



**Submission to the Department of Health and Children**

**Lifetime Community Rating**

October 2002

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## 1 Introduction

The purpose of this submission is to set out The Health Insurance Authority's ("the Authority") considerations on a move from the current system of single rate community rating to a system of lifetime community rating in the Irish private health insurance market.

Under single rate community rating, a person's age at entry does not determine the level of premium that they pay. Under lifetime community rating, the premium that a person pays rises with the age at which they enter the private health insurance market, but remains stable in real terms thereafter (subject to medical inflation, etc.).

The Government's White Paper on Private Health Insurance ("the White Paper"), issued in 1999, suggested that this move would be the preferred choice of the then administration. The Health Insurance (Amendment) Act, 2001 ("the 2001 Act") makes provisions for the Minister to introduce regulations allowing for late entry loadings – a key pillar in lifetime community rating.

The Minister has requested that the Authority provide its views and recommendations on the matter. The Authority engaged in a consultation process in August and September 2002 in relation to the issues involved in a move to a system of lifetime community rating, following publication of a consultation paper in August 2002. Having considered the issues, the Authority has formed preliminary views, which it sets out in this paper.

This paper begins by briefly describing the consultation process engaged in by the Authority and then describes the Authority's views with regard to the key issues raised during its deliberations on the matter and during the consultation process.

## 2 Consultation Process

The Authority issued a consultation paper on 06 August 2002 regarding lifetime community rating. This paper was distributed to a large number of stakeholders including consumer groups, insurance undertakings, professional bodies, industry bodies, legislators and healthcare providers. The consultation paper requested comments on issues relating to a move from the current system of single rate community rating to lifetime community rating.

The following provided submissions in response to the Authority's consultation paper:

BUPA Ireland  
Independent Hospital Association of Ireland  
Irish Patients' Association  
Royal & SunAlliance  
St. Paul's Garda Medical Aid Society  
Society of Actuaries in Ireland  
Vhi Healthcare

In the interests of transparency the Authority has decided to publish the responses received in relation to the consultation paper. Responses are published on the Authority's website at [www.hia.ie](http://www.hia.ie).

The Authority is grateful for the submissions received and wishes to acknowledge the assistance that these contributions provided to the Authority during the course of its deliberations.

### **3 Views of The Health Insurance Authority on Key Issues**

#### *3.1 Principle*

In the first instance, the Authority supports the idea of a move from the current single rate community rating system to a system of lifetime community rating. The Authority believes that this would reduce the adverse selection risk posed by the current system and thereby contribute to greater stability in the private health insurance market in Ireland.

#### *3.2 Grace Period/Information Campaign*

Any transition from the current system to a new system would require a period for consumers to be made aware of the issues involved in the change and how these issues will affect them. The Authority holds the view that any consumer currently in the private health insurance market should not be disadvantaged by a move to lifetime community rating. However, there may be a number of people who have had private health insurance but allowed it to lapse or who are considering taking out private health insurance. In order for these people not to be disadvantaged, it is proposed that a grace period of six months would be allowed, in advance of the commencement of lifetime community rating, during which period consumers could take out private health insurance and not be subject to late entry loadings on commencement of lifetime community rating. The Authority envisages that the grace period would run in tandem to the process of informing consumers of the change. It is reasonable to assume that the registered undertakings would inform their own members of the change (and the Authority will monitor this information in keeping with its statutory functions), but the Authority recommends that an information campaign be undertaken for the general public, in order to inform those without private health insurance of the issues involved.

#### *3.3 Level of Benefits to be Community Rated*

A number of respondents to the consultation paper suggested that the current system whereby all products in the market are community rated should be amended. One respondent suggested a system involving a single plan, covering prescribed minimum benefits, being community rated, with all other plans (by definition offering higher levels of benefits) not being subject to community rating. Another suggested a maximum level of benefits to be community rated, with any plans offering benefits in excess of this level being exempt from community rating. The Authority agrees with the suggestion of having a maximum level of benefits to be community rated, and notes that the proposed maximum equalised benefits, as laid out in the risk equalisation regulations, would embrace a significant majority of the insured population and might therefore be an appropriate maximum level. However, the Authority would also be conscious that any change to the degree of community rating in the market would require changes to primary legislation and that equity implications for existing subscribers to plans covering benefits above the proposed community rated level would need to be considered.

