An tÚdarás Árachas Sláinte
The Health Insurance Authority

Report of the Authority to the Minister for Health on an evaluation and analysis of returns from 1 July 2019 to 30 June 2020, including advice on Risk Equalisation Credits.

September 2020

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Executive summary

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 2019 to 30 June 2020.

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 7E(1)(b) requires the Authority to have regard to the following objectives:

- The Principle Objective (community rating)
- Avoiding over-compensation being made to a registered undertaking
- Maintaining the sustainability of the health insurance market
- Fair and open competition in the health insurance market
- Avoiding the Fund sustaining surpluses or deficits from year to year

Uncertainty and implications of COVID-19

The calibration of the Risk Equalisation Scheme ("RES") for policies renewing in the period 1 April 2021 to 31 March 2022 is subject to much greater uncertainty than usual due to the implications of the COVID-19 pandemic and the fact that the extent and duration of the effects on the private and public health systems are still unknown.

COVID-19 has been a major disruptor to the private health insurance market in Ireland, resulting in significant reductions in the usage of health insurance / hospitalisation services over the first half of 2020. There has been significantly reduced claims activity as a result of the suspension of most elective hospital treatment and the three-month nationalisation of private hospitals. This is partially reflected in the Returns from insurers for Jan-July 2020, although the full effects will only become clear in subsequent quarters. The future impact of the ongoing health and economic crisis created by the virus is uncertain.

Analysis of the Returns shows that the reduction in claims cost due to COVID-19 varies by the age of the policyholder. In monetary terms, the reduction due to the lower levels of elective treatment has been much larger for older lives, as their normal expected claims costs are higher. The effect of the reduction in claims costs and the associated mismatch in Age Credits therefore varies according to the age profile of the insurer with greater reductions in net claims costs at older ages.

All three insurers have made some form of refunds to policyholders in response to their period of reduced claims.

COVID-19 has also had significant economic effects due to the closure of businesses during the lockdown, and unemployment has increased significantly. From the last recession we know there is a correlation between unemployment and health insurance market participation and that younger lives are mostly likely to leave. This threatens the sustainability of the market, since if sicker and/or older lives remain this increases average claim costs, which in turn drives up premiums.

Key Assumptions and Basis of Calculations

As already noted, the effects of COVID-19 on the healthcare system is ongoing. The Authority has taken the view that for RES 2021/22 (i.e. in respect of policies renewing in the period 1 April 2021 to 31 March 2022) claims experience will revert to normal levels.

Analysis of the Jan-June 2020 returns shows that the data have been distorted due to COVID-19, and this means that it is not a suitable basis for projecting RES 2021/22. The data for Jan-Dec 2019 have therefore been used as a more reliable basis for the projections.

In projecting the Stamp Duty and Risk Equalisation Credits for RES 2021/22, the assumption has been made that the existing RES will be extended for one year which the Authority is supportive of. Approval for the extension of the current RES has not been confirmed at the date of writing of this report.

For RES 2021/22, it is proposed that the overnight Hospital Utilisation Credit should be increased from €100 to €125, as this increases the effectiveness of the RES.

The projection of the insured population assumes a reduction in the overall number of insured lives of 75,420 (from 2,179,402 to 2,103,982) when the credits will apply. However, it is not so much the population size but the distribution of age in the mark which is important in determining credits and stamp duties. The lapses have been assumed to occur amongst healthy lives aged under 60, with the highest lapses in the youngest age groups, and this will lead to a change in the age profile and hence an increase in overall average claim cost.

The calibration of the RES is designed to be self-funding, and any surplus/deficit arising impacts the RES in future periods. After careful consideration, the Authority is of the view that there is likely to be a surplus of circa €43m in the Risk Equalisation Fund ("REF") when the credits and stamp duty on all contracts that commence in advance of 1 April 2021 are fully earned. The Authority has estimated that the Risk REF is likely to be positively impacted due to lower levels of hospitalisations as a result of COVID-19 and negatively impacted due to reductions in expected levels of stamp duty receipts due to shrinkages in the market. The Authority has allowed for this estimated surplus in its recommendation for policies commencing in the period 1 April 2021 to 31 March 2022.

Conclusions and Recommendations

The Authority acknowledges that COVID-19 brings a higher than usual degree of uncertainty to the calibration of the RES and that there is a range of potentially acceptable options for the Stamp Duty and Risk Equalisation Credits that could be

considered. It is necessary to strike a balance between the level of Stamp Duty paid by all policyholders and the level of compensation paid to insurers in respect of older and/or sicker lives. In considering this balance, the Authority has had regard to all of its objectives and in particular this year the objectives of market sustainability and fair and open competition.

For policies renewing in the period 1 April 2020 to 31 March 2021, the Stamp Duty for Advanced contracts was set at €449 and the Claims Cost Ceiling ("CCC") was 130%. Using the same CCC for RES 2021/22 would imply a Stamp Duty of €458, an increase of €9 or about 2%. Given that claims inflation is expected to run at 4% pa, this modest increase in Stamp Duty appears reasonable and in normal circumstances this scenario might have been the Authority's recommendation.

However, in view of the uncertainties regarding the effects of COVID-19, the market disruption which has ensued and the potential loss of younger policyholders, other options have been explored. The Authority has tried to strike a fair balance between fair competition and the sustainability of the market, and believes that this can be achieved by keeping Stamp Duty unchanged at €449. To facilitate this, the CCC has been increased to 133.5%.

The Authority proposes that the following credits should apply for health insurance policies that are renewed or entered into on or after 1 April 2021.

Age Bands	Utilisation credits (overnight / day case) from 1 April 2021	Age / gender / level of cover credits from 1 April 2021			
		Non-advanced		Advanced	
		Men	Women	Men	Women
64 and under	€125 / €75	€0	€0	€0	€0
65-69	€125 / €75	€350	€200	€1,025	€550
70-74	€125 / €75	€550	€400	€1,675	€1,150
75-79	€125 / €75	€825	€625	€2,500	€1,800
80-84	€125 / €75	€1,025	€700	€3,150	€2,250
85 and above	€125 / €75	€1,250	€825	€3,750	€2,550

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 2021 and 31 March 2022, in order to meet the cost to the Risk Equalisation Fund ("REF") of the recommended Risk Equalisation Credits, are as follows:

Age Bands	Stamp duties from 1 April 2021 to 31 March 2022	
	Non-advanced	Advanced
17 and under	€52	€150
18 and over	€157	€449

Notes

The underlying figures in the various tables contained in this report are calculated to many decimal places. In the presentation of our results there may be reconciliation differences due to the effect of rounding.

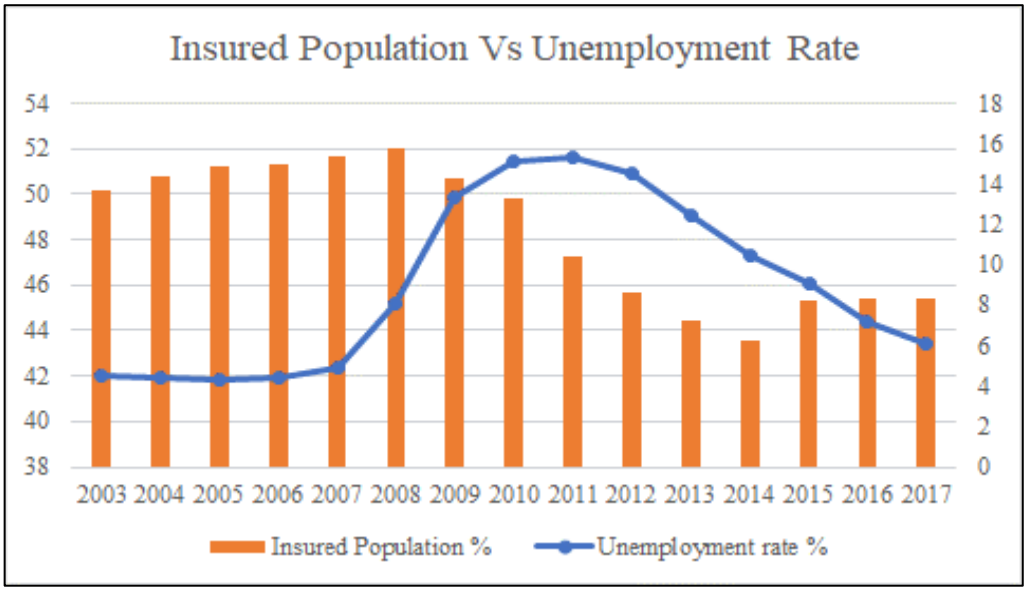
Throughout the report we have used the following terms interchangeably:
‘Age Credits’ and ‘Risk Equalisation Premium Credits’
‘Stamp Duty’ and ‘Levy’
‘Claims Cost’, ‘Average Returned Benefits’ and ‘Average Claims’

Section A – Key considerations and conclusions

Review of Market Developments

Following the emergence of COVID-19 in Ireland in late February 2020, there have been various restrictions introduced in Ireland which significantly impacted private health insurance in Ireland. A summary of the impacts of COVID-19 on the private health insurance market is given below:

- Ireland entered lockdown on 27 March 2020 and emerged from lockdown on 29 June 2020 when internal travel restrictions were lifted.
- The Governments Emergency legislation resulted in the nationalisation of private hospitals in Ireland from April 2020 – June 2020. During this time the private hospitals were acting on a non-for-profit basis with patients being treated as public patients in private hospital settings. Non-essential surgical procedures in both private and public hospital settings were also halted as a result of the pandemic. Overall, this has resulted in lower claims and lower bed utilisation in Q2 2020.
- Each of the insurers refunded part of the favourable experience back to their customers, either through reduced premium payments or special COVID-19 payments.
- Since the end of the deal with private hospitals and the unwinding of lockdown, social distancing guidelines and increased hygiene requirements have reportedly impacted on capacity and have resulted in a reduction in throughput in hospitals. The expectation is that COVID-19 is likely to have a higher impact on the public hospital system, although that very much depends on the strategy going forward around the use of private hospital facilities for the treatment of COVID-19 cases, which is yet to be decided. Many hospitals have introduced precautionary COVID-19 testing. The expectation of the Authority is that the measures in place are likely to lead to increased costs in hospital settings.
- The unemployment rate in the country reached the peak levels seen in the years that followed the 2008 recession, although this has happened at a much quicker pace. The live register in August 2020 is c. 440k lives (ignoring those on wage subsidy but including those in receipt of the pandemic unemployment payment) which is comparable to the peak of the last recession 2010/ 2011. It is unclear as to the longer-term impacts COVID-19 will have on unemployment levels. The previous recession resulted in a large exit of insured members from the health insurance market and an increase in downgrade activity. Set out below are details of the market penetration and unemployment rates over time and the correlation between unemployment and market participation is evident. This would suggest that the current economic situation has the potential to have a significant impact on market penetration, the extent of which will depend on the speed of economic recovery. Another factor which has the potential to have a significant impact on unemployment is Brexit. The Minister for Foreign affairs stated on 15th September that the best-case scenario achievable by the end of the year was a very "basic" and "pretty thin" trade agreement.
  It should be noted that the increase in penetration from 2015 was largely due to the introduction of lifetime community rating.



Source: CSO.ie

- The claims experience in Q2 2020 (and in Q1 2020 to a lesser extent) in the information returns is somewhat distorted relative to what might have been expected to be observed had COVID-19 not happened. The Authority is of the view that the market is likely to contract somewhat and takes the view that, while capacity of the Irish hospital system is likely to be reduced somewhat in the short to medium term, there is much uncertainty over the longer terms impacts. Thus, when calibrating the credits that will apply for health insurance policies that are renewed or entered into on or after 1 April 2021, the Authority has made an allowance for reductions in the size of the market by healthier younger lives but has assumed that hospital utilisation rates will revert to those observed before the pandemic began by that time.
- The Authority requested insurers views on the outlook of claims and membership as a result of COVID-19. We have considered these views in our projections.
- COVID-19 is ongoing and the severity and duration of the virus is unknown and volatile, therefore the outlook on the economy and on the provision of health services is difficult to determine.

Evaluation and Analysis of Data Received

We note that the nationalisation of private hospitals and the cancellation of non-essential surgical procedures as a result of COVID-19 has led to some level of distortions (relative to other time periods) in the Q2 2020 data furnished to the Authority. This means that the most recent experience is not a reliable basis for projecting future claim costs. Therefore, when setting credits, the Authority has assumed that the future claims experience will be reflective of that observed in 2019 (after allowing for claims inflation) and the calibration has been set on this basis.

Each of the insurers have refunded part of the favourable claims experience back to their customers. Irish Life Health and Vhi Healthcare have done so through reduced premium payments and Laya Healthcare have done so through special COVID-19 payments. The claims experience data provided in the Information Returns has not been

impacted by these actions. The level of refunds made may have been impacted by the RES flows during the period. The accounts in respect of 2020 to be submitted under Section 7F will provide more information and will be considered under Section 7F as applicable.

The number of insured persons included in returns increased in the period July 2019 – July 2020 by 2.3%, from 2,131,288 at 1 July 2019 to 2,179,402 at 1 July 2020.

[redacted]

Financial Information and Overcompensation

[redacted] 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.

[redacted]

The Authority is required to carry out an overcompensation assessment according to section 7F of the Health Insurance Acts. The overcompensation assessment is required to be performed in each of the three years 2019 to 2021 for the appropriate time periods ending in the previous December. A separate overcompensation assessment report is prepared each year for the Minister.

The Authority is currently in the process of carrying out assessment of whether overcompensation has occurred in the three year period 2017 – 2019 using actual insurer's audited accounts.

In relation to overcompensation, the Department of Health has requested the Authority to prepare a pre-draft of Regulations concerning the annual financial statements that insurers are required to furnish to the Authority for the purpose of the overcompensation assessment as regards the RES as per Section 7F(1) of the Health Insurance Acts. The Authority has engaged KPMG to assist it with this work. Section 7F(2)(b) of the Health Insurance Acts states: *"The Minister may prescribe the bases for the calculation of costs, premia and other relevant financial data that are to be included in a statement of profit and loss or balance sheet to be furnished to the Authority pursuant to subsection*

(1)". This has not been allowed for in any considerations relating to overcompensation within this report.

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.
- For Advanced products (using Level 2 costs) the net cost for ages 65 and over reduces with age. This could be indicative of reduced claims as a result of COVID-19 as the age credits would have assumed a higher level of average claims for older lives than has been experienced. If average claims for older lives were to reduce on a longer-term basis then age credits should also reduce as the net claims cost for older lives is currently calibrated to target 130% of the market net claims costs in line with the claims cost ceiling. However, the insurers' view is that while throughput will be lower the average costs are likely to increase.

Population Projections

The projections assume a reduction in the overall number of insured lives of 75,420 (from 2,179,402 to 2,103,982) when the credits will apply. This can be considered as consisting of an increase of 70,966 insured lives to allow for the expected growth in the market that might have been observed in a pre-COVID-19 environment less a reduction of 146,386 insured lives to allow for the expected lapses that will emerge due to COVID-19.

It is worth noting that the ageing of the insured market in the last year added 1% to the average claims cost per insured person over the 12 month period to 30 June 2020. This calculation considers the change in the demographic profile of the insured lives over the year to determine how last year's claims experience would differ if the lives changed but the total population didn't. However, the assumed reduction in the insured population is likely to have a more significant impact on the ageing effect on the average claims cost per insured person, which is expected to be of the order of 8.0%. If the assumed reduction in population was to double the ageing effect would increase to 13.1%. This highlights the sensitivity of the average claims cost per insured person to the change in the demographic profile of the market.

