An tÚdarás Árachas Sláinte
The Health Insurance Authority

Private Health Insurance

Lifetime Community Rating Consultation Paper

January 2017

Contents

1. Introduction

Lifetime Community Rating was introduced to the private health insurance market in Ireland with effect from 1 May 2015. It introduced a late entry loading on health insurance premiums for those aged 35 years or older taking out private health insurance for the first time. This loading is 2% of the gross premium for each year of age that a person exceeds 34 when they first take out private health insurance. The purpose of Lifetime Community Rating (or 'LCR') is to encourage people to take out private health insurance at a younger age and to maintain cover thereby helping to control average claims costs and premium inflation.

Paragraph 7 of the Statutory Instrument introducing LCR states that the Minister may cause a review of the functioning of these regulations to be carried by the Authority. The Authority has been requested by the Department of Health to carry out such a review in 2017 and is conducting a public consultation as part of its review. This consultation paper has been issued by the Authority to inform and assist those who may wish to make a submission as part of this review.

The Authority invites submissions on the operation of Lifetime Community Rating in the private health insurance market in Ireland by 3rd March 2017. Details of how to make a submission are set out later in this paper.

2. About the Health Insurance Authority

The Health Insurance Authority ("Authority) is a statutory regulator for the Irish private health insurance market. It was established in 2001 under the Health Insurance Act 1994.

The principal functions of the Authority, as set out in the Health Insurance Act 1994 (as amended), are as follows:

- To monitor the health insurance market and to advise the Minister (either at his or her request or on its own initiative) on matters relating to health insurance;
- To monitor the operation of the Health Insurance Acts and, where appropriate, to issue enforcement notices to enforce compliance with the Acts;
- To carry out certain functions in relation to health insurance stamp duty and risk equalisation credits and in relation to the risk equalisation scheme;
- To take such action as it considers appropriate to increase the awareness of members of the public of their rights as consumers of health insurance and of health insurance services available to them; and
- To maintain "The Register of Health Benefits Undertakings" ("the Register") and "The Register of Health Insurance Contracts".

3. Private Health Insurance market in Ireland

The Irish private health insurance system is based on the key principles of community rating, open enrolment, lifetime cover and minimum benefits. These principles aim to ensure that private health insurance does not cost more for those who need it most. The system is unfunded, meaning that there is no fund built up over the lifetime of an insured person to cover their expected increased claims cost as they get older and less healthy. Instead the money contributed by insured people is pooled by each insurer and the cost of claims in any given year taken from the pools. A risk equalisation system supports community rating and creates a partial common pool among all open market insurers.

It is in this context that the concept of community rating must be understood. It means that the level of risk that a particular consumer poses to an insurer does not affect the premium paid. In other words, everybody is charged the same premium for a particular plan, irrespective of age, gender and the current or likely future state of their health. Exceptions apply in respect of children under 18 years of age, discounts for members of group schemes, young adults and lifetime community rating loadings (the latter two exceptions began on 1 May 2015).

Open enrolment and lifetime cover mean that, except in very limited circumstances specified in legislation, health insurers must accept all applicants for health insurance and all consumers are guaranteed the right to renew their policies regardless of their age or health status.

4. Background to Lifetime Community Rating

An unfunded community rated voluntary private health insurance market means that the average claims cost and the resulting premium rates depends on the age profile of those insured in the market. If younger people delay joining the private health insurance market, the average age profile of the market increases resulting in higher average claims per insured life. This may result in insurers increasing premium rates resulting in the cancellation of policies by younger healthier lives thereby increasing average claims costs. A spiral of this nature can threaten the viability of the market.

The purpose of Lifetime Community Rating ("LCR") is to encourage people to take out private health insurance at a younger age and to maintain cover, thereby helping to control average claims costs and premium inflation.

Section 7A of the Health Insurance Act 1994 -2015 gave the Minister for Health the power to introduce regulations whereby loadings would be applied to health insurance premiums in certain circumstances. The Minister for Health invoked this power in introducing Statutory Instrument No 312 of 2014 which introduced Lifetime Community Rating. This resulted in LCR loadings applying in certain circumstances in respect of policies commencing from 1 May 2015. From that date, people aged 35 and upwards taking out health insurance for the first time are charged a late entry loading. The loading is 2% of the gross premium for each year in age that the person exceeds 34 when they first take out private health insurance. Credit is given for previous periods of cover and for periods of unemployment since 2008. The loadings apply for life.

