

**Report of the Authority to the Minister for Health on an evaluation and analysis of returns from 1 July 2017 to 30 June 2018, including advice on risk equalisation credits.**

September 2018

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## **Introduction**

### **Requested Report**

The Minister for Health (“the Minister”) has requested that the Health Insurance Authority provide a Report to the Minister under Section 7E of the Health Insurance Act 1994. It was requested that the Report include an evaluation and analysis of Returns for the period 1 July 2017 to 30 June 2018.

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

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

## Section A – Summary and Conclusions

### Credits and Stamp Duty

The Authority proposes that the following credits should apply for health insurance policies that are renewed or entered into on or after 1 April 2019.

Age Bands	utilisation credits (overnight / day case) from 1 April 2019	Age / gender / level of cover credits from 1 April 2019			
		Non-Advanced		Advanced	
		Men	Women	Men	Women
64 and under	€100 / €50	€0	€0	€0	€0
65-69	€100 / €50	€400	€275	€1,050	€700
70-74	€100 / €50	€650	€475	€1,775	€1,225
75-79	€100 / €50	€925	€725	€2,775	€1,900
80-84	€100 / €50	€1,050	€925	€3,300	€2,475
85 and above	€100 / €50	€1,350	€1,075	€4,600	€3,100

The credits that currently apply are as follows:

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

The Authority notes that the proposed age/gender risk equalisation credits have mostly reduced compared to last year's recommendation. This is primarily due to the lower claim costs paid to public hospitals (which outweighed increased claims costs paid to private hospitals) compared to the previous year.

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 2019 and 31 March 2020 in order to meet the cost to the Risk Equalisation Fund of the recommended risk equalisation credits are as follows:

Age Bands	Stamp duties from 1 April 2019 to 31 March 2020	
	Non-Advanced	Advanced
17 and under	€59	€148
18 and over	€177	€444

The Authority is recommending that the stamp duty on Advanced contracts stays at €444 and the Non-Advanced adult stamp duty also remains the same at €177. These stamp duties are identical to those currently applying.

### Evaluation and Analysis of Data Received

The evaluation and analysis of returns and of the other data received by the Authority for the twelve months ending 30 June 2018 shows that, after the application of health credits and stamp duty for policies renewing in 2018, the market average net claims cost for older people continues to be higher than the market average net claims cost for younger people with the net claims costs for ages 60-64 being the highest due to no age credits applying at that age range.

The number of insured persons included in returns increased in the period July 2017 – June 2018 by 1.7%, from 2,043,360 at 1 July 2017 to 2,077,984 at 1 July 2018. The ratio of Non-Advanced to Advanced contracts has remained stable during that time at 10%:90%.

The ageing of the insured market in the last year added 1.3% to the average claims cost per insured person. Notwithstanding this, there was a reduction of 3.0% in the average returned benefit per insured life in the last year. This was primarily due to a 1.7% reduction in total returned benefits paid in the year to end June 2018 of €1,874m compared to €1,906m in the year to end June 2017.

### Review of Market Developments

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

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.

### Financial Information and Overcompensation

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

[REDACTED]

### Evaluation of returns and market developments

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

- There is a continued need to provide support for community rating.
- The fact that the net claims cost reduces between ages 65 and 80 (Charts B.1 – B. 4) suggests that these age credits should be reduced rather than increased.

### Hospital Utilisation Credits Recommendation

The Hospital Utilisation Credits is a proxy for health status and provides support in respect of less healthy people. The Authority is recommending that the current level of hospital utilisation credit remains at €100 per night and at €50 for day case admissions.

### Age Credits Recommendation

Consistent with last year, the Authority is recommending that the age credits be such that, for all age groups from age 65 and over, the net claims cost is 130% of the market average net claims cost. This supports the Principal Objective by reducing the differential in the net claims costs between, in particular, older and younger people. The Authority is recommending that the claim costs paid in the period July 2017 – June 2018 is used as a base for projecting future claim costs.

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

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

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. 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.

### Stamp Duty for Non-Advanced cover plans

The Authority recommends that the stamp duty paid in respect of Non-Advanced plans is maintained at 40% of the stamp duty applying for Advanced plans.

### Financial Position of the Risk Equalisation Fund

The 2017 year end audited Balance Sheet for the Risk Equalisation Fund showed a surplus of €44.9m since the commencement of the Fund in 2013. Management accounts at end June 2018 show a projected surplus of €27.07m.

In view of the accounting position of the Fund at 30 June 2018, the Authority is of the view that there is likely to be a surplus of circa €28.0m in the fund when the credits and stamp duty on all contracts that commence in advance of 1 April 2019 are fully earned.

The Authority, having regard to the aim of avoiding the Fund sustaining surpluses or deficits from year to year, is allowing for this estimated surplus in its recommendation of stamp duties for policies commencing in the period 1 April 2019 to 31 March 2020.

### 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 2019 to 31 March 2020 are as follows:

€m	Irish Life Health	Laya Healthcare	Vhi Healthcare	Total
Age Related Health Credits				613.5
Hospital Utilisation Credit				166.7
Stamp Duty				-752.2
Total				<b>28.0</b>
Net Financial impact per insured life €				€16

The projected net financial impact of the current credits and stamp duty, as set out in the October 2017 Report for policies commencing in the period 1 April 2018 to 31 March 2019, are shown below:

€m	Irish Life Health	Laya Healthcare	Vhi Healthcare	Total
Age Related Health Credits				592.1
Hospital Bed Utilisation Credit				175.7
Stamp Duty				-737.8
Estimated surplus in the REF				30.0
<b>Total</b>				<b>30.0</b>
Net Financial impact per insured life (€)				€17

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

#### Summary of impact of using alternative methodologies for 2019

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

	<b>Recommendation</b>	<b>Alternative 1(October 2017 Report method)</b>	<b>Alternative 2</b>	<b>Alternative 3</b>
Non-Advanced Average Returned Benefits calculated using	Non-Advanced Claims	Non-Advanced Claims	Non-Advanced Claims	Non-Advanced Claims
Advanced Average Returned Benefits calculated using	Level 2 Claims	Level 2 Claims	Advanced Claims	Level 2 Claims
Claims Cost Ceiling	130%	130%	130%	130%
Stamp duty ratio (Non-Advanced:Advanced/Level 2)	40%	40%	40%	40%
Overnight Hospital Utilisation payment	€100	€100	€100	€100
Day Case Hospital Utilisation payment	€50	€50	€50	€50
Future Claims inflation p.a.	4%	3%	3%	2%
<b>Stamp Duty (adult rate)</b>				
Non-Advanced	€177	€174	€187	€171
Advanced	€444	€435	€468	€426
<b>Projected Net Financial Impact</b>				
Irish Life Healthcare				
Laya Healthcare				
Vhi Healthcare				
Estimated Surplus	€28.0m	€28.0m	€28.0m	€28.0m
<b>Projected Net Financial Impact per member</b>				
Irish Life Healthcare				
Laya Healthcare				
Vhi Healthcare				
<b>Total</b>	<b>€16</b>	<b>€16</b>	<b>€16</b>	<b>€16</b>



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

### **Information Returns**

Half-yearly returns for the July to December 2017 and January to June 2018 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 2017 and on 1 January 2018. 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 2017 and for the first half of 2018 are set out in the Table B.1 overleaf.

Table B.1

Insurer	Returned Benefits July – Dec 2017	Returned Benefits Jan – June 2018
Irish Life Health		
Laya Healthcare		
Vhi Healthcare		
Total	91%	90%

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

## **Membership Profile**

### **Market Size**

Table B.2 sets out the membership details and market shares of insurers. The data is taken from returns for the first half of 2017, the second half of 2017 and the first half of 2018. The data excludes members serving initial waiting periods.

Table B.2

Insurer	01-Jul-17		01-Jan-18		01-Jul-18	
	Members 000s	Market Share (%)	Members 000s	Market Share (%)	Members 000s	Market Share (%)
Irish Life Health						
Laya Healthcare						
Vhi Healthcare						
Total	2,043		2,049		2,078	

As of end June 2018, 45.2% of the Irish population are estimated to have private health insurance (including restricted undertakings), which is in line with the percentages observed at end June 2017<sup>1</sup>. The market share for each insurer has remained broadly the same when compared to the end of June 2017.

Table B.3

Insurer	Gross Premium Income 2017 (2016 in brackets)		
	€m	Market Share by premium(%)	
Total	2508 (2,391)		

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

### Gender profile of insurers' members

The gender distributions of the memberships of the three insurers for the period January to June, 2018 are set out in Table B.4 below. The proportions in each gender for each insurer have remained relatively static for some time.

Table B.4

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

### Age Profile of Insurers Members

The age distribution (average for the period January to June 2018) 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 2017.

Table B.5

Age group	Irish Life Health	Laya Healthcare	Vhi Healthcare	Market
0-17				23.2% (23.4%)
18-29				10.9% (10.7%)
30-39				13.7% (14.1%)
40-49				16.1% (16.1%)
50-54				7.2% (7.3%)
55-59				6.7% (6.7%)
60-64				6.2% (6.2%)
65-69				5.4% (5.3%)
70-74				4.5% (4.3%)
75-79				3.0% (2.8%)
80-84				1.9% (1.8%)
85+				1.3% (1.2%)

[REDACTED]

[REDACTED]

[REDACTED]

## Claims Profile

### Analysis of Claims Data and Risk Profiles

The total claim payments made by the open market insurers in 2016, 2017 and the first half of 2018 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 2016				1034
Second Half 2016				1052
<b>2016 Total</b>				<b>2085</b>
First Half 2017				1023
Second Half 2017				1040
<b>2017 Total</b>				<b>2062</b>
First Half 2018				1025

The claims paid in the first half of 2018 were €2m higher than the first half of 2017, primarily driven by [REDACTED]

Table B.7 splits out the returned benefit payments between those to public hospitals, private hospitals, and to hospital consultants. The total returned benefits paid were €925m in the first half of 2018 compared to €932m in the first half of 2017. This decrease is largely driven by a reduction in the payments to public hospitals to €253m in the first half of 2018 compared to €273m in the first half of 2017. This has resulted in total payments to public hospitals in the July 2017 – June 2018 time period of €521m compared to payments of €593m in the July 2016 – June 2017 time period.

Table B.7

		Irish Life Health €m's	Laya Healthcare €m's	Vhi Healthcare €m's	Total €m's
First Half 2016	Public Hospital				309 (32%)
	Private Hospital				452 (47%)
	Consultant				193 (20%)
	Sub Total				955
Second Half 2016	Public Hospital				320 (33%)
	Private Hospital				453 (46%)
	Consultant				201 (21%)
	Sub Total				974
<b>2016 Total</b>					<b>1929</b>
First Half 2017	Public Hospital				273 (29%)
	Private Hospital				464 (50%)
	Consultant				195 (21%)
	Sub Total				932
Second Half 2017	Public Hospital				268 (28%)
	Private Hospital				483 (51%)
	Consultant				198 (21%)
	Sub Total				949
<b>2017 Total</b>					<b>1881</b>
First Half 2018	Public Hospital				253 (27%)
	Private Hospital				480 (52%)
	Consultant				192 (21%)
	Sub Total				925

## Product Groups

### Note on Terminology

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

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

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

Level 2 contracts and Higher contracts would all be “Advanced” contracts.

The data for products that offer similar levels of hospital cover was grouped by the Authority. The proportion of each insurer’s membership in each market segment on 1 July 2018 is shown in the Tables B.8 and B.9 below (1 July 2017 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	10% (11%)	75% (75%)	15% (14%)


Table B.9

	Non-Advanced	Advanced
Irish Life Health		
Laya Healthcare		
Vhi Healthcare		
Total	10% (10%)	90% (90%)

The total market split between Advanced & Non-Advanced products has remained static 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 34 products (Irish Life Health: 20, Laya Healthcare 8 and Vhi Healthcare 6) being marketed classified as Non-Advanced with 198,082 members insured.

