsibilities and on any other matters related to risk equalisation.

The content of this paper is as follows: Section 2 sets out some brief background on the Authority’s role in relation to risk equalisation; Section 3 introduces some of the issues that arise in implementing risk equalisation; Section 4 concludes the paper with a suggested list of topics to be covered in responses to this consultation paper. Stakeholders are invited to address any or all of these topics, or any other matters that they feel are relevant in their response.

Please submit 2 hard copies of your submission by Wednesday 20 March 2002 to:

Mr. Dermot Ryan,  
Chief Executive/Registrar,  
The Health Insurance Authority,  
Canal House,  
Canal Road,  
Dublin 6.

When we receive your submissions we will study them and we would welcome an opportunity to meet with you to discuss your views and to request any clarifications. It is not our intention to hold a public forum in relation to this paper.

## 2. Background to the Authority's role in risk equalisation

### Historic background

The Health Insurance Act, 1994 made provision for the opening of the health insurance market to competition. The Act included provision for the establishment of the Authority and for a risk equalisation scheme. BUPA Ireland was the first to enter the health insurance market following the Act and remains the sole competitor to Vhi Healthcare in Ireland.

The Act was followed by detailed regulations in 1996 setting out how that risk equalisation scheme would operate. The regulations provided for the commencement of a scheme when the risk differences between health insurers reached a specified level. The scheme was never commenced.

From 1997 the risk equalisation regulations received significant analysis. An independent group, chaired by Mr. Gerard Harvey, was established by the Minister for Health and Children to assess the scheme. The Minister also engaged in a consultation process as part of the preparatory work on the White Paper on "Private Health Insurance". During this time, the risk equalisation regulations were revoked.

The "Advisory Group on the Risk Equalisation Scheme" strongly recommended that the Authority be established and the White Paper reaffirmed the Government's intention to do so. The Authority was established on 1 February 2001. The Authority's role, as set out in the Health Insurance Act, 1994 was amended by the Health Insurance (Amendment) Act, 2001. The role of the Authority as set out in this legislation includes, *inter alia*, specific responsibilities with regard to risk equalisation as well as a provision that the Authority may advise the Minister on matters relating to the functions of the Minister under this legislation, the functions of the Authority and health insurance generally.

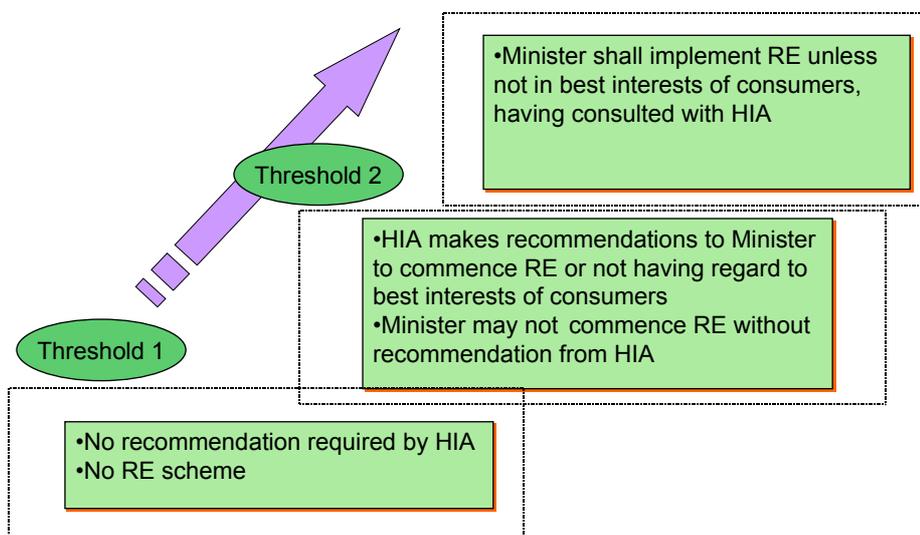
### Current situation

A key role of the Authority is in recommending to the Minister whether risk equalisation should be commenced. This role differs at three levels of risk difference between health insurers.

- If the level of risk difference between insurers is below a specified minimum level (defined as threshold 1), then a recommendation is not required from the Authority to the Minister and a risk equalisation scheme will not be commenced under any circumstances.
- If the level of risk difference between insurers is between threshold 1 and a higher specified level (defined as threshold 2), then the Authority is required to make a recommendation to the Minister whether or not to commence risk equalisation having regard to the best overall interests of health insurance consumers. The Minister may not commence risk equalisation without a recommendation from the Authority whilst the risk difference between insurers falls between threshold 1 and threshold 2.

- Above threshold 2 the Act states that the Minister shall implement risk equalisation unless he believes it not to be in the best overall interests of consumers, having consulted with the Authority (referred to as HIA in the graph below).