It should be noted that the Authority has assumed that unhealthy lives are less likely to exit the market and thus a selection effect is assumed in the Authority's projections.

Stamp duty

In view of the uncertainties regarding the effects of COVID-19, the market disruption which has ensued and the potential loss of younger policyholders, other options have been explored. The Authority has tried to strike a fair balance between fair competition and the sustainability of the market, and believes that this can be achieved by keeping Stamp Duty unchanged at €449.

The Authority recommends that the stamp duty paid in respect of Non-advanced plans remains at 35% of the stamp duty applying for Advanced plans.

Hospital Utilisation Credits Recommendation

The Hospital Utilisation Credit is a proxy for health status and provides support in respect of less healthy people. The Authority is recommending that the level of Hospital Utilisation Credit for bed nights increases from €100 per night to €125 per night. The Authority is recommending that the current level of Hospital Utilisation Credit for day case admissions remains at €75.

Risk Equalisation Premium Credits Recommendation

The Authority is recommending that the Risk Equalisation Premium Credits (Age Credits) be such that, for all age groups from age 65 and over, the net claims cost is increased from 130% to 133.5% of the projected market average net claims cost. This has been done to facilitate the stamp duty being maintained at €449.

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. While the claims cost ceiling has increased slightly, the Authority is of the opinion that the credits and stamp duties that it is proposing strike a balance between these conflicting objectives, noting that the expected contraction of the market is expected to have a more pronounced effect on affordability than the calibration of the claims cost ceiling.

The Authority notes that expected net claims cost at ages 60-64 will continue to be higher than for older ages as no Risk Equalisation Premium Credits continue to be proposed for this age group.

Consistent with last year, the Authority proposes that credits for Non-advanced cover contracts would continue to be based on the average claim costs for Non-advanced contracts. A smoothing factor has been used for claims costs for Non-advanced contracts aged over 65 by applying the average ratio of Non-advanced claims cost to Level 2 claims cost for all ages over age 65 combined.

Recommendation on 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 2021.

Age Bands	Utilisation credits (overnight / day case) from 1 April 2021	Age / gender / level of cover credits from 1 April 2021			
		Non-advanced		Advanced	
		Men	Women	Men	Women
64 and under	€125 / €75	€0	€0	€0	€0
65-69	€125 / €75	€350	€200	€1,025	€550
70-74	€125 / €75	€550	€400	€1,675	€1,150
75-79	€125 / €75	€825	€625	€2,500	€1,800
80-84	€125 / €75	€1,025	€700	€3,150	€2,250
85 and above	€125 / €75	€1,250	€825	€3,750	€2,550

The credits that currently apply are as follows:

Age Bands	Utilisation credits (overnight / day case) from 1 April 2020	Age / gender / level of cover credits from 1 April 2020			
		Non-advanced		Advanced	
		Men	Women	Men	Women
64 and under	€100 / €75	€0	€0	€0	€0
65-69	€100 / €75	€350	€225	€1,150	€675
70-74	€100 / €75	€575	€425	€1,850	€1,300
75-79	€100 / €75	€850	€625	€2,650	€1,950
80-84	€100 / €75	€1,075	€775	€3,350	€2,525
85 and above	€100 / €75	€1,225	€925	€4,300	€3,025

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 2021 and 31 March 2022, are as follows:

Age Bands	Stamp duties from 1 April 2021 to 31 March 2022	
	Non-advanced	Advanced
17 and under	€52	€150
18 and over	€157	€449

Please note that the Risk Equalisation Credits are being recommended on the assumption that the existing Risk Equalisation Scheme ("RES") will be extended for one year, although this has not been confirmed at the date of writing of this report.

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 REF sustaining surpluses or deficits from year to year.

When setting credits in last year's report the Authority assumed an initial surplus of €30m which was expected to be exhausted due to the expectation that expected allocated credits would exceed expected stamp duty receipts by €30m.

The Authority is of the view that the REF is likely to be positively impacted due to lower levels of hospitalisations as a result of COVID-19 and negatively impacted due to reductions in expected levels of stamp duty receipts due to shrinkages in the market. In aggregate, the Authority is of the view that there is likely to be a surplus of circa €43m in the REF when the credits and stamp duty on all contracts that commence in advance of 1 April 2021 are fully earned.

The Authority, having regard to the aim of avoiding the REF 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 2021 to 31 March 2022.

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 2021 to 31 March 2022 are as follows:

	Irish Life Health €m	Laya Healthcare €m	Vhi Healthcare €m	Total €m
Age Related Health Credits	[redacted]			605
Hospital Utilisation Credit	[redacted]			200
Stamp duty	[redacted]			(763)
Remove Estimated Surplus in the REF				(43)
REF Balance				0
Net Financial Impact*	[redacted]			**43**
Net Financial impact per insured life (€)	[redacted]			€24

[redacted] *Thus, overall the REF is expected to utilise the €43m surplus expected to exist in the REF when the credits and stamp duty on all contracts that commence in advance of 1 April 2021 are fully earned.*

The projected net financial impact of the current credits and stamp duty, as set out in the September 2019 Report for policies commencing in the period 1 April 2020 to 31 March 2021, are shown below:

	Irish Life Health €m	Laya Healthcare €m	Vhi Healthcare €m	Total €m
Age Related Health Credits	[redacted]			659
Hospital Bed Utilisation Credit	[redacted]			171
Stamp duty	[redacted]			(800)
Remove Estimated surplus in the REF				(30)
Total	[redacted]			30
Net Financial impact per insured life (€)	[redacted]			€16

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 uncertainty and should be viewed as indicative only.

The net financial impact on the REF 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 REF is cost neutral will depend on how closely the assumptions made in this report are borne out in practice.

Movement in Key Metrics

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.

It is also important that the RES aims to ensure that credits are appropriately targeted. The overall effectiveness of the RES considers the distribution of claims between insurers by age and not the overall level of claims by age. One of the aims of the Authority is to improves the overall effectiveness of the RES, and considerable work has been done around this issue with regard to the next RES and the inclusion of a HCCP. Due to the nature of the Irish market, there is a balance to be struck between increased effectiveness and the affordability and sustainability issues noted above. The new RES has been delayed as a consequence of COVID-19 and the credits are being recommended on the assumption that the existing RES will be extended for one year, although this has not been confirmed at the date of writing of this report.

The Authority has been cognisant of these issues when setting stamp duties and credits for health insurance policies that are renewed or entered into on or after 1 April 2021. Set out below are details of the changes to the RES calibration and their impact of these metrics.

Reasons for Change of Advanced Cover Adult Stamp Duty from 2020 Enacted to 2021 Recommended	Stamp Duty €	Effectiveness	Projected average Claims Cost €	Net Claims Cost * Claims Cost Ceiling €
2020 Enacted Stamp Duty	**€449**	**26.7%**	**€1,214**	**€1,578**
Impact of updated data	€4	0.9%	€15	€20
Impact of assumed market contraction not reflected in most recent data	€8	(0.8%)	€77	€100
Impact of change in RES surplus from €30m to €43m	(€10)	0.1%	€0	€0
Impact of increase in Overnight HUC from €100 to €125	€10	3.6%	€1	€1
Impact of change in Claims Cost Ceiling from 130% to 133.5%	(€13)	(0.2%)	€0	€46
2021 Recommended Stamp Duty	**€449**	**30.3%**	**€1,307**	**€1,745**
Change in Metric	**€0**	**3.6%**	**€93**	**€167**

Summary of Insurer Views

The Authority met with each of the insurers to discuss their views on the RES. Each insurer submitted a paper with detail on their views/ observation. We have included summarized some of the main themes below. [redacted]

[redacted]

Additionally, the Authority requested monthly projected claims and insured population information from each of the insurers in May 2020 to understand their views on the potential impacts of COVID-19.

In last year's Report, the Authority concluded that consideration of the inclusion of the insurers' proposals should be given as part of the next Risk Equalisation Scheme design. A detailed analysis was provided on these proposals and is not repeated in this report. Generally, the observations made by the insurers are broadly in line with those made last year (save the impact of COVID-19 and observations on the HCCP which is to be incorporated into the next RES). COVID-19 is expected to have a significant impact on the market in terms of size, age distribution, claims experience and hospital utilisation, and the Authority has been cognisant of the insurers' views of the impact of COVID-19 when setting credits and stamp duty for policies commencing in the period from 1 April 2021 to 31 March 2022. The other recommendations have been deferred for consideration as part of the next RES.

The insurers also provided or are in the process of providing updated HCCP data to support the calibration of the next RES. The process with the EU commission had commenced in relation to approval of RES 2021 and the incorporation of a HCCP. However, the process has been delayed as a consequence of COVID-19 and the credits are being recommended on the assumption that the existing RES will be extended for one year, although this has not been confirmed at the date of writing of this report.

Summary of impact of using alternative methodologies for 2021

As part of its deliberations the Authority considered a wide range of scenarios which it considered against its objectives. These included scenarios which explored the impact of varying stamp duty (affordability and sustainability) and varying credits (community rating and avoidance of segmentation). Below is a summary of sensitivities performed on the recommended methodology for setting credits and stamp duty from 1 April 2021:

1. Increase Claims inflation to 6%;
2. Reduce Bed Night payments to €100;
3. Increase initial surplus by €10m;
4. Reduce initial surplus by €10m;
5. Assume population reduction does not occur;
6. Assume population reduction doubles;
7. Assume stamp duty increases by €20 by changing claims cost ceiling;
8. Assume stamp duty decreases by €20 by changing claims cost ceiling;
9. Assume stamp duty decreases by €23 by changing claims cost ceiling and initial surplus;
10. Assume initial surplus of €43m, claims cost ceiling 140% and Day HUC increases to €100 and Night HUC increases to €150 with the aim of increasing effectiveness; and
11. Assume initial surplus of €55m, claims cost ceiling 140% and Day HUC increases to €100 and Night HUC increases to €150 with the aim of increasing effectiveness.

Scenario	Stamp Duty €	CCC %	Effectiveness (Total - All Ages)	Initial Surplus €m	Age Credit Fund €m	HUC Fund €m	Stamp Duty Collected €m	Average Claims Cost €	Average Claims Cost *CCC €
Recommendation	449	133.5	30.3%	43	605	200	763	1,307	1,745
Claims inflation 6%	471	133.5	30.5%	43	643	200	801	1,377	1,838
HUC Day €75 Night €100	439	133.5	26.5%	43	619	170	747	1,306	1,744
Initial Surplus +10m	442	133.5	30.4%	53	605	200	751	1,307	1,745
Initial Surplus -10m	457	133.5	30.1%	33	609	200	776	1,307	1,745
No reduction in population	434	133.5	31.1%	55	639	200	783	1,230	1,642
13% reduction in population	462	133.5	29.4%	31	569	201	736	1,397	1,865
Stamp Duty +€20 (€469)	469	128.1	30.9%	43	642	200	796	1,307	1,674
Stamp Duty -€20	429	139.2	29.7%	43	573	200	728	1,307	1,820
Stamp duty -€23	426	137.5	30.0%	55	578	200	724	1,307	1,797
Initial Surplus €43m Claims cost ceiling 140% HUC Day €100 Night €150	442	140.0	34.9%	43	547	247	752	1,309	1,832
Initial Surplus €55m Claims cost ceiling 140% HUC Day €100 Night €150	433	140.0	35.0%	55	545	247	736	1,309	1,832

The above table considers the key metrics noted above. See Appendix B for more detailed sensitivity analysis.

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

Information Returns HY2 2019 and HY1 2020

Half-yearly returns for the July to December 2019 and January to June 2020 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 2 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 22 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 2019 and on 1 January 2020. 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 2019 and for the first half of 2020 are set out in Table B.1.

Table B.1

Insurer	Returned Benefits July – Dec 2019	Returned Benefits Jan – June 2020
Irish Life Health	[redacted]	
Laya Healthcare	[redacted]	
Vhi Healthcare	[redacted]	
Total	88%	87%

The benefits excluded from Returned Benefits are primarily claims in respect of outpatient benefits.

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 2019, the second half of 2019 and the first half of 2020. The data excludes members serving initial waiting periods.

Table B.2

Insurer	01-Jul-19		01-Jan-20		01-Jul-20	
	Members 000s	Market Share (%)	Members 000s	Market Share (%)	Members 000s	Market Share (%)
Irish Life Health	[redacted]					
Laya Healthcare	[redacted]					
Vhi Healthcare	[redacted]					
Total	2,131		2,163		2,179	

The insured membership of the insurers has changed in the last year as follows: Irish Life Health: [redacted]; Laya Healthcare: [redacted]; and Vhi Healthcare: [redacted].

As of end June 2020, 46.0% of the Irish population are estimated to have private health insurance (including restricted undertakings), which is 0.3% higher than the percentages observed at end June 2019. The market share for each insurer has remained broadly the same when compared to the end of June 2019.

Table B.3

Insurer	Gross Premium Income 2019 (2018 in brackets)	
	€m	Market Share by premium (%)
Irish Life Health	[redacted]	
Laya Healthcare	[redacted]	
Vhi Healthcare	[redacted]	
Total	2,564 (2,527)	

[redacted]

[redacted]

Gender profile of insurers' members

The gender distributions of the memberships of the three insurers for the period January to July 2020 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	[redacted]			49%
Female	[redacted]			51%

Age Profile of Insurers Members

The age distribution (average for the period January to July 2020) 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 2019.

Table B.5

Age group	Irish Life Health	Laya Healthcare	Vhi Healthcare	Market
0-17	[redacted]			22.9% (23.2%)
18-29	[redacted]			11.6% (11.3%)
30-39	[redacted]			13.1% (13.4%)
40-49	[redacted]			16.0% (16.0%)
50-54	[redacted]			7.1% (7.1%)
55-59	[redacted]			6.7% (6.7%)
60-64	[redacted]			6.0% (6.1%)
65-69	[redacted]			5.4% (5.3%)
70-74	[redacted]			4.6% (4.5%)
75-79	[redacted]			3.2% (3.1%)
80-84	[redacted]			2.0% (2.0%)
85+	[redacted]			1.4% (1.4%)
Under 65	[redacted]			83.4% (83.7%)
Over 65	[redacted]			16.6% (16.3%)

[redacted]

[redacted]

[redacted]

Claims Profile

Analysis of Claims Data and Risk Profiles

The total claim payments made by the open market insurers in 2018, 2019 and the first half of 2020 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 2018	[redacted]			1,025
Second Half 2018	[redacted]			1,096
2018 Total	[redacted]			**2,121**
First Half 2019	[redacted]			1,113
Second Half 2019	[redacted]			1,135
2019 Total	[redacted]			**2,248**
First Half 2020	[redacted]			970

The total claims paid in the first half of 2020 were €143m lower than the first half of 2019. This is a very different story to 12 months ago whereby claims paid in the first half of 2019 were €80m higher than the first half of 2018. The reduction in claims can be considered to be attributable to COVID-19, primarily due to the nationalisation of the Private Hospitals from April – June 2020 and the cancellation of non-essential surgical procedures in both private and public hospital settings.

