

Report of the Authority to the Minister for Health on an evaluation and analysis of returns from 1 July 2016 to 30 June 2017, including advice on risk equalisation credits.

October 2017

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Introduction

Requested Report

The Minister for Health ("the Minister") has requested that the Health Insurance Authority provide a Report to the Minister under Section 7E of the Health Insurance Act 1994. It was requested that the Report include an evaluation and analysis of Returns for the period 1 July 2016 to 30 June 2017.

In preparing such a Report the Authority is required to include:

- Such matters concerning the carrying on of health insurance business that the Authority considers ought to be brought to the attention of the Minister,
- The Authority's conclusions in relation to what risk equalisation credits and stamp duty would be appropriate having had regard to the criteria set out in Section 7E(1)(b) of the Act.

Section A - Summary and Conclusions

Credits and Stamp Duty

The Authority proposes that the following credits should apply for health insurance policies that are renewed or entered into on or after 1 April 2018.

	utilisation credits	Age / gend	er / level of co	ver credits fro	m 1 April 2018
Age Bands	(overnight / day case)	Non-Adva	Non-Advanced		
	from 1 April 2018	Men	Women	Men	Women
64 and under	€100 / €50	€0	€0	€0	€0
65-69	€100 / €50	€400	€300	€1,000	€650
70-74	€100 / €50	€725	€550	€1,750	€1,250
75-79	€100 / €50	€1,075	€850	€2,550	€1,925
80-84	€100 / €50	€1,450	€1,150	€3,450	€2,700
85 and above	€100 / €50	€2,175	€1,450	€4,975	€3,350

The credits that currently apply are as follows:

	utilisation credits	Age / gender / level of cover credits from 1 April 2017					
Age Bands	(overnight / day case)	Non Advanced		Advanced			
	from 1 April 2017	Men	Women	Men	Women		
64 and under	€90 / €30	€ 0	€ 0	€ 0	€ 0		
65-69	€90 / €30	€ 850	€ 525	€1,175	€ 675		
70-74	€90 / €30	€1,250	€1,075	€1,950	€1,500		
75-79	€90 / €30	€1,750	€1,425	€2,750	€2,125		
80-84	€90 / €30	€2,375	€1,925	€3,750	€2,925		
85 and above	€90 / €30	€2,975	€2,375	€4,875	€3,700		

The Authority notes that the proposed age/gender risk equalisation credits have mostly reduced compared to last year's recommendation. This is primarily due to the lower claim costs paid to public hospitals compared to the previous year. The reductions in age credits for Non Advanced contracts have been more significant due to using past Non Advanced average claims costs rather than Level 1 average claims costs in projecting Non Advanced average claims costs.

The Authority considers that the stamp duties that would need to be paid by the insurers on policies that are renewed or entered into between 1 April 2018 and 31 March 2019 in order to meet the cost to the Risk Equalisation Fund of the recommended risk equalisation credits are as follows:

Age Bands	Stamp duties from 1 April 2018 to 31 March 2019			
	Non-Advanced	Advanced		
17 and under	€ 59	€148		
18 and over	€177	€444		

The stamp duties that currently apply are:

Age Bands	Stamp duties from 1 April 2017 to 31 March 2018			
	Non-Advanced	Advanced		
17 and under	€ 74	€148		
18 and over	€222	€444		

The Authority is recommending that the stamp duty on Advanced contracts remains at existing levels while the Non-Advanced adult stamp duty reduces from €222 to €177.

Evaluation and Analysis of Data Received

The evaluation and analysis of returns and of the other data received by the Authority for the twelve months ending 30 June 2017 shows that, after the application of health credits and stamp duty for policies renewing in 2017, the market average net claims cost for older people continues to be higher than the market average net claims cost for younger people with the net claims costs for ages 60-64 being the highest due to no age credits applying at that age range.

The number of insured persons included in returns increased in the period July 2016 – June 2017 by 0.7%. During the 12 month period, the number insured in products that provide Non-Advanced cover decreased by 9,000 to 192,000.

The ageing of the insured market in the last year added 1.8% to the average claims cost per insured person. Notwithstanding this, there was a reduction of 3.2% in the average returned benefit per insured life in the last year. This was primarily due to the amount paid to Public Hospitals in the year to end June 2017 being €593m compared to €650m in the year to end June 2016.

Review of Market Developments

In the last year, insurers have continued to adopt strategies to segment and select business with lower claims costs through differential pricing to targeted groups. This undermines community rating and the Principal Objective of the Health Insurance Acts. These strategies have included the maintenance of a large number of plans offering similar benefits but with significant differences in pricing, with lower cost plans being mainly marketed to lower risk groups. All of the open membership insurers apart from Laya Healthcare also have products with reduced orthopaedic benefits in private hospitals. Few older people are insured on these plans.

Irish Life Health was established in August 2016 following the completion of Irish Life Group's transactions to acquire Aviva Health (and rename it as Irish Life Health DAC) and take 100% ownership of GloHealth, where Irish Life previously had a 49% shareholding. GloHealth closed to new business on 22nd February 2017. As a result Irish Life Health and GloHealth have been analysed as one throughout this Report.

Financial Information and Overcompensation

As the current sole net beneficiary of the risk equalisation system, Vhi Insurance DAC financial information is particularly relevant. This is because, in recommending Risk Equalisation Credits, the Authority must have regard to the aim of avoiding overcompensation. Overcompensation arises if an undertaking that is a net beneficiary of the risk equalisation system makes a profit that exceeds a "reasonable profit" over a three year period. The legislation specifies that a reasonable profit equates to a return on sales gross of reinsurance and excluding investment activities that does not exceed 4.4% per annum on a rolling three year basis.

Vhi Insurance DAC has provided us with financial projections for the 2017–2019 time period. As a result of these financial projections, the Authority considers that the proposed risk equalisation credits and stamp duty are not likely to result in overcompensation to Vhi Insurance DAC during the projection time period.

Evaluation of returns and market developments

The evaluation and analysis of information returns, financial information and market developments indicate the following:

- There is a continued need to provide support for community rating.
- The fact that the net claims cost reduce slightly between age groups 65 and 80 suggests that age credits should be reduced rather than increased. Any increases in the effectiveness of risk equalisation credits should focus on increasing credits related to health status, rather than age credits.

Hospital Utilisation Credits Recommendation

The Hospital Utilisation Credits is a proxy for health status and provides support in respect of less healthy people. The current level of hospital utilisation credit is €90 per night and €30 for day case admissions.

The Authority is recommending that these are changed to $\in 100$ per night and $\in 50$ per day case admission supporting the Principal Objective of reducing the differential in the net claims cost of unhealthy and healthy people.

Age Credits Recommendation

Consistent with last year, the Authority is recommending that the age credits be such that, for all age groups from age 65 and over, the net claims cost is 130% of the market average net claims cost. This supports the Principal Objective by reducing the differential in the net claims costs between, in particular, older and younger people. The Authority is recommending that the claim costs paid in the period July 2016 – June 2017 is used as a base for projecting future claim costs.

The Authority is of the opinion that there is a balance to be struck between sustaining community rating by keeping health insurance affordable for older less healthy consumers and maintaining the sustainability of the market by keeping younger healthier consumers in the market. The Authority is of the opinion that the credits and

stamp duties that it is proposing strike a balance between these conflicting objectives. It recognises that the reduction in the average claims costs has reduced the amount of the age credits it is recommending.

The Authority notes that expected net claims cost at ages 60-64 will continue to be higher than for older ages as no age credits continue to be proposed for this age group. The Authority also notes that the age credits proposed in the main involve a reduction compared to the current age credits due to the reduction in the market average claims cost per insured person.

In previous years the Authority used the claims experience of Level 1 contracts to project future claims costs of Non Advanced plans. This was due to the relative immaturity of the Non Advanced claims data which commenced in April 2013. The Authority now proposes to use Non Advanced claims data as it believes it is now appropriate for these projections. This has led to a larger reduction in the Non Advanced age credits.

Stamp Duty for Non-Advanced cover plans

The Authority recommends that the stamp duty paid in respect of Non-Advanced plans is reduced to 40% of the stamp duty applying for Advanced plans. The reduction from the 50% ratio last year reflects the lower level of Non-Advanced credits proposed compared to last year.

Financial Position of the Risk Equalisation Fund

The Risk Equalisation Fund's management accounts for June 2017 indicate a surplus since the commencement of the Fund of €29.8m. The Authority projects that this eventual surplus will be approximately €30m at the end of the claim period for all contracts incepted up to the end of March 2018. This compares to total stamp duties of more than €2,000m paid into the fund since its inception on 1 January 2013.

The Authority, having regard to the aim of avoiding the Fund sustaining surpluses or deficits from year to year, is allowing for this estimated surplus in its recommendation of stamp duties for policies commencing in the period 1 April 2018-31 March 2019.

Projected Net Financial Impacts

The calculations of the projected net financial impacts for a 12 month period based on the credits and stamp duty applying for policies commencing in the period 1 April 2018 to 31 March 2019 are as follows:

€m	Irish Life Health	Laya Healthcare	Vhi Healthcare	Total
Age Related Health Credits	Health	Treatment	Treatment	592.1
Hospital Bed Utilisation Credit	E I I			175.7
Stamp Duty				-732.6
		BUCK OF THE REAL PROPERTY.		A E
Total				30.0
Net Financial impact per insured life €				€17

The projected net financial impact of the current credits and stamp duty, as set out in the October 2016 Report for policies commencing in the period 1 April 2017 to 31 March 2018, are as follows:

Con	Irish Health	Life	Laya Healthcare	Vhi Healthcare	Total
€m	Health		Healthcare	Heanncare	Total
Age Related Health Credits					586.0
Hospital Utilisation Credit		15.00			143.4
Stamp Duty					-719.4
Total		- Meson			10.0
Net Financial impact per insured life					€6

The projections for individual insurers are sensitive to developments in each insurer's age profile and market share by age group, which can be influenced by their product or pricing strategy or by developments in one particular insurer. It is not possible to accurately predict many of these factors. As such, projections of the net financial impact on individual insurers are subject to considerable undertainty and should be viewed as indicative only.

The net financial impact on the Risk Equalisation Fund is sensitive to the rate of ageing of the insured population, which in turn is impacted by the rate of growth / decline in the market. It follows that the extent to which the Risk Equalisation Fund is cost neutral will depend on how closely the assumptions made in this report are borne out in practice.

Summary of impact of using alternative methodologies for 2018

We set out in the following table a summary of the resulting credits and stamp duties if alternative approaches were adopted in determining credits.

	Recommended Methodology	Alternative 1 Last Year Methodology	Alternative 2	Alternative 3
Claims Cost Ceiling	130%	130%	130%	130%
stamp duty ratio (Non-Advanced : Advanced)	40%	50%	40%	40%
Overnight Hospital Utilisation payment	€100	€90	€100	€90
Day Case Hospital Utilisation payment	€50	€30	€ 50	€ 30
Future Claims inflation p.a.	3%	4%	4%	3%
Stamp Duty (adult rate)				
Non-Advanced	€177	€219	€180	€172
Advanced	€444	€437	€453	€433
Projected Net Financial Impact				
Irish Life Healthcare				
Laya Healthcare			l Xe a	
Vhi Healthcare				d Province
Total	€ 30.0m	€ 30.0m	€ 30.0m	€ 30.0m
Projected Net Financial Impact per member				
Irish Life Healthcare	The second			
Laya Healthcare			#NF 19721	
Vhi Healthcare				
Total	€ 17	€ 17	€ 17	€ 17

Section B. Evaluation and Analysis of Returns and other Data Requested

Information Returns

Half-yearly returns for the July to December 2016 and January to June 2017 periods were received from Irish Life Health DAC (trading as Irish Life Health), Great Lakes Reinsurance UK Ltd (formerly trading as GloHealth), Elips Insurances Ltd (trading as Laya Healthcare, Swiss Re Portfolio Partners (former Quinn Insurance Ltd business) and Vhi Insurance DAC (trading as Vhi Healthcare),). The returns were accompanied by independent accountants' reports and analyses of the differences between total claims paid and returned benefits.

Aviva Health Insurance Ireland Ltd was acquired by Irish Life Group on 02 August 2016 and was renamed as Irish Life Health DAC. GloHealth, which is now also part of the Irish Life Group (previously Irish Life Group had a 49% shareholding), closed to new and renewing business from 22nd February 2017 and the business is now being written by Irish Life Health. For the purpose of this analysis, Aviva Health and GloHealth have been analysed as one entity throughout this Report under the title of Irish Life Health.

Quinn Insurance Ltd ceased writing new health insurance business with effect from 1 May 2012. At their renewal dates, Quinn Insurance's customers were invited to renew contracts with Laya Healthcare. In the analysis for this report, combined claim figures for Swiss Re Portfolio Partners (former Quinn Insurance health claims) and Laya Healthcare are used, where appropriate.

This Report is, to a significant extent, based on the information returns received under the Health Insurance Act 1994 (Information Returns) Regulations 2009, as amended, for the two 6-month periods commencing on 1 July 2016 and on 1 January 2017. Where appropriate, account has also been taken of data submitted for earlier periods.

The information returns received by the Authority include data on "returned benefits". These benefits exclude certain benefit payments. The main exclusions from returned benefits are:

- Benefits relating to services not involving a hospital stay; and
- Benefits relating to services otherwise excluded from the definition of "Returned Health Services".

Proportion of claims included in returns:

The benefits included in information returns (described as "returned benefits") as a percentage of total benefits paid for the second half of 2016 and for the first half of 2017 are set out in the Table B.1 overleaf:

Table B.1

Insurer	Returned Benefits July – Dec 2016	Returned Benefits Jan – June 2017
Irish Life Health		
Laya Healthcare		
Vhi Healthcare		
Total	93%	89%

The Benefits excluded from Returned Benefits are primarily claims in respect of outpatient benefits. Outpatient claims are normally higher in the first half of a calendar year, possibly due to clients more often making both tax and health insurance reclaims in the first half of the calendar year.

Membership Profile

Market Size

Table B.2 sets out the membership details and market shares of insurers. The data is taken from returns for the first half of 2016, the second half of 2016 and the first half of 2017. The data excludes members serving initial waiting periods.

Table B.2

Insurer	01-Jul-16		01-Jan-17		01-Jul-17	
	Members 000s	Market Share (%)	Members 000s	Market Share (%)	Members 000s	Market Share (%)
Irish Life Health						
Laya Healthcare						
Vhi Healthcare						
Total	2,015		2,033		2,030	

The insured membership of the insurers has changed in the last year as follows: Irish Life Health: -3,907; Laya Healthcare: +20,703; and Vhi Healthcare: -1,310.