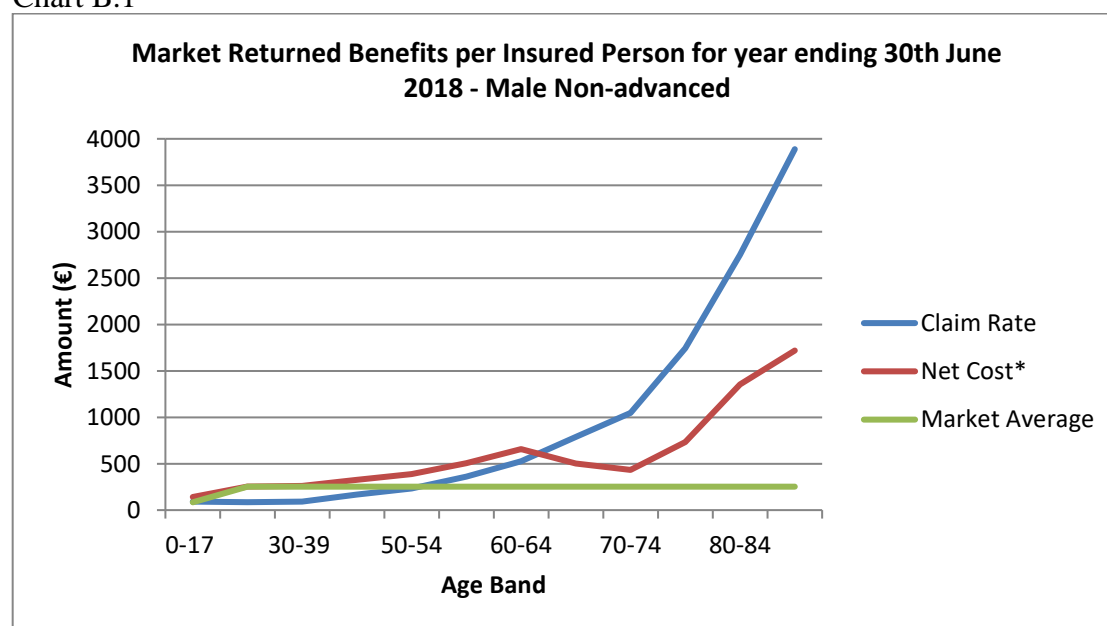
Consistent with last year, as the claims paid experience for Non-Advanced contracts is becoming more mature and credible, we have used in this Report the actual average claim costs for Non-Advanced contracts for the purpose of projecting future average claims of Non-Advanced contracts.

### Average claim per member for the market

The information returns provide returned benefit for each age, gender and product for each insurer for the second half of 2017 and the first half of 2018. The average returned benefit per insured person (i.e. the claim rate) for each age group and for the market is calculated from these returns and increases with age group.

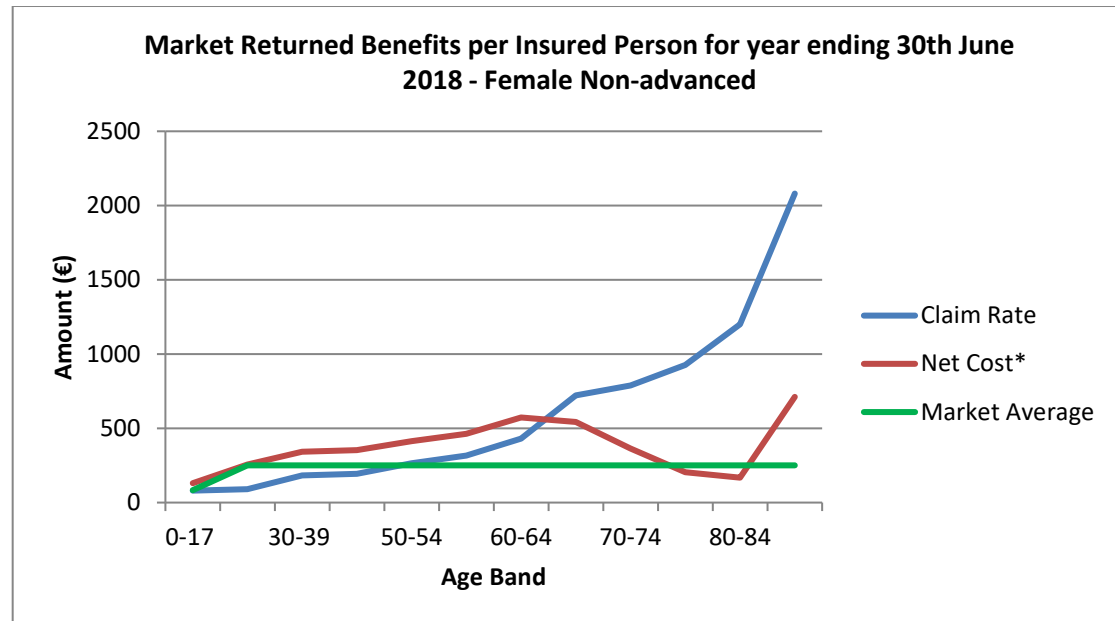
Charts B.1 to B.4 set out the average returned benefit by age, the market average returned benefits, and the corresponding net cost after application of the current credits and stamp duties for the different age cohorts. This allows us to analyse the impact the current credits and stamp duty have on the claim rates for the 12 months ending June 2018 for these different cohorts of business. It should be noted that the 2018 credits apply for the policy year from the renewal date on or after 1 April 2018 while the market returned benefits are for the year ending June 2018.

Chart B.1



*\* Net Cost is defined as average returned benefit for July 2017 – June 2018 plus stamp duty less age and hospital utilisation credit for renewals from 1 April 2018 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 2018 credits and stamp duty) for many of the older age cohorts reduces as the age increases (65-74 for males and 65-84 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

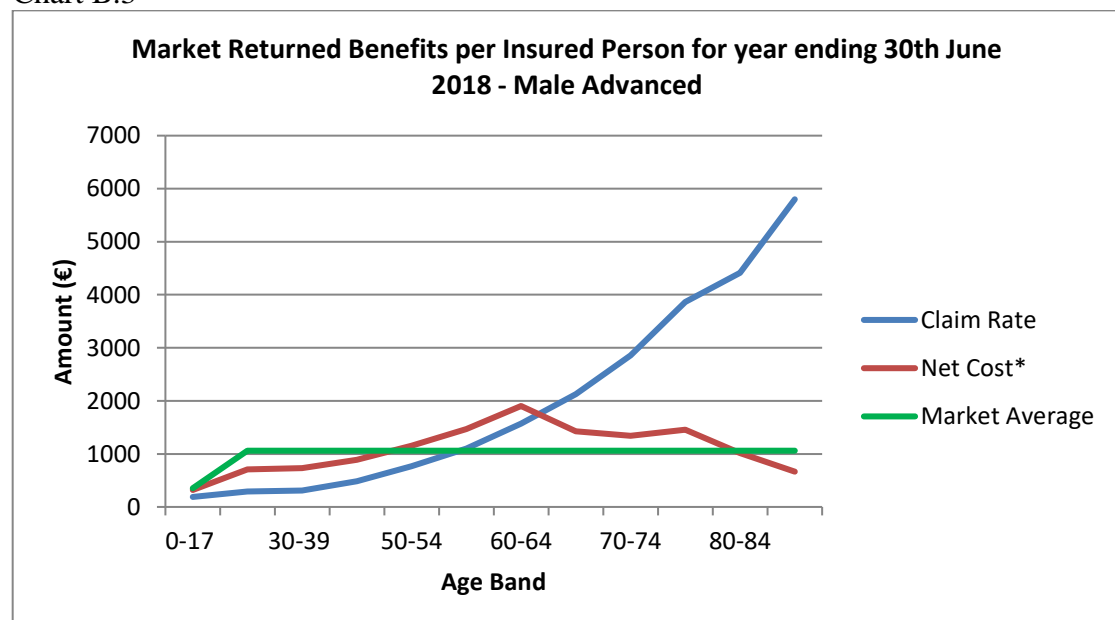
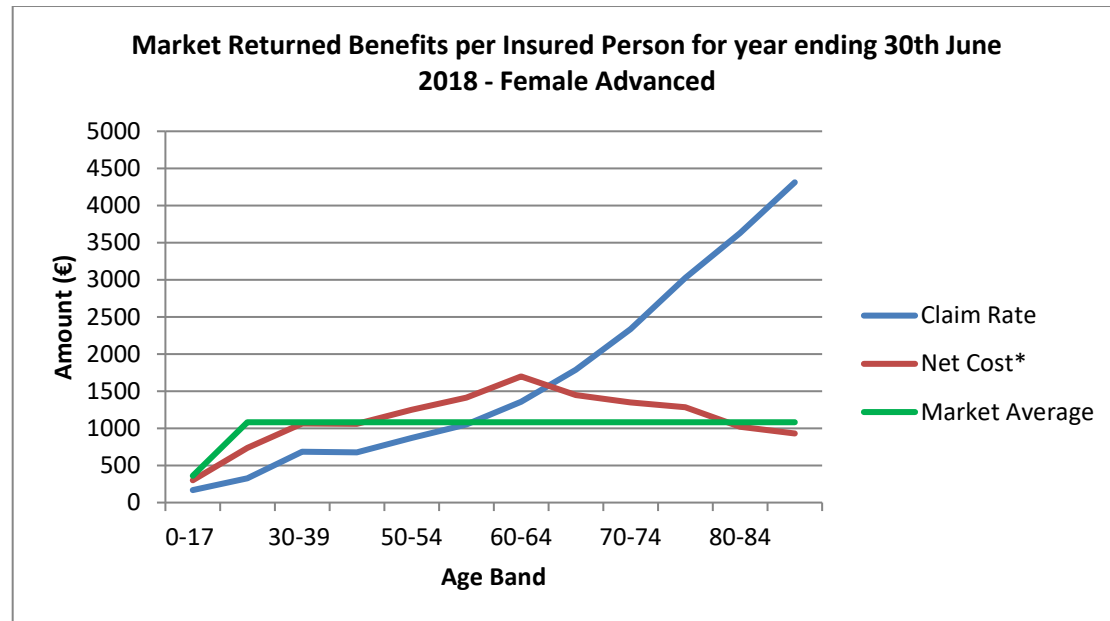


Chart B.4



For Advanced products (using Level 2 costs) the net cost for ages 60 and over converges towards the market average claim rate. The net cost reduces below the market average claim rate for ages 80 and over. The 60-64 age group is an outlier with higher net costs at that age group compared to lives in the adjacent age groupings. This is due to no age credits applying to the 60-64 age group.

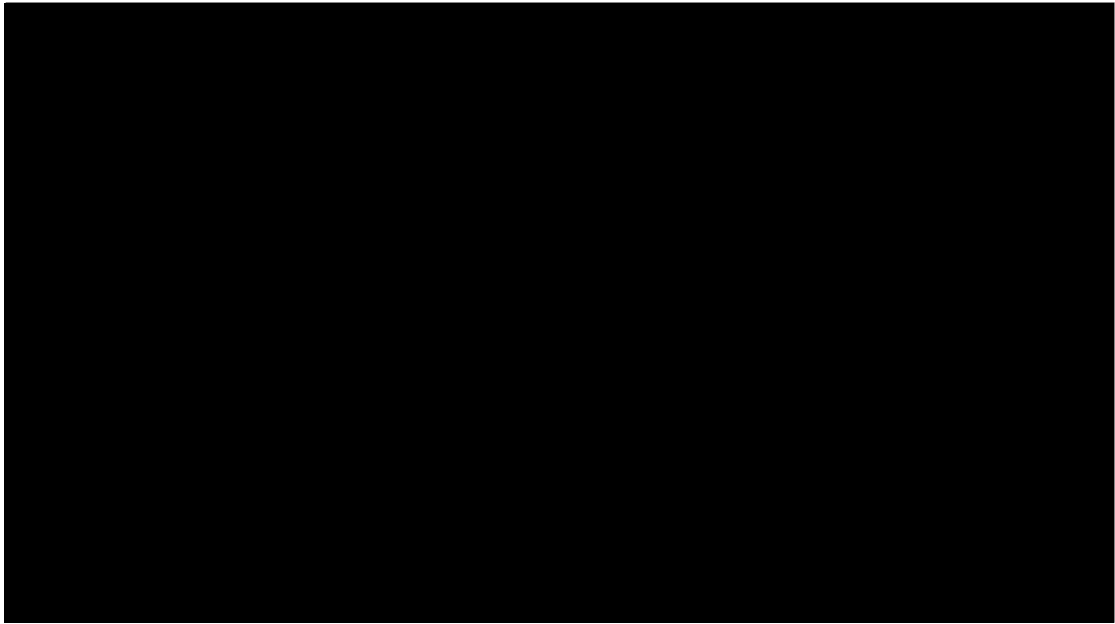
Further analysis of the information returns for July to December 2017 and January to June 2018 is in Appendix 1.

#### Results by level of cover and insurer:

Charts B.5 and B.6 below show individual insurer's average levels of returned benefits per insured person for the year ending 30 June 2018 in respect of Non-Advanced cover contracts (contracts mainly providing cover for public hospitals) and Level 2 cover contracts (contracts providing cover for a semi private room in most private hospitals in addition to cover for public hospitals).