[redacted]

Based on the above projections, and due to reporting delays, the Authority is of the view that the information returns in H2 2020 (and possibly H1 2021) will also contain some level of distortion as a result of COVID-19, although it is expected that the impacts will reduce over time assuming claims revert to pre-COVID-19 levels by end of 2020 or early 2021.

Table B.7 splits out the returned benefit payments between those attributable to public hospitals, private hospitals, and to hospital consultants. The total returned benefits paid were €847m in the first half of 2020 compared to €995m in the second half of 2019. The reduction of €148m is made up of reductions in the payments to Private Hospitals (€112m), Consultants (€23m) and Public Hospitals (€13m). The reduction to private hospital observed is significant and driven by COVID-19. However, as noted above the impact is likely to be significantly larger due to reporting delays and thus is likely to manifest itself in the next set of information returns.

Table B.7

		Irish Life Health €m's	Laya Healthcare €m's	Vhi Healthcare €m's	Total €m's
First Half 2018	Public Hospital	[redacted]			253 (27%)
	Private Hospital	[redacted]			480 (52%)
	Consultant	[redacted]			192 (21%)
	Sub Total	[redacted]			***925***
Second Half 2018	Public Hospital	[redacted]			256 (26%)
	Private Hospital	[redacted]			513 (53%)
	Consultant	[redacted]			206 (21%)
	Sub Total	[redacted]			***975***
2018 Total		[redacted]			**1,900**
First Half 2019	Public Hospital	[redacted]			234 (24%)
	Private Hospital	[redacted]			526 (54%)
	Consultant	[redacted]			214 (22%)
	Sub Total	[redacted]			***974***
Second Half 2019	Public Hospital	[redacted]			237 (24%)
	Private Hospital	[redacted]			544 (55%)
	Consultant	[redacted]			214 (21%)
	Sub Total	[redacted]			***995***
2019 Total		[redacted]			**1,969**
First Half 2020	Public Hospital	[redacted]			224 (26%)
	Private Hospital	[redacted]			431 (51%)
	Consultant	[redacted]			191 (23%)
	Sub Total	[redacted]			***847***

Product Groups

Note on Terminology

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

- 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 proportion of each insurer's membership in each market segment on 1 July 2020 is shown in the Tables B.8 and B.9 (1 July 2019 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	9% (9%)	76% (76%)	15% (15%)

Table B.9

	Non-Advanced	Advanced
Irish Life Health		
Laya Healthcare		
Vhi Healthcare		
Total	8% (9%)	92% (91%)

The proportion of Non-Advanced plans has reduced slightly to 8% since last year.

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 30 products (Irish Life Health: ■, Laya Healthcare ■ and Vhi Healthcare: ■) being marketed classified as Non-Advanced with 175,446 members insured.

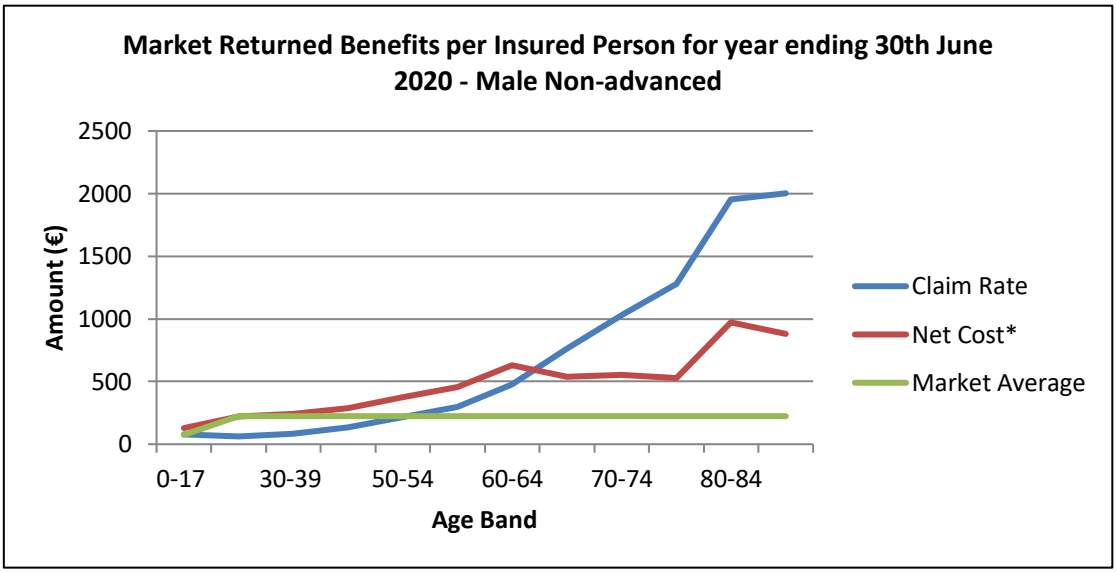
Consistent with last year, the Authority proposes that credits for Non-advanced cover contracts would continue to be based on the average claim costs for Non-advanced contracts. A smoothing factor has been used for claims costs for Non-advanced contracts aged over 65 by applying the average ratio of Non-advanced claims cost to Level 2 claims cost of 35% for all ages over age 65 combined.

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 2019 and the first half of 2020. 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. It should be noted that these figures may be distorted by the reduction in returned benefits in Q2 2020.

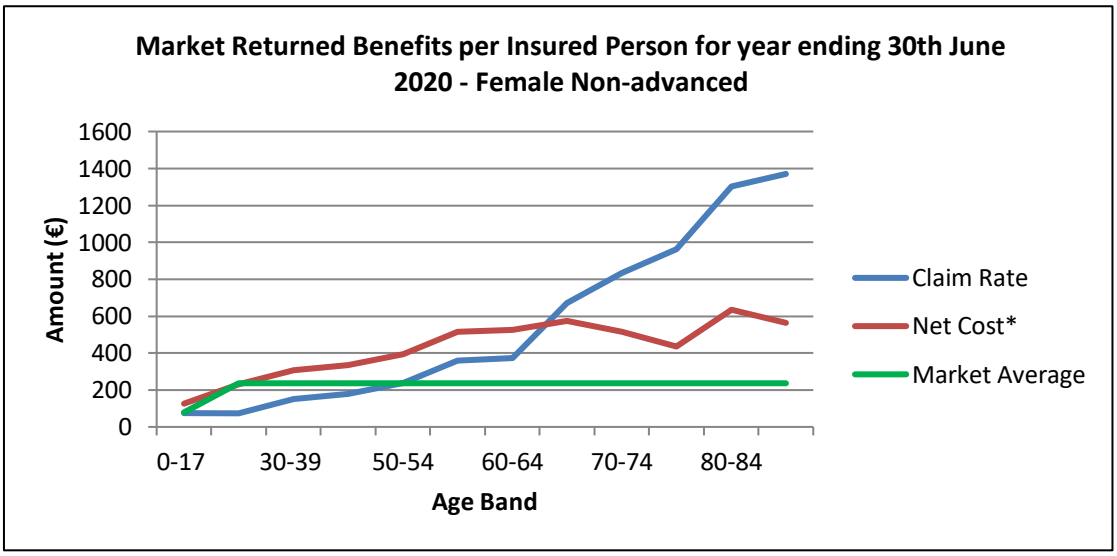
Charts B.1 to B.4 set out the average returned benefit by age, the market average returned benefits, and the corresponding net cost after application of the current credits and stamp duties for the different age cohorts. This allows us to analyse the impact the current credits and stamp duty have on the claim rates for the 12 months ending June 2020 for these different cohorts of business. It should be noted that the 2020 credits apply for the policy year from the renewal date on or after 1 April 2020 while the market returned benefits are for the year ending June 2020.

Chart B.1



** Net Cost is defined as average returned benefit for July 2019 – June 2020 plus stamp duty less age and hospital utilisation credit for renewals from 1 April 2020 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 2020 credits and stamp duty) for many of the older age cohorts reduces as the age increases (65-80 for males and 70-80 for females) 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

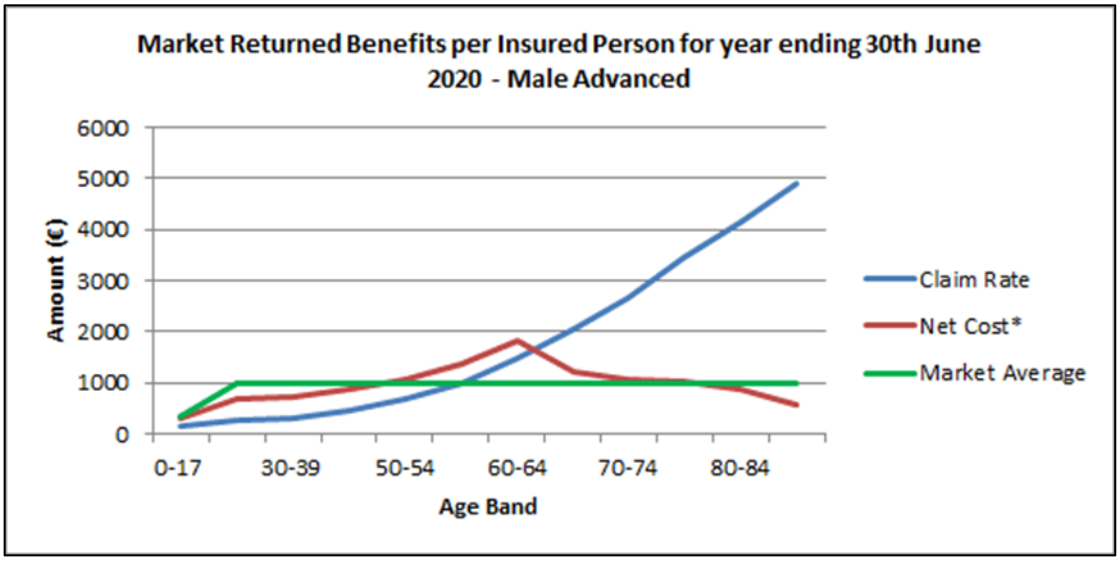
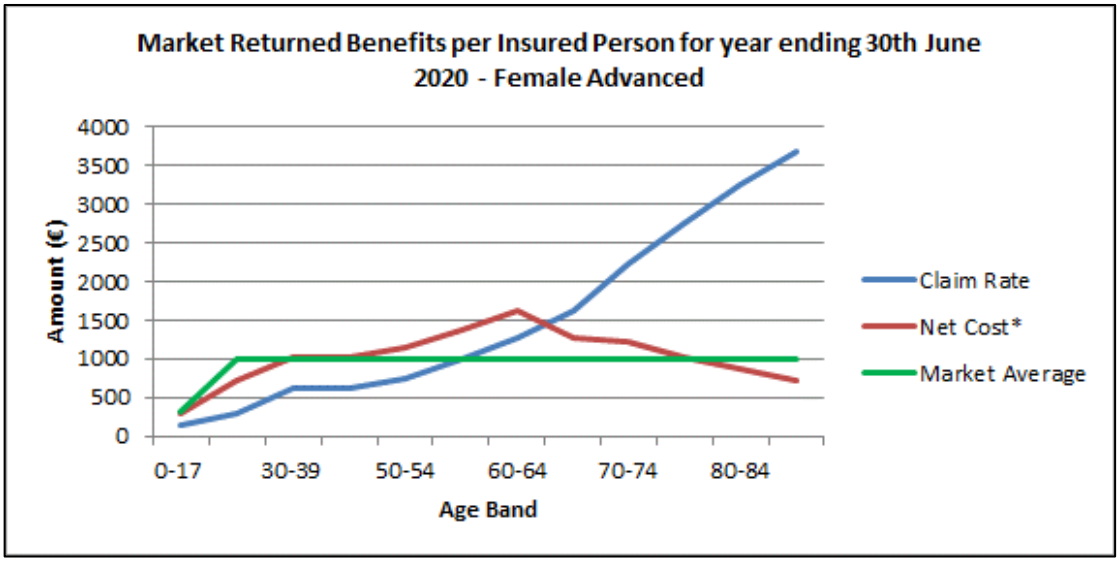


Chart B.4



For Advanced products (using Level 2 costs) the net cost for ages 65 and over reduces with age. This could be indicative of reduced claims as a result of COVID-19 as the age credits would have assumed a higher level of average claims for older lives.

The 60-64 age group is an outlier for both males and females 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 2019 and January to June 2020 is included in Appendix D.

Section C - Financial Data

Profitability of Registered Undertakings

The profitability of Registered Undertakings' private health insurance business in 2019 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 from investments and 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. Any profits made by these administration companies are excluded.

These 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 2019:

	Elips Insurances Ltd (Laya Healthcare) €m	Great Lakes Reinsurance (UK) PLC (GloHealth) €m	Irish Life Health DAC €m	Vhi Insurance DAC €m	Market €m
Earned premiums before reinsurance and Risk Equalisation Credits	[redacted]	[redacted]	[redacted]	[redacted]	2,577.6
Impact of risk equalisation	[redacted]	[redacted]	[redacted]	[redacted]	5.5
Claims incurred before reinsurance	[redacted]	[redacted]	[redacted]	[redacted]	(2,258.3)
Claims ratio (Gross of risk equalisation)	[redacted]	[redacted]	[redacted]	[redacted]	87.6%
Claims ratio (Net of risk equalisation)	[redacted]	[redacted]	[redacted]	[redacted]	87.4%
Cost of reinsurance	[redacted]	[redacted]	[redacted]	[redacted]	(93.0)
Expenses	[redacted]	[redacted]	[redacted]	[redacted]	(221.3)
Underwriting Profit	[redacted]	[redacted]	[redacted]	[redacted]	10.4
Underwriting profit as % earned premiums	[redacted]	[redacted]	[redacted]	[redacted]	0.4%
Underwriting Profit Gross of Reinsurance	[redacted]	[redacted]	[redacted]	[redacted]	103.4
Impact of Investments	[redacted]	[redacted]	[redacted]	[redacted]	(8.4)
Profit before tax	[redacted]	[redacted]	[redacted]	[redacted]	2.2
Sales	[redacted]	[redacted]	[redacted]	[redacted]	2,583.2
Return on Sales Gross of reinsurance excl. investment return	[redacted]	[redacted]	[redacted]	[redacted]	4.0%

GloHealth closed to new and renewing business from 22nd February 2017 and its business is now being written by Irish Life Health. The figures in Table C.1 account for the run off of GloHealth's remaining inforce business.

[redacted]

[redacted]

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 group company that reinsures part of the business.

The Authority is currently in the process of carrying out an assessment of whether overcompensation has occurred in the three year period 2017 – 2019 using actual insurer's audited accounts. A separate report is prepared for the Minister setting out the Authority's findings.

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 2020/ 2021 and the actual net financial impact in respect of 2019. It should be noted that insurers' estimates are based on their view of membership figures over the full 2020/ 2021 calendar year and on their various methods of accounting for credits and stamp duty.

Table C.2

€m's	Net Financial Impact of Risk Equalisation 2019	Estimated Net Financial Impact of Risk Equalisation in 2020	Estimated Net Financial Impact of Risk Equalisation in 2021
Elips	[redacted]		
Great Lakes	[redacted]		
Irish Life Health	[redacted]		
Vhi Healthcare	[redacted]		
Total	5.5	(33.7)	6.3

[redacted]

For 2019, insurers' accounts show a total net financial impact of [redacted] in respect of risk equalisation. For 2020, insurers have, in aggregate, projected a negative net impact of risk equalisation on insurers' financial results of [redacted], which is probably mainly driven by reductions in HUC due to lower hospitalisation levels (past and expected future) due to COVID-19. It 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 REF sustaining surpluses or deficits from year to year.