The Authority ran an extensive public information campaign in advance of the 30th April 2015 deadline.

The Authority has collected lifetime community rating data since commencement of LCR. Insurers submit half yearly information to the Authority on the number of insured lives paying lifetime community rating loadings and the amount of the loadings.

A simple Questions and Answers description of lifetime community rating is set out in Appendix 1 of this paper. If a reader requires a more detailed description, they should refer to the Statutory Instrument mentioned above.

Paragraph 7 of the Statutory Instrument states that: "the Minister may cause a review of the functioning of these regulations to be carried out by the Authority at any time after 30 April 2017". The Authority has been requested by the Department of Health to carry out such a review in 2017. This consultation paper has been issued by the Authority to assist it in this review of Lifetime Community Rating.

5. Experience since Lifetime Community rating was introduced on 1 May 2015

Table 1 sets out the change in the in-patient insured lives by age from 1 January 2015 to 30 June 2016 of the open membership undertakings. It shows an increased total market size due primarily to new customers purchasing private health insurance in the grace period before LCR applied. These new customers were mostly under age 50, improving the age profile of the market.

Table 1:

	01-Jan-15	**01-Jul-16**	**Net Diff**
Aged 17 and under	441,354	477,351	35,997
Aged 18 to age 29	203,084	212,652	9,568
Aged 30 to age 39	274,356	295,054	20,698
Aged 40 to age 49	293,455	324,180	30,725
Aged 50 to age 54	135,463	146,944	11,481
Aged 55 to age 59	126,532	135,572	9,040
Aged 60 to age 64	117,031	123,062	6,031
Aged 65 to age 69	103,530	106,157	2,627
Aged 70 to age 74	76,298	81,440	5,142
Aged 75 to age 79	53,139	55,116	1,977
Aged 80 to age 84	33,290	34,423	1,133
Aged 85 and over	22,689	22,766	77
Total	**1,880,221**	**2,014,717**	**134,496**

Table 2 shows the increase over time in the number of insured lives paying LCR loadings and their percentage of the insured market. Unsurprisingly these figures show an increase over time as loadings only apply for policies commencing from 1 May 2015. The Authority believes that a significant proportion of those paying loadings are members of group schemes.

Table 2

	No. of Insured Persons paying loadings	**% of Insured Population paying loadings**
01-Jul-15	869	0.04%
01-Jan-16	5,389	0.3%
01-Jul-16	10,687	0.5%

Table 3 shows the percentage of the market premium income that comprises of LCR loadings. The percentages are very small but increasing.

Table 3

Date	**Loadings paid**	**Premium Income**	**LCR Loadings as a % of Premium Income**
May -June 2015	€105,668.21	1,155,973,621	0.01%
July - Dec 2015	€605,051.00	1,174,651,154	0.05%
Jan -June 2016	€1,022,687.00	1,198,058,352	0.09%
Total	€1,733,406.21		

Tables 4 and 5 shows the loading and age profile of the 10,687 members paying LCR loadings in the first half of 2016. 73% of those paying loadings have loadings of 20% or less of the premium. 78% of those paying loadings are aged less than 50.

Table 4

Loading	**Number of lives**	**Loadings paid in half year**
2% - 10%	5,343	€172,431
12% - 20%	2,512	€244,835
22% - 30%	1,355	€212,874
32% - 40%	696	€149,753
42% - 50%	380	€100,004
52% - 60%	188	€59,691
62% - 70%	213	€83,098
Total	**10,687**	**€1,022,687**

Table 5

Age	Number of lives	Loadings paid in half year
30-39	4,234	€136,700
40-49	4,116	€414,674
50-59	1,555	€273,556
60-69	582	€133,974
70-79	150	€37,022
80+	50	€26,761
Total	**10,687**	**€1,022,687**

6. Likely future developments in the market

The Irish population is likely to continue ageing. The insured population is likely to age at a quicker rate than the general population due to the current age profile of the insured market. Lifetime Community Rating will encourage young people to take out private health insurance at younger ages and discourage them from cancelling their cover. As a result, Lifetime Community Rating is likely to slow down the ageing of the health insurance market thereby lowering the inflation of health insurance claims and premiums.