Chart B.5



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

Chart B.6

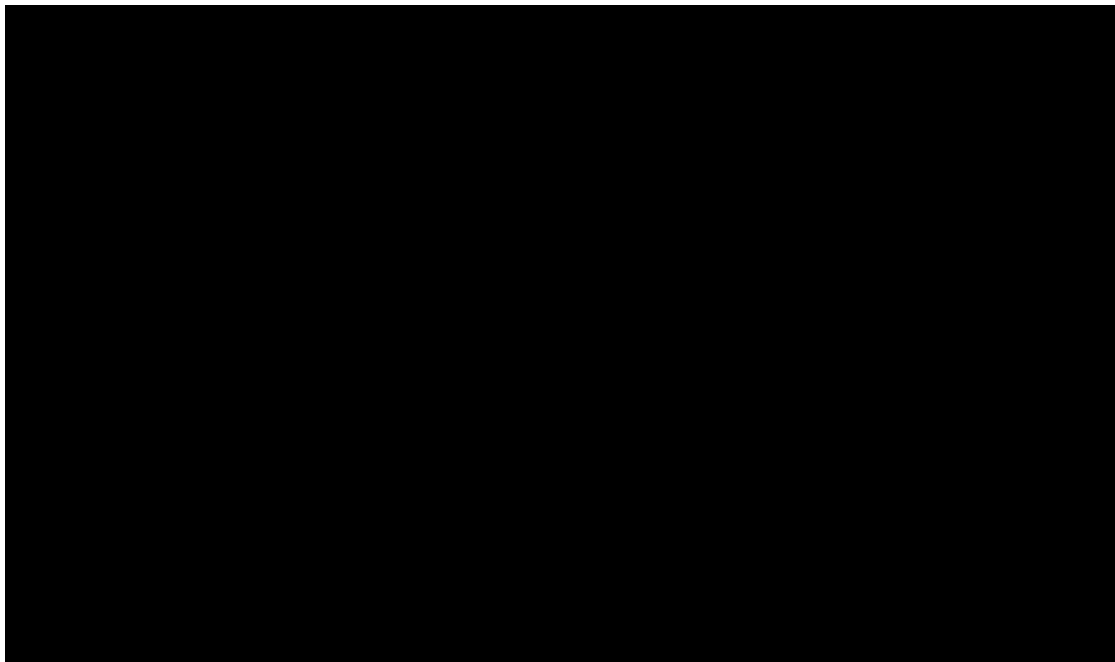



Chart B.7 shows how the market claim rate varies by level of cover, and by gender.

Chart B.7

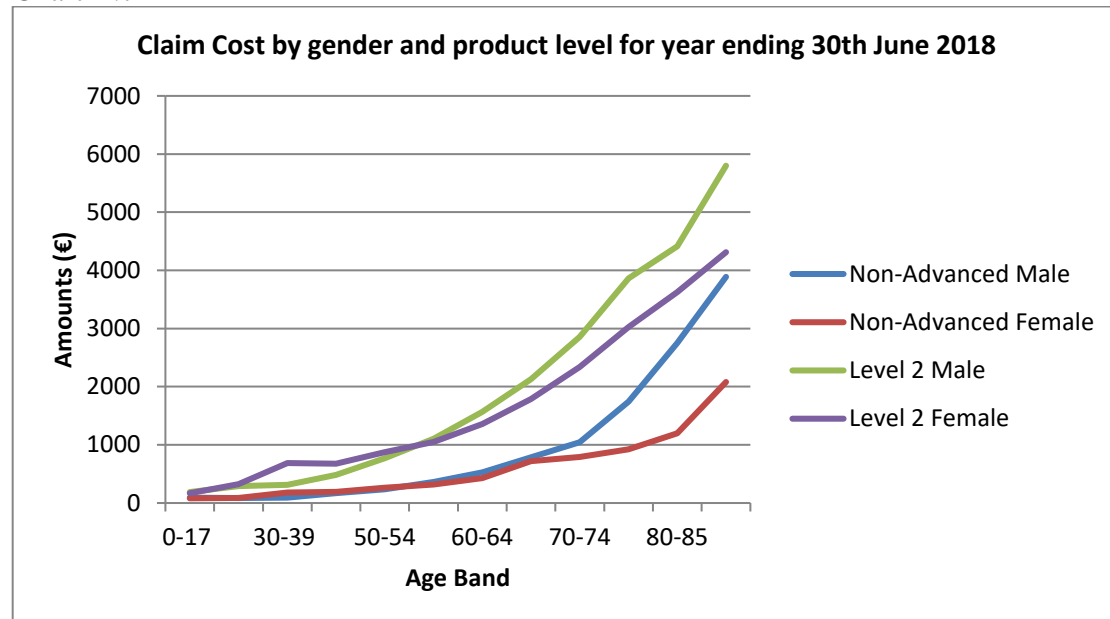
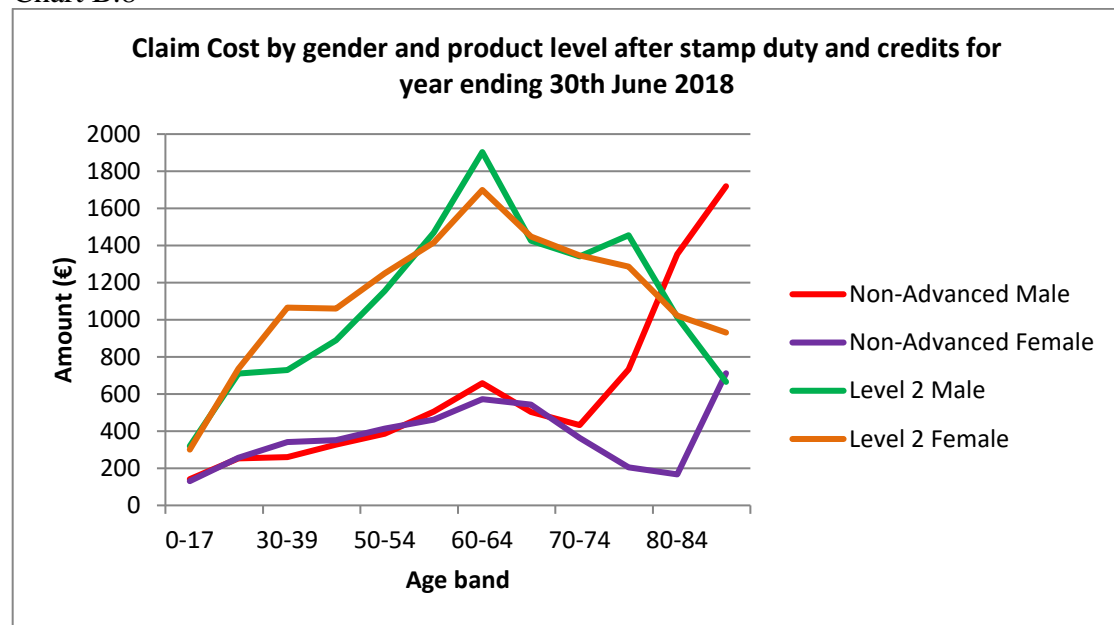


Chart B.7 shows that claim costs for men with Level 2 type products are consistently higher than for men with Non-Advanced products with the percentage varying from 149% to 342% higher depending on the age range. Claim costs for women with Level 2 type products are also consistently higher than for corresponding Non-Advanced products with the percentage varying from 207% to 376% higher depending on age range. Average male costs are higher than female costs for children and ages over age 55 for both Non-Advanced and Level 2 contracts.

#### Impact of 2017 Credits on different market segments

Chart B.8 overleaf shows the impact of the April 2018 credits and stamp duties on the net claims by age for Non-Advanced and Level 2 products and men and women for the market as a whole.

Chart B.8



For Level 2 products the net cost generally increases with age for both men and women up to age 64 and reduces thereafter. The same is true for Non-Advanced products although the net cost increases sharply at older ages particularly for males. The fluctuations in claim costs for Non-Advanced products is due the small number of lives insured (average of 1,178 over the year aged 80 or over).

## Section C - Financial Data

### Profitability of Registered Undertakings

The profitability of Registered Undertakings' private health insurance business in 2017 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 reinsurers 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.

GloHealth closed to new and renewing business from 22<sup>nd</sup> February 2017 and its business is now being written by Irish Life Health.

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 2017:

€m's	Elips Insurances Ltd (Laya Healthcare)	Great Lakes Reinsurance (UK) PLC (GloHealth)	Irish Life Health DAC	Vhi Insurance DAC	Market
	€m	€m	€m	€m	€m
Earned premiums before reinsurance and risk equalisation credits					2,601.0
Impact of risk equalisation					0.4
Claims incurred before reinsurance					(2,129.0)
Claims ratio (Gross of risk equalisation)					81.9%
Claims ratio (Net of risk equalisation)					81.8%
Cost of reinsurance					(155.0)
Expenses					(234.7)
Underwriting Profit					82.6
Underwriting profit as % earned premiums					3.2%
Underwriting Profit Gross of Reinsurance					237.7
Impact of Investments					(4.4)
Profit before tax					78.4
Sales					2,601.5
Return on Sales Gross of reinsurance excl. investment return					9.14%



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.

#### 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 2018 and the actual net financial impact in respect of 2017. It should be noted that insurers' estimates are based on their view of membership figures over the full 2018 calendar year and on their various methods of accounting for credits and stamp duty. The Authority's assessment is that the net financial impact in the second half of 2017 and the first half of 2018 combined would be half of the amounts shown in the 2017 and 2018 columns in the table.

Table C.2

€m's	Net Financial Impact of Risk Equalisation 2017	Estimated Net Financial Impact of Risk Equalisation in 2018	Estimated Net Financial Impact of Risk Equalisation 1/7/17 – 30/6/18
	€m	€m	€m
Elips			
Great Lakes			
Irish Life Health			
Vhi Healthcare			
Total	0.4	( 1.3)	( 0.4)

For 2017, insurers' accounts show a total positive net financial impact of [REDACTED] in respect of risk equalisation. For 2018, insurers have, in aggregate, projected a negative net impact of risk equalisation on insurers' financial results of [REDACTED]. 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 Fund sustaining surpluses or deficits from year to year.

Table C.3: Projected Surplus in Risk Equalisation Fund

€m	At 31/12/2017	At 30/06/2018	Projected Surplus at end of claim period
01/01/2013 – 28/02/2015 contracts	15.33	15.39	15.30
01/03/2015 - 29/02/2016 contracts	30.01	30.10	30.00
01/03/2016 - 31/03/2017 contracts	(2.73)	2.67	3.00
01/04/2017 – 31/03/2018 contracts	3.02	(19.68)	(16.00)
01/04/2018 – 31/03/2019 contracts	-	(0.60)	(3.50)
Investment Income Less expenses	(0.70)	(0.81)	(0.80)
Total	44.93	27.07	28.00

The 2017 year end audited Balance Sheet for the Risk Equalisation Fund showed a surplus of €44.9m. Management accounts at end June 2018 show a projected surplus of €27.07m.

In view of the accounting position of the Fund at 30 June 2018, the Authority is of the view that there is likely to be a surplus of circa €28.0m in the fund when the credits and stamp duty on all contracts that commence in advance of 1 April 2019 are fully earned.

## Section D – Review of market developments

### Premium inflation in the market July 2017 – June 2018

In the 12 months to end June 2018, the average gross premium paid by consumers was €1,214, which represents a 2.2% increase on the average premium paid in the 12 months to 30 June 2017 (€1,188). 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 2017- June 2018	Average Gross premium paid July 2016- June 2017	% Change
Irish Life Health			
Laya Healthcare			
Vhi Healthcare			
Total Open Membership Insurers	€1,214	€1,188	2.2%

The above figures relate to average premiums. Premiums for specific products varied more widely but the effects of consumer activity such as switching products mitigated individual product increases. The CSO price index for health insurance has fallen by 5.7% in the 12 months to the end of June 2018. 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 in the last year with 339<sup>2</sup> inpatient private health insurance plans on the Product Register on 30 July 2018 (excluding restricted undertakings). This is an increase of 26 plans since 27 July 2017. Of the 339 plans available at 30 July 2018, Irish Life Health provide 122 plans, Laya Healthcare 134 plans and Vhi Healthcare 83 plans.

Non-Advanced products began being marketed from 31 March 2013. In the information returns for 1 July, 2018 there were 198,082 (192,422 at 1 July 2017) persons insured with products that were categorised as Non-Advanced at that date. This amounts to 9.5% of the total number of insured persons at that date.

### Segmentation

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

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<sup>2</sup> 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.

attractive to older, less healthy customers. All insurers, apart from Laya Healthcare have products with reduced orthopaedic benefits in private hospitals, with approximately half of the market insured under these plans.

This segmentation, as well as 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 €
<b>Average Net Claim per insured person (June 2017 - June 2018)</b>				
18-60				1,000
Over 60's				1,445
<b>Average Gross of Tax Relief Premiums per insured person</b>				
18-60				1,475
Over 60's				1,860
<b>Average Difference per insured person</b>				
18-60				475
Over 60's				415

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 (apart from ) for younger lives as older lives, notwithstanding higher risk equalisation credits and higher premium being paid to insurers in respect of older lives.

There is continuing evidence that insurers, and in particular Table D.3 shows the average difference in net premiums for the most common level of cover with allowance for discounted children prices.