Life Health: -3,907; Laya Healthcare: +20,703; and Vhi Healthcare: -1,310.

As of end June 2017, 45.8% of the Irish population are estimated to have private health insurance (including restricted undertakings), which is in line with the percentages observed at end June 2016¹. Vhi Healthcare's market share has consistently fallen since the market opened to competition in 1997.

¹Insured population at 1 July 2016 / 2017 and CSO population estimates.

Table B.3

Insurer		Gross Premium Income 2016 (2015 in brackets)			
		€m	Market Share (%)		
Total		2,391 (2,331)	PRODUCT STREET, STREET		

Gender profile of insurers' members

The gender distributions of the memberships of the three insurers for the period January to June, 2017 are set out in Table B.4 below. The proportions in each gender for each insurer have remained relatively static for some time.

Table B.4

Gender	Irish Life Health	Laya Healthcare	Vhi Healthcare	Market	
Male				49%	
Female				51%	

Age Profile of Insurers Members

The age distribution (average for the period January to June 2017) of each insurer's membership is shown in Table B.5 below. The figures shown in brackets are the corresponding averages for the period January to June 2016.

Table B.5

Age group	Irish Life Health	Laya Healthcare	Vhi Healthcare	Market
0-17				23.3% (23.5%)
18-29		TES.	1	10.7% (10.6%)
30-39				14.1% (14.6%)
40-49				16.1% (16.2%)
50-54	199			7.3% (7.3%)
55-59				6.7% (6.7%)
60-64				6.2% (6.1%)
65-69		U Res		5.3% (5.3%)
70-74				4.3% (4.1%)
75-79				2.8% (2.8%)
80-84		1 Page	E St	1.8% (1.7%)
85+			80	1.2% (1.2%)

Vhi Healthcare continues to have a much greater proportion of members in the age groups 65 and older compared to the other insurers. In the first six months of 2017, of its insured population was over the age of 65, while the proportion aged over 65 for Irish Life Health and Laya Healthcare are and respectively.

Differences between the proportion of members aged 40-64 are small for the three
insurers. Laya Healthcare has of its members, Irish Life Health has while
Vhi Healthcare has
Vhi Healthcare has a lower proportion insured in the 30-39 age groups than the other
insurers. Irish Life Health has of its members, Laya Healthcare has while
Vhi Healthcare has However Vhi Healthcare has a higher proportion insured in
the age 18-29 age group than the other insurers.

Claims Profile

Analysis of Claims Data and Risk Profiles

The total claim payments made by the open market insurers in 2015, 2016 and the first half of 2017 are set out in Table B.6. It is noted that these figures exclude claim payments by restricted membership insurers.

Table B.6

	Irish Life Health €m	Laya Healthcare €m	Vhi Healthcare €m	Total €m
First Half 2015				939
Second Half 2015				1,040
First Half 2016				1,034
Second Half 2016				1,052
First Half 2017				1,023

The claims paid in the first half of 2017 were €11m lower than the first half of 2016, primarily driven by

Table B.7 splits out the returned benefit payments between those to public hospitals, private hospitals, and to hospital consultants. The total returned benefits paid were €932m in the first half of 2017 compared to €955m in the first half of 2016. This decrease is largely driven by a reduction in the payments to public hospitals of €273m in the first half of 2017 compared to €309m in the first half of 2016. This has resulted in total payments to public hospitals in the July 2016 – June 2017 time period of €593m compared to payments of €650m in the July 2015 – June 2016 time period.

Table B.7

		Irish Life Health €m's	Laya Healthcare €m's	Vhi Healthcare Em's	Total €m's
First Half	Public Hospital		1223		309 (32%)
2016	Private Hospital	1250.00	20-		452 (47%)
	Consultant	Market Market	The second	al a	193 (20%)
	Sub Total				955
Second	Public Hospital				320 (33%)
Half 2016	Private Hospital				453 (46%)
	Consultant				201 (21%)
	Sub Total				974
Total					1,929
First Half	Public Hospital				273 (29%)
2017	Private Hospital				464 (50%)
	Consultant				195 (21%)
	Sub Total				932

Product Groups

Note on Terminology

In analysing returns, the Authority split data into levels of cover.

- Level 1 products provide cover mainly in public hospitals,
- Level 2 products provide substantial cover in private hospitals but this cover is mainly provided for semi-private accommodation,
- Higher levels of cover relate to products that provide cover for private accommodation in private hospitals.

The Report also refers to Non-Advanced and Advanced contracts. These are references to definitions in the Health Insurance Act. A contract considered to be "Level 1" may or may not fall within the legal definition of a Non-Advanced contract.

Level 2 contracts and Higher contracts would all be "Advanced" contracts.

The data for products that offer similar levels of hospital cover was grouped by the Authority. The proportion of each insurer's membership in each market segment on 1 July 2017 is shown in the Tables B.8 and B.9 below (1 July 2016 figures are shown in brackets).

Table B.8

	Level 1 Products	Level 2 Products	Higher Cover Products
Irish Life Health			
Laya Healthcare			
Vhi Healthcare			
Total	11% (11%)	75% (75%)	14% (13%)

The proportion of Laya Healthcare customers with Level 1 cover products has decreased during the year while the proportion of Irish Life Health customers with higher cover products has also decreased.

Table B.9

	Non-Advanced	Advanced
Irish Life Health		
Laya Healthcare	经验证	
Vhi Healthcare	18/10/19/1	
Total	9% (10%)	91% (90%)

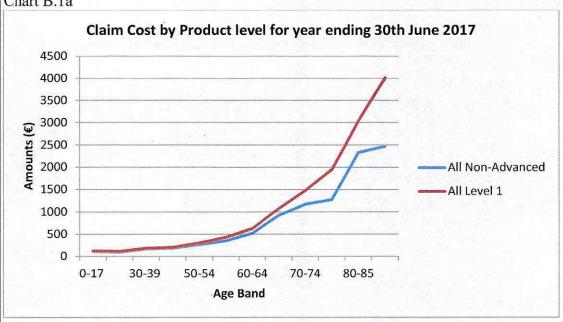
The proportion of the market in Non Advanced contracts has reduced to 9% compared to 10% a year ago.

Non-Advanced Credits and Stamp Duty

Non-Advanced products cannot provide more than 66% of the full cost for hospital charges in a private hospital. The concept of Non-Advanced contracts commenced on 1 January 2013 and the first contracts were categorised as Non-Advanced on 31 March 2013. There are currently 34 products (Irish Life Health: , Laya Healthcare and Vhi Healthcare being marketed classified as Non-Advanced with 192,433 members insured.

In previous years, we used the Level 1 contracts average claim cost to project future average claims cost of Non Advanced contract in view of the short period for which Non Advanced claims data applied. A comparison of Non Advanced to Level 1 average claims costs in the 12 months to end June 2017 is set out in Chart B.1a.

Chart B.1a



The chart shows a significantly lower average claims cost for Non Advanced contracts especially at older ages.

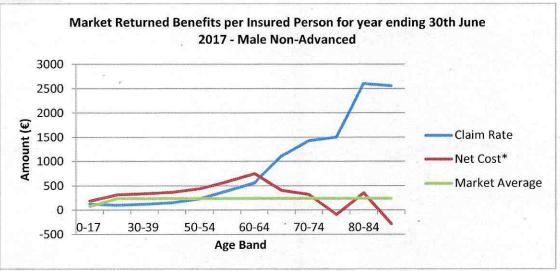
As the claims paid experience for Non-Advanced contracts is becoming more mature and credible, we have used in this Report the actual average claim costs for Non-Advanced contracts for the purpose of projecting future average claims of Non-Advanced contracts.

Average claim per member for the market

The information returns provide returned benefit for each age, gender and product for each insurer for the second half of 2016 and the first half of 2017. The average returned benefit per insured person (i.e. the claim rate) for each age group and for the market is calculated from these returns and increases with age group.

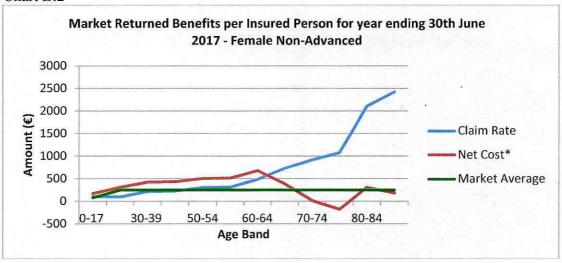
Charts B.1 to B.4 set out the average returned benefit by age, the market average returned benefits, and the corresponding net cost after application of the current credits and stamp duties for the different age cohorts. This allows us to analyse the impact the current credits and stamp duty have on the claim rates for the 12 months ending June 2017 for these different cohorts of business. It should be noted that the 2017 credits apply for the policy year from the renewal date on or after 1 April 2017 while the market returned benefits are for the year ending June 2017.

Chart B.1



^{*} Net Cost is defined as average returned benefit for July 2016 – June 2017 plus stamp duty less age and hospital utilisation credit for renewals from 1April 2017 onwards. The same definition on Net Cost is applied to Charts B2 – B.4 below.

Chart B.2



For Non-Advanced business the net cost (after application of the April 2017 credits and stamp duty) for ages 65+ reduces as the age increases with some fluctuations due to the low numbers insured at these ages. This suggests that the age credits for Non-Advanced contracts might be lowered.

Application of Advanced Credits and Stamp Duty to Level 2 Products

Chart B.3

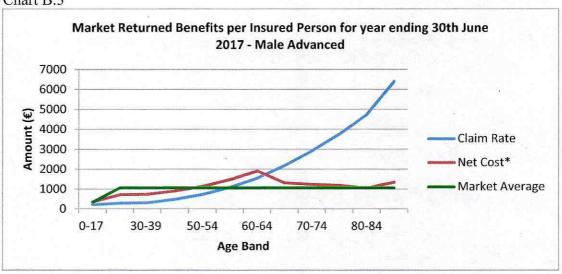
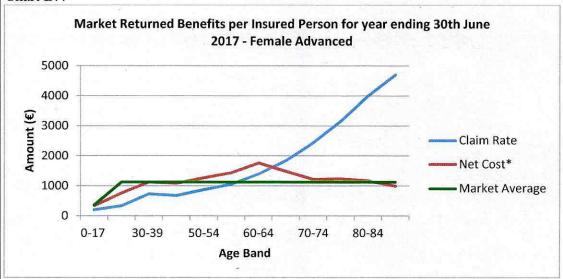


Chart B.4

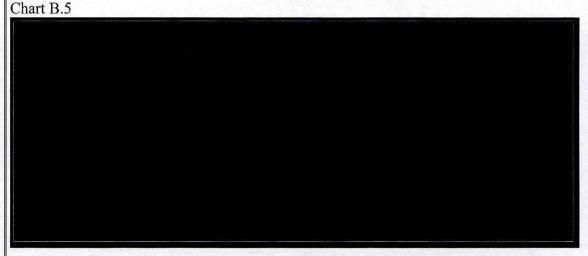


For Advanced products (using Level 2 costs) the net cost for ages 55 and over converges towards the market average claim rate. The 60-64 age group is an outlier with higher net costs at that age group compared to lives in the adjacent age groupings. This is due to no age credits applying to the 60-64 age group.

Further analysis of the information returns for July to December 2016 and January to June 2017 is in Appendix 1.

Results by level of cover and insurer:

Charts B.5 and B.6 below show individual insurer's average levels of returned benefits per insured person for the year ending 30 June 2017 in respect of Non-Advanced cover contracts (contracts mainly providing cover for public hospitals) and Level 2 cover contracts (contracts providing cover for a semi private room in most private hospitals in addition to cover for public hospitals).



Overall, the rates of returned benefits per member for the three insurers are similar up to age 70-74. The claims experience is inconsistent at older ages as the number of insured lives by insurer is low.

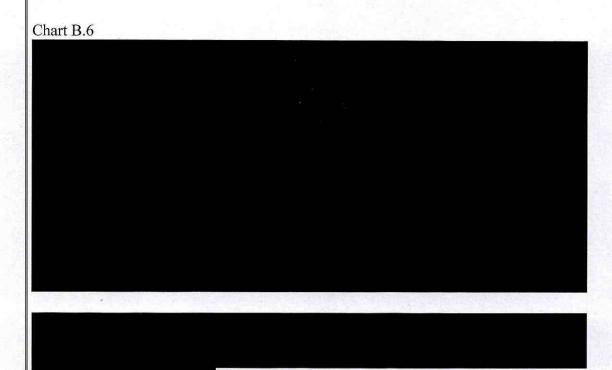


Chart B.7 shows how the market claim rate varies by level of cover, and by gender.

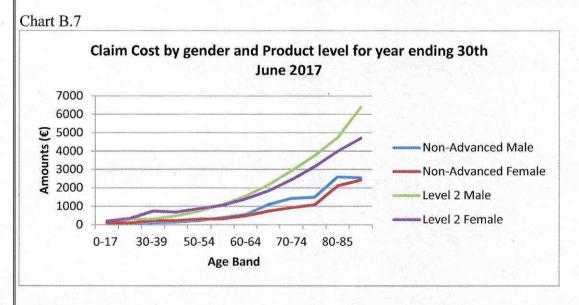
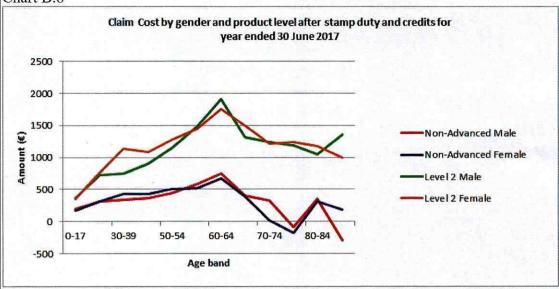


Chart B.7 shows that claim costs for men with Level 2 type products are consistently higher than for men with Non-Advanced products with the percentage difference varying from 76% to 216% higher depending on the age range. Claim costs for women with Level 2 type products are also consistently higher than for corresponding Non-Advanced products with the percentage difference varying from 89% to 241% higher depending on age range. Average male costs are higher than female costs for children and ages over 60 for both Non-Advanced and Level 2 contracts but are lower at younger adult ages.

Impact of 2017 Credits on different market segments

Chart B.8 below shows the impact of the April 2017 credits and stamp duties on the net claims by age for Non-Advanced and Level 2 products and men and women for the market as a whole.

Chart B.8



For Level 2 products the net cost generally increases with age for both men and women up to age 60 and reduces slightly. The fluctuations in claim costs for Non-Advanced products at age 70+ are due the small number of lives insured (average of 5,017 over the year).