The Healthcare Committee of the Society of Actuaries in Ireland recently prepared a research paper on "inflationary pressures in the Irish Private Health Insurance Market". This included an assessment of the impact of ageing on PHI premiums. An extract from this paper set out below:

"Financial Impact of Ageing
The ageing of the insured population contributed approximately 2.5% p.a. to claims inflation between 2009 and 2015. This compares with an ageing impact of approximately 1.3% when the market was growing up to 2008. The total impact of 2.5% p.a. can be attributed to the ageing of the general population (c. 1.0%), increased penetration rates at older ages (c. 0.5%) and reduced market penetration rates at younger ages (c. 1.0%).

Summary of Analysis of Ageing
The preceding analysis shows that there are three causes for the recent ageing of the insured population:

- *The ageing of the general population: The portion of this factor that relates to increasing longevity, reduced fertility rates and the ageing of cohorts was almost inevitable and is likely to continue. A significant factor in recent years has also been the emigration of young adults. Between 2009 and 2015, the impact on claims costs of the ageing of the general population is estimated to have been approximately 1.0% p.a.*
- *An increase in penetration rates amongst older people: This factor was almost inevitable as age groups with higher penetration rates get older. It will continue for the next ten years as the penetration rates of those aged over 80 will increase from 39% to c. 50% in line with the penetration rate currently applying in the 70-79 age group. However, the effect of this factor over the next ten years would be expected to be lower than in the last ten years because the penetration rate in the 70-79 age group is already close to the peak. Between 2009 and 2015, the impact of this factor is estimated to have been approximately 0.5% p.a.*

- *Reduced penetration rates at younger adult lives: There has been a very large reduction in the penetration rate in the 30-39 age group (of 10 percentage points) and smaller reductions in the penetration rates in the 40-49 and 18-29 age groups (of 4 and 3 percentage points respectively). Between 2009 and 2015, the impact of this factor is estimated to have been approximately 1.0 % p.a.*

We note that the introduction of LCR in 2015 meant that there was a net zero impact from ageing on claims inflation from 2015 due to the offsetting arrival of new younger members in the market".

7. Australian experience

Australia has a voluntary community rated private health insurance market that is broadly similar to Ireland. Australia introduced Lifetime Community Rating (called Lifetime Health Cover) into its market in July 2000 in an attempt to stop its cycle of falling membership amongst younger lives. The loading was a permanent mandatory increase in premiums for new entrants over age 30 of an amount that was 2% per year of age in excess of 30 with a maximum loading of the 70% of standard premium. Cumulative breaks of cover of up to 3 years were allowed without a loading applying on rejoining the market. The experiment was very successful with 2.7m people taking out private health insurance in quarters 2 and 3 of 2000. These lives were predominantly in the age group 30-50.

In 2003, the scheme was amended following a review so that the age calculation on joining was based on the age as at 1 July for loading calculation purposes. The purpose of this change was to allow the industry to focus its marketing efforts in the period running up to 30 June of each year due to a higher loading applying if a person delayed joining beyond 1 July of a year. From 2003 loadings no longer applied for continuous periods overseas of more than one year if private health insurance commenced within one year of returning to Australia. New arrivals to Australia were given one year to join without loadings applying where previously the waiving of loadings only applied to Australian citizens joining within 6 months of arrival.

In 2007, the scheme was amended so that loadings would be automatically waived once ten years of loadings were paid. Periods of loaded premiums could be joined together provided the gap in cover did not exceed three years.

As at 30 June 2016, 13.8% of Australian adults pay a Lifetime Community Rating loading. Approximately 1% of the total membership had their loading removed in the previous 12 months after paying a loading for 10 years.

8. Some questions and issues raised with the Authority in advance of this review

The following LCR issues have been raised with the Authority prior to the commencement of this review.