#### *3.4 Application and Level of Late Entry Loadings*

In the White Paper, it was proposed that late entry loadings would be applied within a banded structure, with four age bands above a threshold age of 35 (this being the lowest age at which late entry loadings are applied). However, the Authority notes that this would lead to some inconsistencies at the boundaries of the age bands. The Authority's preferred method would be to apply a percentage loading for each year above the threshold age at which a consumer first enters the market, subject to a maximum loading applicable. In light of the fact that a number of alternative loading levels, threshold ages and upper limits have been suggested, the Authority would recommend that an actuarial review be undertaken of the private health insurance market, to determine the optimal threshold age, level of loadings and maximum loading to apply.

#### *3.5 Prior Cover and the Maintenance of Records*

The Authority believes that those who have had prior health insurance cover in Ireland should be given credit for this, in the event of a lapse in cover. Credit should be given for all prior cover for which documentary evidence can be provided. The Authority notes that, while

insurers maintain records for six years, consumers may have records dating back further. This raises the issue of responsibility for providing evidence of prior cover. In order to avoid the situation in the future where a consumer has held private health insurance for a considerable length of time but an insurer only has records of six years prior cover, a new system of record maintenance should be implemented at the earliest possible opportunity. The Authority recommends that consumers should be given certificates at the end of each year of cover, with insurers maintaining electronic records of prior cover for as long as is necessary. Current records held by insurers (those dating back six years) should be incorporated into this system.

### 3.6 *Periods of Absence*

The Authority recognises that consumers may, due to circumstances beyond their control (such as a period of unemployment or reduced income, etc.), need to discontinue private health insurance cover temporarily. The current open enrolment regulations (SI No. 81 of 1996) provide that anyone who has previously held a private health insurance contract in Ireland that has expired less than 13 weeks previously may take out another private health insurance contract without having to serve a waiting period. The Authority believes that the same principle should apply to late entry loadings. However the Authority would also recommend that consideration be given to extending this period to 26, rather than 13, weeks.

### 3.7 *Credit for Cover Overseas*

The Authority is aware that the European Commission has highlighted the non-transferability of voluntary health insurance as a barrier to free movement within the EU.<sup>1</sup> It could also be argued that, had consumers moving from overseas been resident in Ireland during a grace period, they would have had the opportunity to avail of it. Therefore, the Authority recommends that a grace period of six months, similar to that offered to Irish residents, be given to consumers moving from overseas (with the onus on the consumer to prove the date on which they took up residence in Ireland). If such consumers take out private health insurance within six months of taking up residence then they would not pay a late entry loading. However, as current legislation dictates that insurers are not obliged to accept Irish residents aged over-65, and that therefore these consumers would not be able to avail of the grace period offered to Irish residents, to allow consumers aged over-65 moving from overseas to avail of a grace period would place Irish residents at a disadvantage. Therefore it is recommended that the grace period offered to consumers moving from overseas would only apply to those aged under 65 on the date of application for private health insurance in Ireland. Those moving to Ireland at age 65 or above would be subject to late entry loadings. The legality of this proposed system would need to be ascertained prior to implementation.

### 3.8 *Upgrades in Cover*

The 2001 Act provides for regulations allowing for upgrades in cover to be subject to late entry loadings. The Authority believes that this is a reasonable proposal, although it notes that it may not be entirely clear whether, or to what extent, a move from a plan offered by one insurer to a plan offered by another constitutes an upgrade in cover. In this matter, the Authority suggests that the decision as to the extent of any upgrade in cover should be the remit of the insurer to which the consumer has moved. However, the Authority would caution that any application of late entry loadings to upgrades in cover resulting from a change of insurer should be applied consistently across all consumers effecting such upgrades. If an insurer launches a new plan, any consumer upgrading to such a plan within the first 12 months should be exempt from late entry loadings, as it could be argued that these consumers would have chosen that plan initially, had it been available to them.