Table D.3 – Average net premiums paid for Level 2 plans for June 2018

	Average Net Premium		
Insurer	Age <60	Age >=60	Difference
Irish Life Health			
Laya Healthcare			
Vhi Healthcare			
Market	€1,268	€1,660	31% (29%)



It is interesting to note that the difference in average premiums between the over and under 60's for the market has been increasing over the past number of years (31% in June 2018, 29% in June 2017, and 25% in June 2016). [REDACTED]

Other recent significant market developments have been:

- Special offers with reduced prices for children being offered from time to time by all insurers;
- Plans with excesses of up to €500 for stays in private hospitals have become more popular; and
- A static proportion of the market is buying Non-Advanced plans. Within Advanced Plans there is a growing proportion moving to higher cover products perhaps due to a more competitive pricing of some of these plans.

### **Discussions with insurers**

#### **Irish Life Health**

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

## Laya Healthcare

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

## Vhi Healthcare

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

## Section E – Projections

### Retrospective review of projections in 2017 Report

#### Review of Membership Projections in the Authority's 2017 Report

In its 2017 Report, the Authority projected that the change in the age profile of the market in the year ending June 2017 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 2018 and the percentages of the total market for each age group.

Table E.1

Membership for the Market as of 1 July 2018			
Age Group	Actual	Projected	Net Difference
Aged 17 and under	488,387 (23.5%)	487,479 (23.5%)	908
Aged 18 to age 29	227,672 (11.0%)	225,576 (10.9%)	2,096
Aged 30 to age 39	286,593 (13.8%)	284,930 (13.8%)	1,663
Aged 40 to age 49	332,670 (16.0%)	330,968 (16.0%)	1,702
Aged 50 to age 54	148,849 (7.2%)	148,716 (7.2%)	133
Aged 55 to age 59	138,809 (6.7%)	138,242 (6.7%)	567
Aged 60 to age 64	126,855 (6.1%)	127,830 (6.2%)	-975
Aged 65 to age 69	110,696 (5.3%)	110,625 (5.3%)	71
Aged 70 to age 74	91,782 (4.4%)	92,726 (4.5%)	-944
Aged 75 to age 79	60,947 (2.9%)	59,878 (2.9%)	1,069
Aged 80 to age 84	38,760 (1.9%)	39,037 (1.9%)	-277
Aged 85 and over	25,964 (1.2%)	25,996 (1.3%)	-32
<b>Total</b>	<b>2,077,984 (100.0%)</b>	<b>2,072,003 (100.0%)</b>	<b>5,981</b>

The above table shows that the actual insured population at 1 July 2018 was c. 0.3% higher than the projected population at that date.

The projected age profile of the insured population, rather than the total size of the insured population, is the key assumption in deriving the risk equalisation credits and stamp duty and this is very much in line with the Authority's projection.

#### Review of Claims Inflation Assumptions in the Authority's 2017 Report

The 2017 report highlighted a wide variation in the claims cost inflation rates over the period 1 July 2016 to 1 July 2017 with particularly large falls experienced in the 0-17 age group. There were a number of factors which could have impacted on those results such as changes in the speed of claims settlement or the changing of the charging structure of public hospitals.

As a result of this analysis and conversations with insurers, the Authority last year decided that a reasonable method for projecting the average returned benefit per insured person for renewals from 1 April 2018 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 2017 – June 2018 with those made

in the July 2016 – June 2017 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 2017 to the twelve month period ending in June 2018 for each insurer and for the market is shown in Table E.2.

Table E.2

Age Group	Irish Life Health	Laya Healthcare	Vhi Healthcare	Market
0-17				-18%
18-29				-5%
30-39				-8%
40-49				-1%
50-54				1%
55-59				-1%
60-64				-1%
65-69				-4%
70-74				-4%
75-79				-2%
80-85				-9%
85+				-7%
All Ages				<b>-3%</b>

The ‘all ages’ percentages is impacted by the ageing of insurers’ portfolios which contributes about 1% to the ‘all ages’ inflation costs. There are significant variations in the percentage changes between different age groups and between insurers insurer. The level of claims deflation experienced by children, young adults and those over age 80 was significantly higher than for other ages.

### **Projections for 2019 Credits**

#### *Projected age profile of market in 2019*

The change in insured lives between 1 July 2017 and 1 July 2018 in the information returns data is set out in Table E.3.

Table E.3

Open Enrolment Market	01-Jul-17	01-Jul-18	Net Diff
Aged 17 and under	482,415	488,387	5,972
Aged 18 to age 29	219,114	227,672	8,558
Aged 30 to age 39	289,992	286,593	-3,399
Aged 40 to age 49	327,574	332,670	5,096
Aged 50 to age 54	147,830	148,849	1,019
Aged 55 to age 59	136,907	138,809	1,902
Aged 60 to age 64	125,446	126,855	1,409
Aged 65 to age 69	108,391	110,696	2,305
Aged 70 to age 74	87,083	91,782	4,699
Aged 75 to age 79	57,497	60,947	3,450
Aged 80 to age 84	36,730	38,760	2,030
Aged 85 and over	24,381	25,964	1,583
<b>Total</b>	<b>2,043,360</b>	<b>2,077,984</b>	<b>34,624</b>

There was an increase in the number of insured lives of 34,624 over the period from 1 July 2017 to 1 July 2018. The reduction in the numbers insured in the 30 to 39 age group is due to the population demographics at age 29 to 39 last year.

The change in the market in the period 1 July 2017 to 1 July 2018 is assumed to continue during the projection time period until 1 April 2020. Thus the projections assume an increase in the number of insured lives of 34,624 per annum. Additionally, while the total market size is not a critical factor in balancing the financial impact of credits and stamp duty, the forecast age profile and product mix is important. The Authority has assumed that the changes in age profile and product mix over the twelve months to June 2018 in Table E.3 will continue at the same pace until 1 April 2020 for the market as a whole. The resulting projected numbers are set out in the following table:

Table E.4

Projected Market 01-April-2020 current trends			
	Non-Advanced	Advanced	Total
Aged 17 and under	28,426	470,412	498,838
Aged 18 to age 29	29,930	212,719	242,649
Aged 30 to age 39	41,963	238,682	280,645
Aged 40 to age 49	45,038	296,551	341,588
Aged 50 to age 54	17,707	132,925	150,632
Aged 55 to age 59	14,176	127,961	142,138
Aged 60 to age 64	10,752	118,569	129,321
Aged 65 to age 69	7,362	107,368	114,730
Aged 70 to age 74	4,436	95,569	100,005
Aged 75 to age 79	2,098	64,886	66,985
Aged 80 to age 84	920	41,393	42,313
Aged 85 and over	623	28,111	28,734
<b>Total</b>	<b>203,428</b>	<b>1,935,148</b>	<b>2,138,576</b>

Table E.5 and E.6 below provides details of the number insured in Non-Advanced and Advanced policies at 1 July 2017 and 1 July 2018. The approach for projecting the market is to assume that the forecast change in the number of Non-Advanced and Advanced contracts in the year to 1 July 2018 will continue at the same pace until 1 April 2020.

Table E.5

	Non-Advanced 01-Jul-17	Non-Advanced 01-Jul-18	Net Diff	Forecast 01-Apr-20
Aged 17 and under	35,133	32,694	-2,439	28,426
Aged 18 to age 29	27,911	28,645	734	29,930
Aged 30 to age 39	43,497	42,939	-558	41,963
Aged 40 to age 49	41,380	42,710	1,330	45,038
Aged 50 to age 54	15,672	16,412	740	17,707
Aged 55 to age 59	11,924	12,743	819	14,176
Aged 60 to age 64	8,612	9,390	778	10,752
Aged 65 to age 69	5,651	6,273	622	7,362
Aged 70 to age 74	2,841	3,421	580	4,436
Aged 75 to age 79	1,353	1,624	271	2,098
Aged 80 to age 84	661	755	94	920
Aged 85 and over	392	476	84	623
<b>Total</b>	<b>195,027</b>	<b>198,082</b>	<b>3,055</b>	<b>203,428</b>

Table E.6

	Advanced 01-Jul-17	Advanced 01-Jul-18	Net Diff	Forecast 01-Apr-20
Aged 17 and under	447,282	455,693	8,411	470,412
Aged 18 to age 29	191,203	199,027	7,824	212,719
Aged 30 to age 39	246,495	243,654	-2,841	238,682
Aged 40 to age 49	286,194	289,960	3,766	296,551
Aged 50 to age 54	132,158	132,437	279	132,925
Aged 55 to age 59	124,983	126,066	1,083	127,961
Aged 60 to age 64	116,834	117,465	631	118,569
Aged 65 to age 69	102,740	104,423	1,683	107,368
Aged 70 to age 74	84,242	88,361	4,119	95,569
Aged 75 to age 79	56,144	59,323	3,179	64,886
Aged 80 to age 84	36,069	38,005	1,936	41,393
Aged 85 and over	23,989	25,488	1,499	28,111
<b>Total</b>	<b>1,848,333</b>	<b>1,879,902</b>	<b>31,569</b>	<b>1,935,148</b>

#### Projected Returned Benefit for each insurer

The average claims costs for the twelve months to end June 2018 are used as the base figures for the projected average Returned Benefits.

For each age group, the average returned benefit per insured person for the year ending June 2018 was calculated for each product type, age grouping, gender and insurer and for the market. The calculated rates are included in Appendix 1.

Insurers were asked for their views on how the average returned benefit for 2019 renewals might be projected to allow for future claims inflation and any changes in the timing pattern of claims settlement. Having regard to the responses received, the Authority considers that a reasonable method for projecting the average returned benefit per insured person for renewals from 1 April 2019 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 June 2018. 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 ageing which is provided for in the population projections.

#### Hospital Utilisation

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

Information returns include separate details of the number of hospital inpatient days and day case admissions paid for by insurers in respect of their private patients admissions. The total number of nights/days in the last two years paid by the open membership undertakings is set out in Table E.7 overleaf.

Table E.7

<b>000's</b>	<b>Overnight</b>	<b>Day case</b>	<b>Total</b>
Second Half 2016	669	318	987
First Half 2017	619	315	933
Second Half 2017	603	323	927
First Half 2018	623	311	934

Table E.8 shows the split by insurer for the January to June 2018 time period.

Table E.8

<b>000's</b>	<b>Overnight</b>	<b>Day case</b>	<b>Total</b>
Irish Life Health			
Laya Healthcare			
Vhi Healthcare			
<b>Total</b>	<b>623</b>	<b>311</b>	<b>934</b>

The average overnight stays and day case days per insured person in July 2017 – June 2018 time period were calculated for each age group/gender/level of cover/insurer. The Authority has projected that the average hospital utilisation per life insured for each age group will increase by 1% per annum over the projection period.



## Section F – Credits and stamp duty for policies commencing from 1 April 2019

### 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 – 2017;
  3. The aim of avoiding overcompensation being made to an undertaking;
  4. The aim of maintaining the sustainability of the health insurance market; and
  5. The aim of having fair and open competition in the health insurance market.
- Recommend the amount of stamp duties that the Authority considers, after having regard to the aim of avoiding the Risk Equalisation Fund sustaining surpluses or deficits from year to year, would need to be paid by undertakings in respect of persons insured by them in order to meet the cost to the Fund of the total of the Risk Equalisation Credits.

The Health Insurance (Amendment) Act 2017 provided that the risk equalisation credits outlined in Table F.1 below applied from 1 April 2018:

Table F.1

Age Bands	utilisation credits from 1 March 2018	Age / gender / level of cover credits from 1 March 2018			
		Non-Advanced		Advanced	
		Men	Women	Men	Women
59 and under	€100 / €50	€0	€0	€0	€0
60-64	€100 / €50	€0	€0	€0	€0
65-69	€100 / €50	€400	€300	€1,000	€650
70-74	€100 / €50	€725	€550	€1,750	€1,250
75-79	€100 / €50	€1,075	€850	€2,550	€1,925
80-84	€100 / €50	€1,450	€1,150	€3,450	€2,700
85 and above	€100 / €50	€2,175	€1,450	€4,975	€3,350

The stamp duties outlined in Table F.2 below applied from 1 April 2018:

Table F.2

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

The projected net financial impact in last year's report of the credits and stamp duty enacted for policies commencing in the 1 April 2018 to 31 March 2019 time period are as follows:

Table F.3

€m	Irish Health	Life Healthcare	Vhi Healthcare	Total
Age Related Health Credits				592.1
Hospital Bed Utilisation Credit				175.7
Stamp Duty				-737.8
Estimated surplus in the REF				30.0
Total				30.0
Net Financial impact per insured life €				€17

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

#### Recommendation of the Authority on credits and stamp duty for policies commencing from 1 April 2019

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 2019 but before 31 March 2020.