Insurers' documentation of LCR loadings
Over 10,000 lives are paying Lifetime Community Rating loadings as at 1 July 2016. It has been asserted that some policyholders are not aware that they are paying these loadings, especially those in employer sponsored schemes. As a result, some lives may not be claiming credit for previous periods of eligible cover.

Should the documentation issued to new insured lives be amended (and if so, how) to make it clearer how the LCR loading might be lowered if the insurer was provided with details of previous eligible cover?

People moving overseas post 1 May 2015 and then returning to Ireland
Anyone whose principal residence on 1 May 2015 was outside the State and returns to live in the State can avoid Lifetime Community Rating loadings by taking out the cover within nine months of returning to Ireland.

People who move abroad post 1 May 2015 and subsequently return to Ireland when aged 35 or over may have LCR loadings applying. A number of employers who move their staff overseas have made representations to the Authority that relief from loadings should apply to their returning staff.

Should there be a change in legislation so that an exemption from LCR loadings applies along Australian lines for people moving to / returning to Ireland?

Interpretation of legislation
The terms "Principal Residence" and "Ordinarily Resident" are referred to in the health insurance legislation. However, the terms are not defined in the legislation and as a result there may be the potential for disputes as to how these terms should be interpreted.

Should these terms be defined in the legislation and, if so, in what manner should they be defined?

Defence Forces
Defence Forces personnel and their families are covered by international health insurance plans on deployment overseas. These plans are not eligible cover for the purposes of LCR loadings.

A historical arrangement exists whereby members of the Defence Forces can attend a Defence Forces Medical Officer when requiring medical treatment with the cost of any private treatment covered by the Medical Corps.

These health arrangements cease when the defences member retires from or leaves the Defence Forces. If the person takes out private health insurance at that time, the period of employment in the Defence Forces is not taken into account in assessing LCR loadings.

Should the LCR legislation be amended in respect of the Defence Forces and if so, in what manner should it be amended?

Period of time that LCR loadings apply

In Ireland, LCR loadings apply for life. In Australia, the loadings apply for 10 years.

Should the period of time that LCR loadings apply be changed and if so in what manner should they be changed?

Other Issues

The Authority invites submissions from the public on the issues outlined above, or on any other matters concerning the operation of Lifetime Community Rating in the Private Health Insurance market in Ireland.

Are there any other issues relating to Lifetime Community Rating that you wish to bring to the Authority's attention?

9. Submissions and Queries

Stakeholders and interested parties are invited to propose amendments in the LCR legislation that address any or all of the questions and issues raised in this consultation paper, or any other matters relevant to Lifetime Community Rating. Submissions should be specific and outline the perceived advantages and disadvantages of any proposal. Responses to this consultation paper should be submitted by post or by email to reach the Authority by 3rd March 2017.

Post: The Health Insurance Authority
Canal House
Canal Road
Dublin 6

Email: lcrconsultation@hia.ie

Please note that the Authority is a listed body under the Freedom of Information Acts 1997 to 2014 and proposes to make all responses to this consultation paper publicly available. Stakeholders should not include commercially confidential information that it does not wish to be published and the Health Insurance Authority accepts no liability whatsoever for the content of stakeholder consultation responses that are subsequently published by the Health Insurance Authority. The Health Insurance Authority shall not publish any information which we deem potentially libellous or defamatory.

Appendix 1

Lifetime Community rating explained

Q What is Community Rating?

Community rating is a system whereby everyone pays the same premium for a particular health insurance plan irrespective of age, gender or likely future state of their health. There are limited exceptions such as reduced rates applying for children, young adults and members of group schemes.

Q What is Lifetime Community Rating?

Lifetime Community Rating modifies community rating so that the premium that individuals pay for health insurance increases with the age at which they enter the private health insurance market. It does not vary in relation to their current age. Under this system, a 50 year old who has held insurance since he or she was 30 would pay the same as a 30 year old, but a 50 year old who purchases insurance for the first time would pay more than a 30 year old.

Q Why was Lifetime Community Rating introduced?

Community rated markets depend on a continuing influx of younger people. Younger people claim less on average and, accordingly, a continuing influx of younger people keeps premiums down for everybody. Conversely, if people wait until they are older before taking out private health insurance, premiums will increase for everybody.