Section C - Financial Data

Profitability of Registered Undertakings

The profitability of Registered Undertakings' private health insurance business in 2016 is set out in Table C.1. This financial data was provided by Registered Undertakings to the Authority pursuant to Section 7F of the Health Insurance Acts in order to assess whether overcompensation has occurred. It is noted that these figures relate solely to each Undertaking's Irish health insurance business and exclude any profits made if the business is reinsured to other entities in the same group. Undertakings generally have their policy administration and sales/marketing services provided by administration companies that may or may not be part of the same group.

Vhi Insurance DAC became a Registered Undertaking in 2015. The health insurance activities of the Voluntary Health Insurance Board (Vhi Board) transferred to Vhi Insurance DAC during 2015. The Voluntary Health Insurance Board remains as a Registered Undertaking as required by the Health Insurance Acts.

The accounts below may differ from published accounts, which may have been finalised on a different date and may include business other than private health insurance business in the State.

Table C.1 Accounts for 12 months to end December 2016:

€m's	Elips Insurances Ltd (Laya Healthcare)	Great Lakes Reinsurance (UK) PLC (GloHealth)	Irish Life Health DAC	Vhi Insurance DAC	Voluntary Health Insurance Board	Market
	€m	€m	€m	€m	€m	€m
Earned premiums before reinsurance and risk equalisation credits						2,402.2
Impact of risk equalisation						(13.6)
Claims incurred before reinsurance				Transit		(2,086.3)
Claims ratio (Gross of risk equalisation)						86.8%
Claims ratio (Net of risk equalisation)						87.4%
Expenses & reinsurance		A				(255.7)
Expenses & & Reinsurance as % Earned Premiums				A SHAPE		10.6%
Underwriting result						48.4
Underwriting profit as % earned premiums		in the				2.0%
Impact of Investments		8 - 1				(2.9)
Profit before tax	de Eleveni					43.5

It should be noted that the table above only shows the results of the registered undertakings and does not include the profits or losses of any intermediary that provides the Undertaking's policy administration and sales/marketing or of any company that reinsures part of the business.

Estimated Net Financial Impact of the Stamp Duty and Tax Credits

The Authority is required to assess the net financial impact on each Registered Undertaking of the relevant financial provisions during the Relevant Periods. "Net Financial Impact" is not defined in the legislation, but "cumulative net financial impact" is defined as the difference between:

- The total amount of risk equalisation credits recorded in accounts for that undertaking in respect of that period; and
- The total amount of the stamp duty recorded in accounts for that undertaking in respect of that period.

At the request of the Authority, insurers supplied estimates of the net financial impact of the Risk Equalisation Scheme in respect of 2017 and the actual net financial impact in respect of 2016. It should be noted that insurers' estimates are based on their view of membership figures over the full 2017 calendar year and on their various methods of accounting for credits and stamp duty. The Authority's assessment is that the net financial impact in the second half of 2016 and the first half of 2017 combined would be half of the amounts shown in the 2016 and 2017 columns in the table.

Table C.2

€m's	Net Financial Impact	Estimated Net	Estimated Net
	of Risk Equalisation 2016	Financial Impact of Risk Equalisation in	Financial Impact of Risk
13		2017	Equalisation
	€m		1/7/15 – 30/6/16
		€m	€m
Elips	(44.3)		
Great Lakes	(23.4)) Euryke d	
Irish Life Health	(29.6)		
Vhi Healthcare	83.7		
Total	(13.6)	13.8	0.1

For 2016, insurers' accounts show a total negative net financial impact of €13.6m in respect of risk equalisation. For 2017, insurers have, in aggregate, projected a positive net impact of risk equalisation on insurers' financial results of the should be noted that these are projections and, in the past, amounts included in insurers' audited accounts for a year have varied significantly from their earlier projections.

Financial Position of the Risk Equalisation Fund

In the Risk Equalisation Scheme, the Authority recommends the amounts of stamp duty, after having regard to the aim of avoiding the Fund sustaining surpluses or deficits from year to year.

Table C.3: Projected Surplus in Risk Equalisation Fund

€m	At 31/12/2016	At 30/6/2017	Projected Surplus at end of claim period
01/01/2013 - 28/02/2015 contracts	13.9	13.6	13.6
01/03/2015 - 28/02/2016 contracts	22.4	24.7	24.0
01/03/2016 - 31/03/2017 contracts	4.7	(2.7)	(2.0)
01/04/2017 - 31/03/2018 contracts		(5.2)	(5.0)
Investment Income Less expenses	(0.5)	(0.6)	(0.6)
Total	40.5	29.8	30.0

The 2016 year end audited Balance Sheet for the Risk Equalisation Fund showed a surplus of €40.5m. Management accounts at end June 2017 show a projected surplus of €29.8m.

In view of the accounting position of the Fund at 30 June 2017, the Authority is of the view that there is likely to be a surplus of circa €30m in the fund when the credits and stamp duty on all contracts that commence in advance of 1 April 2018 are fully earned.

Section D - Review of market developments

Premium inflation in the market July 2016 – June 2017

In the 12 months to end June 2017, the average gross premium paid by consumers was $\in 1,188$, which represents a 2% increase on the average premium paid in the 12 months to 30 June 2016 ($\in 1,164$). This is the average premium for all consumers and is before the deduction of tax relief. The breakdown by insurer is as follows:

Table D.1

	Average Gross premium paid July 2016- June 2017	Average Gross premium paid July 2015- June 2016	% Change
Irish Life Health			
Laya Healthcare			
Vhi Healthcare			New York Control of the Control of t
Total Open Membership Insurers	€1,188	€1,164	+2%

The above figures relate to average premiums. Premiums for specific products varied more widely but the effects of consumer activity such as switching products mitigated individual product increases. The CSO price index for health insurance has increased by 7.8% in the 12 months to the end of August 2017. These CSO figures do not include the effect of consumer actions.

Product developments

The number of inpatient plans on sale in the market by the three open membership insurers has decreased in the last year with 313^2 inpatient private health insurance plans on the Product Register on 27 July 2017 (excluding restricted undertakings). This is a decrease of 41 plans since 7 July 2016. The decrease is due to joining together in the last year of Aviva Health and GloHealth to form Irish Life Health. Of the 313 plans available at 27 July 2017, Irish Life Health provide 107 plans, Laya Healthcare 129 plans and Vhi Healthcare 77 plans.

Non-Advanced products began being marketed from 31 March 2013. In the information returns for 1 July, 2017 there were 192,433 (201,036 at 1 July 2016) persons insured with products that were categorised as Non-Advanced at that date. This amounts to 9.5% of the total number of insured persons at that date.

Segmentation

The analysis in Section B also shows that, for both Non-Advanced and Level 2 products, the net claims cost of older age groups is higher than for younger age groups. Insurers therefore remain incentivised to use various marketing and other strategies to segment the market. Product developments and special offers have reflected these incentives. Newer products offering better value than existing

² This counts each of Irish Life Health's core plans as one plan, rather than counting each permutation of cover linked to a core plan as one plan.

comparable products are marketed to newer and younger customers. Product developments have tended to concentrate on providing cover attractive to younger healthier customers but less attractive to older, less healthy customers. All insurers, apart from Laya Healthcare have products with reduced orthopaedic benefits in private hospitals, with approximately half of the market insured under these plans.

This segmentation, as well as an apparently greater reluctance amongst older people to change product / insurer and the fact that older people are likely to have products with higher benefits, has resulted in a situation where older people, on average, pay significantly higher premiums than younger people.

Table D.2

	Irish Life Health €	Laya Healthcare €	Vhi Healthcare €	Weighted Market Average €
Average Net Claim pe	er insured person (June 2016	- June 2017)		
18-60				1,035
Over 60's			251-1-1	1,458
Average Gross of Tax	Relief Premiums per insure	d person		
18-60				1,542
Over 60's				. 1,927
Average Difference pe	er insured person		The x	
18-60				507
Over 60's				469

The average premium per insured person over age 60 correlates with the average net claim with Vhi having higher premiums and higher net claims than its competitors for these lives. It should be noted that the "Difference" rows in the above table do not represent profit for different age groups with different insurers. This is because *inter alia* the average premium, average claim and risk equalisation credits do not relate to precisely the same time period, there is no allowance for expenses and there is no allowance for claims not included in returns to the Authority. However, the table does provide an indication of the relative level of profitability for different age groups and shows that, profitability is now broadly the same (apart from younger lives as older lives, notwithstanding higher risk equalisation credits and higher premium being paid to insurers in respect of older lives.

There is continuing evidence that insurers, and in particular

Table D.3 shows the average difference in net premiums for the most common level of cover with allowance for discounted children prices.

Table D.3 – Average net premiums paid for Level 2 plans for June 2017

	Average Net Premium				
Insurer	Age <60	Age >=60	Difference		
Irish Life Health					
Laya Healthcare					
Vhi Healthcare			Per de la		
Market	€1,343	€1,734	29% (25%)		

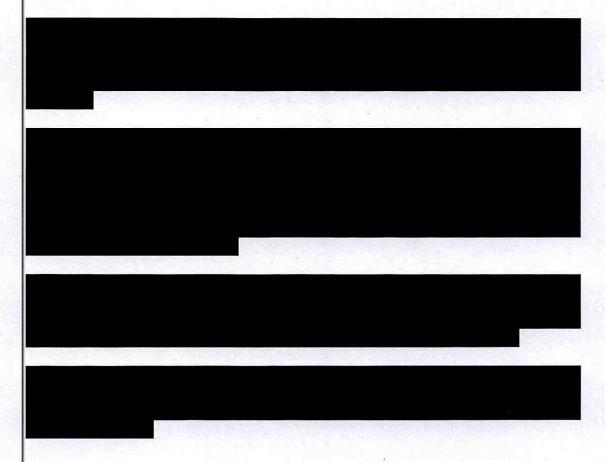
It is interesting to note that the difference in average premiums between the over and under 60's for the market in June 2017 is 29% compared to 25% in June 2016.

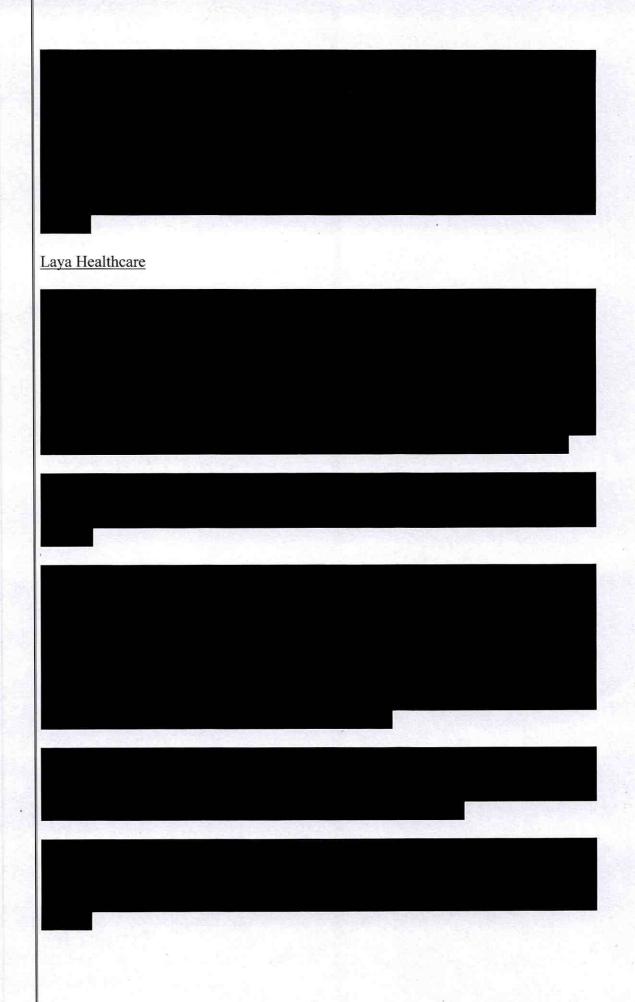
Other recent significant market developments have been:

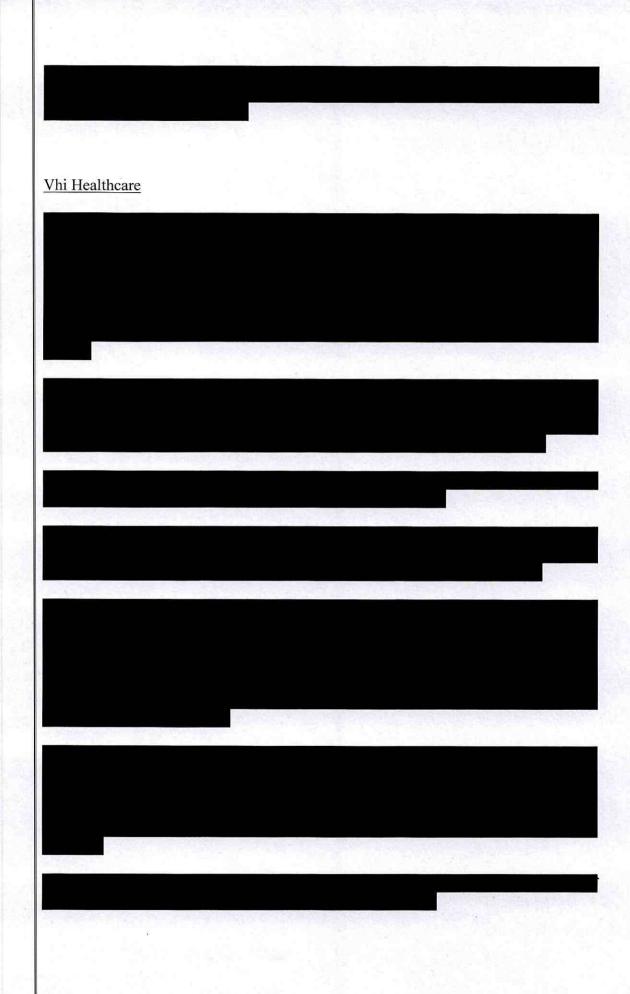
- Special offers with reduced prices for children being offered from time to time by all insurers;
- Plans with excesses of up to €500 for stays in private hospitals have become more popular;
- Plans that only cover some public hospitals have become less popular reducing to 6% of insured lives at 1 July 2017 compared to 7% a year earlier;
- A reducing proportion of the market is buying Non-Advanced plans. Within Advanced Plans there is a growing proportion moving to higher cover products perhaps due to a more competitive pricing of some of these plans;
- Plans that are designed to reduce an insurer's stamp duty liability through offering consumers the right to upgrade the benefits on their plan only when they wish to claim such benefits.