Table F.4

Age Bands	utilisation credits (overnight / day case) from 1 April 2019	Age / gender / level of cover credits from 1 April 2019			
		Non-Advanced		Advanced	
		Men	Women	Men	Women
64 and under	€100 / €50	€0	€0	€0	€0
65-69	€100 / €50	€400	€275	€1,050	€700
70-74	€100 / €50	€650	€475	€1,775	€1,225
75-79	€100 / €50	€925	€725	€2,775	€1,900
80-84	€100 / €50	€1,050	€925	€3,300	€2,475
85 and above	€100 / €50	€1,350	€1,075	€4,600	€3,100

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 2019.

Table F.5

Age Bands	Stamp duties from 1 April 2019 to 31 March 2020	
	Non-Advanced	Advanced
17 and under	€59	€148
18 and over	€177	€444

The Authority is recommending that the stamp duty on Advanced contracts stays at €444 and the Non-Advanced adult stamp duty also remains the same at €177.

These calculations of risk equalisation credits and stamp duty for policies commencing from 1 April 2019 are based as follows:

- A hospital utilisation credit of €100 would be made for each night that an insured person spends in a hospital. Inflation of 1% per annum in hospital admissions is assumed for all age groups.
- A hospital utilisation credit of €50 would be made in respect of each day case admission.
- The age credits for Advanced cover contracts would continue to be based on the average claim costs for Level 2 products (products that, in the main, provide cover for semi-private accommodation in private hospitals, rather than private accommodation). These credits would continue to apply from ages 65 and over. Claims inflation of 4% per annum is assumed over the term of the projection allowing for some pickup in public hospital claims.
- The age credits for Advanced cover products would continue to be calculated to be the amount necessary so that the net claims cost for no age group from age 65 and over exceeds 130% of the average net claims cost for Level 2 contracts.
- The age credits for Non-Advanced 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 130% of the adjusted average net claims cost for Non-Advanced contracts.
- The Stamp duty for Non-Advanced contracts shall reflect the lower credits paid in respect of these contracts, and, accordingly, be set at 40% of the rate applying for Advanced contracts.
- The Stamp duty levels would incorporate an anticipated surplus of €28m in the Risk Equalisation Fund when all payments into/out of the Risk Equalisation Fund have been made in respect of contracts that commence prior to 1 April 2019.

#### 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 2019 to 31 March 2020 are set out in Table F.6 below.

Table F.6

€m	Irish Health	Life	Laya Healthcare	Vhi Healthcare	Total
Age Related Health Credits					613.5
Hospital Utilisation Credit					166.7
Stamp Duty					-752.2
Estimated Surplus in the REF					28.0
Total					28.0
Net Financial impact per insured life €					€16

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

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

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

#### Reconciliation of stamp duties for Current and proposed scenario

The basis recommended by the Authority last year and implemented by the Oireachtas resulted in an adult stamp duty for Advanced cover contracts of €444. For 2018, the Authority recommendation results in an adult stamp duty of €444 for Advanced cover contracts. The main reasons for the movement in the 2018 enacted figures to the 2019 Recommendation in the adult Advanced Cover stamp duty (with approximate impacts of each reason) are as follows:

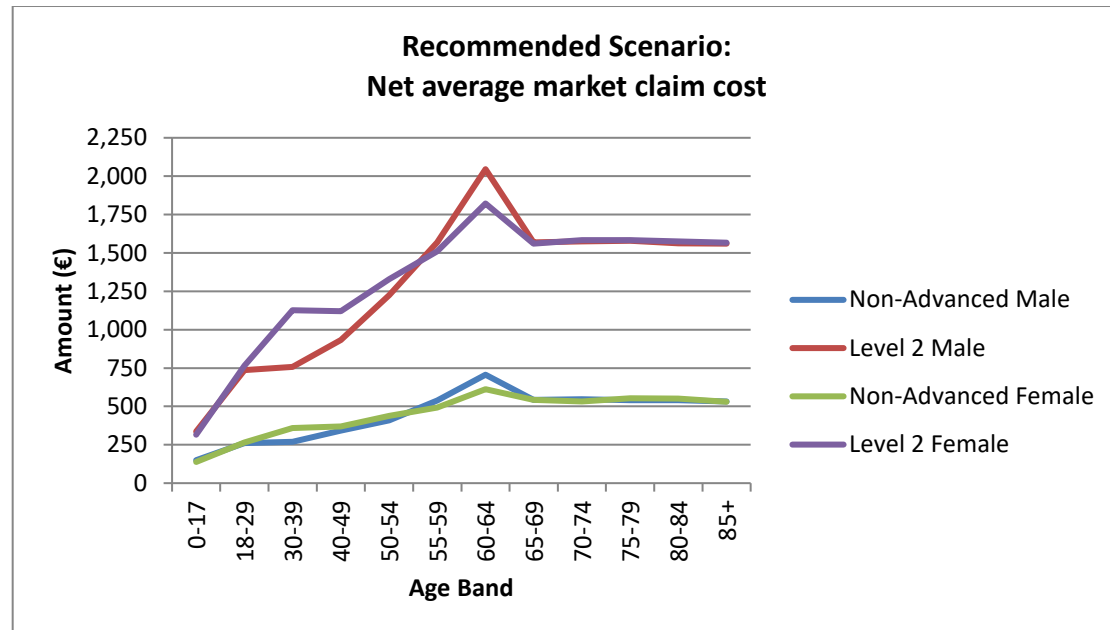
Table F.7

Reasons for Change of Advanced Cover Adult stamp duty from 2017 enacted to 2018 recommended	Monetary effect on stamp duty
<b>2018 enacted stamp duty</b>	<b>€444</b>
Impact of change in RES surplus from €30m to €28m	€0.4
Impact of membership change in year to 30 June 2018	€7
Impact of change in average returned benefits	(€18)
Impact of change in claims inflation from 3% to 4%	€12
Other	(€1)
<b>2019 Recommended Stamp Duty</b>	<b>€444</b>

#### 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 2019 after adjusting for the net effect of the recommended utilisation credits, age credits and stamp duties.

Chart F.1



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

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

#### Projected impact of the recommendation on net claim costs by insurer

The projected net claim costs for each insurer for policies commencing from 1 April 2019 to 31 March 2020 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

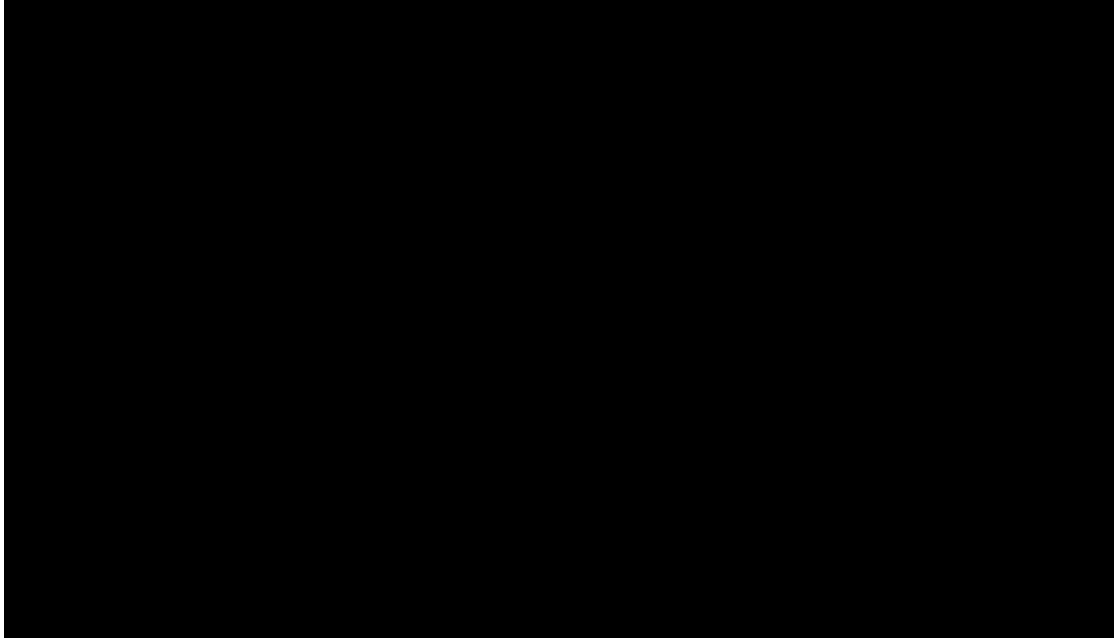
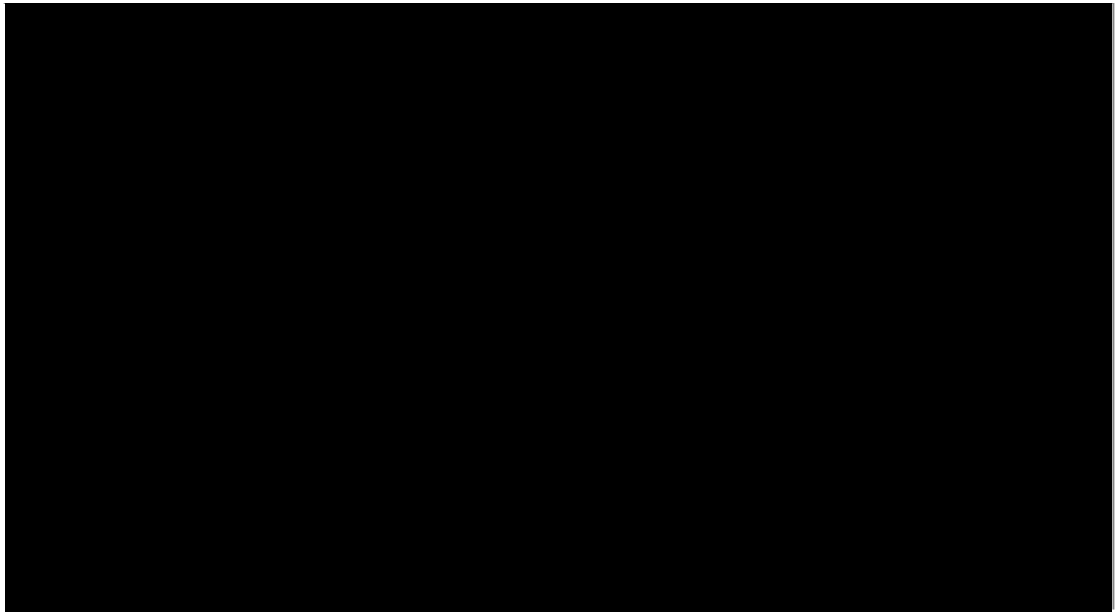