Lifetime Community Rating encourages people to join the private health insurance (PHI) market at a younger age and this helps in controlling premium inflation.

Q When was lifetime community rating introduced?

Loadings have applied to people aged higher than 34 taking out inpatient private health insurance for the first time since 1 May 2015.

Q What loadings apply?

A loading of 2% of the gross premium applies for every year of age higher than age 34 that an individual has attained when they first purchase inpatient private health insurance.

Q Do loadings apply for life?

Yes, the loading applies throughout the lifetime of a person who purchases inpatient health insurance since 1 May 2015.

Q Are health insurance cash plans included in Lifetime Community Rating?

No. Loadings do not apply to health insurance cash plans. If a person did not hold an inpatient private health insurance plan by 30 April 2015 and is over age 34, a loading is applied to any inpatient plans purchased after this date.

Q If a person is aged over 34 and has never had health insurance, does that mean that they will have to pay a higher premium when they purchase health insurance?

Yes, a loading will be applied to the premium of 2% for every year over age 34 that has been attained.

Q Is a loading applied to a person aged over 34 who switches from a cash plan to an inpatient private health insurance plan?

Yes. Health insurance cash plans are not included in Lifetime Community Rating, so a loading will be applied when a switch to, or a purchase of an inpatient private health insurance plan is made.

Q Are previous periods of inpatient cover taken into account in calculating the loading?

Yes, previous periods of cover are taken into account in calculating the loading that will apply. Periods of cover held on a health insurance cash plan will not be taken into account for the purposes of calculating loadings.

Q I am 50 now, I had inpatient private health insurance for 5 years in my late 20s / early 30s and then I let it lapse. Will I have to pay Lifetime Community Rating loadings, given that I first got insurance under age 35?

Your insurer will be required to calculate your age at entry under Lifetime Community Rating. This will be your age when you purchase insurance less any previous periods of cover (in this example 50 – 5 = 45). You will pay the same loading as a 45 year old who is purchasing private health insurance for the first time, i.e. 22%.

Q Is credit given for cover as a child under their parent's policy when calculating my Lifetime Community Rating loading?

No. Credit does not apply to periods of cover as a child.

Q Do emigrants have to pay a loading when they return to Ireland?

Anybody who lived outside of the State on 1 May 2015 and returns to live in Ireland has 9 months to purchase inpatient private health insurance to avoid the loading under Lifetime Community Rating.

Q How does a person prove that they were not resident in Ireland on 1 May 2015 and returned to Ireland in the last 9 months?

The onus is on the person to prove these facts to the insurer's satisfaction. This can be done for instance by providing copies of bank statements opened while abroad, evidence of accommodation lease arrangements or utility bills paid while abroad. Travel documentation or application for a PPS number would be accepted as proof of taking up residency in Ireland.

Q Is there any allowance made for people who had to give up health insurance cover because they could not afford it due to losing their job in the Great Recession?

The Regulations include an allowance of up to three years after 1 January 2008, for periods of unemployment. Such periods will be treated as if the person did have insurance cover when calculating any premium loading.

Q What is the maximum loading that can apply?

The maximum loading that can apply is 70% of the gross premium in the event of a person aged 69 or older purchasing inpatient private health insurance for the first time.

Q Do all health insurers apply the loadings?

All insurers must apply the loadings to their inpatient private health insurance plans.

Q What happens if a person switches insurer?

Switching insurers does not affect the loading. Any loadings continue to apply and insurers supply each other with proof of an individual's previous cover.

Can a person drop their health insurance for a period without a loading applying?

Breaks in cover of up to 13 weeks are allowed without affecting the loading.

Example

I am 45 year old and I am taking out health insurance for the first time. My community rating premium (after tax relief) is €1,000 per annum. What premium shall I pay including the lifetime community rating loading?

The annual premium is €1,000 plus €200 tax relief	= €1.200
The loading is 22% of the gross premium of €1,200	= € 264
Gross premium including LCR loading	= €1,464
Tax relief of 20% gross premium limited to €200	= € 200
Amount payable	= €1,264