Discussions with insurers

Irish Life Health







Section E - Projections

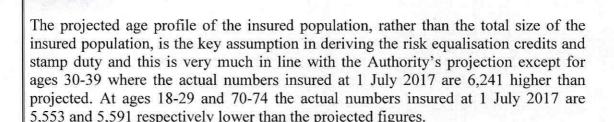
Retrospective review of projections in 2016 Report regarding 2017 credits

Review of Membership Projections in the Authority's 2016 Report

In its 2016 Report, the Authority projected that the change in the age profile of the market in the year ending June 2016 would continue at the same pace over the next 21 months. Table E.1 compares the projected open enrolment market with the actual market as at 1 July 2017 and the percentages of the total market for each age group.

Table E.1

Membership for the M	arket as of 1 July 2017		
Age Group	Actual	Projected	Net Difference
Aged 17 and under	474,552 (23.4%)	471,753 (23.1%)	2,799
Aged 18 to age 29	218,205 (10.7%)	223,758 (10.9%)	-5,553
Aged 30 to age 39	288,813 (14.2%)	282,572 (13.8%)	6,241
Aged 40 to age 49	325,905 (16.1%)	327,630 (16.0%)	-1,725
Aged 50 to age 54	147,250 (7.3%)	147,556 (7.2%)	-306
Aged 55 to age 59	136,467 (6.7%)	137,362 (6.7%)	-895
Aged 60 to age 64	125,121 (6.2%)	127,180 (6.2%)	-2,059
Aged 65 to age 69	108,276 (5.3%)	110,395 (5.4%)	-2,119
Aged 70 to age 74	87,031 (4.3%)	92,622 (4.5%)	-5,591
Aged 75 to age 79	57,479 (2.8%)	59,842 (2.9%)	-2,363
Aged 80 to age 84	36,723 (1.8%)	39,023 (1.9%)	-2,300
Aged 85 and over	24,381 (1.2%)	25,996 (1.3%)	-1,615
Total	2,030,203 (100.0%)	2,045,689 (100.0%)	-15,486



Review of Claims Inflation Assumptions in the Authority's 2016 Report

The 2016 report highlighted a wide variation in the claims cost inflation rates over the period 1 July 2015 to 1 July 2016 with particularly large increases experienced in the 0-17 age group. There were a number of factors which could have impacted on those results such as changes in the speed of claims settlement or the changing of the charging structure of public hospitals.

As a result of this analysis and conversations with insurers, the Authority last year decided that a reasonable method for projecting the average returned benefit per insured person for renewals from 1 March 2017 was to project an increase of 4% p.a.

over the term of the projection. Ageing of the market would contribute a further 1% per annum to claims inflation over the period.

One year has elapsed since these projections. This subsection reviews how the actual average claim costs have changed over the year. The claim inflation rates are based on comparing average claim payments made from July 2016 – June 2017 with those made in the July 2015 – June 2016 time period. As a result, any changes in the speed of payment would impact on the inflation rate.

The percentage change in the average claim costs per insured person for all levels of cover from the twelve month period ending in June 2016 to the twelve month period ending in June 2017 for each insurer and for the market is shown in Table E.2.

Table E.2

Age Group	Irish Life Health	Laya Healthcare	Vhi Healthcare	Market
0-17				-11%
18-29				-5%
30-39				-4%
40-49				-2%
50-54				-4%
55-59				-7%
60-64				-5%
65-69				-4%
70-74			Harrist A.	-7%
75-79		14 1 1 - 1 T - 1 M.		-6%
80-85				-2%
85+				0%
All Ages			No. 1 Per	-3%

The 'all ages' percentages is impacted by the ageing of insurers' portfolios which contributes about 1% to the 'all ages' inflation costs giving an average claims cost inflation rate for age groups of -4%. There are significant variations in the percentage changes between different age groups for each insurer. The level of claims deflation experienced by children was significantly higher than for older ages and reflects an unwinding of the large increase in the average claims costs that children experienced last year.

Projections for 2018 Credits

Projected age profile of market in 2018

The change in insured lives between 1 July 2016 and 1 July 2017 in the information returns data is set out in Table E.3.

Table E.3

Open Enrolment Market	01-Jul-16	01-Jul-17	Net Diff
Aged 17 and under	477,351	474,552	-2,799
Aged 18 to age 29	212,652	218,205	5,553
Aged 30 to age 39	295,054	288,813	-6,241
Aged 40 to age 49	324,180	325,905	1,725
Aged 50 to age 54	146,944	147,250	306
Aged 55 to age 59	135,572	136,467	895
Aged 60 to age 64	123,062	125,121	2,059
Aged 65 to age 69	106,157	108,276	2,119
Aged 70 to age 74	81,440	87,031	5,591
Aged 75 to age 79	55,116	57,479	2,363
Aged 80 to age 84	34,423	36,723	2,300
Aged 85 and over	22,766	24,381	1,615
Total	2,014,717	2,030,203	15,486

There was an increase in insured lives of 78,821 from 1 July 2015 to 1 July 2016 (albeit the figures were heavily influenced by the introduction of LCR where 75,000 lives were serving waiting periods at the 1 July 2015).

The reduction in the numbers insured in the 30-39 age group is due to the population demographics at age 29 and 39 last year.

The change in the market in the period 1 July 2016 to 1 July 2017 is assumed to continue during the projection time period until 1 April 2019. Thus the projections assume an increase in the number of insured lives of 15,486 per annum. Additionally, while the total market size is not a critical factor in balancing the financial impact of credits and stamp duty, the forecast age profile and product mix is important. The Authority has assumed that the changes in age profile and product mix over the twelve months to June 2017 in Table E.3 will continue at the same pace until 1 April 2019 for the market as a whole.

The

resulting projected numbers are set out in the following table:

Table E.4

	Projected Market 01-April-2019 current trends				
	Non-Advanced	Advanced	Total		
Aged 17 and under	28,012	441,642	469,654		
Aged 18 to age 29	26,221	201,702	227,923		
Aged 30 to age 39	37,632	240,260	277,891		
Aged 40 to age 49	38,306	290,618	328,924		
Aged 50 to age 54	14,550	133,236	147,786		
Aged 55 to age 59	11,215	126,819	138,033		
Aged 60 to age 64	8,625	120,099	128,724		
Aged 65 to age 69	6,364	105,620	111,984		
Aged 70 to age 74	3,550	93,265	96,815		
Aged 75 to age 79	1,537	60,078	61,614		
Aged 80 to age 84	824	39,924	40,748		
Aged 85 and over	544	26,663	27,207		
Total	177,378	1,879,926	2,057,304		

Table E.5 and E.6 below provides details of the number insured in Non-Advanced and Advanced policies at 1 July 2016 and 1 July 2017. The approach for projecting the

market is to assume that the forecast change in the number of Non-Advanced and Advanced contracts in the year to 1 July 2017 will continue at the same pace until 1 April 2019.

Table E.5

	Non-Advanced	Non-Advanced		Forecast
	01-Jul-16	01-Jul-17	Net Diff	01-Apr-19
Aged 17 and under	37,466	34,028	-3,438	28,012
Aged 18 to age 29	28,421	27,621	-800	26,221
Aged 30 to age 39	46,415	43,221	-3,194	37,632
Aged 40 to age 49	42,384	40,901	-1,483	38,306
Aged 50 to age 54	15,999	15,472	-527	14,550
Aged 55 to age 59	12,122	11,792	-330	11,215
Aged 60 to age 64	8,471	8,527	56	8,625
Aged 65 to age 69	5,212	5,631	419	6,364
Aged 70 to age 74	2,428	2,836	408	3,550
Aged 75 to age 79	1,245	1,351	106	1,537
Aged 80 to age 84	568	661	93	824
Aged 85 and over	305	392	87	544
Total	201,036	192,433	-8,603	177,378

Table E.6

	Advanced	Advanced		Forecast
	01-Jul-16	01-Jul-17	Net Diff	01-Apr-19
Aged 17 and under	439,885	440,524	639	441,642
Aged 18 to age 29	184,231	190,584	6,353	201,702
Aged 30 to age 39	248,639	245,592	-3,047	240,260
Aged 40 to age 49	281,796	285,004	3,208	290,618
Aged 50 to age 54	130,945	131,778	833	133,236
Aged 55 to age 59	123,450	124,675	1,225	126,819
Aged 60 to age 64	114,591	116,594	2,003	120,099
Aged 65 to age 69	100,945	102,645	1,700	105,620
Aged 70 to age 74	79,012	84,195	5,183	93,265
Aged 75 to age 79	53,871	56,128	2,257	60,078
Aged 80 to age 84	33,855	36,062	2,207	39,924
Aged 85 and over	22,461	23,989	1,528	26,663
Total	1,813,681	1,837,770	24,089	1,879,926

Projected Returned Benefit for each insurer

The average claims costs for the twelve months to end June 2017 are used as the base figures for the projected average Returned Benefits.

For each age group, the average returned benefit per insured person for the year ending June 2017 was calculated for each product type, age grouping, gender and insurer and for the market. The calculated rates are included in Appendix 1.

Insurers were asked for their views on how the average returned benefit for 2018 renewals might be projected to allow for future claims inflation and any changes in the timing pattern of claims settlement. Having regard to the responses received, the Authority considers that a reasonable method for projecting the average returned benefit per insured person for renewals from 1 April 2018 would be to project an increase of 3% p.a. over the term of the projection to the actual age specific market claims cost per insured person determined for the twelve months to end June 2017.

This assumes no change in the daily rate charged for private patients in public hospitals. The age specific rate do not include the impact of ageing which is provided for in the population projections.

Hospital Utilisation

Historically insurers receive a hospital utilisation credit (HUC) for each night that an insured person spends in hospital. A reduced HUC payment in respect of each day case admission to a hospital was introduced in the Health Insurance (Amendment) Act 2015.

Information returns include separate details of the number of hospital inpatient days and day case admissions paid for by insurers in respect of their private patients admissions. The total number of nights/days in the last two years paid by the open membership undertakings is set out in Table E.7 below. There is a significant reduction in the overnight stays in the first half of 2017 attributable to the public hospital sector.

Table E.7

000's	Overnight	Day case	Total
Second Half 2015	679	308	987
First Half 2016	655	318	973
Second Half 2016	669	318	987
First Half 2017	619	317	936

Table E.8 shows the split by insurer for the January to June 2017 time period.

Table E.8

000's	Overnight	Day case	Total
Irish Life Health			
Laya Healthcare			
Vhi Healthcare			
Total	619	317	936

The average overnight stays and day case days per insured person in July 2016 – June 2017 time period were calculated for each age group/gender/level of cover/insurer. The Authority has projected that the average hospital utilisation per life insured for each age group will increase by 1% per annum over the projection period.

Section F - Credits and stamp duty for policies commencing from 1 April 2018.

Criteria for recommending health credits and stamp duty

After projecting the market profile, claim rates and nights spent in hospital, it is necessary to consider to what extent the higher claim rates of older and less healthy people should be compensated for through the provision of risk equalisation credits.

The Authority's role in recommending risk equalisation credits is to:

- Recommend the amounts of Risk Equalisation Credits that the Authority considers should be paid having regard to the following criteria:
 - 1. Its evaluation and analysis of information returns;
 - 2. The Principal Objective of the Health Insurance Acts 1994 2016;
 - 3. The aim of avoiding overcompensation being made to an undertaking;
 - 4. The aim of maintaining the sustainability of the health insurance market; and
 - 5. The aim of having fair and open competition in the health insurance market.
- Recommend the amount of stamp duties that the Authority considers, after having regard to the aim of avoiding the Risk Equalisation Fund sustaining surpluses or deficits from year to year, would need to be paid by undertakings in respect of persons insured by them in order to meet the cost to the Fund of the total of the Risk Equalisation Credits.

The Health Insurance (Amendment) Act 2016 provided that the risk equalisation credits outlined in Table F.1 below applied from 1 April 2017:

Table F.1

	utilisation credits	Age / gender / level of cover credits from 1 April 201				
Age Bands	from 1 March	Non-Advan	ced	Advance	d	
	2017	Men	Women	Men	Women	
59 and under	€90 / €30	€0	€0	€0	€0	
60-64	€90 / €30	€0	€0	€0	€0	
65-69	€90 / €30	€850	€525	€1,175	€675	
70-74	€90 / €30	€1,250	€1,075	€1,950	€1,500	
75-79	€90 / €30	€1,750	€1,425	€2,750	€2,125	
80-84	€90 / €30	€2,375	€1,925	€3,750	€2,925	
85 and above	€90 / €30	€2,975	€2,375	€4,875	€3,700	

The stamp duties outlined in Table F.2 below applied from 1 April 2017:

Table F.2

X 000 X 0 X 120				
Age Bands	Stamp duties from 1 April	Stamp duties from 1 April 2017		
	Non-Advanced	Advanced		
17 and under	€74	€148	- 20	
18 and over	€222	€444	5 T.	

The projected net financial impact in last year's report of the credits and stamp duty enacted for policies commencing in the 1 April 2017 to 31 March 2018 time period are as follows:

Table F.3

	Irish	Life	Laya	Vhi	
€m	Health		Healthcare	Healthcare	Total
Age Related Health Credits					586.0
Hospital Utilisation Credit					143.4
Stamp Duty		- 24	E ASSET		-719.4
Total		6 HJ.			10.0
Net Financial impact per insured life		5 'W L	ill way		€6

The projections for individual insurers are sensitive to developments in each insurer's age profile and market share, which can be influenced by product or pricing strategy or by developments in one particular insurer and it is not possible to predict many of these factors. As such, projections of the net financial impact on individual insurers are subject to considerable uncertainty and should be viewed as indicative only.

Recommendation of the Authority on credits and stamp duty for policies commencing from 1 April 2018

Having regard to the statutory criteria, the Authority has concluded that the following risk equalisation credits should be paid in respect of insured persons for health insurance policies that are renewed or entered into on or after 1 April 2018 but before 31 March 2019.

Table F.4

	utilisation credits	Age / gender / level of cover credits from 1 April 2018					
Age Bands	(overnight / day case)	Non-Adva	nced	Advanced			
	from 1 April 2018	Men	Women	Men	Women		
64 and under	€100 / €50	€0	€0	€0	€0		
65-69	€100 / €50	€400	€300	€1,000	€650		
70-74	€100 / €50	€725	€550	€1,750	€1,250		
75-79	€100 / €50	€1,075	€850	€2,550	€1,925		
80-84	€100 / €50	€1,450	€1,150	€3,450	€2,700		
85 and above	€100 / €50	€2,175	€1,450	€4,975	€3,350		

The Authority considers that the following stamp duties would then be paid by the insurers of policies that are renewed or entered into on or after 1 April 2018.