Chart F.3



### Chart F.4

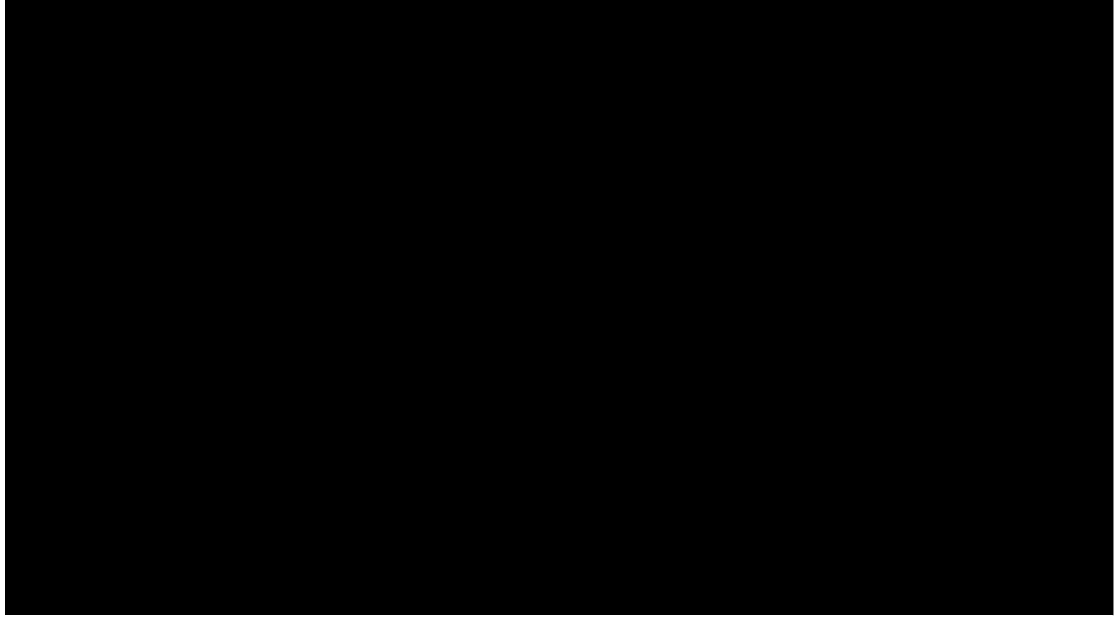
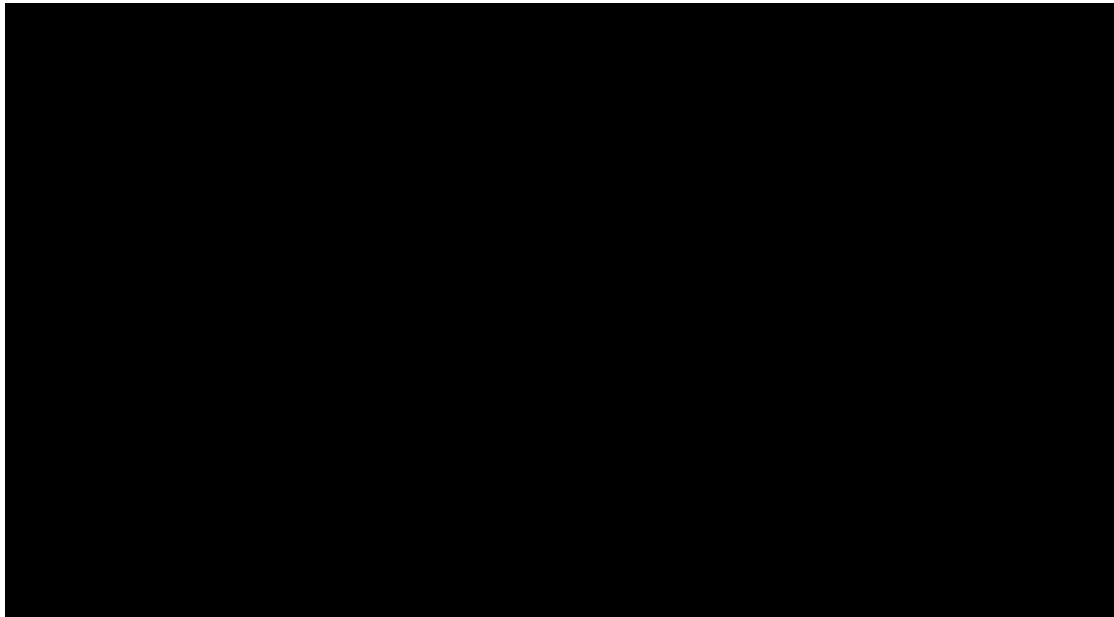


Chart F.5



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

[illegible]

[REDACTED]

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]
- [REDACTED]
- [REDACTED]
- [REDACTED]
- [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. The market share of



each insurer for the age group 60-64 does not vary significantly as shown in Table B.5 with the percentage varying from ■■■■ to ■■■■ for the three insurers. As a result, including age credits for ages 60-64 would not materially affect the projected net financial impact of any insurer;

- The hospital utilisation credit for overnight stays and for day case admissions remain at €100 per night and €50 per admission respectively. This supports the Principal Objective of reducing the differential in the net claims cost of unhealthy and healthy people. It provides an incentive for insurers to eliminate unnecessary overnight stays in hospitals and increase the support for the cost of in-patient stays. ■■■■  
■■■■  
■■■■
- The average claims cost ceiling for older ages remains at 130% of the market average claims cost. This supports the Principal Objective by limiting the differential in the net claims costs between older and younger people; and
- The ratio of Non-Advanced to Advanced stamp duty will remain at 40% reflecting the relative cost of Non-Advanced credits to Advanced contract credits.

#### Principal Objective of Health Insurance Act 1994 -2015

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

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

The risk equalisation credits reduce the incentive to risk select against older less healthy people. The incentive (arising from differences in claims costs) for insurers to differentiate between age groups would be fully addressed if the expected average claim costs for 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

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<sup>3</sup> Assuming the net claims cost ceiling remains at 130%. The Net Financial Impact for Vhi would increase from €117.3m to €118.8m.

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 2018, 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 annually carries out an assessment of whether overcompensation has occurred in the previous three year period using actual insurer's audited accounts. These assessments have to date determined that there has been no overcompensation in the previous three year period. 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 2019, 2020 and 2021.

[REDACTED]

[REDACTED]

[REDACTED]

Table F.8  
Vhi Insurance DAC Section 7F Actual and Projected Accounts

€m's	2016 Actual	2017 Actual	2018 Projection	2019 Projection	2020 Projection
Earned premiums before reinsurance					
Impact of risk equalisation					
Claims incurred before reinsurance					
Cost of Reinsurance					
Operating Expenses					
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 simple average					

[REDACTED]

[REDACTED]

[REDACTED]

As a result of this analysis, the Authority considers that the proposed risk equalisation credits and stamp duty in this report were not likely to result in overcompensation to Vhi Insurance DAC during the 2017-2019 and 2018-2020 time periods. A further overcompensation assessment will be carried out after the end of each three year time period commencing with the 2016 – 2018 time period using the actual audited accounts. If such an assessment determines that overcompensation has actually occurred, the legislation provides that the amount of this overcompensation is repaid to the Risk Equalisation Fund.

#### Maintaining the sustainability of the market

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

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

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

#### Fair and open competition

In the view of the Authority, fair and open competition is achieved by having a level playing field between all insurers. The Authority notes that Vhi Healthcare became an insurance company regulated by the Central Bank in 2015. This has resulted in a level

regulatory playing field for the three registered undertakings writing in-patient health insurance business.

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

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

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

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

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

### Summary of impact of using alternative methodologies for 2019

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

Table F.9

	<b>Recommendation</b>	<b>Alternative 1(October 2017 Report method)</b>	<b>Alternative 2</b>	<b>Alternative 3</b>
Non-Advanced Average Returned Benefits calculated using	Non-Advanced Claims	Non-Advanced Claims	Non-Advanced Claims	Non-Advanced Claims
Advanced Average Returned Benefits calculated using	Level 2 Claims	Level 2 Claims	Advanced Claims	Level 2 Claims
Claims Cost Ceiling	130%	130%	130%	130%
Stamp duty ratio (Non-Advanced:Advanced/Level 2)	40%	40%	40%	40%
Overnight Hospital Utilisation payment	€100	€100	€100	€100
Day Case Hospital Utilisation payment	€50	€50	€50	€50
Future Claims inflation p.a.	4%	3%	3%	2%
<b>Stamp Duty (adult rate)</b>				
Non-Advanced	€177	€174	€187	€171
Advanced	€444	€435	€468	€426
<b>Projected Net Financial Impact</b>				
Irish Life Healthcare				
Laya Healthcare				
Vhi Healthcare				
Estimated Surplus	€28.0m	€28.0m	€28.0m	€28.0m
<b>Projected Net Financial Impact per member</b>				
Irish Life Healthcare				
Laya Healthcare				
Vhi Healthcare				
Total	€16	€16	€16	€16

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

## Appendix A – Further analysis of Information Returns

### Risk Profiles

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

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

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

### Benefit per Insured Person

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

Counting each child as 1/3<sup>rd</sup> and each adult as 1, the average returned benefit per insured person for each insurer is outlined in Table A1.1 below.

Table A1.1

Average Returned Benefits per Insured Person (€)				
Insurer	July-Dec 2016	Jan-June 2017	July-Dec 2017	Jan-June 2018
Irish Life Health				
Laya Healthcare				
Vhi Healthcare				
<b>Market</b>	<b>571</b>	<b>542</b>	<b>549</b>	<b>530</b>

The market returned benefits per insured person has reduced to €530 in the current period from €549 in the six months ending December 2017, a fall of 3%.

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

Table A1.2

Average Returned Benefits per Insured Person as a % of the Market Average				
Insurer	July-Dec 2016	Jan-June 2017	July-Dec 2017	Jan-June 2018
Irish Life Health				
Laya Healthcare				
Vhi Healthcare				
<b>Market</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>


Average Returned Benefits per Insured Person for the 12 months to the end of June 2018 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.

Table A1.3: Male Non-Advanced

Age Group	Irish Life Health €	Laya Healthcare €	Vhi Healthcare €	Weighted Average €	Market
0-17				91	
18-29				85	
30-39				93	
40-49				168	
50-54				233	
55-59				361	
60-64				525	
65-69				788	
70-74				1,045	
75-79				1,743	
80-84				2,750	
85+				3,889	
<b>All Ages</b>				<b>253</b>	



Table A1.4: Male Level 1

Age Group	Irish Life Health €	Laya Healthcare €	Vhi Healthcare €	Weighted Average €	Market
0-17				98	
18-29				89	
30-39				98	
40-49				175	
50-54				259	
55-59				433	
60-64				592	
65-69				932	
70-74				1,451	
75-79				2,186	
80-84				3,286	
85+				3,493	
<b>All Ages</b>				<b>351</b>	

Table A1.5: Male Level 2

Age Group	Irish Life Health €	Laya Healthcare €	Vhi Healthcare €	Weighted Average €	Market
0-17				188	
18-29				292	
30-39				311	
40-49				482	
50-54				769	
55-59				1,103	
60-64				1,569	
65-69				2,129	
70-74				2,855	
75-79				3,865	
80-84				4,414	
85+				5,800	
<b>All Ages</b>				<b>1,060</b>	

Table A1.6: Male Level 2+

Age Group	Irish Life Health €	Laya Healthcare €	Vhi Healthcare €	Weighted Average €	Market
0-17				195	
18-29				285	
30-39				302	
40-49				487	
50-54				793	
55-59				1,119	
60-64				1,632	
65-69				2,242	
70-74				3,011	
75-79				4,063	
80-84				4,764	
85+				6,480	
<b>All Ages</b>				<b>1,158</b>	

Table A1 7: Female Non-Advanced

Age Group	Irish Life Health €	Laya Healthcare €	Vhi Healthcare €	Weighted Average €	Market
0-17				80	
18-29				90	
30-39				182	
40-49				194	
50-54				264	
55-59				316	
60-64				431	
65-69				721	
70-74				790	
75-79				926	
80-84				1,201	
85+				2,081	
<b>All Ages</b>				<b>251</b>	

Table A1.8: Female Level 1

Age Group	Irish Life Health €	Laya Healthcare €	Vhi Healthcare €	Weighted Average €	Market
0-17				84	
18-29				97	
30-39				192	
40-49				208	
50-54				277	
55-59				364	
60-64				474	
65-69				764	
70-74				1,110	
75-79				1,361	
80-84				1,759	
85+				3,166	
<b>All Ages</b>				<b>330</b>	

Table A1.9: Female Level 2

Age Group	Irish Life Health €	Laya Healthcare €	Vhi Healthcare €	Weighted Average €	Market
0-17				168	
18-29				325	
30-39				686	
40-49				675	
50-54				872	
55-59				1,049	
60-64				1,358	
65-69				1,790	
70-74				2,336	
75-79				3,025	
80-84				3,628	
85+				4,313	
<b>All Ages</b>				<b>1,082</b>	

Table A1.10: Female Level 2+

Age Group	Irish Life Health €	Laya Healthcare €	Vhi Healthcare €	Weighted Market Average €
0-17				176
18-29				322
30-39				683
40-49				687
50-54				894
55-59				1,113
60-64				1,402
65-69				1,859
70-74				2,528
75-79				3,275
80-84				3,994
85+				4,767
<b>All Ages</b>				<b>1,179</b>

### Average returned benefit per treatment day

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

Table A1.11

Average Returned Benefits per Treatment day (€)				
Insurer	July-Dec 2016	Jan-June 2017	July-Dec 2017	Jan-June 2018
Irish Life Health				
Laya Healthcare				
Vhi Healthcare				
Market	987	998	1,024	990

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

Table A1.12

Average Returned Benefits per Treatment day as a % of the Market Average				
Insurer	July-Dec 2016	Jan-June 2017	July-Dec 2017	Jan-June 2018
Irish Life Health				
Laya Healthcare				
Vhi Healthcare				
Market	100%	100%	100%	100%

### Average number of treatment days per insured person

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

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

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

Table A1.13

Average Treatment day per Insured Person				
Insurer	July-Dec 2016	Jan-June 2017	July-Dec 2017	Jan-June 2018
Irish Life Health				
Laya Healthcare				
Vhi Healthcare				
Market	0.578	0.543	0.536	0.536

Table A1.14

Average Treatment day per Insured Person as a % of the Market Average				
Insurer	July-Dec 2016	Jan-June 2017	July-Dec 2017	Jan-June 2018
Irish Life Health				
Laya Healthcare				
Vhi Healthcare				
Market	100%	100%	100%	100%


### Age/Sex Risk Profile Index

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

The difficulty with this approach lies in finding an appropriate weight for each age/sex combination. One weight that may be considered appropriate is the market average

number of treatment days for each age/sex group. Thus each insurer is using the same weights.

