

## Health Insurance Authority

### Risk Equalisation

#### 1. Background

The debate on Risk Equalisation commenced with the entry of Bupa Ireland Ltd into the Irish health insurance market in the mid 1990's. Many of the concerns which were expressed at that stage, regarding competition and the vulnerability of VHI Healthcare to competition arising from the age profile of its membership, have now become much more acute. In summary, the debate which has continued over the past 15 years must now be brought to a conclusion in a manner that will best serve those with health insurance within this jurisdiction.

#### 2. Core Problem

The core problem of the health insurance market is the age profile of VHI members and the consequences of same for its claims experience and subscription rates. The details set out hereunder demonstrate that those health insurance subscribers in the older age groups and higher risk groups are predominately members of VHI healthcare.

Figure 1

Age Group	VHI Healthcare %	Quinn Healthcare %	Hibernian Aviva Health %
0-49	63	26	11
50-59	71	21	8
60-69	80	16	4
70-79	90	8	2
80 and over	95	3	1

### **3. Membership**

Even a cursory examination of the age profile of the membership of Quinn Healthcare and Hibernian Aviva Health clearly demonstrates that the vast majority of their subscribers are in the under 50 age group. This group (under 50) represents the profitable element of the health insurance market and if inter-generational subsidisation is to continue, a device must be found to spread the age profile of subscribers more evenly across the 3 major health insurers or a financial formula must be developed which will compensate VHI for its adverse claims experience which results directly from the age profile of its members.

There is ample evidence to demonstrate that VHI Healthcare has lost over 100,000 members since January 2009. The vast majority of these members have been younger more profitable subscribers, and while some discontinued their health insurance permanently, many if not a majority have transferred to Hibernian Aviva Health and Quinn Healthcare. Should this trend continue, it will exacerbate the financial problems of VHI Healthcare and further accentuate the age imbalance among its subscribers in comparison with its competitors. Furthermore, it will precipitate a crisis for up to 1 million citizens with health insurance.

### **4. VHI Health/Finances**

According to its latest Annual Report, the VHI payout on behalf of its subscribers exceeds its membership income by €800,000 per week. This equates with a loss of €40m per annum. This level of loss cannot be sustained and without the establishment of a Risk Equalisation Scheme or some form of corrective measure VHI Healthcare will not survive even into the medium term future.

### **5. Urgency of Solution**

There is a distinct danger that the debate on the form of Risk Equalisation could continue indefinitely. It must be appreciated by all interested parties that a solution is **urgently required**.

### **6. Vital Role of Health Insurance**

Interested parties must be cognisant of the role played by health insurance in the provision of healthcare within this jurisdiction. It is obvious, particularly with the budgetary cuts in the public health sector, that the private health sector acts as a safety valve resulting in a significant number of patients who would otherwise require public healthcare, being cared for under their private health insurance plans. Therefore, it is not in the interest of the public or private health sectors to allow uncertainty to the point of turmoil enter the private health insurance market.

## **7. Market Penetration**

Since its establishment in 1957, the health insurance market has grown annually to an all time high of 2.3 million subscribers (approx) in the latter part of 2008. Despite economic downturns in the 1970s and 1980/90s, the number of health insurance subscribers continued to grow and accelerated with the advent of competition and Celtic Tiger.

For the first time, the number of insured persons has declined in 2009/10. The decline has been among younger low risk and profitable subscribers. Therefore, the inter-generational subsidisation has come under pressure for the first time in over half a century of health insurance provision.

## **8. Community Rating**

One of the foundation stones of health insurance has been the principle of Community Rating whereby subscribers, irrespective of age or health risk, pay the same premium for equal health insurance cover. Through this method, younger low risk profitable subscribers subsidise older high risk subscribers. More than any other feature, this principle has contributed to the exceptionally high number of insurance subscribers notwithstanding that, since 1991, everybody is legally entitled to free hospital treatment.

One of the results of the Health Insurance (Miscellaneous Provisions) Act 2009 has been to depart from the rigid application of the Community Rating principle.

The proposal to introduce Life Time Community Rating will partly undermine the rigid application of Community Rating of the past half century. It is accepted in most quarters that citizens who delay their investment in health insurance until (say) their 50<sup>th</sup> year should not receive the same insurance cover at the same price as citizens who have invested in health insurance from (say) their 25<sup>th</sup> year.