### Criteria for commencing RE – 2001 Act



In practice the procedure to be followed if a risk equalisation scheme is implemented will be as follows. The Authority will receive regular returns from insurers and will then calculate the level of difference in risk profile between insurers and, if this difference falls between threshold 1 and threshold 2, make its recommendation to the Minister.

It is expected that threshold 1 will be set at a very low level and threshold 2 at a reasonably high level. The Authority therefore believes that its role in recommending risk equalisation is likely to be significant.

If the Minister commences a risk equalisation scheme, the Authority will be responsible for the administration of the scheme. The Authority will calculate transfers and operate a fund that would receive and pay contributions.

The Authority is aware that some of the public comment on risk equalisation has included questions regarding the principle of risk equalisation. For its part, the Authority is bound to implement the legislation on risk equalisation as it stands.

### 3. Risk equalisation issues

#### Consumer interests

The Health Insurance (Amendment) Act, 2001 states that the Authority must have regard to the best overall interests of health insurance consumers in formulating its recommendations to the Minister to commence risk equalisation or not.

Defining consumer interests will therefore be a key part of determining the Authority's criteria for recommending implementation. The Act provides certain guidance in defining consumer interests, in that it states that the best overall interests of health insurance consumers "*includes (Authority's emphasis) a reference to the need to maintain the application of community rating across the market for health insurance and to facilitate competition between undertakings*". The Authority will have to decide what other elements of consumer benefit, if any, need to be taken into account. For example market stability or affordability of premiums could be regarded as a benefit to consumers.

Having determined what factors drive the overall interests of consumers, the Authority will then have to reach a view as to how the implementation of risk equalisation will affect these factors.

#### Methods of risk equalisation

Several methods for risk equalisation exist, including the following:

##### *Age and gender only*

The method of risk equalisation termed "age and gender only" has been the subject of some analysis. This results in insurance companies sharing the market risk profile in terms of age and gender. In other words, each insurer's claims would be recalculated as if its respective membership had the same age and gender distribution. For each age and gender group, an insurer uses its own data on average claim per member. (Age groups have in the past been defined in terms of 10-year age bands). This results in each insurer keeping the benefit of reduced average cost per claim and reduced incidence of claims. In other words, the formula results in no sharing of achievements in relation to reducing lengths of stay in hospital, reducing average hospital and consultant costs and reducing the incidence of claims. It does not result in differences in risk profiles between insurers within each age and gender group being recognised. Therefore if two insurers have very different risk profiles within the same age and gender group, this will not be reflected in risk equalisation transfers.

##### *Age, gender and utilisation*

Another form of risk equalisation has been termed "age, gender and utilisation". This extends the first method by sharing, to some extent, the degree to which each insurer's members use hospital services. This can be measured by the proportion of members making claims or by the total number of nights spent in hospital, or a combination of the two. The original risk equalisation scheme consisted of a combination of these two methods of measuring utilisation.

##### *Case mix*

Case mix has also been suggested as a method of capturing utilisation, although its implementation is generally regarded as impractical in the short term. The Department of Health and Children has undertaken a separate exercise to assess the feasibility of this method.

#### **4. Consultation issues**

The Authority welcomes comments from stakeholders and interested parties on any of the issues discussed in this paper. Topics that might be covered in any response could include the following:

##### **Consumer interests**

- The appropriate definition of the “best interests” of health insurance consumers, including what factors, if any, should be taken into account in addition to the needs to facilitate competition and to preserve community rating;
- The relationship between the interests of health insurance consumers (including the preservation of community rating and the facilitation of competition) and risk equalisation, distinguishing between the effects of the possibility of and the actual implementation of risk equalisation;
- The circumstances, if any, where risk equalisation should be implemented in the Irish market;
- The extent to which any such circumstances currently exist in the Irish market; and
- The extent to which risk equalisation would succeed in addressing such circumstances and, if it would succeed, the manner in which this success would be achieved.

##### **Methods of Risk Equalisation**

- The indicators that should be used to determine whether circumstances have arisen that require the introduction of risk equalisation;
- The extent to which the Authority should be involved in any decision to implement Risk Equalisation including the appropriate levels of the thresholds mentioned in Section 2;
- The extent to which the Authority should publish the basis upon which it makes recommendations to the Minister, including the circumstances, if any, in which the Authority should disclose aggregate market data and to whom such information should be disclosed;
- If risk equalisation is needed now or in the future, the extent to which a scheme based on “age and gender only” could protect community rating and the extent to which the incorporation of utilisation is necessary, with an assessment of the way in which utilisation should be measured; and
- The extent to which risk equalisation calculations would currently differ depending on whether an “age and gender only” formula or an “age, gender and utilisation” formula was used.

#### **5. Queries**

If you would like to speak to somebody in the Authority, prior to forwarding your response please contact Liam Sloyan, Head of Compliance Services. Liam’s phone number is (01) 4988052 and his email address is [liamsloyan@hia.ie](mailto:liamsloyan@hia.ie).