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

Table A1.15

<b>Age/Sex Risk Profile Index</b>				
<b>Insurer</b>	July-Dec 2016	Jan-June 2017	July-Dec 2017	Jan-June 2018
Irish Life Health				
Laya Healthcare				
Vhi Healthcare				
Market	100%	100%	100%	100%

Table A1.15 shows that the age/sex risk profile index for [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 A1.16 shows the relative values of the Hospital Utilisation Risk Profile Index over time.

Table A1.16

<b>Hospital Utilisation Risk Profile Index (Percentage of Vhi Healthcare's Index)</b>				
<b>Insurer</b>	July-Dec 2016	Jan-June 2017	July-Dec 2017	Jan-June 2018
Irish Life Health				
Laya Healthcare				
Vhi Healthcare	100%	100%	100%	100%

[REDACTED]

As Chart A1.1 shows, [REDACTED]  
[REDACTED]  
[REDACTED]  
[REDACTED]

Chart A1.1

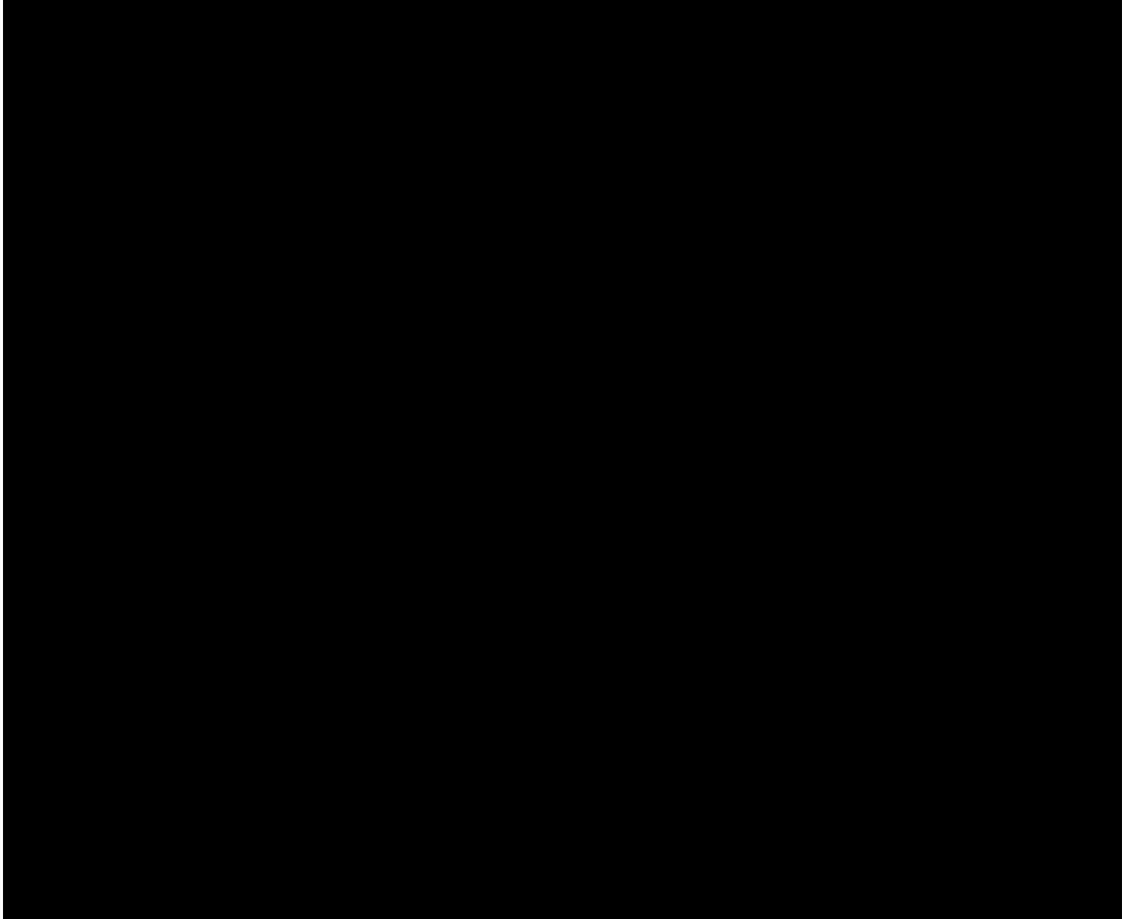


Chart A1.2

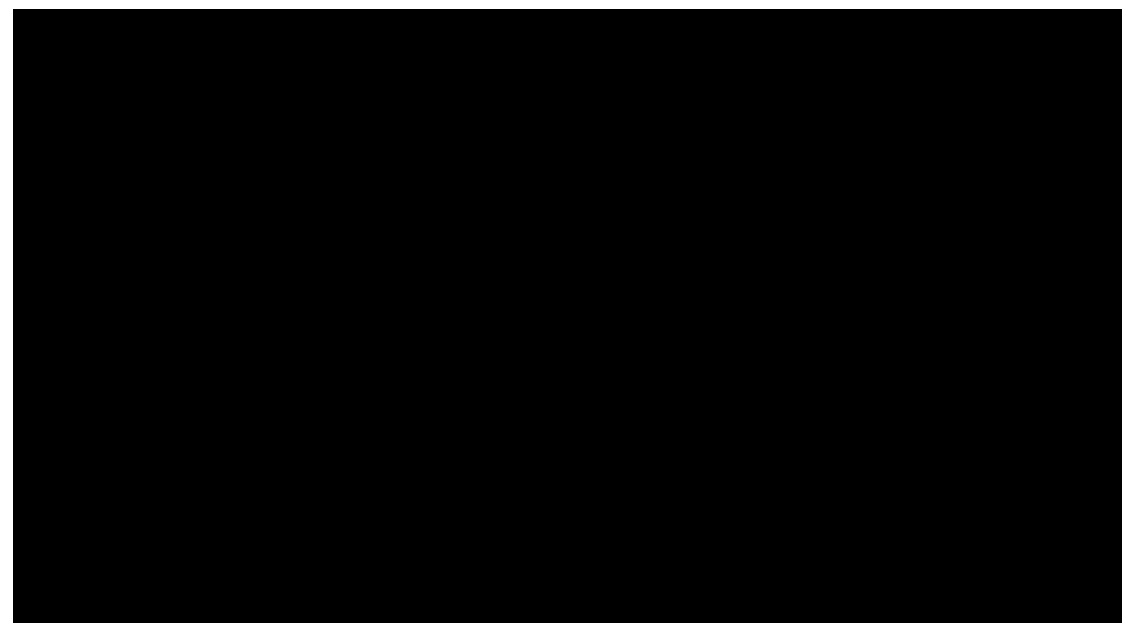
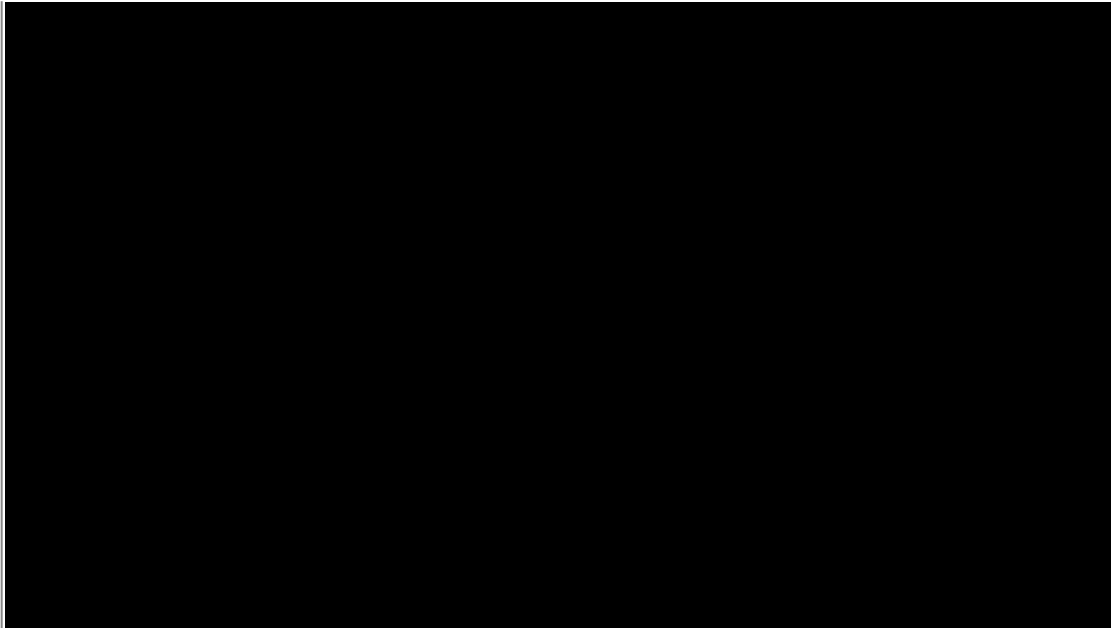




Chart A1.3



## Appendix B – Credits and Stamp Duty from 1 April 2019 on possible scenarios

Tables B2.1 to B2.4 below show the projected membership, returned benefits, hospital nights and day case admissions as at 1 April 2020 (the midpoint of the average policy incepted between 1 April 2019 and 31 March 2020). This data was used in the calculation of the stamp duty and risk equalisation credits in the scenarios shown below.

Table B2.1

Projected Membership as at 01 April 2020				
Age Group	Non-Advanced		Advanced	
	Male	Female	Male	Female
0-17	14,566	13,860	241,662	228,751
18-29	14,652	15,278	107,842	104,877
30-39	19,963	21,999	109,276	129,406
40-49	22,681	22,356	142,003	154,548
50-54	8,944	8,763	63,220	69,705
55-59	7,010	7,167	60,493	67,468
60-64	5,462	5,290	56,541	62,029
65-69	3,745	3,617	51,190	56,178
70-74	2,258	2,178	45,685	49,885
75-79	1,022	1,076	30,094	34,792
80-84	426	493	18,190	23,203
85+	203	420	10,427	17,684
<b>Total</b>	<b>100,931</b>	<b>102,497</b>	<b>936,622</b>	<b>998,525</b>

Table B2.2

Projected Average Returned Benefit at 01 April 2020 (€)				
Age Group	Non-Advanced		Advanced	
	Male	Female	Male	Female
0-17	100	88	206	184
18-29	93	98	319	355
30-39	102	199	340	749
40-49	183	212	527	738
50-54	255	288	839	952
55-59	394	345	1,205	1,146
60-64	574	471	1,714	1,484
65-69	828	696	2,325	1,956
70-74	1,110	908	3,118	2,552
75-79	1,503	1,176	4,222	3,304
80-84	1,716	1,410	4,821	3,962
85+	2,254	1,676	6,335	4,711
<b>All Ages</b>	<b>280</b>	<b>284</b>	<b>1,239</b>	<b>1,245</b>



Table B2.3

<b>Projected Total Bed Nights at 01 April 2020</b>				
<b>Age Group</b>	<b>Non-Advanced</b>		<b>Advanced</b>	
	<b>Male</b>	<b>Female</b>	<b>Male</b>	<b>Female</b>
<b>0-17</b>	1,183	1,151	37,074	34,415
<b>18-29</b>	1,373	1,177	21,491	29,119
<b>30-39</b>	1,464	3,191	19,949	71,822
<b>40-49</b>	2,919	3,068	36,873	68,025
<b>50-54</b>	1,826	1,791	27,315	31,978
<b>55-59</b>	1,725	1,669	34,997	39,934
<b>60-64</b>	2,154	1,736	48,496	48,853
<b>65-69</b>	2,697	2,200	60,096	59,696
<b>70-74</b>	1,911	1,567	77,819	78,831
<b>75-79</b>	2,079	964	81,088	80,779
<b>80-84</b>	921	691	66,841	77,867
<b>85+</b>	802	1,066	64,274	85,985
<b>Total</b>	<b>21,052</b>	<b>20,272</b>	<b>576,312</b>	<b>707,303</b>

Table B2.4

<b>Projected Total Day Case Admissions at 01 April 2020</b>				
<b>Age Group</b>	<b>Non-Advanced</b>		<b>Advanced</b>	
	<b>Male</b>	<b>Female</b>	<b>Male</b>	<b>Female</b>
<b>0-17</b>	408	257	12,458	9,075
<b>18-29</b>	617	622	12,549	13,168
<b>30-39</b>	1,203	1,749	16,442	25,841
<b>40-49</b>	1,872	2,636	33,078	52,313
<b>50-54</b>	1,021	1,431	21,199	32,562
<b>55-59</b>	1,074	1,300	26,450	34,742
<b>60-64</b>	1,153	1,078	33,009	37,043
<b>65-69</b>	944	1,016	39,168	41,592
<b>70-74</b>	607	582	44,593	44,142
<b>75-79</b>	279	243	33,717	33,948
<b>80-84</b>	150	115	20,814	21,284
<b>85+</b>	60	85	10,200	12,640
<b>Total</b>	<b>9,388</b>	<b>11,113</b>	<b>303,676</b>	<b>358,350</b>

## Recommendation

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

The total risk equalisation credits are financed by a stamp duty which varies by product level. The stamp duty for Non-Advanced contracts is set at 40% of the stamp duty relating to Advanced contracts. The risk equalisation fund is projected to have a surplus of €28m when the contracts written prior to 1 April 2019 have fully earned credits and stamp duty.