Table F.5

Age Bands	Stamp duties from 1 April 2018 to 31 March 2019	
	Non-Advanced	Advanced
17 and under	€ 59	€148
18 and over	€177	€444

The adult stamp duty for Advanced cover contracts would remain static at €444 while the adult stamp duty for Non-Advanced contracts would decrease to €177 from €222.

These calculations of risk equalisation credits and stamp duty for policies commencing from 1 April 2018 are based as follows:

- A hospital utilisation credit of €100 would be made for each night that an insured person spends in a hospital.
- A hospital utilisation credit of €50 would be made in respect of each day case admission.
- The age credits for Advanced Cover contracts would continue to be based on the average claim costs for Level 2 products (products that, in the main, provide cover for semi-private accommodation in private hospitals, rather than private accommodation). These credits would continue to apply from ages 65 and over.
- The age credits for Advanced cover products would continue to be calculated to be the amount necessary so that the net claims cost for no age group from age 65 and over exceeds 130% of the average net claims cost for Level 2 contracts.
- The age credits for Non-Advanced cover contracts will change to be based on the average claim costs for Non-Advanced products (previously average claims costs for Level 1 contracts was used). As the claims paid experience for Non-Advanced contracts has become more mature, projected average claim costs for Non-Advanced contracts have been used for the purpose of calculating April 2018 age credits. Adjusted claims costs for Non-Advanced contracts aged over 65 are calculated by applying the average ratio of Non-Advanced claims cost to Level 2 claims cost for all ages over age 65 combined.
- The age credits for Non-Advanced contracts would continue to be calculated to be the amount necessary so that the net claims cost for no age group from age 65 and over exceeds 130% of the adjusted average net claims cost for Non-Advanced contracts.
- The Stamp duty for Non-Advanced contracts shall reflect the lower credits paid in respect of these contracts, and, accordingly, be set at 40% of the rate applying for Advanced contracts.
- The Stamp duty levels would incorporate an anticipated surplus of €30m in the Risk Equalisation Fund when all payments into/out of the Risk Equalisation Fund have been made in respect of contracts that commence prior to 1 April 2018.

<u>Projected financial impact of the recommendations on each insurer and on the Risk Equalisation Fund</u>

The calculations of the projected net financial impact based on the credits and stamp duty applying from 1 April 2018 to 31 March 2019 are set out in Table F.6 below.

Table F.6

€m	Irish Health	Life	Laya	Vhi	T-4-1
	Health	SIRS-LUM.	Healthcare	Healthcare	Total
Age Related Health Credits				78 V 1	592.1
Hospital Utilisation Credit		12.00			175.7
Stamp Duty			l seven		-732.6
Irish Life Health 14,000 members					-5.2
Total				Ta Paris	30.0
Net Financial impact per insured life				S S December 5	€17

The figures in Table F.6 are an estimate of the credits and stamp duties that would be payable to / by each insurer and are based on the projected memberships described in Section E of this report.

The projections for individual insurers are sensitive to factors affecting the market as a whole (see below) as well as developments specific to each insurer's membership profile (by age gender and level of cover) and their hospital utilisation. This will, in turn be influenced by product or pricing strategy and other developments specific to the insurer, which it is not possible to predict. As such, projections of the net financial impact on individual insurers are subject to considerable uncertainty and should be viewed as indicative only.

Claims costs have been projected to increase by 3% per annum for the duration of the projection period. If the future claims cost inflation assumption was 4% per annum instead of 3% per annum, health credits, stamp duties and net financial impacts would increase by approximately 2%.

Reconciliation of stamp duties for Current and proposed scenario

The basis recommended by the Authority last year and implemented by the Oireachtas resulted in an adult stamp duty for Advanced cover contracts of €444. For 2017, the Authority recommendation also results in an adult stamp duty of €444 for Advanced cover contracts. The main reasons for a change in the adult Advanced Cover stamp duty (with approximate impacts of each reason) are as follows:

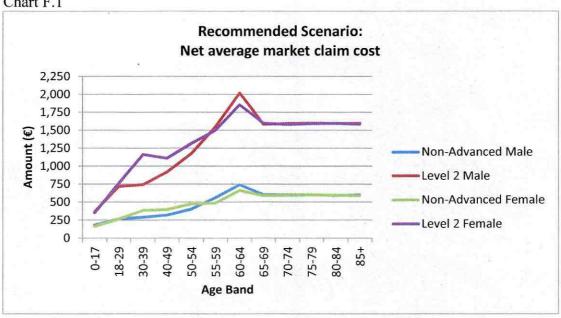
Table F.7

Reasons for Change of Advanced Cover Adult stamp duty from 2017 enacted to 2018 recommended	Monetary effect on stamp duty
enacted adult stamp duty for Advanced contracts from 1 April 2017	€444
Impact of Non-Advanced stamp duty as a percentage of Advanced stamp duty changing to 40% from 50%	€5
Impact of RES anticipated surplus to €30m	(€16)
Impact of membership change in year to 30/6/17	€15
Impact of unwinding the 75,000 LCR adjustment in last year's Report	€13
Impact of change in bed utilisation inflation	(€1)
Impact of change in average returned benefits including changing to using past non advanced claims data to project future claims costs	(€18)
Impact of change in payment levels of Hospital Utilisation Credit	€10
Impact of change in claims inflation	(€9)
Miscellaneous	€1
2018 Recommendation Stamp Duty for Adults with Advanced	€444

Projected impact of the recommendation on market net costs

The following chart shows estimates of the projected claim rate in the policy year commencing from April 2018 after adjusting for the net effect of the recommended utilisation credits, age credits and stamp duties.

Chart F.1



It can be seen that the claim rate after adjusting for the risk equalisation credits and stamp duties ("the net claim cost") is flat for men and women at age 65 and older. This is because the credits are set so that the net claim cost does not exceed 130% of the market average claims cost. The net claims cost at ages 60-64 is higher than for older ages as no age credits are proposed for this age group.

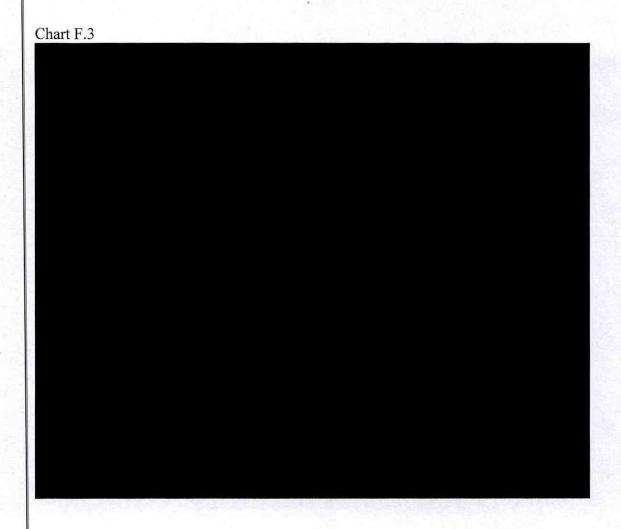
The percentage ceiling is set by reference to the market average claims cost after adjusting for the hospital utilisation credits and the stamp duty needed to finance them.

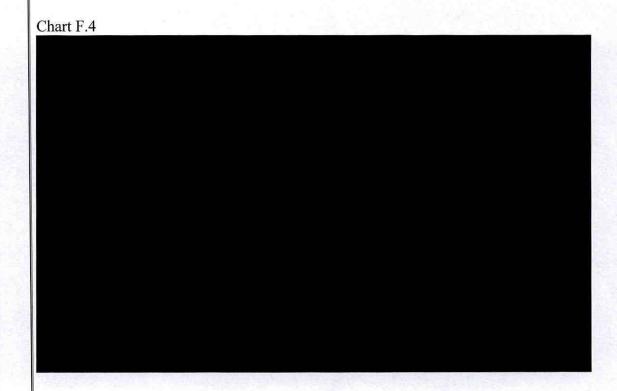
Projected impact of the recommendation on net claim costs by insurer

The projected net claim costs for each insurer for policies commencing from 1 April 2018 to 31 March 2019 are illustrated in the following charts. Separate charts are shown for Non-Advanced and Level 2 products and for men and women, showing the impact of the system on contracts that mainly provide cover for public hospitals and contracts that provide substantial cover in semi-private rooms in private hospitals.

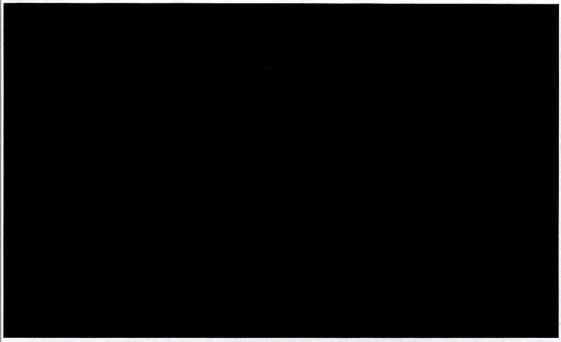
Chart F.2











The market net claims costs are flat from age 65 as credits are set so that the net claims for older ages is 130% of the market average claims cost. Additionally, market net claims costs increase with age up to age 65 and are highest for ages 60-64 due to no age credits for that group.



Commentary on the recommended risk equalisation credits and stamp duties

Recommendation

The previous charts show how average claims (net of risk equalisation) are projected to vary with age. An objective of risk equalisation is to support community rating by reducing or removing variation in net claims cost by age or health status.

If any insurer has much higher claim costs for any age group, this can impact negatively on the Authority's objectives as set out in the legislation. In particular:

• There will be a negative impact on the principal objective because insurers will have an incentive to avoid insuring age groups with higher net claims costs

- through risk selection or by charging higher premiums for that group (for example through risk segmentation);
- Competition can be negatively affected because insurers with disproportionate numbers of insured persons in age groups where their net claims costs are higher can be at a competitive disadvantage. It is also the case that competition can be distorted if an insurer that achieves lower claims costs through, for example, efficiencies must compensate another insurer on the basis of its higher claims costs;
- The sustainability of the market can be negatively impacted, for example, if it becomes less attractive to some insurers to recruit younger people than older people; and
- It might make it more likely that a net beneficiary would make a profit in excess of a reasonable profit if risk equalisation credits are such that there is an advantage to insuring older or less healthy people.



For the reasons set out above, the Authority considers that any increases in risk equalisation credits should involve directing credits towards less healthy people of all ages rather than in the form of increased age credits.



Accordingly, the Authority recommends the following:

- Age Credits should again not apply for the age group 60-64. If the insured market ages in line with the total population, the difference in the average claims cost across the market and the average for ages 60-64 will continue to narrow each year as a result of ageing. This will result in the age credits, on a constant methodology, reducing in monetary amounts over time. The market share of each insurer for the age group 60-64 does not vary significantly as shown in Table B6 with the percentage varying from to for the three insurers. As a result, including age credits for ages 60-64 would not materially affect the projected net financial impact of any insurer;
- The hospital utilisation credit for overnight stays increases from €90 per night to €100 and for day case admissions from €30 per admission to €50. This supports the Principal Objective of reducing the differential in the net claims cost of unhealthy and healthy people. It provides an incentive for insurers to eliminate unnecessary overnight stays in hospitals and increase the support for the cost of in-patient stays;

- The average claims cost ceiling for older ages remains at 130% of the market average claims cost. This supports the Principal Objective by limiting the differential in the net claims costs between older and younger people; and
- The ratio of Non-Advanced to Advanced stamp duty will reduce from 50% to 40% reflecting the relative cost of non-advanced credits to advanced contract credits

Principal Objective of Health Insurance Act 1994 -2015

"The principal objective of this Act is to ensure that, in the interests of the common good and across the health insurance market, access to health insurance cover is available to consumers of health services with no differentiation made between them (whether effected by risk equalisation credits or stamp duty measures or other measures, or any combination thereof), in particular as regards the costs of health services, based in whole or in part on the health risk status, age or sex of, or frequency of provision of health services to, any such consumers or any class of such consumers..."

There are, in general, much higher claims costs associated with insuring older less healthy people compared with younger healthier lives. As a result, in a community rated market, without risk equalisation, where it is not possible to load premiums to reflect the expected costs for each individual insured person, insurers have a large incentive to target younger healthier people when selling health insurance. There is also an incentive for insurers to segment their insured populations so that younger healthier people and older less healthy people are sold different products, charging higher premiums on average to the older less healthy group. Despite the legislation governing community rating, insurers can seek to achieve this segmentation through target marketing and product development (aided by self-selection due to customer inertia). This impacts negatively on the achievement of the Principal Objective because older people pay more on average for health insurance.

The risk equalisation credits reduce the incentive to risk select against older less healthy people. The incentive (arising from differences in claims costs) for insurers to differentiate between age groups would be fully addressed if the expected average claim costs for an age group net of risk equalisation credits were the same across all age groups for each insurer. The expected claim costs net of risk equalisation credits of insuring an 85 year old would then be the same as for insuring a 25 year old and an insurer would have no incentive, based on claims rates, to differentiate between them.

However, as expected claim costs by age differ between insurers and across products, no level of risk equalisation credits would achieve this objective in respect of all insurers and all products. In addition, as the credits and duties would be set across all insurers, it could be argued that the level of payments would result in partially compensating less efficient insurers or sharing the benefit of product features such as excesses, thereby undermining competition.

Notwithstanding the credits and stamp duty applying in 2017, there remains a significant level of segmentation, whereby older less healthy people are on average paying more for their health insurance. Table D.3 shows the current extent of this risk segmentation by age for Level 2 contracts.

The risk equalisation system currently allows for a small measure of compensation for health status through a payment of \in 90 for each overnight stay in a hospital and \in 30 per day case admission. The Authority believes that the support for insuring less healthy consumers should be increased and as a result recommended that the hospital utilisation credit should be increased to \in 100 for each overnight stay in a hospital and \in 50 for each day case admission.

Avoiding overcompensation

The Authority carries out an assessment of whether overcompensation has occurred in the previous three year period using actual audited accounts. These assessments have to date determined that there has been no overcompensation in the previous three year period. If the measures were to result in overcompensation, the Health Insurance Acts provide that the amount of overcompensation is repaid to the Fund.

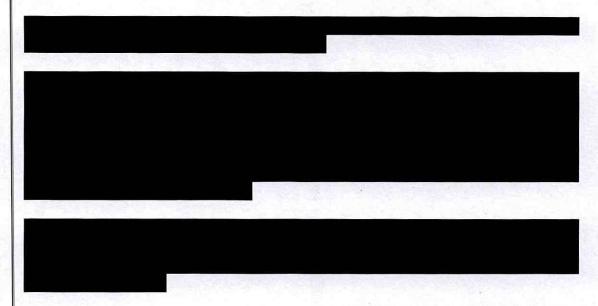
In making its recommendation to the Minister for Health on the level of risk equalisation credits, the Authority has regard to the aim of avoiding overcompensation in the future. The credits and stamp duties proposed in this report will have a financial impact on insurers in the years 2018, 2019 and 2020.