## **9. Insurance Market**

There are currently 200 health insurance products (approx) marketed by the three major insurance providers. This exponential growth in insurance products is directed mostly at younger more profitable subscribers. The shift of subscribers from VHI Healthcare to its competitors has been from the under 40 age groups. Older higher risk subscribers are less likely to change and the experience of the past decade demonstrates this feature.

As set out in figure 1, Quinn Healthcare and Hibernian Aviva have a 40% market share among the 0 – 49 age group. On the other hand their share of the over 80s market is less than 6%.

It is internationally established that the vast majority of health expenditure on patients occurs in the over 65s and in particular in the final days/years of a patient's life. This applies equally to all patients irrespective of their public or private status. It follows therefore that expenditure per subscriber on the part of VHI Healthcare for its older members, representing 70% (approx) of insured persons, must cause a disproportionate drain on its finances in comparison with the likely expenditure per insured member of its competitors with their significantly lower age profile.

## 10. Proposals

10.1 As in interim measure to support Community Rating, the Health Insurance (Miscellaneous Provisions) Act 2009 was passed by the Oireachtas. This legislation envisaged that the interim arrangement would last for 3 years. The effect of the legislation is to allow health insurers charge a higher premium for older people with this extra premium being funded by way of tax credit. These tax credits are underpinned by a health insurance levy which is set at a level to ensure that it is revenue neutral for the Exchequer and for the health insurance market. The current level of tax credit equals 50% of the cost of insuring older people and thereby health insurers are partially compensated for the extra cost arising from having a disproportionate share of older members.

It is understood that the net benefit accruing to VHI Healthcare from the current age related tax relief at source is €40m per annum. Therefore the age related levy would need to be doubled to generate the level of income to VHI that is required on foot of its ageing membership.

A significant number of members of each of the three major health insurance providers are treated as private/semi private patients in public hospitals. It is estimated that the VHI Healthcare payout to public hospitals per annum is of the order of €270m. This payment represents a significant financial injection into the budgets of publically funded hospitals at a time of reducing health budgets nationally. Therefore, the levy/credit activated under the Health Insurance (Miscellaneous Provisions) Act 2009 should be adjusted to generate double the target financial benefits currently accruing to VHI Healthcare

10.2 Both Quinn Healthcare and Hibernian Aviva have repeatedly stated that they are open to enrol new subscribers of every age including those over 50. Consideration should therefore be given to distributing insured members in the 50-80 years plus age groups equally among the 3 health insurers. Should such a proposal be implemented, it would mean that the age distribution among the 3

health insurer would be similar/identical and competition would then be based on the attractiveness of their policies for all age groups, efficiencies in the provision of services to members and lower administrative costs.

It is proposed that the entire insured population of 50 years of age and over should be pooled and be subdivided equally among the 3 major insurers on a random basis, having due regard for gender balance.

It is proposed that the age groups should be sub-divided as follows prior to distribution.

- 50 – 55 years.
- 56 - 60 years.
- 61 - 65 years.
- 66 - 70 years.
- 71 - 75 years.
- 76 - 80 years.
- 80 year +

It is further proposed that should there be further entrants to the health insurance market, these new entrants should be allowed up to 5 years to promote their products and thereby allow them gain reasonable market share. At the conclusion of this 5 year period a redistribution of members according to age group as set out above should again be implemented.

A redistribution of members would have to provide that in the event of older subscribers being assigned to a new health insurer, their level of health insurance cover would not be less than that which they enjoyed with their original insurer and the cost (at the time of transfer), would not be greater than that levied by the health insurer from which they had been transferred.


The Health Insurance Authority should have the task of monitoring the implementation of this proposal with the specific reference to the spread of age groups among the 3 current health insurance providers and the maintenance of the rights of transferred insured persons.

## **11. Urgency of Solution**

The urgency of devising a solution which will continue to provide Community Rated as distinct from Risk Related health insurance to 50% of the population cannot be over emphasised and is therefore repeated in this submission. We cannot afford to spend a further 15 years debating the advantages and disadvantages of various forms of Risk Equalisation. The state monopoly which

VHI enjoyed for decades has given rise to a problem which threatens the financial existence of that organisation which has 65% (approx) of market share and 85% (approx) of the national health insurance payout. Procrastination will eventually result in increasing numbers of persons foregoing their health insurance and relying on an over stretched public hospital system which is expected to treat an increasing number of patients annually on a reducing budget. The national interest represented by 50% of the population with health insurance, must take precedence over ideology or the market interests of any one stakeholder.

Yours sincerely,



**Finbarr Fitzpatrick**  
**Secretary General**