Table C.3: Projected Surplus in REF

€m	Retained Revenue Reserves 31/12/2019	Projected Surplus/deficit at end of claim period
01/01/2013 – 31/03/2018 Contracts	40.6	39.1
01/04/2018 - 31/03/2019 Contracts	2.8	7.8
01/04/2019 - 31/03/2020 Contracts	5.7	32.1
01/04/2020 – 31/03/2021 Contracts		(34.4)
Investment Income Less expenses	(1.3)	(1.4)
Total	**47.8**	**43.0**

When setting credits in last year's report the Authority assumed an initial surplus of €30m which was expected to be exhausted due to the expectation that expected allocated credits would exceed expected stamp duty receipts by €30m.

The Authority is of the view that the REF is likely to be positively impacted due to lower levels of hospitalisations as a result of COVID-19 and negatively impacted due to reductions in expected levels of stamp duty due to shrinkages in the market. In aggregate, the Authority is of the view that there is likely to be a surplus of circa €43m in the REF when the credits and stamp duty on all contracts that commence in advance of 1 April 2021 are fully earned.

The Authority, having regard to the aim of avoiding the REF 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 2021 to 31 March 2022.

Section D – Review of market developments

Premium inflation in the market July 2019 – June 2020

In the 12 months to end June 2020, the average gross premium paid by consumers was €1,177, which represents a 1.6% decrease on the average premium paid in the 12 months to 30 June 2019 (€1,196). 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 2019- June 2020	Average Gross premium paid July 2018- June 2019	% Change
Irish Life Health			
Laya Healthcare			
Vhi Healthcare			
Total Open Membership Insurers	€1,177	€1,196	(1.6%)

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[1] increased by 6.3% in the 12 months to the end of July 2020. 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 increased marginally in the last year with 306[2] inpatient private health insurance plans on the Product Register on 30 July 2020 (excluding restricted undertakings). This is an increase of 6 plans since 30 July 2019. Of the 306 plans available at 30 July 2020, Irish Life Health provide 118 plans, Laya Healthcare 103 plans and Vhi Healthcare 85 plans.

Non-advanced products began being marketed from 31 March 2013. In the information returns for 1 July, 2020 there were 175,446 (184,268 at 1 July 2019**)** persons insured with products that were categorised as Non-advanced at that date. This amounts to 8.1% of the total number of insured persons at that date. There are currently 30 products (Irish Life Health: ■, Laya Healthcare ■ and Vhi Healthcare: ■) being marketed classified as Non-Advanced.

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.

[1] This index is a composite price index of health insurance premiums paid by consumers.
[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.

Newer products offering better value than existing 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 have products with reduced orthopaedic benefits in private hospitals, with approximately half of the market insured under these plans.

This segmentation, as well as a 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 €	Total Market €m's
Average Net Claim per insured person (June 2019 - June 2020)					
18-64	[redacted]			1,028	999
Over 65's	[redacted]			1,084	274
Average Gross of Tax Relief Premiums per insured person (June 2019 – June 2020)					
18-64	[redacted]			1,551	1,528
Over 65's	[redacted]			2,012	508
Average Difference per insured person (June 2019 – June 2020)					
18-64	[redacted]			523	530
Over 65's	[redacted]			928	235

	Irish Life Health €	Laya Healthcare €	Vhi Healthcare €	Weighted Market Average €	Total Market €m's
Average Net Claim per insured person (June 2018 - June 2019)					
18-64	[redacted]			1,088	1,024
Over 65's	[redacted]			1,353	329
Average Gross of Tax Relief Premiums per insured person (June 2018 – June 2019)					
18-64	[redacted]			1,475	1,415
Over 65's	[redacted]			1,877	458
Average Difference per insured person (June 2018 – June 2019)					
18-64	[redacted]			387	391
Over 65's	[redacted]			524	129

	Irish Life Health €	Laya Healthcare €	Vhi Healthcare €	Weighted Market Average €	Total Market €m's
Average Net Claim per insured person (Difference)					
18-64	[redacted]			(60)	(25)
Over 65's	[redacted]			(269)	(55)
Average Gross of Tax Relief Premiums per insured person (Difference)					
18-64	[redacted]			76	113
Over 65's	[redacted]			135	50
Average Difference per insured person (Difference)					
18-64	[redacted]			136	138
Over 65's	[redacted]			404	106

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 significantly higher for older lives this year when compared to last year. This could be indicative of reduced claims as a result of COVID-19 as the age credits would have assumed a higher level of average claims for older lives. The same could be said of younger lives as the average level of profitability has increased. However, the impact is more pronounced for older lives because age credits are received for them. This could suggest that if average claims were to reduce on a sustained basis going forward (perhaps due to a lack of access to private healthcare as a result of further waves of COVID-19) that age credits should also reduce, as the net claims cost for older lives is calibrated to target 130% of the market net claims costs in line with the claims cost ceiling. However, the insurers view is that while throughput will be lower the average costs are likely to increase which suggests that reducing age credits may not be appropriate. Notwithstanding, age credits are a substantial portion of the total credits distributed and thus, in the event of reduced hospitalisation and claims levels, may not be as effective at targeting credits as other more health related measures might do, e.g. DRGs or HUC to a lesser extent. Furthermore, a reduction in claims in respect of older lives may make them more attractive to the insurers if viewed as potentially more profitable.

There is continuing evidence that insurers, and in particular [redacted] Table D.3 shows the average difference in net premiums for the most common level of cover with allowance for discounted children prices. Comparative percentages differences are shown in respect of June 2019 premiums in brackets.

Table D.3 – Average net premiums paid for Level 2 plans for June 2020

	Average Net Premium		
Insurer	Age <65	Age >=65	Difference
Irish Life Health	[redacted]		
Laya Healthcare	[redacted]		
Vhi Healthcare	[redacted]		
Market	€1,346 (€1,269)	€1,812 (€1,677)	35% (32%)

The difference in average premiums between the over and under 65's for the market has risen from 32% to 35%, [redacted]

Set out in Table D.4 is the price changes for the 5 most popular plans of each insurer.

Table D.4

Plan Name	No. of insured as at 30 June 2020	Price 30 June 2020	Price 30 June 2019	Price Increase
Irish Life Health				
[redacted]				
Laya Healthcare				
[redacted]				
Vhi Healthcare				
[redacted]				

Impact of COVID-19

Following the emergence of COVID-19 in Ireland in late February 2020, there have been various restrictions introduced in Ireland which significantly impacted the private health insurance in Ireland. A summary of the impacts of COVID-19 on the private health insurance market is given below:

- The Government's Emergency legislation resulted in the nationalisation of private hospitals in Ireland from April 2020 – June 2020. During this time the private hospitals were acting on a non-for-profit basis with patients being treated as public patients in private hospital settings.
- Non-essential surgical procedures in both private and public hospital settings were also halted as a result of the pandemic. Overall this has resulted in lower claims and lower bed utilisation in Q2 2020.
- Each of the insurers refunded part of the favourable experience back to their customers, either through reduced premium payments or special COVID-19 benefit payments.
- Since the end of the deal with private hospitals and the unwinding of lockdown, social distancing guidelines and increased hygiene requirements are expected to have impacted on capacity and have resulted in a reduction in throughput in hospitals. The expectation is that COVID-19 is likely to have a higher impact on the public hospital system, although that very much depends on the strategy going forward around the use of private hospital facilities for the treatment of COVID-19 cases, which is yet to be decided. Many hospitals have introduced precautionary COVID-19 testing. The expectation of the Authority is that the measures in place are likely to lead to increased costs in hospital settings.
- The unemployment rate in the country reached the peak levels seen in the years that followed the 2008 recession, although this has happened at a much quicker pace. The live register in August 2020 is c. 440k lives (ignoring those on wage subsidy but including those in receipt of the pandemic unemployment payment)

which is comparable to the peak of the last recession 2010/ 2011. It is unclear as to the longer-term impacts COVID-19 will have on unemployment levels once the restrictions are fully lifted. The previous recession resulted in a large exit of insured members from the health insurance market and an increase in downgrade activity. Set out below are details of the market penetration and unemployment rates over time. This would suggest that the current economic situation has the potential to have a significant impact on market penetration, the extent of which will depend on the speed of economic recovery. It should be noted that the increase in penetration from 2015 was largely due to the introduction of lifetime community rating.

- The claims experience in Q2 2020 (and in Q1 2020 to a lesser extent) in the information returns is somewhat distorted relative to what might have been expected to be observed had COVID-19 not happened. The Authority is of the view that the market is likely to contract somewhat and takes the view that, while capacity of the Irish hospital system is likely to be reduced somewhat in the short to medium term, there is much uncertainty over the longer terms impacts. Thus, when calibrating the credits that will apply for health insurance policies that are renewed or entered into on or after 1 April 2021, the Authority has made an allowance for reductions in the size of the market by healthier younger lives but has assumed that hospital utilisation rates will revert to those observed before the pandemic began by that time.
- The Authority requested insurers views on the outlook of claims and membership as a result of COVID-19. We have considered these views in our projections.

Discussions with insurers

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

Section E – Projections

Retrospective review of projections in 2019 Report

Review of Membership Projections in the Authority's 2019 Report

In its 2019 Report, the Authority projected that the change in the age profile of the market in the year ending June 2019 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 2020 and the percentages of the total market for each age group.

Table E.1

Membership for the Market as of 1 July 2020			
Age Group	Actual	Projected	Net Difference
Aged 17 and under	503,584 (23.1%)	507,903 (23.3%)	-4,319
Aged 18 to age 29	254,026 (11.7%)	253,634 (11.6%)	392
Aged 30 to age 39	288,633 (13.2%)	288,795 (13.2%)	-162
Aged 40 to age 49	348,305 (16.0%)	348,906 (16.0%)	-601
Aged 50 to age 54	153,137 (7.0%)	152,643 (7.0%)	494
Aged 55 to age 59	144,381 (6.6%)	144,364 (6.6%)	17
Aged 60 to age 64	130,385 (6.0%)	130,428 (6.0%)	-43
Aged 65 to age 69	115,849 (5.3%)	115,433 (5.3%)	416
Aged 70 to age 74	98,737 (4.5%)	99,501 (4.6%)	-764
Aged 75 to age 79	68,938 (3.2%)	68,541 (3.1%)	397
Aged 80 to age 84	43,255 (2.0%)	43,581 (2.0%)	-326
Aged 85 and over	30,172 (1.4%)	30,484 (1.4%)	-312
Total	2,179,402	2,184,213	**-4,811**

The above table shows that the actual insured population at 1 July 2020 was c.0.2% lower than the projected population at that date.

Population Projection

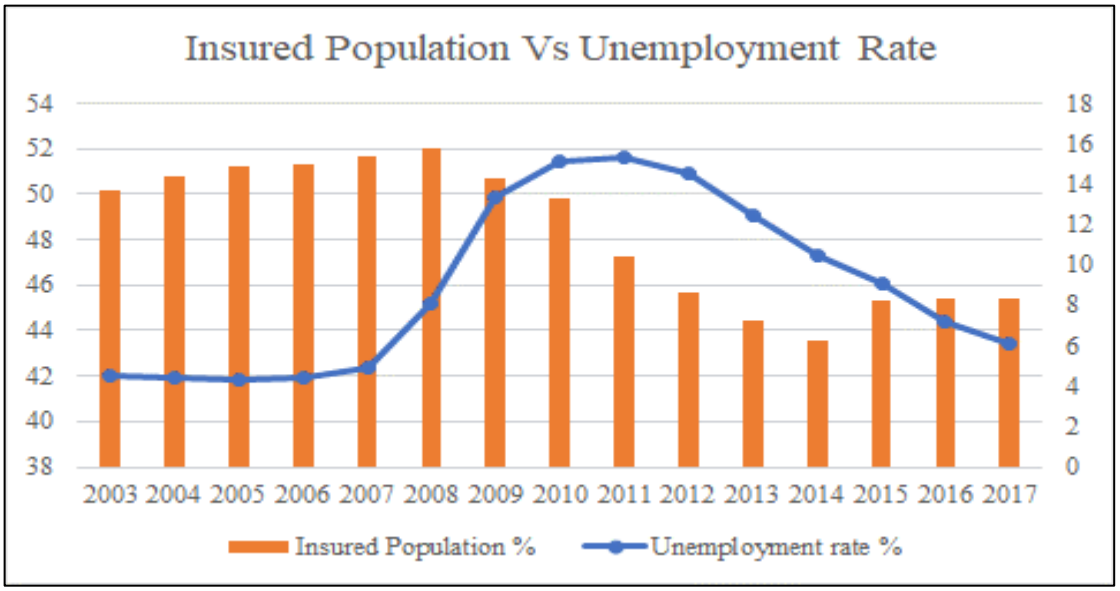
It is not so much the population size, but the distribution of age in the market which is important in determining levies and credits. We have compared the age distribution of the market as it currently stands at 30 June 2020 with the age distribution using the population at 30 June 2019 projected to 30 June 2020 and as can be seen in Table E.1, there is no significant difference in the distribution of the market or indeed the actual market size which is very much in line with the Authority's projection from last year. Thus, the Authority is of the view that using roll forward data for the purposes of deriving the Risk Equalisation Credits and stamp duty that will apply for health insurance policies that are renewed or entered into on or after 1 April 2021 is reasonable.

In our projections we have projected the population at 30 June 2019 forward to 01 October 2021 (to allow for the natural ageing of the insured lives) and then reduced by it by 6.5% to allow for market shrinkage. The key judgement in our population projection is the future age distribution, and we have assumed that all lapses will occur under age 60, as set out in Table E.2 below:

Table E.2:

Age	Reduction in projected population
Under 40	10%
40-49	7.5%
50-54	5%
55-59	2.5%
Over 60	0%

Set out below are details of market penetration and unemployment rates, and live register numbers.



Source: CSO.ie

The 2008 recession showed a fall in the market of c. 10% over a three year period (from 52% in 2008 to 47% in 2011), and the reduction took place in line with increases to the live register.

The live register in August 2020 is c. 440k lives (ignoring those on wage subsidy) which is comparable to unemployment levels in 2010/ 2011 at the peak of the fallout of the last recession.

Live Register

August 2020

	Live Register Total	Seasonally Adjusted	Pandemic Unemployment Payment	Temporary COVID-19 Wage Subsidy Scheme	Total (Excluding overlaps)
August 2019	199,093	187,900	-	-	
July 2020	244,562	226,100	274,578	453,743	927,724
August 2020	225,844	213,700	224,956	359,095	783,485
Change in month		-12,400	-49,622	-94,648	-144,239
Change in year	+ 26,751		-	-	

Source: CSO.ie

The calibration of the 6.5% is based on discussions with the insurers, a review of the impact on the market based on unemployment rates, and application of judgement by the Authority. It should be noted that the 6.5% is applied after the expected growth in

the market, and thus the real reduction from the insured population at 30 June 2020 to when the credits will apply is c 3.5%. The current market penetration rates (including RMUs) is c. 46%. After applying the assumed reductions in the market this assumes a market penetration rate of 44% (ignoring potential population growth), which is broadly comparable to market penetration rates observed in 2013 / 2014.