Table F.8
Vhi Insurance DAC Projected Accounts

€m's	2016	2017	2018	2019
	Actual	Projection	Projection	Projection
Earned premiums before reinsurance and risk equalisation credits				
Impact of risk equalisation				a Principal
Claims incurred			He de la	
Cost of Reinsurance	-			
Expenses	i i			
Underwriting Profit				
Underwriting Profit gross of reinsurance				
Sales	8			
(Underwriting profit gross of Reinsurance as % of Sales				
3 year simple average				





As a result of the Vhi Insurance DAC financial projections received, the Authority considers that the proposed risk equalisation credits and stamp duty in this report are not likely to result in overcompensation to Vhi Insurance DAC during the 2016-2018 and 2017-2019 time periods. A further overcompensation assessment will be carried out at the end of each three year time period commencing with the 2016 – 2018 time period using the actual audited accounts. If such an assessment determines that overcompensation has actually occurred, the legislation provides that the amount of this overcompensation is repaid to the Risk Equalisation Fund.

Maintaining the sustainability of the market

The unfunded Irish voluntary health insurance system is, effectively, a "pay as you go" system, with the claims in any one year paid mainly out of the premiums received in that year. There is no fund built up over the life of an insured person to meet the higher level of claims expected when that person gets older.

Everybody is charged the same premium for a health insurance product (with some limited exceptions), so that a younger, healthier person pays a premium significantly in excess of their expected level of claims and an older, less healthy person pays a premium much lower than their expected level of claims. Instead of the excess premium paid by the younger person being used to build up a fund for later in life (as would be the case in a funded system), it is instead used to pay the claims arising with respect to older people. However, the voluntary nature of the market means that lower risk people can choose not to join the system or can choose to opt out at any time, and potentially re-join at an older age.

A community-rated market, therefore, requires a balance of younger and older, and healthy and less healthy members for it to operate effectively. In this way, premiums can be kept at affordable levels across the market, with the younger and healthier members helping to support the older and less healthy members. There is a danger in a voluntary community rated market that if premiums increase too much, younger and healthier members will be deterred from taking out health insurance (or encouraged to lapse their existing policies), which will in turn lead to further increases in the premiums needed to cover average claim costs. The proportion of people insured aged under 50 has been reducing in recent years and while this is partly due to the ageing of

the general population, it also reflected both economic conditions and premium increases. This situation has improved in the past three years with a stable proportion of insured lives under age 50, modest average premium increases and an improved economic position.

Economic Circumstances

According to the summer 2017 ESRI forecasts, the Irish economy is expected to grow by 3.8% in 2017 and by 3.6% next year. The ESRI describes a robust expansion of the labour market with employment growing by 3.1% in 2017 and a slowing of employment growth to 2.3% in 2018. While the fall in sterling in the last twelve months will have some negative effect on employment and the prospect of Brexit is a further threat, the ESRI is confident that the economy will continue to grow solidly through 2018.

The ESRI are forecasting that there will be a significant increase in real disposable income next year, especially from non-wage income like profits and dividends. However, they believe that a considerable increment of the increased real disposable income will be saved or used to pay off debt rather than spent on increased consumption. The ESRI have survey data that show that on average consumers are still indicating a marked preference to pay off debt or save rather than spend "surplus money". In 2018, the ESRI are forecasting that personal disposable income will rise by 8.7% but personal consumption by only 4.0% (both figures in value terms). The aggregate savings ratio is expected to jump from 7.4% in 2017 to 13.4% in 2018.

Price inflation has been broadly zero since 2013 and health sector price inflation is 1% at present. The ESRI are forecasting that the consumer price index will rise by 0.6% in 2017 and 1% in 2018.

The health insurance price sub-index of the consumer price index rose by 5.3% in 2016 after remaining unchanged in 2015. In August 2017, the index had risen by 7.8% from twelve months previously. Recent indications are that the rate of price inflation in health insurance is slowing down and this is supported by the views of the insurers.

Fair and open competition

In the view of the Authority, fair and open competition is achieved by having a level playing field between all insurers. The Authority notes that Vhi Healthcare became an insurance company regulated by the Central Bank in 2015. This has resulted in a level regulatory playing field for the three registered undertakings writing in-patient health insurance business.

A robust risk equalisation system is a prerequisite for fair and open competition. Without a sufficiently robust risk equalisation system, an insurer with a less favourable risk profile will be obliged to charge higher premiums than the market or incur significant losses, other things being equal. If its premiums are higher than the market, it is more likely to lose younger than older customers and its worsening risk profile may oblige it to increase premiums further, resulting in a cycle which ultimately could drive the insurer from the market. As discussed earlier in this section, one response of the insurer might be to segment its insured population so that younger

healthier people and older less healthy people are sold different products, charging higher premiums on average to the older less healthy group.

It is important to note that, because competition is distorted, an insurer with a poorer risk profile is likely to incur these difficulties regardless of its level of efficiency or the attractiveness of its products; the difficulties would result directly from its risk profile in the absence of a robust risk equalisation system.

The Authority's recommended risk equalisation credits provide support for community rating and should provide a fair basis for competition between insurers, leading them to concentrate on seeking competitive advantage in terms of value for money, customer service, product design etc.

It is of course equally important that the level of risk equalisation is not so great that it confers advantages on insurers with an older and less healthy risk profile. As mentioned above, the recommended credits and stamp duties are not expected to lead to overcompensation to those insurers with, on average, older memberships.

Furthermore, the hospital utilisation credit for overnight and day case stays are at low enough levels to retain the incentive for the insurers to work to minimise hospital stays where appropriate and to implement the most cost effective appropriate treatment pathway.

Summary of impact of using alternative methodologies for 2018

We set out in the following table a summary of the resulting credits and stamp duties if alternative approaches were used to determining credits.

Table F.9

	Recommended Methodology	Alternative 1	Alternative 2	Alternative 3
Benefits used	Returned	Returned	Returned	Returned
Age Credit Applicable	65+	65+	65+	65+
Methodology for Age Credits	Stamp Duty Included	Stamp Duty Included	Stamp Duty Included	Stamp Duty Included
Claims Cost Ceiling	130%	130%	130%	130%
ARHC stamp duty ratio (Non-Advanced : Level 2)	40%	50%	40%	40%
Overnight Utilisation payment	€100	€90	€100	€90
Day Case Utilisation payment	€50	€30	€ 50	€30
Claims inflation	3%	4%	4%	3%
Stamp Duty (adult rate)				
Non-Advanced	€177	€219	€180	€172
Advanced	€444	€437	€453	€433
Projected Net Financial Impact				
Irish Life Healthcare				
Laya Healthcare		J.S.(El	H	
Vhi Healthcare				
Total	€30.0m	€ 30.0m	€ 30.0m	€30.0m
Projected Net Financial Impact per member				
Irish Life Healthcare	16. X 5.50	4- J. AT 8		
Laya Healthcare		(Expression)		
Vhi Healthcare				Ballet.
Total	€ 17	€ 17	€ 17	€ 17

Further details of the credits and stamp duties calculations for each of the above options are outlined in Appendix B.

Appendix A - Further analysis of Information Returns

Risk Profiles

The three insurers have different product mixes and conduct their business differently. This makes risk profile comparison complex. In order to compare risk profiles we looked at the following measures:

- Average Claim per insured person;
- Average Treatment Days per insured person;
- An index based on the Age/Sex Risk Profile of each insurer; complementary to this index, we also gauge the significance of variations in treatment days not captured by the Age/Sex Risk Profile Index by calculating a Hospital Utilisation Risk Profile Index.

In each case the Authority will note the disadvantages of the index being used. Also, where appropriate, when calculating indices the Authority will treat each insured child as $1/3^{\rm rd}$ of an insured adult to reflect the fact that they are not charged a full premium.

Benefit per Insured Person

Comparing risk profiles by comparing the average returned benefit per insured person of each insurer is not completely reliable. It does not allow for the fact that insurers may conduct business in different ways and have different age profiles or that one insurer may sell more of a product that provides less benefits or provides a different level of cover (for example, by applying different excesses, exclusions or waiting periods).

Counting each child as $1/3^{rd}$ and each adult as 1, the average returned benefit per insured person for each insurer is outlined in Table A1.1 below.

Table A1.1

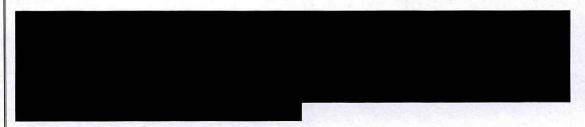
Average Returned Ber	nefits per Insured Perso	on (€)		
Insurer	July-Dec 2015	Jan-June 2016	July-Dec 2016	Jan-June 2017
Irish Life Health				
Laya Healthcare	Barrier and		i de su de la serie	
Vhi Healthcare				
Market	586	566	571	544

The market returned benefits per insured person has reduced to €544 in the current period from €571 in the six months ending December 2016.

The average returned benefit per insured person as a percentage of the market average for each insurer is set out in Table A1.2 below.

Table A1.2

Average Returned Be	enefits per Insured Pe	rson as a % of the	Market Average	
Insurer	July-Dec 2015	Jan-June 2016	July-Dec 2016	Jan-June 2017
Irish Life Health				
Laya Healthcare				a h
Vhi Healthcare				
Market	100%	100%	100%	100%



Returned benefits for the 12 months to the end of June 2017 broken down by age group and level of cover are shown in the following tables. Figures for older ages for in particular non advanced contracts are particularly prone to random fluctuation.

Table A1.3: Male Non-Advanced

Age Group	Irish Life Health €	Laya Healthcare €	Vhi Healthcare €	Weighted Market Average €
0-17				131
18-29	De la companya da la			104
30-39				128
40-49				157
50-54				241
55-59		The second		401
60-64				569
65-69				1,114
70-74				1,432
75-79		Car Tax		1,505
80-84		i Marina	English is	2,607
85+			Was a care	2,562
All Ages				243

Table A1.4: Male Level 1

Age Group	Irish Life Health €	Laya Healthcare €	Vhi Healthcare €	Weighted Market Average €
0-17			- Stell Reserve	142
18-29				116
30-39				137
40-49				172
50-54				279
55-59		y 45		472
60-64		The state of the		701
65-69			E THE I	1,281
70-74			Manage Fac	1,731
75-79				2,229
80-84		The second second	M Book I E.	3,347
85+				4,260
All Ages	A Section 1	1 2 3 mm		.399

Table A1.5: Male Level 2

Age Group	Irish Life Health €	Laya Healthcare €	Vhi Healthcare €	Weighted Market Average €
0-17		The same of the	A THINK I AND	230
18-29		746	New York	303
30-39		FILESIS - L.		327
40-49				496
50-54			N Age 7' ET	746
55-59	NOTE: NOTE: THE PARTY OF THE PA			1,105
60-64	新发展建 图		9.3	1,560
65-69				2,181
70-74		2275.715.1		2,929
75-79			9	3,764
80-84				4,743
85+		a produced a		6,410
All Ages			1	1,078

Table A1.6: Male Level 2+

Age Group	Irish Life Health €	Laya Healthcare €	Vhi Healthcare €	Weighted Market Average €
0-17				236
18-29				294
30-39				321
40-49				499
50-54				754
55-59	HARLE IN THE STATE OF THE STATE		The British of the	1,129
60-64			Hot Evel	1,610
65-69	秋 雪屋			2,307
70-74			Mark and the	3,128
75-79				4,011
80-84	建筑			5,283
85+			Elevan.	6,859
All Ages				1,179

Table A1 7: Female Non-Advanced

Age Group	Irish Life Health €	Laya Healthcare	Vhi Healthcare €	Weighted Market Average €
0-17				111
18-29				103
30-39				224
40-49				231
50-54				311
55-59				323
60-64				490
65-69				739
70-74			28 (1876)	923
75-79				1,083
80-84				2,112
85+				2,430
All Ages				254

Table A1.8: Female Level 1

Age Group	Irish Life Health €	Laya Healthcare €	Vhi Healthcare €	Weighted Market Average €
0-17				114
18-29			Marie Comment	119
30-39				241
40-49			ENTER TO	247
50-54				337
55-59				403
60-64				565
65-69			The state of the s	874
70-74				1,231
75-79		Est say with		1,681
80-84				2,775
85+				3,861
All Ages				393

Table A1.9: Female Level 2

Age Group	Irish Life Health €	Laya Healthcare €	Vhi Healthcare €	Weighted Market Average €
0-17			1316.410.51	216
18-29			12/15.	350
30-39				746
40-49			Heaven gain	686
50-54			NEW STATE OF STATE	884
55-59				1,065
60-64				1,405
65-69				1,845
70-74			remarka di eta	2,442
75-79			MPASHITUS STA	3,158
80-84				3,997
85+				4,714
All Ages		Bras. No. 1	A PER	1,133

Table A1.10: Female Level 2+

Age Group	Irish Life Health €	Laya Healthcare €	Vhi Healthcare €	Weighted Market Average €
0-17				218
18-29				345
30-39		E. 1. 3. 4		743
40-49				690
50-54				912.
55-59				1,131
60-64				1,456
65-69		I A EA ES	Water Street	1,939
70-74				2,653
75-79				3,449
80-84		The state of the s		4,314
85+				5,196
All Ages				1,234

Average returned benefit per treatment day

The differences in the average returned benefit per member is partly due to differences in the average benefit per treatment day for each insurer and partly to differences in the average number of treatment days per insured person for each insurer. The average returned benefit per treatment day varies between insurers as set out in Tables A1.11 and A1.12 below.

Table A1.11

Average Returned Be	enefits per Treatment o	lay (€)		
Insurer	July-Dec 2015	Jan-June 2016	July-Dec 2016	Jan-June 2017
Irish Life Health				
Laya Healthcare		ALL SEVEN COM		
Vhi Healthcare				
Market	983	981	987	996

Average returned benefits per treatment day have increased by 1.0%% across the market as a whole over the past 12 months.

Table A1.12

Average Returned Bo	enefits per Treatment	day as a % of the	Market Average	
Insurer	July-Dec 2015	Jan-June 2016	July-Dec 2016	Jan-June 2017
Irish Life Health				
Laya Healthcare				
Vhi Healthcare			a kedija a ta	7-1-6
Market	100%	100%	100%	100%

Average number of treatment days per insured person

Another approach for comparing risk profiles is to compare the average number of treatment days per Insured Person. However it does not separate out all differences in the way insurers conduct business or all differences in the level of cover.