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<sup>1</sup> See *Voluntary Health Insurance in the European Union* - Report prepared for the Directorate General of Employment and Social Affairs of the European Commission, February 2002

### *3.9 Differential Age-related Waiting Periods*

The current open enrolment regulations stipulate that the maximum initial waiting periods before consumers may receive cover are 13 weeks and 26 weeks respectively for those aged under 55 and aged 55 or over, and under 65. The Authority would suggest that the existing system of waiting periods should be maintained, subject to review by the Authority once the new lifetime community rating system is in place.

### *3.10 Freedom to Waive Late Entry Loadings*

The Authority recognises that insurers should be allowed a degree of commercial freedom in the matter of late entry loadings. It is therefore recommended that insurers should be allowed to waive late entry loadings in certain circumstances, at their discretion. However, the Authority would caution that any waiver of late entry loadings should be consistent across categories of consumer (e.g. age, gender, etc.), and perhaps would need to be applied for a minimum period of time (say, two years). The Authority would therefore, in furtherance of its role in relation to monitoring the carrying on of health insurance business, reserve the right to review companies' policies in relation to such waivers.

## 4 Other Issues Raised

A number of other issues were raised in submissions to the Authority in connection with this consultation process. These are detailed below.

### 4.1 *Impact Analyses*

It was suggested that legal and economic analyses of late entry loadings should be carried out in advance of any introduction of lifetime community rating. The Authority has not addressed the issue of the legality of late entry loadings and has worked on the assumption that the Department of Health and Children has already addressed this issue, in advance of the passing of the Health Insurance (Amendment) Act, 2001 by the Oireachtas. The Authority has dealt with the issue of a review of late entry loadings in the previous section. In terms of assessing the economic advantages of lifetime community rating, the Authority is currently undertaking a survey of consumers in the market, which will include an assessment of the likely effectiveness of late entry loadings.

### 4.2 *Seamless Community Rating*

Another suggestion was that “seamless community rating” should be achieved. One measure put forward to contribute to this is a restructuring of the group scheme incentive, whereby members of group schemes are entitled to a discount of up to 10% of premiums. The Authority notes that a large majority of private health insurance consumers are currently members of group schemes and would suggest that a review of the group scheme incentive should be undertaken.

### 4.3 *Restricted Undertakings*

Members of restricted undertakings that opt out of any risk equalisation scheme that may be introduced should be subject to late entry loadings on taking out a private health insurance contract with a registered undertaking other than a restricted undertaking. This should be brought to the attention of the members of such restricted undertakings in advance of the move to lifetime community rating. This would offer members of such undertakings an opportunity to avail of the grace period mentioned in the previous section.

### 4.4 *Non-Hospital Plans*

The Authority also believes that non-hospital plans should also be subject to late entry loadings and should be treated separately from hospital plans in terms of prior cover. For example, a consumer who has held a non-hospital plan should not get credit for such a plan when taking out a hospital plan.

### 4.5 *Practical Implementation*

The Authority understands that the implementation of late entry loadings in practice could be difficult, as competitive forces may encourage insurers to waive loadings in many cases, rendering them less effective. It may also be the case that late entry loadings and requirements to provide evidence of prior cover would increase the degree of consumer inertia in the market. In terms of the first of these issues, the Authority would suggest that, if such a situation develops, regulations could be introduced requiring the mandatory implementation of late entry loadings, except in exceptional circumstances, although this is not an ideal strategy. Regarding the second point, the Authority will, as noted above, incorporate questions on this issue into its survey of private health insurance consumers in Ireland.