The projected insured population assumption implicitly assumes that older and retired lives will place higher value on health insurance than younger lives and that they are less likely to have reduced income (as most will be in active retirement) and thus will be less likely to lapse.

The Authority is of the view that the approach to projecting the insured population allows for the natural expected increased in the market and then adjusts for the adverse market effects the Authority expects to arise as a result of the economic conditions arising due to COVID-19.

Table E.3 sets out the projected market position when the credits will apply and compares it to the current market position at 30 June 2020:

Table E.3:

	Actual 30 June 2020		Projected Reduced Population underpinning the RES calibration for contract periods 1 April 2021 to 31 March 2022		Projected reduced population as at 01 October 2021	
Age	Population	Age Distribution	Population	Age Distribution	Population	Age Distribution
0-17	503,584	23.1%	468,090	22.2%	(35,494)	(0.9%)
18-29	254,026	11.7%	242,874	11.5%	(11,152)	(0.2%)
30-39	288,633	13.2%	261,154	12.4%	(27,479)	(0.8%)
40-49	348,305	16.0%	332,124	15.8%	(16,181)	(0.2%)
50-54	153,137	7.0%	147,264	7.0%	(5,873)	0.0%
55-59	144,381	6.6%	144,077	6.8%	(304)	0.2%
60-64	130,385	6.0%	132,618	6.3%	2,233	0.3%
65-69	115,849	5.3%	118,333	5.6%	2,484	0.3%
70-74	98,737	4.5%	104,287	5.0%	5,550	0.5%
75-79	68,938	3.2%	73,267	3.5%	4,329	0.3%
80-84	43,255	2.0%	46,587	2.2%	3,332	0.2%
85+	30,172	1.4%	33,305	1.6%	3,133	0.2%
Total	**2,179,402**		**2,103,982**		**(75,420)**	

It is worth noting that the ageing of the insured market in the last year added 1% to the average claims cost per insured person over the 12 month period to 30 June 2020. However, the assumed reduction in the insured population is likely to result in a more significant impact on the ageing effect on the average claims cost per insured person, which is expected to be of the order of 8.0%. If the assumed reduction in population was to double (from 6.5% to 13%) the ageing effect would increase to 13.1%. This highlights the sensitivity of the average claims cost per insured person to the change in the demographic profile of the market.

It should be noted that the Authority has assumed that unhealthy lives are less likely to exit the market and thus a selection effect is assumed in the Authority's projections.

Review of Claims Inflation Assumptions in the Authority's 2019 Report

Last year the Authority decided that a reasonable method for projecting the average returned benefit per insured person for renewals from 1 April 2020 was to project an increase of 3% 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 2019 – June 2020 with those made in the July 2018 – June 2019 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 2019 to the twelve month period ending in June 2020 for each insurer and for the market is shown in Table E.4. Comparative figures for the twelve month period ending in June 2019 are shown in brackets.

Table E.4

Age Group	Irish Life Health	Laya Healthcare	Vhi Healthcare	Market
0-17	[redacted]			-13.3% (-3%)
18-29	[redacted]			-7.9% (-3%)
30-39	[redacted]			-7.9% (-2.0%)
40-49	[redacted]			-9.1% (-2.0%)
50-54	[redacted]			-13.1% (0.0%)
55-59	[redacted]			-8.5% (-1.0%)
60-64	[redacted]			-6.4% (-1.0%)
65-69	[redacted]			-8.3% (-3.0%)
70-74	[redacted]			-7.6% (-1.0%)
75-79	[redacted]			-8.5% (-1.0%)
80-85	[redacted]			-9.1% (-1.0%)
85+	[redacted]			-8.5% (-4%)
All Ages	[redacted]			-7.9% (-2.0%)

It is important to note that the figures presented in Table E.4 are distorted due to the impact of COVID-19 on the claims emerging in Q2 2020 which suggests that deflationary effects have emerged in the period.

Insurers were asked for their views on how the projected average Returned Benefit for 2021 renewals might be projected to allow for the impact of reduced capacity in hospitals, potential of second and subsequent waves of COVID-19, selection by those who remain in the health insurance market and future claims inflation.

Having regard to the responses received, the Authority is of the view that average claims costs are likely to increase in the short term due to reduced capacity in the hospital system, additional costs due to COVID-19 precautions and the prioritisation of more serious cases. It is unclear at this stage what the longer-term impacts will be or indeed when capacity returns to normal levels, which will depend on the prevalence of the virus and the availability of a vaccine. For the purposes of the projections the Authority has assumed that capacity will revert to normal levels when the credits will apply (noting that HUC will be payable over the period 1 April 2021 – 31 March 2023).

The Authority feels that it is reasonable to assume that claims inflation will also revert to normal levels, or moderately increase at that time, and that a reasonable method for projecting the average returned benefit per insured person for renewals from 1 April 2021 would be to project an increase of 4% 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 December 2019. This assumes no change in the daily rate charged for private patients in public hospitals. The age specific rate does not include the impact of changing demographics which is provided for in the population projections.

Projections for 2020 Credits

Projected age profile of market in 2020

The actual change in insured lives between 1 July 2019 and 1 July 2020 in the information returns data is set out in Table E.5.

Table E.5

Open Enrolment Market	01-Jul-19	01-Jul-20	Net Diff
Aged 17 and under	498,145	503,584	5,439
Aged 18 to age 29	240,653	254,026	13,373
Aged 30 to age 39\	287,694	288,633	939
Aged 40 to age 49	340,788	348,305	7,517
Aged 50 to age 54	150,746	153,137	2,391
Aged 55 to age 59	141,638	144,381	2,743
Aged 60 to age 64	128,676	130,385	1,709
Aged 65 to age 69	113,113	115,849	2,736
Aged 70 to age 74	95,672	98,737	3,065
Aged 75 to age 79	64,760	68,938	4,178
Aged 80 to age 84	41,176	43,255	2,079
Aged 85 and over	28,227	30,172	1,945
Total	**2,131,288**	**2,179,402**	**48,114**

There was an increase in the number of insured lives of 48,114 over the period from 1 July 2019 to 1 July 2020. The projections assume a reduction in the overall number of insured lives of 75,420 (from 2,179,402 to 2,103,982) when the credits will apply. This can be considered as consisting of an increase of 70,966 insured lives to allow for the expected growth in the market that might have been observed in a pre-COVID-19 environment less a reduction of 146,386 insured lives to allow for the expected lapses that will emerge due to COVID-19.

The resulting projected numbers are set out in Table E.6 below:

Table E.6

Projected Market 01-October-2021 after adjustment for COVID-19			
	Non-advanced	Advanced	Total
Aged 17 and under	28,247	439,844	468,090
Aged 18 to age 29	22,711	220,163	242,874
Aged 30 to age 39	31,049	230,105	261,154
Aged 40 to age 49	34,376	297,749	332,124
Aged 50 to age 54	13,087	134,176	147,264
Aged 55 to age 59	10,475	133,602	144,077
Aged 60 to age 64	8,074	124,544	132,618
Aged 65 to age 69	5,639	112,694	118,333
Aged 70 to age 74	3,863	100,425	104,287
Aged 75 to age 79	1,748	71,520	73,267
Aged 80 to age 84	921	45,667	46,587
Aged 85 and over	527	32,779	33,305
Total	**160,715**	**1,943,267**	**2,103,982**

Projected Returned Benefit for each insurer

The nationalisation of private hospitals and the cancellation of non-essential surgical procedures in both private and public hospital settings have resulted in lower claims and lower bed utilisation in Q2 2020. For this reason, we have used average claims costs for the twelve months from January 2019 to end December 2019 as the base figures for the projected average Returned Benefits when setting stamp duty and credits, as this is our most recent dataset that has not been distorted by these effects. As noted previously, we have assumed that the actual age specific market claims cost per insured person will inflate at 4% p.a.

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.

Table E.7

000's	Overnight	Day case	Total
Second Half 2018	564	308	872
First Half 2019	538	292	830
Second Half 2019	546	311	856
First Half 2020	489	237	726

Table E.8 shows the split by insurer for the January to June 2020 time period.

Table E.8

000's	Overnight	Day case	Total
Irish Life Health	[redacted]		
Laya Healthcare	[redacted]		
Vhi Healthcare	[redacted]		
Total	489	237	726

Similarly to average returned benefits, we have not used the data in respect of January 2020 to end June 2020 when setting hospital utilisation rates due to distortions in the data. For our projections, the average overnight stays and day case days per insured person for the twelve months from January 2019 to end December 2019 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 2021

Impact of COVID-19 on projections

As noted previously, the claims experience in Q2 2020 (and in Q1 2020 to a lesser extent) in the information returns is somewhat distorted relative to what might have been expected to be observed had COVID-19 not happened. The Authority is of the view that the market is likely to contract somewhat and thinks that while capacity of the Irish hospital system is likely to be reduced somewhat in the short to medium term, there is much uncertainty over the longer terms impacts. Thus, when calibrating the credits that will apply for health insurance policies that are renewed or entered into on or after 1 April 2021, the Authority has made an allowance for reductions in the size of the market but has assumed that hospital utilisation rates will revert to those observed before the pandemic began by that time. The Authority has also assumed that the claims experience when the credits will apply is more likely to be reflective of that observed in 2019 and the calibration has been set on this basis.

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 – 2019;
    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 REF 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 REF of the total of the Risk Equalisation Credits.

COVID-19 has had a significant impact on the amount of HUC distributed relative to previous projection estimates. The Authority has made an allowance for additional surplus to arise due to COVID-19 effects. This is commented on further in Section C.

The Health Insurance (Amendment) Act 2019 provided that the Risk Equalisation Credits outlined in Table F.1 below applied from 1 April 2020:

Table F.1

Age Bands	Utilisation credits (overnight / day case) from 1 April 2020	Age / gender / level of cover credits from 1 April 2020			
		Non-advanced		Advanced	
		Men	Women	Men	Men
64 and under	€100 / €75	€0	€0	€0	€0
65-69	€100 / €75	€350	€225	€1,150	€675
70-74	€100 / €75	€575	€425	€1,850	€1,300
75-79	€100 / €75	€850	€625	€2,650	€1,950
80-84	€100 / €75	€1,075	€775	€3,350	€2,525
85 and above	€100 / €75	€1,225	€925	€4,300	€3,025

The stamp duties outlined in Table F.2 below applied from 1 April 2020:

Table F.2

Age Bands	Stamp duties from 1 April 2020	
	Non-advanced	Advanced
17 and under	€52	€150
18 and over	€157	€449

The projected net financial impact in last year's report of the credits and stamp duty enacted for policies commencing in the 1 April 2020 to 31 March 2021 time period are as follows:

Table F.3

€m	Irish Life Health	Laya Healthcare	Vhi Healthcare	Total
Age Related Health Credits	[redacted]			658.8
Hospital Bed Utilisation Credit	[redacted]			171.2
Stamp duty	[redacted]			-800.0
Remove Estimated Surplus in the REF				-30.0
REF Balance				0
Net Financial Impact	[redacted]			**30.0**
Net Financial impact per insured life €	[redacted]			€16

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.

Authority Considerations to determine approach to setting recommendation on credits and stamp duty for policies commencing from 1 April 2021

As noted above, 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. The information returns provided by the individual insurers;
2. The Principal Objective of the Health Insurance Acts 1994 – 2019;
3. The aim of avoiding overcompensation being made to an undertaking;
4. The aim of maintaining the sustainability of the health insurance market;

5. The aim of having fair and open competition in the health insurance market; and
6. The aim of avoiding the REF sustaining surpluses or deficits from year to year.

As part of the approach to setting credits, the Authority considered:

- The existing methodology used for setting credits and stamp duty for policies commencing in the period from 1 April 2020 to 31 March 2021;
- The views of the individual insurers as summarised in Section D and Appendix C on the current RES and the impact of COVID-19;
- The sensitivity of the projected net financial impacts for the different insurers of different calibrations to the Risk Equalisation Scheme; and
- The criteria noted above in points 1 – 6.

Conclusion on proposals from insurers for the Risk Equalisation Scheme

In last year's Report, the Authority concluded that consideration of the inclusion of the proposals should be given as part of the next Risk Equalisation Scheme design. A detailed analysis was provided on these proposals and is not repeated in this report. Generally, the observations made by the insurers are broadly in line with those made last year (save the impact of COVID-19 and observations on the HCCP which is to be incorporated into the next RES). COVID-19 is expected to have a significant impact on the market in terms of size, age distribution, claims experience and hospital utilisation, and the Authority has been cognisant of the insurers' views of the impact of COVID-19 when setting credits and stamp duty for policies commencing in the period from 1 April 2021 to 31 March 2022. The other recommendations have been deferred for consideration as part of the next RES.

The insurers also provided or in the process of providing updated HCCP data to support the calibration of the next RES. The process with the EU commission had commenced in relation to approval of RES 2021 and the incorporation of a HCCP. However, the process has been delayed as a consequence of COVID-19 and the credits are being recommended on the assumption that the existing RES will be extended for one year, although this has not been confirmed at the date of writing of this report.

Recommended Methodology credits and stamp duty for policies commencing from 1 April 2021

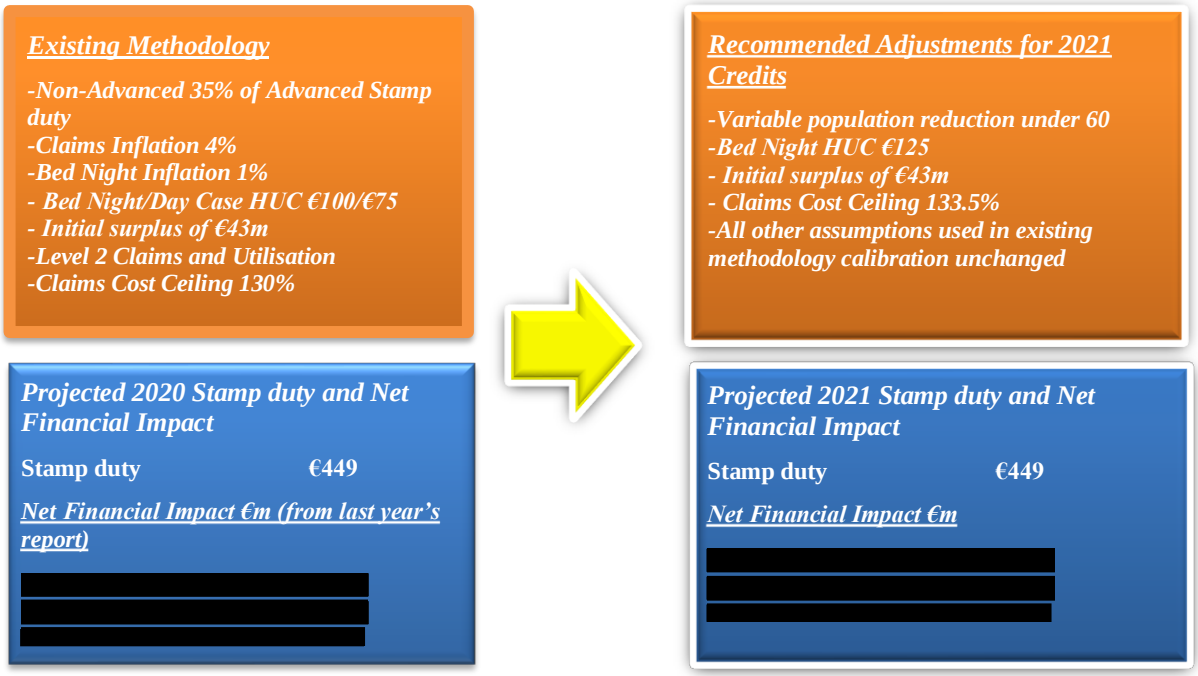
For the purposes of the recommended RES, the Authority has concluded that:

- The insured population is likely to contract as a result of the economic effects of COVID-19. The Authority has assumed that the contraction will primarily be in respect of insured lives under age 60, which will change the demographic profile of the market and impact on the surplus expected to emerge for policies commencing before 31 March 2021;
- The inclusion of an allowance for increased HUC payments would provide a more targeted allocation of resources to health status. More specifically it is proposed that the HUC payment in respect of bed nights be increased from €100 to €125; and
- The Claims Cost Ceiling is a determining factor when setting age credits and stamp duties. Too high a level could encourage risk segmentation and damages consumer's best interests. Too low a level could provide compensation for

additional benefits which are typically sought after by older lives. In light of the market outlook, and considerations around affordability and sustainability, the Authority has concluded that the Claims Cost Ceiling should be increased to 133.5% which has been set with a view to maintaining stamp duty at existing levels.