The reliability of the average treatment days per member also relies on the assumption that the "value" (in terms of the underlying healthcare cost) of each treatment day is the same for each insurer. In practice, it is possible that this assumption may not be borne out. For example, where the cost of treatment days vary by age of the patient or the treatment and insurers' memberships have different age or treatment profiles; a comparison of the number of treatment days per member would not fully capture the differences in the risk profiles of the insurers.

The average number of treatment days per member for each insurer is set out in Tables A1.13 and A1.14 below. Again, each insured child counts as 1/3 when counting the number of insured persons in order to allow for the fact that children are not charged a full premium.

Table A1.13

Average Treatment day per Insured Person					
Insurer	July-Dec 2015	Jan-June 2016	July-Dec 2016	Jan-June 2017	
Irish Life Health			TENNE STI	12.32	
Laya Healthcare					
Vhi Healthcare			III BULL TOTAL		
Market	0.596	0.577	0.578	0.546	

Table A1.14

Average Treatment d	ay per Insured Person	as a % of the Ma	rket Average	
Insurer	July-Dec 2015	Jan-June 2016	July-Dec 2016	Jan-June 2017
Irish Life Health				
Laya Healthcare				
Vhi Healthcare				
Market	100%	100%	100%	100%



Age/Sex Risk Profile Index

Another approach is to compare the risk profiles based on the age/sex profile of each insurer. We do this by applying a "risk weighting" to each member of the insured population. This weighting will be based on the age/sex of the insured person. We can then compare the average weighting for each insurer. We refer to this average weighting as the Age/Sex Risk Profile Index.

The difficulty with this approach lies in finding an appropriate weight for each age/sex combination. One weight that may be considered appropriate is the market average number of treatment days for each age/sex group. Thus each insurer is using the same weights.

The use of the number of treatment days as the basis for setting the risk weights is not without its disadvantages. As already mentioned, the number of treatment days will not provide a pure measure of risk, since it could include an element of efficiency and other factors. Also, as noted earlier, it does not take account of differences in the value of treatment days.

Table A1.15

Age/Sex Risk Profile	Index			
Insurer	July-Dec 2015	Jan-June 2016	July-Dec 2016	Jan-June 2017
Irish Life Health				
Laya Healthcare				
Vhi Healthcare				
Market	100%	100%	100%	100%

Table A1.15 shows that the age/sex risk profile index for

Hospital Utilisation Risk Profile Index

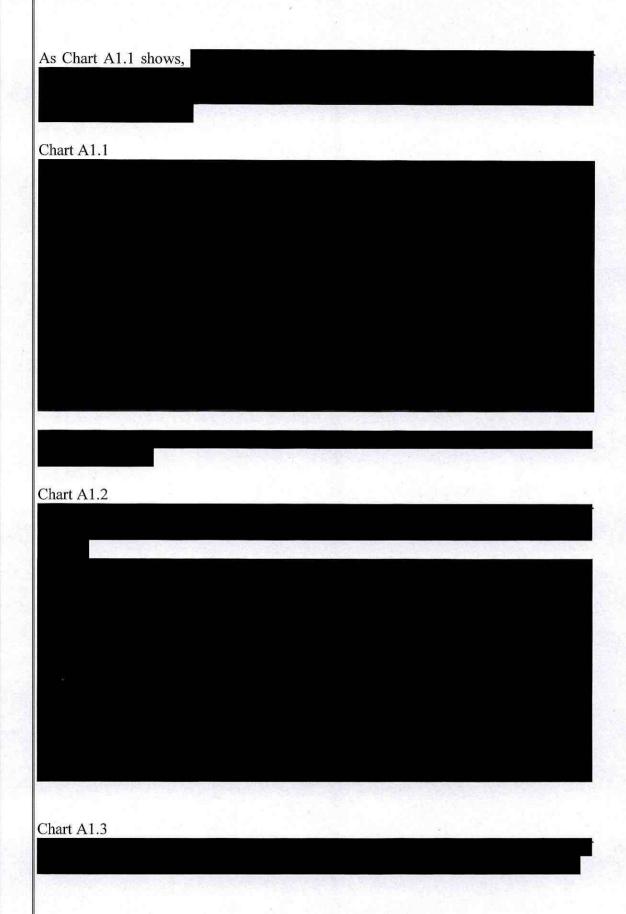
Of course the Age/Sex Risk Profile Index ignores differences in risk profiles due to other factors, i.e. it ignores whether insurers' risk profiles vary within age/sex bands. It therefore ignores differences in hospital utilisation within age /gender cells. In order to gauge the significance of variations of risk profile within age/sex bands we calculate an overall index of the hospital utilisation risk profile (ignoring the effect of differences in the age/sex distributions of the memberships). We call this index the Hospital Utilisation Risk Profile Index.

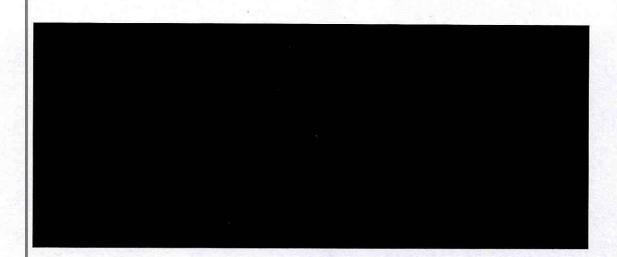
The Hospital Utilisation Risk Profile Index is calculated by estimating the average number of treatment days that each insurer would have if they all had the same standard age/sex profile and their own level of treatment days for each age/sex group. The standard age/sex profile that we use is the profile for the market as a whole.

As we aim to ignore the effect of the age and sex profile with this index, there is no need to adjust for the number of children. Table A1.16 shows the relative values of the Hospital Utilisation Risk Profile Index over time.

Table A1.16

Hospital Utilisation R	lisk Profile Index (Per	centage of Vhi He	ealthcare's Index)	
Insurer	July-Dec 2015	Jan-June 2016	July-Dec 2016	Jan-June 2017
Irish Life Health				all areas are
Laya Healthcare				
Vhi Healthcare	100%	100%	100%	100%





Appendix B – Credits and Stamp Duty from 1 April 2018 on possible scenarios

Tables B2.1 to B2.4 below show the projected membership, returned benefits, hospital nights and day case admissions as at 1 April 2019 (the midpoint of the average policy incepted between 1 April 2018 and 31 March 2019). This data was used in the calculation of the stamp duty and risk equalisation credits in the scenarios shown below.

Table B2.1

Projected Members	ship as at 01 April 2	019		
Age Group	Non-Advar	iced	Advanced	
	Male	Female	Male	Female
0-17	14,296	13,716	227,013	214,629
18-29	12,950	13,271	102,099	99,603
30-39	18,062	19,569	109,626	130,634
40-49	19,292	19,014	139,245	151,373
50-54	7,341	7,209	63,103	70,132
55-59	5,630	5,584	60,051	66,768
60-64	4,373	4,252	57,219	62,880
65-69	3,240	3,124	50,550	55,070
70-74	1,794	1,756	44,639	48,626
75-79	736	801	27,683	32,395
80-84	366	457	17,447	22,477
85+	186	358	9,694	16,969
Total	88,265	89,113	908,369	971,557

Table B2.2

Table B2.2					
Projected Average F	Returned Benefit at 1	April 2019 (€)			
Age Group	Non-Adva	inced	Advanced		
	Male	Female	Male	Female	
0-17	140	119	246	231	
18-29	112	110	324	374	
30-39	136	240	350	797	
40-49	167	247	530	733	
50-54	257	332	797	945	
55-59	428	345	1,181	1,138	
60-64	608	523	1,667	1,501	
65-69	928	785	2,331	1,971	
70-74	1,246	1,039	3,130	2,610	
75-79	1,602	1,344	4,023	3,375	
80-84	2,018	1,701	5,069	4,272	
85+	2,727	2,006	6,851	5,038	
All Ages	302	323	1,244	1,285	

Table B2.3

Age Group	Non-Advar	nced	Advanced	
	Male	Female	Male	Female
0-17	1,847	1,725	45,226	40,918
18-29	1,100	1,088	21,515	28,572
30-39	1,677	3,789	21,684	76,583
40-49	2,305	3,388	41,603	59,485
50-54	1,364	1,728	25,361	34,814
55-59	2,183	1,602	35,633	42,438
60-64	2,061	1,722	51,288	51,656
65-69	3,823	2,150	66,349	66,296
70-74	2,869	1,794	84,079	85,066
75-79	1,306	1,076	78,571	83,969
80-84	1,147	1,370	76,464	87,450
85+	696	1,190	67,738	91,907
Total	22,379	22,622	615,511	749,154

Table B2.4

Projected Total Day				
Age Group	Non-Adv	anced	Advanced	
	Male	Female	Male	Female
0-17	481	318	13,142	10,266
18-29	591	707	11,846	12,853
30-39	1,208	1,624	16,899	27,462
40-49	1,710	2,287	32,739	51,202
50-54	920	1,242	21,422	32,582
55-59	785	884	27,263	36,213
60-64	1,053	862	34,313	40,038
65-69	948	844	40,595	42,282
70-74	499	500	45,716	44,154
75-79	212	213	30,840	31,205
80-84	140	110	19,903	20,041
85+	66	95	9,086	11,415
Total	8,614	9,686	303,764	359,714

Recommendation

The recommendation calculates credits by gender, product level and age such that for each age group over 65, the net cost should not be more than 130% of the average net cost across all groups. A hospital utilisation credit of $\in 100$ is applied for overnight inpatient stays and $\in 50$ is applied for day stays. Claims inflation is assumed to be 3% per annum and bed night inflation is assumed to be 1% per annum.

The total risk equalisation credits are financed by a stamp duty which varies by product level. The stamp duty for Non-Advanced contracts is set at 40% of the stamp duty relating to Advanced contracts. The risk equalisation fund is projected to have a surplus of €30m when the contracts written prior to 1 April 2018 have fully earned credits and stamp duty.

The age credits calculations are based on the actual claims costs for July 2016 – June 2017 time period.

Table B2.5

Age	Stamp duty pe	r person (€)		Credit per person (€)				Total	Total Stamp
			Non-advanced		Advanced		Utilisation	Credits	Duty
	Non Advd	Advd	Men	Women	Men	Women	Credits	(€million)	(€million)
0-17	59	148	0	. 0	0	0	10.2	0.0	67.0
18-29	177	444	0	0.43	0	0	6.5	0.0	94.2
30-39	177	444	0	0	0	0	12.7	0.0	113.3
40-49	177	444	0 -	0	0	0	15.1	0.0	135.8
50-54	177	444	0	0 -	0	0	9.1	0,0	61.7
55-59	177	444	0	0	0	0	11.4	0.0	58.3
60-64	177	444	0	0	0	0	14.5	0.0	54.8
65-69	177	444	400	300	1,000	650	18.1	88.6	48.0
70-74	177	444	725	550	1,750	1,250	21.9	141.2	42.0
75-79	177	444	1,075	850	2,550	1,925	19.6	134.4	26.9
80-84	177	444	1,450	1,150	3,450	2,700	18.7	121.9	17.9
85+	177	444	2,175	1,450	4,975	3,350	17.2	106.0	11.9
2016 Schem	e Surplus		and the same	1-05-5					30.0
Impact of 14	,000 Irish Life Health	lives incorred	tly classifie	ed as serving in	nitial waiting	periods			5.2
Total					411		175.1	592.1	767.2

Table B2.6

14010 152.0	Irish Health	Life	Laya Healthcare	VHI Healthcare	Total
Age Related Health Credits		194		4	592.1
Hospital Bed Utilisation Credit					175.7
Stamp Duty		Services			-732.6
Irish Life Health 14,000 members		a Payara		BETT	-5.2
Total		Harry H			30.0

The projected net financial impact of renewals from 1 April 2018 – 31 March 2019 is a net benefit of

These figures are based on the projected membership in Section E of the Report which assumes that the changes in market membership by insurer in the year to end June 2017) would continue through to 1 April 2019. If this assumption was borne out, the memberships at that date would be

The projected net financial impact per insured life (counting children as 1/3rd)

Charts B2.1 to B2.4 set out the net cost for each of the insurers and for the market as a whole for each cohort

Chart B2.1

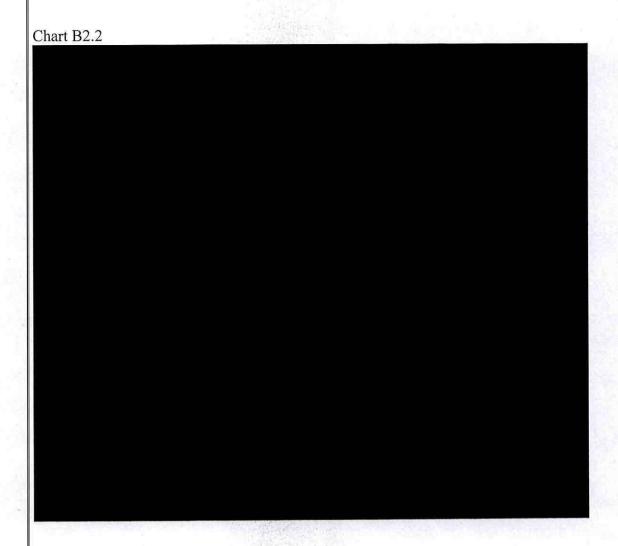
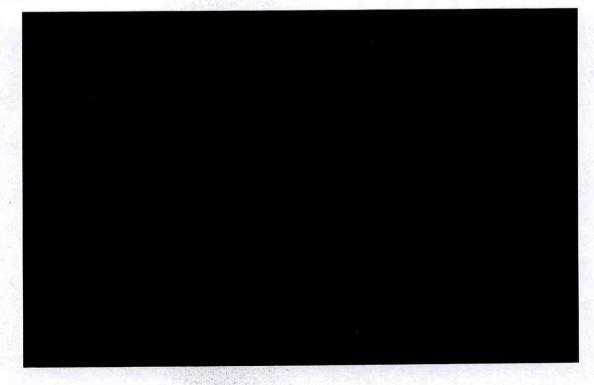
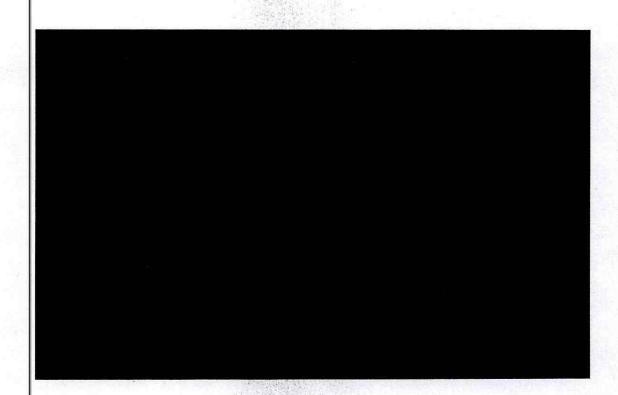


Chart B2.3





Alternative 1

This option calculates credits by gender, product level and age such that for each age group over 65, the net cost should not be more than 130% of the average net cost across all groups. A hospital utilisation credit of ϵ 90 is applied for overnight inpatient stays and ϵ 30 is applied for day stays. Claims inflation is assumed to be 4% per annum and bed night inflation is assumed to be 1% per annum.