The Authority has tried to strike a fair balance between fair competition and the sustainability of the market, and believes that this can be achieved by keeping Stamp Duty unchanged at €449.

The impact of the changes to the existing methodology is set out graphically below, we have included some sensitivities on our recommendation in Appendix B.



The calculations of Risk Equalisation Credits and stamp duty for policies commencing from 1 April 2021 are based as follows:

- A Hospital Utilisation Credit of €125 would be made for each night that an insured person spends in a hospital. A 1% increase per annum in hospital utilisation is assumed for all age groups. The corresponding credit enacted last year was €100;
- A Hospital Utilisation Credit of €75 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. Claims inflation of 4% per annum is assumed over the term of the projection;
- The age credits for Advanced cover products would be calculated to be the amount necessary so that the net claims cost for no age group from age 65 and over exceeds 133.5% of the average net claims cost for Level 2 contracts. The corresponding Claims Cost Ceiling last year was 130%;

- The age credits for Non-advanced contracts would continue to be based on the average claim costs for Non-advanced products. Adjusted claim costs for Non-advanced contracts aged 65 and over are calculated by applying the average ratio of Non-advanced claims costs to Level 2 claims costs for all ages 65 and over 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 133.5% 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 35% of the rate applying for Advanced contracts
- The Stamp duty levels would incorporate an anticipated surplus of €43m in the REF when all payments into/out of the REF have been made in respect of contracts that commence prior to 1 April 2021.

Recommended credits and stamp duty for policies commencing from 1 April 2021

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 2021 but before 31 March 2022.

Table F.4

Age Bands	Utilisation credits (overnight / day case) from 1 April 2021	Age / gender / level of cover credits from 1 April 2021			
		Non-advanced		Advanced	
		Men	Women	Men	Women
64 and under	€125 / €75	€0	€0	€0	€0
65-69	€125 / €75	€350	€200	€1,025	€550
70-74	€125 / €75	€550	€400	€1,675	€1,150
75-79	€125 / €75	€825	€625	€2,500	€1,800
80-84	€125 / €75	€1,025	€700	€3,150	€2,250
85 and above	€125 / €75	€1,250	€825	€3,750	€2,550

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 2021.

Table F.5

Age Bands	Stamp duties from 1 April 2020 to 31 March 2021	
	Non-advanced	Advanced
17 and under	€52	€150
18 and over	€157	€449

The Authority is recommending that the stamp duty on Advanced contracts remains at €449 and the Non-advanced adult stamp duty remains at €157.

The proposed levels of Risk Equalisation Premium Credits for policies that are renewed or entered into between 1 April 2021 and 31 March 2022 have fallen considerably when compared to the credits for policies that are renewed or entered into between 1 April 2020 and 31 March 2021. This is particularly the case for older Advanced contracts.

There are a number of factors contributing to this but in summary the key points of consideration are as follows:

- The proposed level of stamp duty is unchanged. However, the expectation is that the insured population will contract over the period leading to a reduction in the expected level of stamp duty collected from €800m to €763m.
- While the expected initial surplus has increased from €30m to €43m the expected allocation to HUC has increased from €171m to €200m.
- The claims cost ceiling has increased from 130% to 133.5% reducing the allocation to age credits.
- The combined effect of the above is a reduction in the expected level of distribution of Risk Equalisation Premium Credits from €659 to €605m, a reduction of €54m.
- The increased allocation to HUC makes the impact on Risk Equalisation Premium Credits for older lives more pronounced as the likelihood of requiring hospitalisation increases significantly with age. This in turn reduces the requirements on age credits as a higher proportion of HUC is distributed in respect of those ages when compared to last year, which reduces the level of age credits required to cover the residual net claims costs.

Sensitivities of the impact of using different Risk Equalisation Credits and stamp duties from those outlined above are included graphically in Appendix B.

Projected financial impact of the recommendations on each insurer and on the Risk Equalisation Fund

The calculations of the projected net financial impact based on the credits and stamp duty applying from 1 April 2021 to 31 March 2022 are set out in Table F.6 below.

Table F.6

€m	Irish Life Health	Laya Healthcare	Vhi Healthcare	Total
Age Related Health Credits	[redacted]			605
Hospital Utilisation Credit	[redacted]			200
Stamp duty	[redacted]			(763)
Remove Estimated Surplus in the REF				(43)
REF Balance				0
Net Financial Impact	[redacted]			**43**
Net Financial impact per insured life €	[redacted]			€24

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. [redacted]

The projections for individual insurers are sensitive to factors affecting the market as a whole, 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.

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 €449. For 2021 the Authority recommendation is to retain adult stamp duty for Advanced cover contracts at €449.

The movement in the 2020 enacted figures to the 2021 Recommendation in the adult advanced cover stamp duty (with approximate impacts of each reason) are set out in Table F.7. Figures have also been included in respect of effectiveness, average claims cost and average claims cost * claims cost ceiling for comparative purposes.

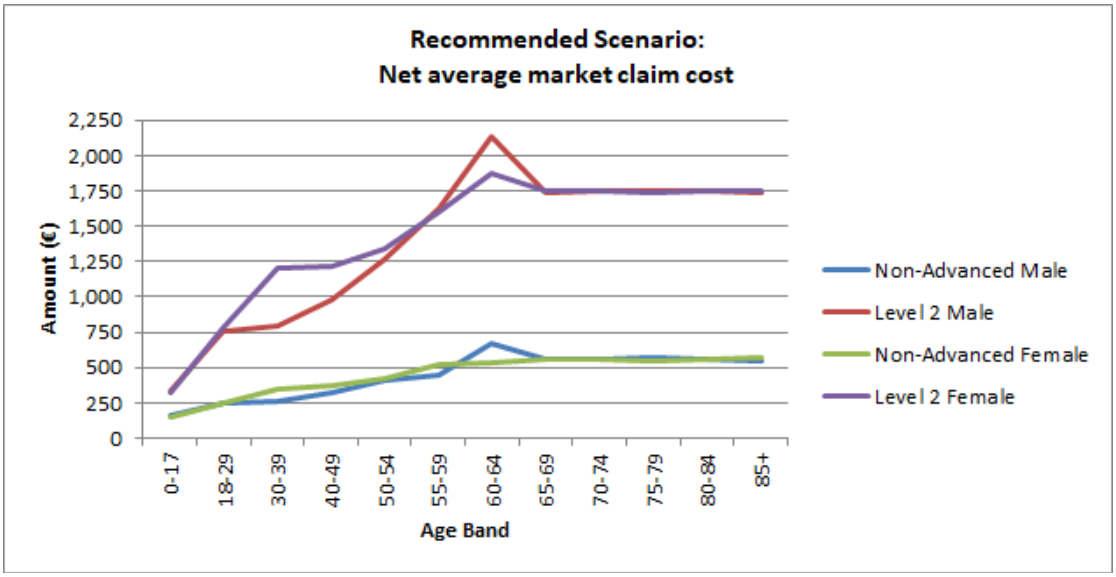
Table F.7:

Reasons for Change of Advanced cover Adult stamp duty from 2020 enacted to 2021 recommended	Stamp duty	Effectiveness	Projected Average Claims Cost	Average Claims Cost * Claims Cost Ceiling
2020 enacted stamp duty	**€449**	**26.7%**	**€1,214**	**€1,578**
Impact of most recent 12-month data (Membership, Returned Benefits, Hospital Utilisation etc.)	€4	0.9%	€15	€20
Impact of assumed market contraction not reflected in most recent data	€8	(0.8%)	€77	€100
Impact of change in RES surplus from €30m to €43m	(€10)	0.1%	€0	€0
Impact of increase in Overnight HUC from €100 to €125	€10	3.6%	€1	€1
Impact of change in Claims Cost Ceiling from 130% to 133.5%	(€13)	(0.2%)	€0	€46
2021 Recommended Stamp duty	**€449**	**30.3%**	**€1,307**	**€1,745**
Change in Metric	**€0**	**3.6%**	**€93**	**€167**

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 2021 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 133.5% 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 2021 to 31 March 2022 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

Chart F.3

Chart F.4

Chart F.5

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 variations 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.
- 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.

[redacted]

[redacted].

Accordingly, the Authority recommends the following:

- Age credits should again not apply for the age group 60-64. As 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. [redacted]
  As a result, including Age Credits for ages 60-64 would not materially affect the projected net financial impact of any insurer. [redacted]
- The Hospital Utilisation Credit for overnight stays will increase from €100 to €125 per night, and the Hospital Utilisation Credit for day case admissions will remain at €75 per admission;
- The average claims cost ceiling for older ages will increase from 130% to 133.5% 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. 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. While the claims cost ceiling has increased, the Authority is of the opinion that the credits and stamp duties that it is proposing strike a balance between these conflicting objectives, noting that the expected contraction of the market is expected to have a more pronounced effect on affordability than the calibration of the claims cost ceiling; and

- The ratio of Non-advanced to Advanced stamp duty will remain at 35% reflecting the relative cost of Non-advanced credits to Advanced contract credits.

Principal Objective of Health Insurance Act 1994 -2019

"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 all age groups net of Risk Equalisation Credits were the same 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 2020, 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.

Avoiding overcompensation

The Authority is currently in the process of carrying out assessment of whether overcompensation has occurred in the three year period 2017 – 2019 using actual insurer's audited accounts. At a high level, the assessment is based on the Return on Sales, gross of reinsurance and excluding investment income. Further details of the assessment methodology are included in "Overcompensation Assessment Methodology" dated December 2018. If the assessment 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 also has to have regard to the aim of avoiding overcompensation in future three year periods. The credits and stamp duties proposed in this report will have a financial impact on insurers in the years 2021, 2022 and 2023.

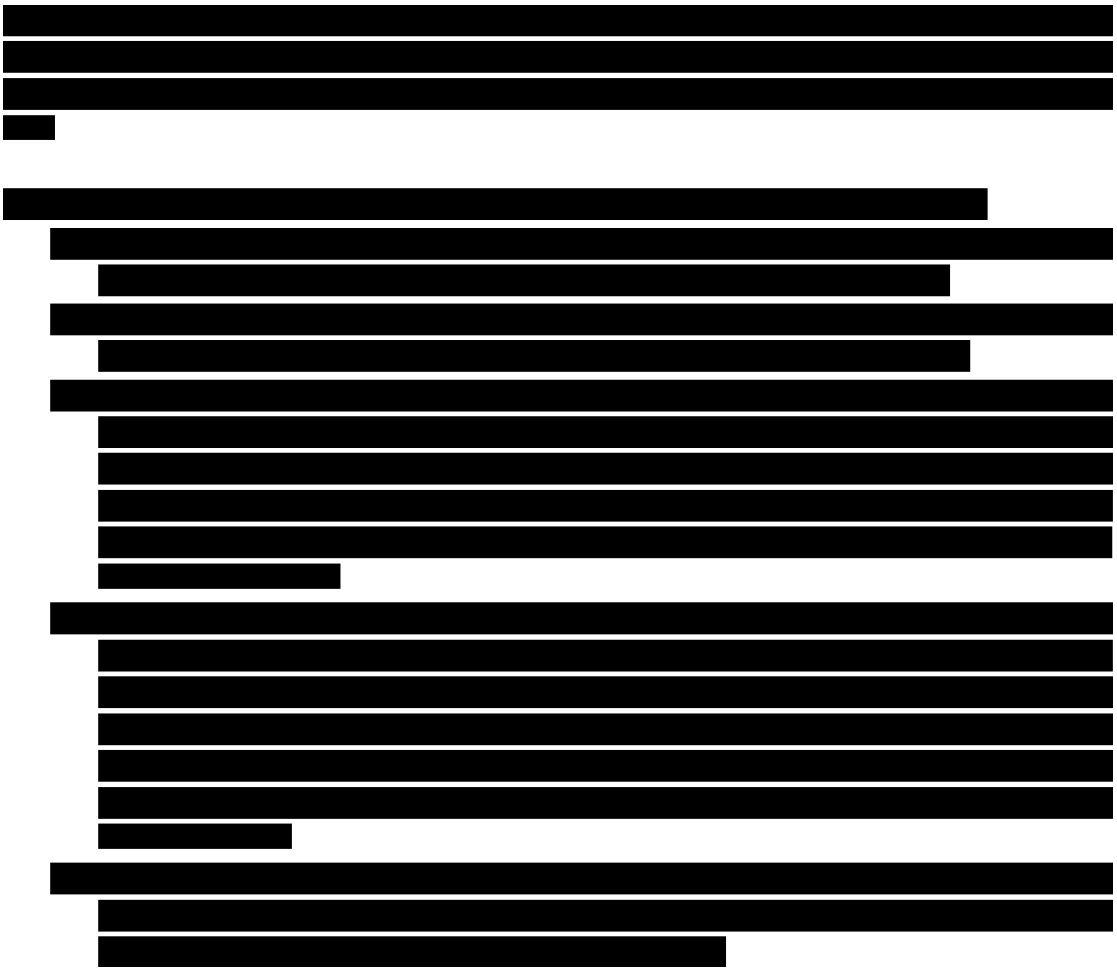


Table F.8

€m's	2018 Actual	2019 Actual	2020 Forecast	2021 Projection	2022 Projection
Earned premiums before reinsurance					
Impact of risk equalisation					
Claims incurred before reinsurance					
Cost of Reinsurance					
Operating Expenses					
Exceptional Items					
Underwriting Profit					
Underwriting Profit gross of reinsurance					
Sales i.e. Earned premium + Impact of RE					
(Underwriting profit gross of Reinsurance excl. investment return as % of Sales					
3 year weighted average					

It should be noted that the Department of Health has requested the Authority to prepare a pre-draft of Regulations concerning the annual financial statements that insurers are required to furnish to the Authority for the purpose of the overcompensation assessment as regards the RES as per Section 7F(1) of the Health Insurance Acts. The Authority has engaged KPMG to assist it with this work. Section 7F(2)(b) of the Health Insurance Acts states; "The Minister may prescribe the bases

for the calculation of costs, premia and other relevant financial data that are to be included in a statement of profit and loss or balance sheet to be furnished to the Authority pursuant to subsection (1)".

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 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.

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.

Appendix A – Credits and Stamp duty from 1 April 2021 for Recommended Methodology

Table AA.1 below show the projected membership as at 1 October 2021 (the time the average policy incepted between 1 April 2021 and 31 March 2022). Tables AA.2 to AA.4 show the projected returned benefits, hospital nights and day case admissions as at 1 April 2022 (the midpoint of the average policy incepted between 1 April 2021 and 31 March 2022). This data was used in the calculation of the stamp duty and Risk Equalisation Credits in the scenarios shown below.

Table AA.1

Projected Membership as at 01 October 2021				
Age Group	Non-advanced		Advanced	
	Male	**Female**	**Male**	**Female**
0-17	14,455	13,792	225,936	213,908
18-29	11,095	11,616	111,355	108,808
30-39	14,826	16,222	105,913	124,193
40-49	17,285	17,091	142,227	155,522
50-54	6,628	6,459	64,189	69,987
55-59	5,245	5,230	63,044	70,558
60-64	4,055	4,020	59,269	65,275
65-69	2,831	2,808	53,717	58,977
70-74	1,989	1,873	47,904	52,520
75-79	868	880	33,362	38,158
80-84	446	475	20,202	25,464
85+	167	360	12,262	20,517
Total	**79,890**	**80,826**	**939,381**	**1,003,886**

Table AA.2

Projected Average Returned Benefit at 01 April 2022 (€)				
Age Group	Non-advanced		Advanced	
	Male	Female	Male	Female
0-17	122	111	206	195
18-29	96	99	336	374
30-39	120	207	379	830
40-49	179	239	579	831
50-54	288	295	887	970
55-59	327	413	1,273	1,250
60-64	577	419	1,822	1,546
65-69	843	677	2,508	2,016
70-74	1,085	898	3,229	2,671
75-79	1,391	1,139	4,140	3,390
80-84	1,652	1,324	4,917	3,940
85+	1,907	1,460	5,675	4,345
All Ages	**296**	**305**	**1,396**	**1,392**

Table AA.3

Projected Total Bed Nights at 01 April 2022				
Age Group	Non-advanced		Advanced	
	Male	Female	Male	Female
0-17	1,261	1,211	30,392	28,715
18-29	539	577	20,026	25,909
30-39	913	2,175	18,643	64,323
40-49	1,740	2,089	34,622	56,514
50-54	1,159	892	23,175	27,234
55-59	1,025	1,294	32,128	36,504
60-64	1,522	892	44,709	45,373
65-69	1,654	1,473	59,411	55,300
70-74	1,841	1,186	71,940	72,421
75-79	900	758	73,678	75,615
80-84	740	791	64,826	71,854
85+	336	612	60,253	81,443
Total	**13,632**	**13,950**	**533,803**	**641,204**

Table AA.4

Projected Total Day Case Admissions at 01 April 2022				
Age Group	Non-advanced		Advanced	
	Male	Female	Male	Female
0-17	352	218	10,967	7,807
18-29	365	431	10,799	12,928
30-39	751	1,027	15,083	24,272
40-49	1,356	1,937	30,713	49,646
50-54	707	952	20,187	29,177
55-59	671	873	25,532	34,065
60-64	687	691	31,781	36,668
65-69	616	560	38,716	39,766
70-74	532	425	43,666	43,813
75-79	280	214	36,429	36,245
80-84	118	129	23,046	23,483
85+	32	50	12,236	15,104
Total	**6,468**	**7,509**	**299,155**	**352,975**

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 133.5% of the average net cost across all groups. A Hospital Utilisation Credit of €125 is applied for overnight inpatient stays and €75 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 35% of the stamp duty relating to Advanced contracts. The REF is projected to have a surplus of €43m when the contracts written prior to 1 April 2021 have fully earned credits and stamp duty.

The Age Risk Equalisation Premium Credits for Advanced cover contracts are 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). The Age Risk Equalisation Premium Credits for Non-advanced cover contracts are based on the average claim costs for Non-advanced contracts. 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 average claims costs are based on claims arising in the Jan 2019 – Dec 2019 time period since the claims arising in Jan-June2020 are distorted as a result of COVID-19.

In our projections we have projected the population at 30 June 2019 forward to 01 October 2021 (to allow for the natural ageing of the insured lives) and then reduced by it by 6.5% to allow for market shrinkage. The key judgement in our population projection is the future age distribution, and we have assumed that all lapses will occur under age 60. It should be noted that the Authority has assumed that unhealthy lives are less likely to exit the market and thus a selection effect is assumed in the Authority's projections.

Table AA.5

Age	Stamp duty per person (€)		Credit per person (€)				Total Bed Utilisation Credits (€million)	Total Credits (€million)	Total Stamp duty (€million)
			Non-advanced		Advanced				
	Non Advd	Advd	Men	Women	Men	Women			
0-17	52	150	0	0	0	0	9.1	0.0	67.5
18-29	157	449	0	0	0	0	7.7	0.0	102.7
30-39	157	449	0	0	0	0	13.8	0.0	108.5
40-49	157	449	0	0	0	0	18.1	0.0	139.4
50-54	157	449	0	0	0	0	10.4	0.0	62.5
55-59	157	449	0	0	0	0	13.5	0.0	61.8
60-64	157	449	0	0	0	0	16.8	0.0	57.3
65-69	157	449	350	200	1025	550	20.7	89.0	51.6
70-74	157	449	550	400	1675	1150	25.1	142.5	45.8
75-79	157	449	825	625	2500	1800	24.4	153.4	32.5
80-84	157	449	1025	700	3150	2250	20.8	121.7	20.7
85+	157	449	1250	825	3750	2550	19.9	98.8	14.8
2019 Scheme Surplus									43.0
Total							**200.3**	**605.4**	**762.7**
Projected Deficit									**0**

Table AA.6

€m	Irish Life Health	Laya Healthcare	VHI Healthcare	Total
Age Related Health Credits	[redacted]			605.4
Hospital Bed Utilisation Credit	[redacted]			200.3
Stamp duty	[redacted]			(762.7)
Total	[redacted]			**43.0**

[redacted]

[redacted]

Appendix B – Sensitivity Analysis on Credits and Stamp duty from 1 April 2021 for Recommended Methodology

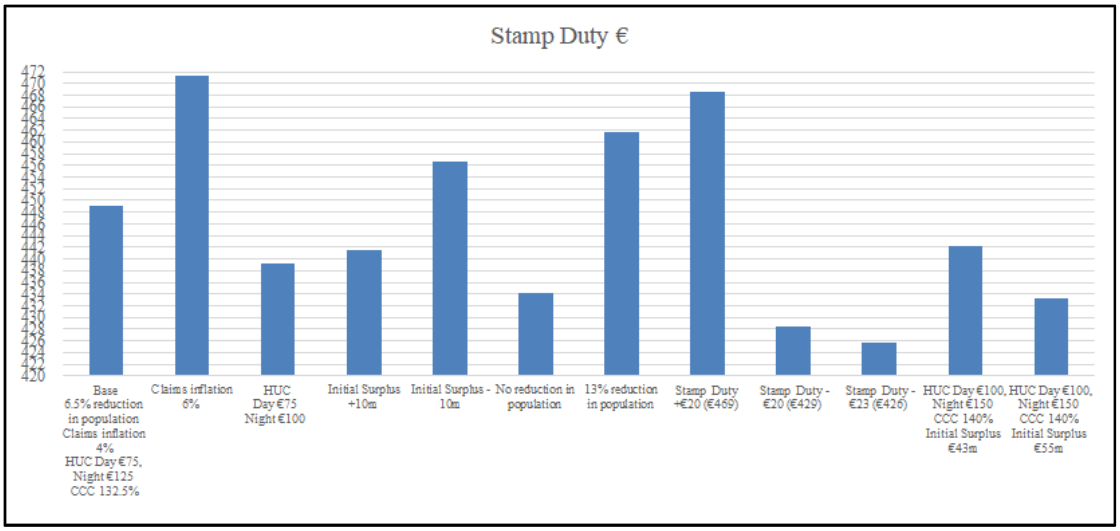
1. Increase Claims inflation to 6%;
2. Reduce Bed Night payments to €100;
3. Increase initial surplus by €10m;
4. Reduce initial surplus by €10m;
5. Assume population reduction does not occur;
6. Assume population reduction doubles;
7. Assume stamp duty increases by €20 by changing claims cost ceiling;
8. Assume stamp duty decreases by €20 by changing claims cost ceiling;
9. Assume stamp duty decreases by €23 by changing claims cost ceiling and initial surplus;
10. Assume initial surplus of €43m, claims cost ceiling 140% and Day HUC increases to €100 and Night HUC increases to €150 with the aim of increasing effectiveness; and
11. Assume initial surplus of €55m, claims cost ceiling 140% and Day HUC increases to €100 and Night HUC increases to €150 with the aim of increasing effectiveness.

Table AB.1

Scenario	Stamp Duty €	CCC %	Effectiveness (Total - All Ages)	Initial Surplus €m	Age Credit Fund €m	HUC Fund €m	Stamp Duty Collected €m	Average Claims Cost €	Average Claims Cost *CCC €
Recommendation	449	133.5	30.3%	43	605	200	763	1,307	1,745
Claims inflation 6%	471	133.5	30.5%	43	643	200	801	1,377	1,838
HUC Day €75 Night €100	439	133.5	26.5%	43	619	170	747	1,306	1,744
Initial Surplus +10m	442	133.5	30.4%	53	605	200	751	1,307	1,745
Initial Surplus -10m	457	133.5	30.1%	33	609	200	776	1,307	1,745
No reduction in population	434	133.5	31.1%	55	639	200	783	1,230	1,642
13% reduction in population	462	133.5	29.4%	31	569	201	736	1,397	1,865
Stamp Duty +€20 (€469)	469	128.1	30.9%	43	642	200	796	1,307	1,674
Stamp Duty -€20	429	139.2	29.7%	43	573	200	728	1,307	1,820
Stamp Duty -€23	426	137.5	30.0%	55	578	200	724	1,307	1,797
Initial Surplus €43m Claims cost ceiling 140% HUC Day €100 Night €150	442	140.0	34.9%	43	547	247	752	1,309	1,832
Initial Surplus €55m Claims cost ceiling 140% HUC Day €100 Night €150	433	140.0	35.0%	55	545	247	736	1,309	1,832