The total risk equalisation credits are financed by a stamp duty which varies by product level. The stamp duty for Non-Advanced contracts is set at 50% of the stamp duty relating to Advanced contracts. The risk equalisation fund is projected to have a surplus of €30m when the contracts written prior to 1 April 2018 have fully earned credits and stamp duty.

The age credits calculations are based on the actual claims costs for July 2016 – June 2017 time period.

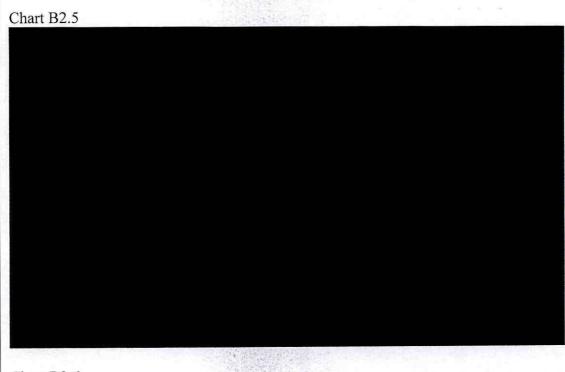
Table B2.7

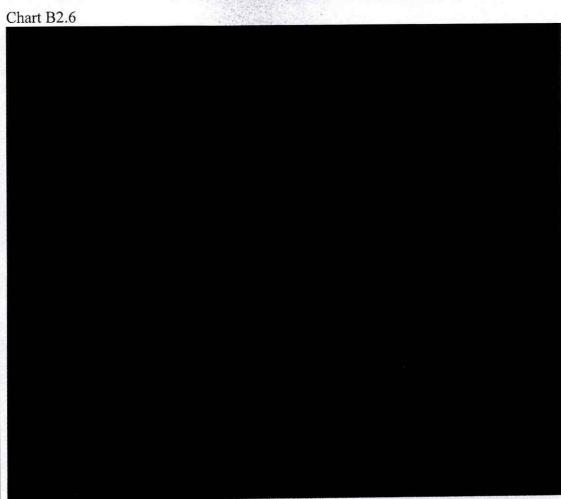
Age	Stamp duty per	r person (€)	Credit per person (€)				Total Bed	Total	Total Stamp
			Non-advanced		Advanced		Utilisation	Credits	Duty
	Non Advd	Advd	Men	Women	Men	Women	Credits	(€million)	(€million)
0-17	73	146	0	0	0	0	8.8	0.0	66.4
18-29	219	437	0	0	0	0	5.5	0.0	93.9
30-39	219	437	0	. 0	0	0	10.8	0.0	113.2
40-49	219	437	0	0	0	0	12.2	0.0	135.4
50-54	219	437	0	0	0	0	7.4	0.0	61.4
55-59	219	437	0	0	0	0	9.3	0.0	57.9
60-64	219	437	0	0	- 0	0	11.9	0.0	54.4
65-69	219	437	452	338	1,045	687	15.0	93.2	47.6
70-74	219	437	773	593	1,808	1,295	18.4	146.1	41.5
75-79	219	437	1.150	898	2,638	2,006	16.7	139.6	26.6
80-84	219	437	1.539	1,220	3,584	2,810	16.2	126.8	17.6
85+	219	437	2,273	1,536 .	5,160	3,473	15.2	109.9	11.8
2016 Scheme				Neglis, In	Stenotonia.		V s. Santa		30.0
	,000 Irish Life Health	lives incorred	tly classifie	d as serving in	nitial waiting	periods			5.2
Total	, out and and and			Nazata e	(1) (1) (1) (1) (1)		147.3	615.5	762.8

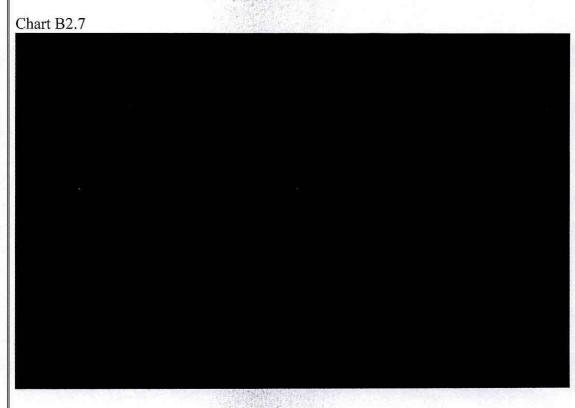
Table B2.8

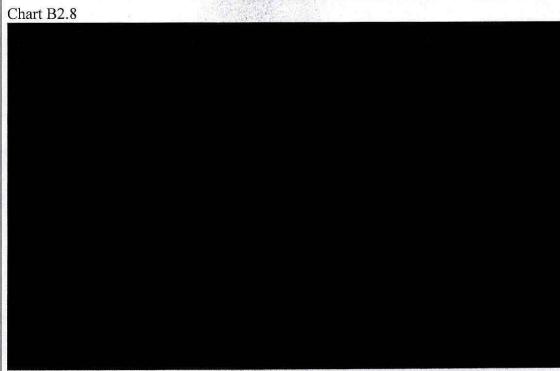
	Irish Lif Health	e Laya Healthcare	VHI Healthcare	Total
Age Related Health Credits	246.6			615.5
Hospital Bed Utilisation Credit	19 8 45		la l	147.9
Stamp Duty	745 22.5			-728.2
Irish Life Health 14,000 members	10.1			- 5.2
Total				30.0

The projected net financial impact of renewals from 1 April 2018 - 31 March 2019 is









Alternative 2

This option calculates credits from by gender, product level and age such that for each age group over 65, the net cost should not be more than 130% of the average net cost across all groups. A hospital utilisation credit of $\in 100$ is applied for overnight inpatient stays and $\in 50$ is applied for day stays. Claims inflation is assumed to be 4% per annum and bed night inflation is assumed to be 1% per annum.

The total risk equalisation credits are financed by a stamp duty which varies by product level. The stamp duty for Non-Advanced contracts is set at 40% of the stamp duty relating to Advanced contracts. The risk equalisation fund is projected to have a surplus of €30m when the contracts written prior to 1 April 2018 have fully earned credits and stamp duty.

The age credits calculations are based on the actual claims costs for July 2016 – June 2017 time period.

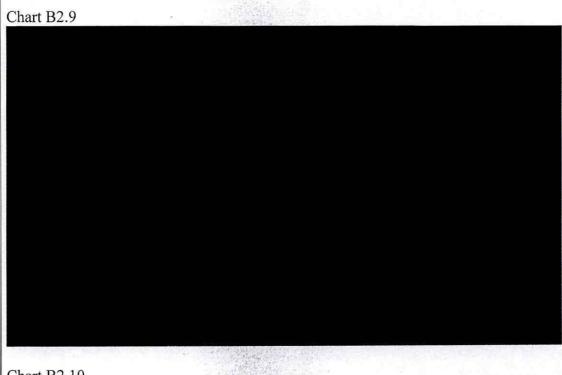
Table B2.9

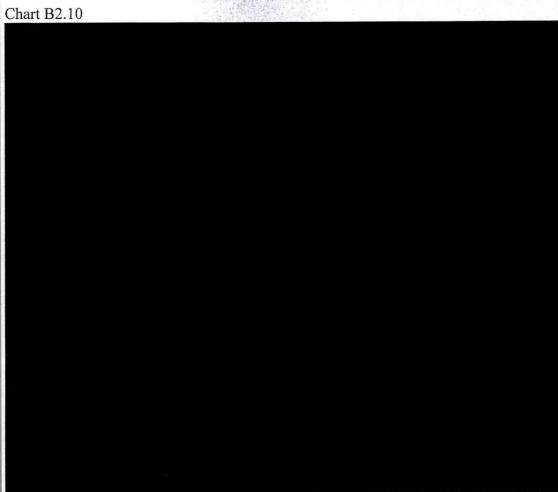
Age	Stamp duty per	r person (€)	Credit per person (€)				Total Bed	Total	Total Stamp
			Non-advanced		Advanced		Utilisation	Credits	Duty
	Non Advd	Advd	Men	Women	Men	Women	Credits	(€million)	(€million)
0-17	60	151	0	0	0	0	10.2	0.0	68.3
18-29	180	453	0	0	- 0	0	6.5	0.0	96.0
30-39	180	453	0	0	0	0	12.7	- 0.0	115.5
40-49	180	453	0	0	0	0	15.1	0.0	138.5
50-54	180	453	0	0	0	0	9.1	0.0	62.9
55-59	180	453	0	0	0	0	11.4	0.0	59.4
60-64	180	453	0	0	0	0	14.5	0.0	55.9
65-69	180	453	411	301	1,030	674	18.1	91.5	49.0
70-74	180	453	732	555	1,784	-1,275	21.9	143.9	42.9
75-79	180	453	1,112	861	2,604	1,977	19.6	137.6	27.5
80-84	180	453	1,496	1,178	3,537	2,770	18.7	125.1	18.2
85÷	180	453	2,232	1,495	5,089	3,424	17.2	108.4	12.2
2016 Scheme	e Surplus			YAKING L					* 30.0
Impact of 14	000 Irish Life Health	lives incorrec	tly classifie	d as serving in	itial waiting	periods		W/#AW- 28.11	5.2
Total				1 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1	Hillian I		175.1	606.5	781.5

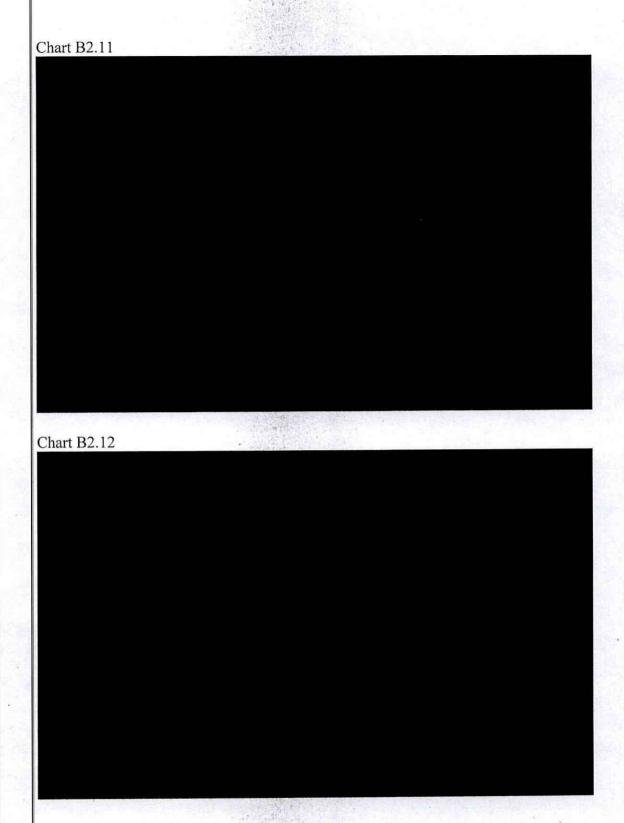
Table B2.10

	Irish Life Health	Laya Healthcare	Vhi Healthcare	Total
Age Related Health Credits				606.5
Hospital Bed Utilisation Credit				175.7
Stamp Duty	5 A - 1 Care	64-1180		-746.9
Irish Life Health 14,000 members	7 J. St			-5.2
Total				30.0

The projected net financial impact of renewals from 1 April 2018 – 31 March 2019 is







Alternative 3

This option calculates credits from by gender, product level and age such that for each age group over 65, the net cost should not be more than 130% of the average net cost across all groups. A hospital utilisation credit of ϵ 90 is applied for overnight inpatient stays and ϵ 30 is applied for day stays. Claims inflation is assumed to be 3% per annum and bed night inflation is assumed to be 1% per annum.

The total risk equalisation credits are financed by a stamp duty which varies by product level. The stamp duty for Non-Advanced contracts is set at 40% of the stamp duty relating to Advanced contracts. The risk equalisation fund is projected to have a surplus of €30m when the contracts written prior to 1 April 2018 have fully earned credits and stamp duty.

The age credits calculations are based on the actual claims costs for July 2016 – June 2017 time period.

Table B2.11

Age	Stamp duty per	r person (€)	Credit per person (€)				Total Bed	Total	Total Stamp
			Non-advanced		Advanced		Utilisation	Credits	Duty
	Non Advd	Advd	Men	Women	Men	Women	Credits	(€million)	(€million)
0-17	57	144	0	0	0	0	8.8	0.0	65.3
18-29	172	433	0	0	0	0	5.5	0.0	91.8
30-39	172	433	0	0	0	0	10.8	0.0	110.5
40-49	172	433	0	0	0	0	12.2	0.0	132.4
50-54	172	433	0	10	0	0	7.4	0.0	60.2
55-59	172	433	0	0	0	0	9.3	0.0	56.8
60-64	172	433	0	0	0	0	11.9	0.0	53.5
65-69	172	433	410	299	1,023	673	15.0	91.1	46.8
70-74	172	433	724	548	1,769	1,267	18.4	142.8	41.0
75-79	172	433	1,094	847	2,579	1,961	16.7	136.4	26.3
80-84	172	433	1,473	1,161	3,503	2,746	16.2	123.9	17.4
85+	172	433	2,192	1,471	5,039	3,392	15.2	107.3	11.6
2016 Scheme	e Surplus		1140		105 - 25				30.0
	,000 Irish Life Health	lives incorrec	tly classifie	d as serving in	itial waiting	periods			5.2
Total			Ne 16		in in the second		147.3	601.6	748.9

Table B2.12

	Irish Life Health	Laya Healthcare	Vhi Healthcare	Total
Age Related Health Credits				601.6
Hospital Bed Utilisation Credit				147.9
Stamp Duty				-714.3
Irish Life Health 14,000 members			1804-8	-5.2
Total			S NEW YORK	30.0

The projected net financial impact of renewals from 1 April 2018 - 31 March 2019 is