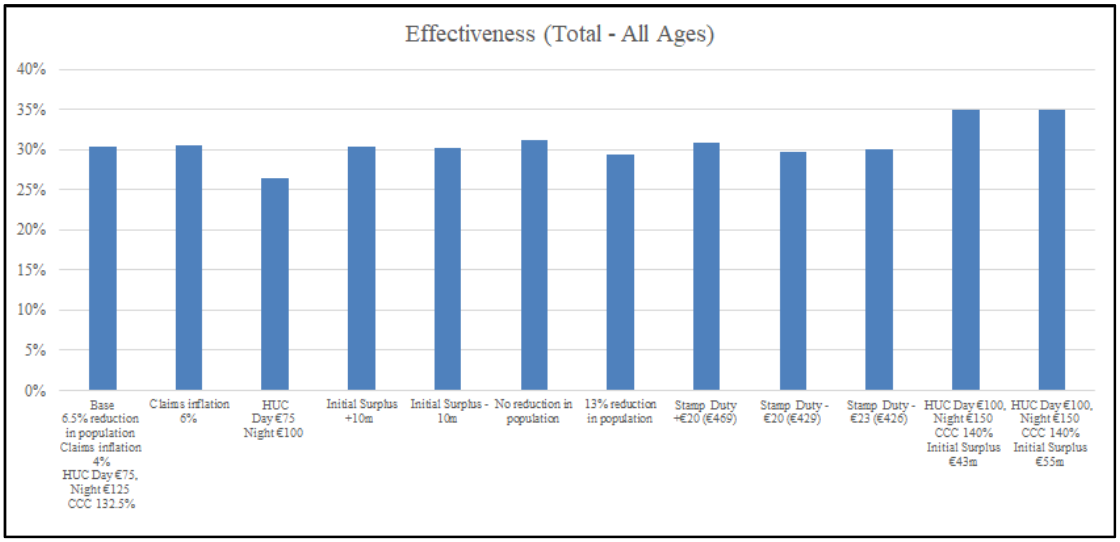
Comparison of Stamp Duty

Chart AB.1



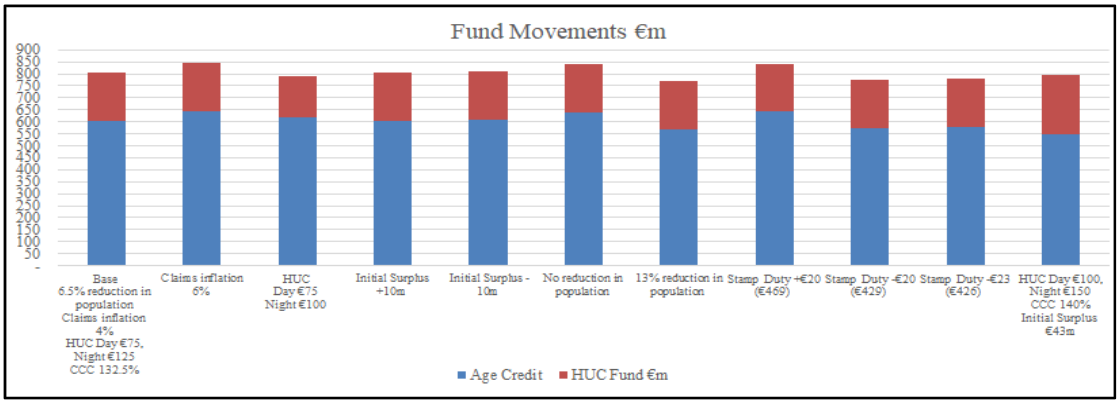
Comparison of Effectiveness

Chart AB.2



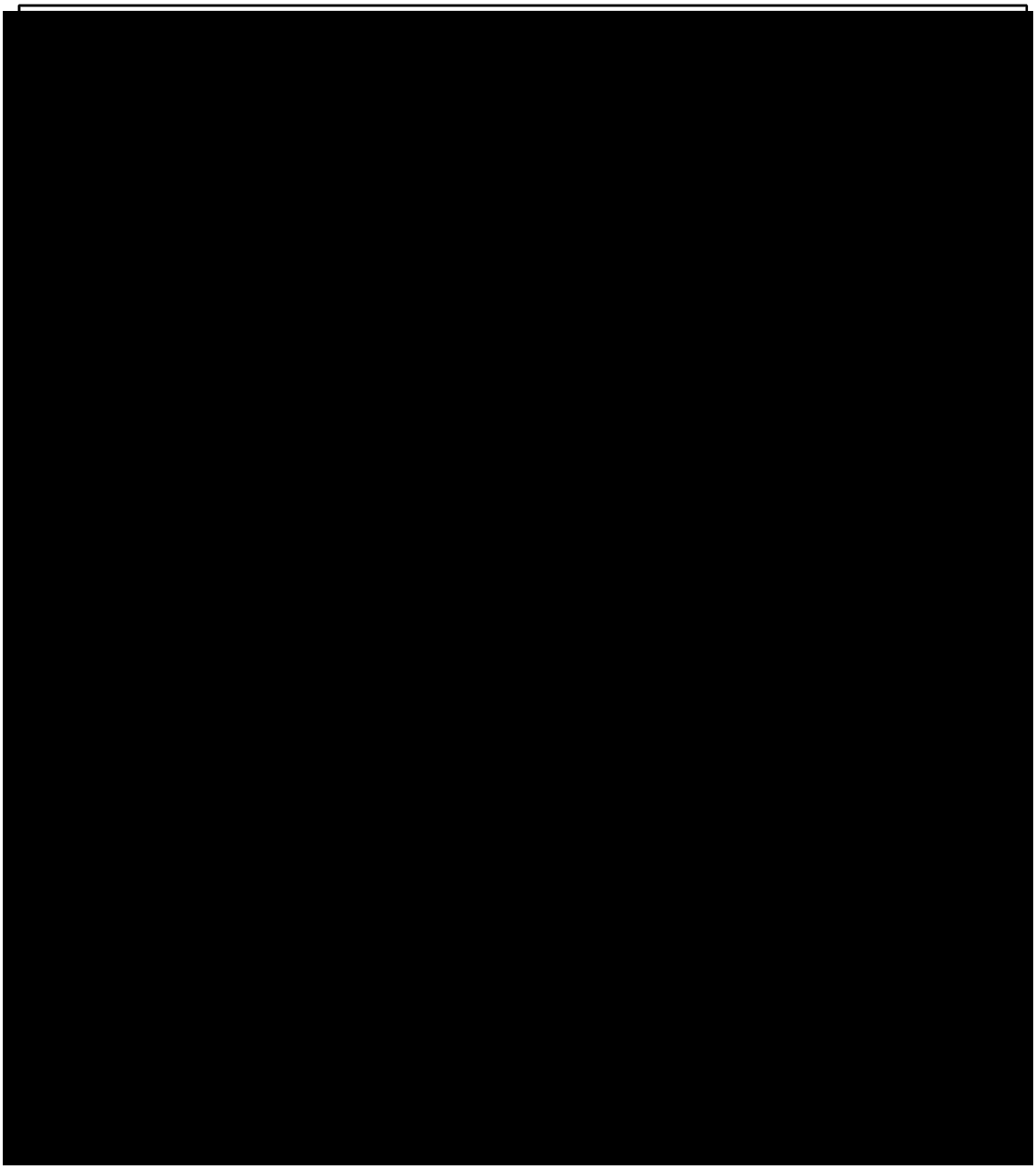
Comparison of Risk Equalisation Fund Movement

Chart AB.3



Net Financial Impact Comparison

Chart AB.4



Appendix C – Discussions with Insurers

Irish Life Health

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

Laya Healthcare

[redacted]

Vhi Healthcare

[redacted]

[redacted]

[redacted]

Appendix D – Further analysis of Information Returns

The information returns for H1 2020 have been distorted as a result of COVID-19 and thus the information presented below may not give a true indication of any trends in experience. The figures in relation to H2 2019 and previous do not contain such distortions and are likely to give a better understanding of the experience emerging before the distortions of COVID-19 impacted.

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 1/3rd 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 1/3rd and each adult as 1, the average returned benefit per insured person for each insurer is outlined in Table AD.1 below.

Table AD.1

Average Returned Benefits per Insured Person (€)				
Insurer	July-Dec 2018	Jan-June 2019	July-Dec 2019	Jan-June 2020
Irish Life Health	[redacted]			
Laya Healthcare	[redacted]			
Vhi Healthcare	[redacted]			
Market	**552**	**544**	**548**	**461**

The market returned benefit per insured person was relatively stable across the three periods covering July 2018 to December 2019. Due to the impact of COVID-19, the market returned benefit per insured person has reduced to €461 in the current period from €548 in the six months ending December 2019, a fall of 16%. The corresponding change in the average claims cost for all three insurers are reductions of [redacted], [redacted] and [redacted] for Irish Life Health, Laya Healthcare and Vhi Healthcare respectively.

Comparing the first half of 2020 with the first half of 2019 shows a 15% reduction in the market average returned benefit. The corresponding change in the average claims cost for all three insurers are reduction of [redacted] and [redacted] for Irish Life Health and Laya Healthcare with a [redacted] fall in Vhi Healthcare's average returned benefit.

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

Table AD.2

Average Returned Benefits per Insured Person as a % of the Market Average				
Insurer	July-Dec 2017	Jan-June 2019	July-Dec 2019	Jan-June 2020
Irish Life Health	[redacted]			
Laya Healthcare	[redacted]			
Vhi Healthcare	[redacted]			
Market	100%	100%	100%	100%

[redacted]

Average Returned Benefits per Insured Person for the 12 months to the end of June 2020 broken down by age group and level of cover are shown in the following tables. Figures for older ages, in particular for non-advanced contracts, are particularly prone to random fluctuation. Note, these figures are likely to be distorted by COVID-19 and the corresponding market figures the 12 months to the end of June 2019 are shown in brackets to help illustrate this.

Table AD.3: Male Non-advanced

Age Group	Irish Life Health €	Laya Healthcare €	Vhi Healthcare €	Weighted Market Average €
0-17	[redacted]			77 (108)
18-29				62 (87)
30-39				84 (95)
40-49				133 (163)
50-54				218 (247)
55-59				300 (314)
60-64				477 (571)
65-69				763 (803)
70-74				1,026 (1,057)
75-79				1,278 (1,248)
80-84				1,955 (1,379)
85+				2,003 (2,729)
All Ages				**224 (250)**

Table AD.4: Male Level 1

Age Group	Irish Life Health €	Laya Healthcare €	Vhi Healthcare €	Weighted Market Average €
0-17	[redacted]			78 (111)
18-29	[redacted]			66 (90)
30-39	[redacted]			90 (100)
40-49	[redacted]			143 (168)
50-54	[redacted]			228 (263)
55-59	[redacted]			336 (363)
60-64	[redacted]			551 (626)
65-69	[redacted]			866 954)
70-74	[redacted]			1,166 (1,125)
75-79	[redacted]			1,655 (1,718)
80-84	[redacted]			2,110 (2,196)
85+	[redacted]			2,740 (3,242)
All Ages	[redacted]			**298 (329)**

Table AD.5: Male Level 2

Age Group	Irish Life Health €	Laya Healthcare €	Vhi Healthcare €	Weighted Market Average €
0-17	[redacted]			150 (174)
18-29	[redacted]			251 (282)
30-39	[redacted]			288 309)
40-49	[redacted]			439 (486)
50-54	[redacted]			666 (772)
55-59	[redacted]			991 (1,114)
60-64	[redacted]			1,491 (1.589)
65-69	[redacted]			2,062 (2,231)
70-74	[redacted]			2,660 (2,921)
75-79	[redacted]			3,472 (3,730)
80-84	[redacted]			4,140 (4,461)
85+	[redacted]			4,912 (5,493)
All Ages	[redacted]			**977 (1,068)**

Table AD.6: Male Level 2+

Age Group	Irish Life Health €	Laya Healthcare €	Vhi Healthcare €	Weighted Market Average €
0-17	[redacted]			159 (183)
18-29	[redacted]			246 (274)
30-39	[redacted]			287 (309)
40-49	[redacted]			440 (492)
50-54	[redacted]			684 (793)
55-59	[redacted]			1,017 (1,132)
60-64	[redacted]			1,534 (1,658)
65-69	[redacted]			2,172 (2,333)
70-74	[redacted]			2,809 (3,053)
75-79	[redacted]			3,741 (4,011)
80-84	[redacted]			4,469 (4,919)
85+	[redacted]			5,643 (6,041)
All Ages	[redacted]			**1,079 (1,173)**

Table AD.7: Female Non-advanced

Age Group	Irish Life Health €	Laya Healthcare €	Vhi Healthcare €	Weighted Market Average €
0-17	[redacted]			74 (93)
18-29	[redacted]			74 (89)
30-39	[redacted]			150 (170)
40-49	[redacted]			180 (197)
50-54	[redacted]			239 (259)
55-59	[redacted]			360 (353)
60-64	[redacted]			372 (424)
65-69	[redacted]			670 (634)
70-74	[redacted]			833 (765)
75-79	[redacted]			961 (1,091)
80-84	[redacted]			1,302 (1,472)
85+	[redacted]			1,370 (1,693)
All Ages	[redacted]			**236 (253)**

Table AD.8: Female Level 1

Age Group	Irish Life Health €	Laya Healthcare €	Vhi Healthcare €	Weighted Market Average €
0-17	[redacted]			77 (93)
18-29	[redacted]			83 (95)
30-39	[redacted]			159 (183)
40-49	[redacted]			184 (208)
50-54	[redacted]			242 (276)
55-59	[redacted]			372 (372)
60-64	[redacted]			395 (456)
65-69	[redacted]			721 (704)
70-74	[redacted]			1,030 (1,030)
75-79	[redacted]			1,259 (1,307)
80-84	[redacted]			2,051 (1,786)
85+	[redacted]			2,171 (2,493)
All Ages	[redacted]			**303 (321)**

Table AD.9: Female Level 2

Age Group	Irish Life Health €	Laya Healthcare €	Vhi Healthcare €	Weighted Market Average €
0-17	[redacted]			144 (166)
18-29	[redacted]			287 (308)
30-39	[redacted]			629 (689)
40-49	[redacted]			622 (687)
50-54	[redacted]			741 (853)
55-59	[redacted]			1,001 (1,074)
60-64	[redacted]			1,279 (1,341)
65-69	[redacted]			1,634 (1,789)
70-74	[redacted]			2,235 (2,400)
75-79	[redacted]			2,747 (3,063)
80-84	[redacted]			3,250 (3,667)
85+	[redacted]			3,667 (4,205)
All Ages	[redacted]			**992 (1,089)**

Table AD.10: Female Level 2+

Age Group	Irish Life Health €	Laya Healthcare €	Vhi Healthcare €	Weighted Market Average €
0-17	[redacted]			152 (173)
18-29	[redacted]			291 (311)
30-39	[redacted]			637 (696)
40-49	[redacted]			635 (696)
50-54	[redacted]			773 (892)
55-59	[redacted]			1,033 (1,121)
60-64	[redacted]			1,332 (1,410)
65-69	[redacted]			1,692 (1,895)
70-74	[redacted]			2,374 (2,574)
75-79	[redacted]			2,998 (3,370)
80-84	[redacted]			3,598 (3,986)
85+	[redacted]			4,215 (4.687)
All Ages	[redacted]			**1,089 (1,195)**

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 AD.11 and AD.12 below.

Table AD.11

Average Returned Benefits per Treatment day (€)				
Insurer	July-Dec 2018	Jan-June 2019	July-Dec 2019	Jan-June 2020
Irish Life Health	[redacted]			
Laya Healthcare	[redacted]			
Vhi Healthcare	[redacted]			
Market	1,118	1,173	1,162	1,166

Average returned benefits per treatment day have increased slightly across the market as a whole over the past 12 months. [redacted]

Table AD.12

Average Returned Benefits per Treatment day as a % of the Market Average				
Insurer	July-Dec 2018	Jan-June 2019	July-Dec 2019	Jan-June 2020
Irish Life Health	[redacted]			
Laya Healthcare	[redacted]			
Vhi Healthcare	[redacted]			
Market	100%	100%	100%	100%

[redacted]

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 AD.13 and AD.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 AD.13

Average Treatment day per Insured Person				
Insurer	July-Dec 2018	Jan-June 2019	July-Dec 2019	Jan-June 2020
Irish Life Health				
Laya Healthcare				
Vhi Healthcare				
Market	0.493	0.464	0.472	0.395

Table AD.14

Average Treatment day per Insured Person as a % of the Market Average				
Insurer	July-Dec 2018	Jan-June 2019	July-Dec 2019	Jan-June 2020
Irish Life Health				
Laya Healthcare				
Vhi Healthcare				
Market	100%	100%	100%	100%

The average treatment days per insured person was relatively stable across the three periods covering July 2018 to December 2019. Due to the impact of COVID-19, the average treatment days per insured person has reduced to 0.395 in the current period from 0.472 in the six months ending December 2019, a fall of 16%.

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 AD.15

Age/Sex Risk Profile Index				
Insurer	July-Dec 2018	Jan-June 2019	July-Dec 2019	Jan-June 2020
Irish Life Health	[redacted]			
Laya Healthcare	[redacted]			
Vhi Healthcare	[redacted]			
Market	100%	100%	100%	100%

Table AD.15 [redacted]

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 AD.16 shows the relative values of the Hospital Utilisation Risk Profile Index over time for Irish Life Health and Laya Healthcare relative to Vhi Healthcare's.

Table AD.16

Hospital Utilisation Risk Profile Index (Percentage of Vhi Healthcare's Index)				
Insurer	July-Dec 2018	Jan-June 2019	July-Dec 2019	Jan-June 2020
Irish Life Health	[redacted]			
Laya Healthcare	[redacted]			
Vhi Healthcare	[redacted]			

[redacted]

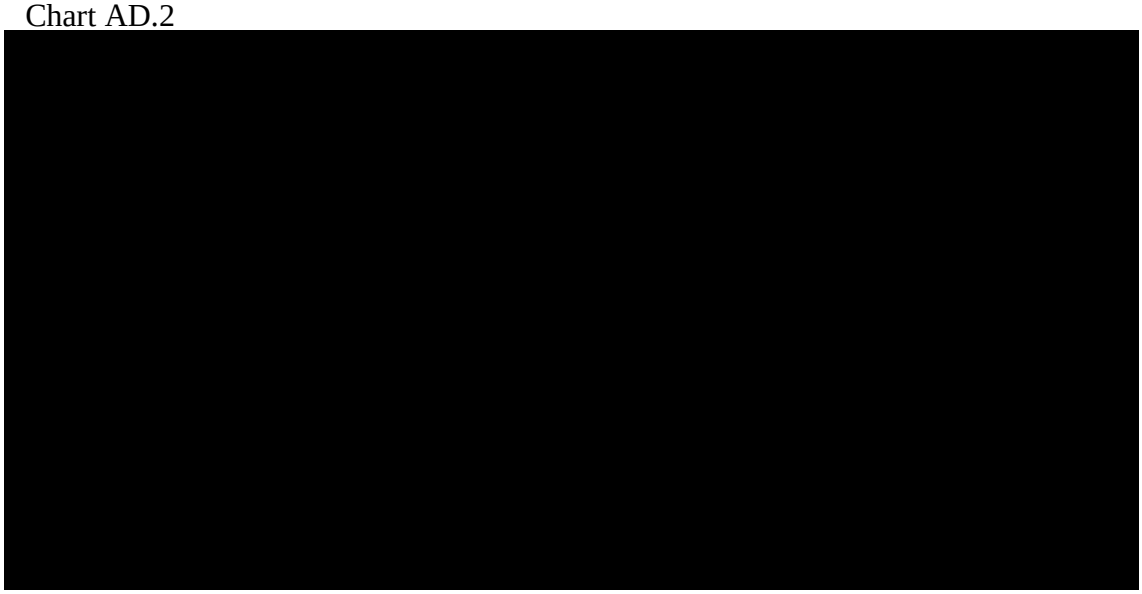
As Chart AD.1 [redacted]

Chart AD.1

[redacted].

As Chart AD.2 [redacted]

Chart AD.2



As Chart AD.3 [redacted]

Chart AD.3