The age 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 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 July 2017 – June 2018 time period.

Table B2.5

Table B2.5

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	Adv d	Men	Women	Men	Women			
0-17	59	148	0	0	0	0	8.5	0.0	71.3
18-29	177	444	0	0	0	0	6.6	0.0	99.7
30-39	177	444	0	0	0	0	11.9	0.0	113.4
40-49	177	444	0	0	0	0	15.6	0.0	139.6
50-54	177	444	0	0	0	0	9.1	0.0	62.1
55-59	177	444	0	0	0	0	11.0	0.0	59.3
60-64	177	444	0	0	0	0	13.8	0.0	54.5
65-69	177	444	400	275	1,050	700	16.6	95.6	48.9
70-74	177	444	650	475	1,775	1,225	20.5	144.7	43.2
75-79	177	444	925	725	2,775	1,900	19.9	151.3	29.2
80-84	177	444	1,050	925	3,300	2,475	16.8	118.4	18.5
85+	177	444	1,350	1,075	4,600	3,100	16.4	103.5	12.6
2017 Scheme Surplus									28.0
Total							166.7	613.5	780.2
Projected Surplus									0.0

Table B2.6

	Irish Life Health	Laya Healthcare	VHI Healthcare	Total
Age Related Health Credits				613.5
Hospital Bed Utilisation Credit				166.7
Stamp Duty				-752.2
<b>Total</b>				28.0

The projected net financial impact of renewals from 1 April 2019 – 31 March 2020 is a net benefit of [REDACTED]. These figures are based on the projected membership in Section E of the Report which assumes that the changes in market

membership by insurer in the year to end June 2018 would continue through to 1 April 2020. If this assumption was borne out, the memberships at that date would be [REDACTED]  
[REDACTED]

The projected net financial impact per insured life (counting children as 1/3<sup>rd</sup>) [REDACTED]  
[REDACTED]  
[REDACTED]  
[REDACTED]

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

Chart B2.1

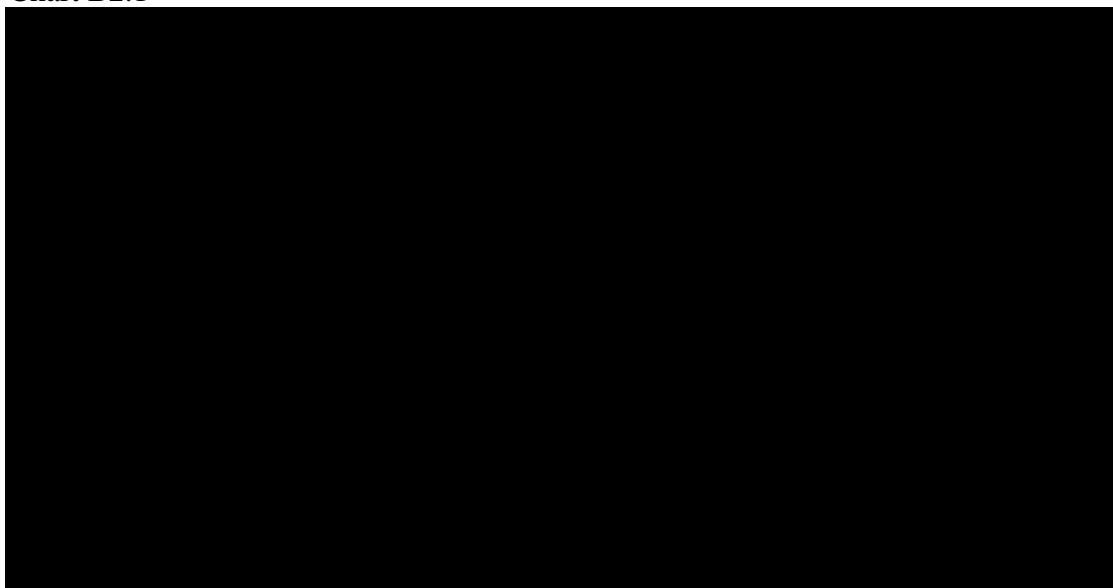


Chart B2.2

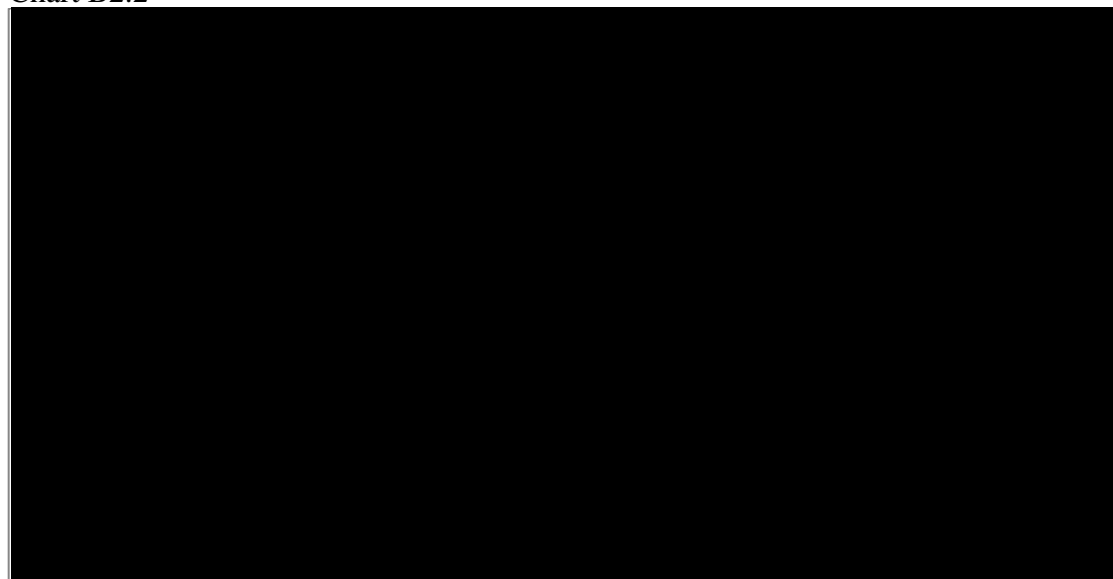


Chart B2.3

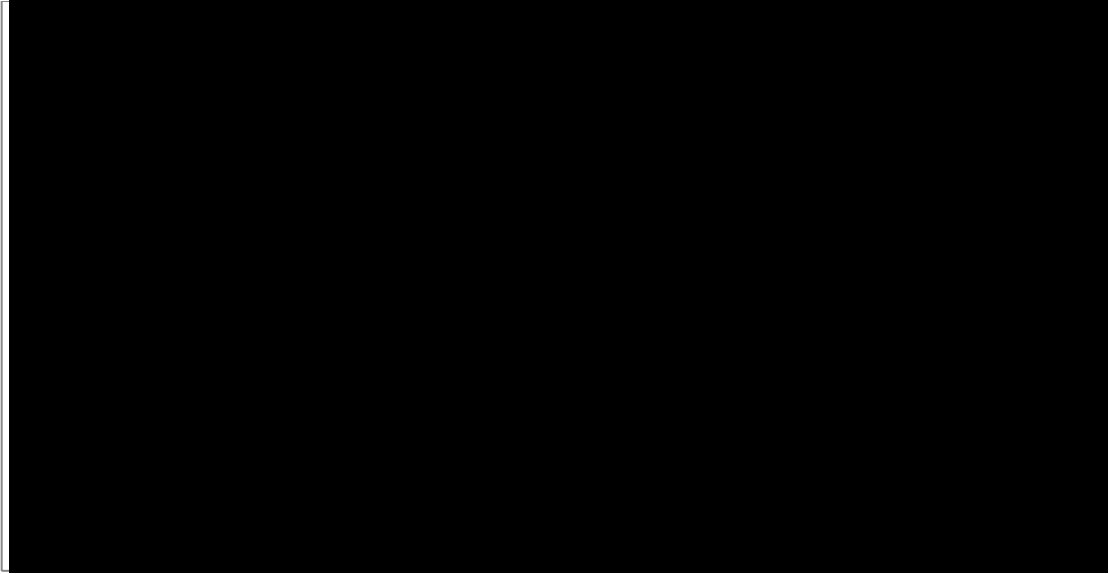
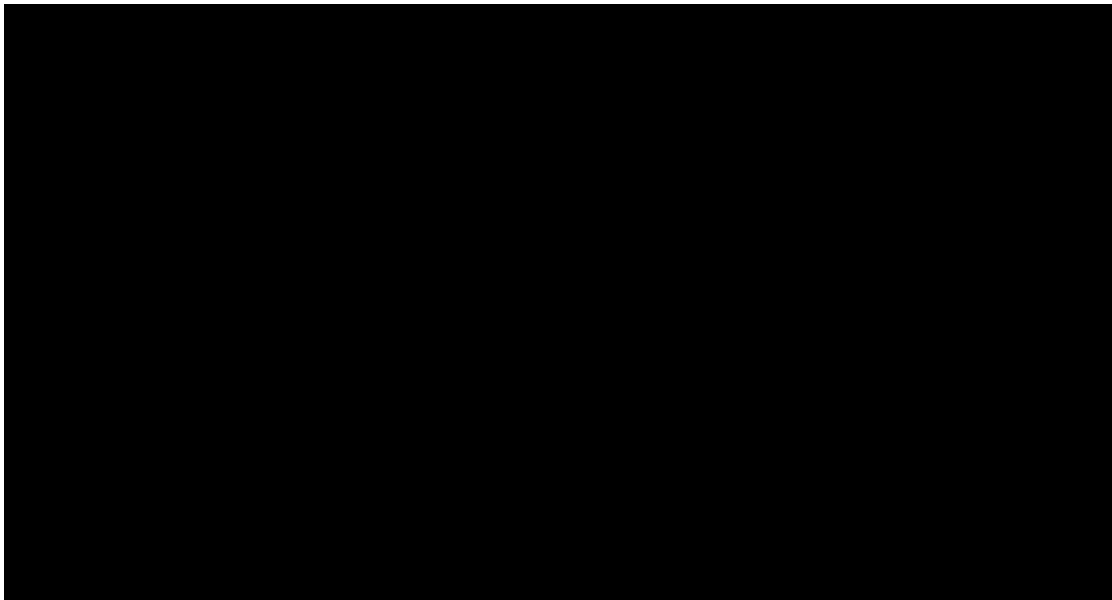


Chart B2.4



### Alternative 1 (2017 Methodology)

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

The total risk equalisation credits are financed by a stamp duty which varies by product level. The stamp duty for Non-Advanced contracts is set at 40% of the stamp duty relating to Advanced contracts. The risk equalisation fund is projected to have a surplus of €28m when the contracts written prior to 1 April 2019 have fully earned credits and stamp duty.

The age 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 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 on based on claims arising in the July 2017 – June 2018 time period.

Table B2.5

Age	Stamp duty per person (€)		Credit per person (€)				Total Bed Utilisation Credits (€million)	Total Credits (€million)	Total Stamp Duty (€million)
	Non Advd	Adv d	Non-Advanced		Advanced				
			Men	Women	Men	Women			
0-17	58	145	0	0	0	0	8.5	0.0	69.9
18-29	174	435	0	0	0	0	6.6	0.0	97.8
30-39	174	435	0	0	0	0	11.9	0.0	111.2
40-49	174	435	0	0	0	0	15.6	0.0	136.9
50-54	174	435	0	0	0	0	9.1	0.0	60.9
55-59	174	435	0	0	0	0	11.0	0.0	58.2
60-64	174	435	0	0	0	0	13.8	0.0	53.5
65-69	174	435	400	275	1,025	675	16.6	92.9	48.0
70-74	174	435	650	475	1,725	1,200	20.5	141.2	42.4
75-79	174	435	900	725	2,725	1,875	19.9	148.9	28.6
80-84	174	435	1,025	900	3,200	2,425	16.8	115.4	18.2
85+	174	435	1,300	1,050	4,475	3,025	16.4	100.9	12.3
2017 Scheme Surplus									28.0
Total							166.7	599.2	766.0
Projected Surplus									0.0

Table B2.6

	Irish Life Health	Laya Healthcare	VHI Healthcare	Total
Age Related Health Credits				599.2
Hospital Bed Utilisation Credit				166.7
Stamp Duty				-738.0
<b>Total</b>				<b>28.0</b>

The projected net financial impact of renewals from 1 April 2019 – 31 March 2020 is a net benefit of [REDACTED]

Chart B2.1

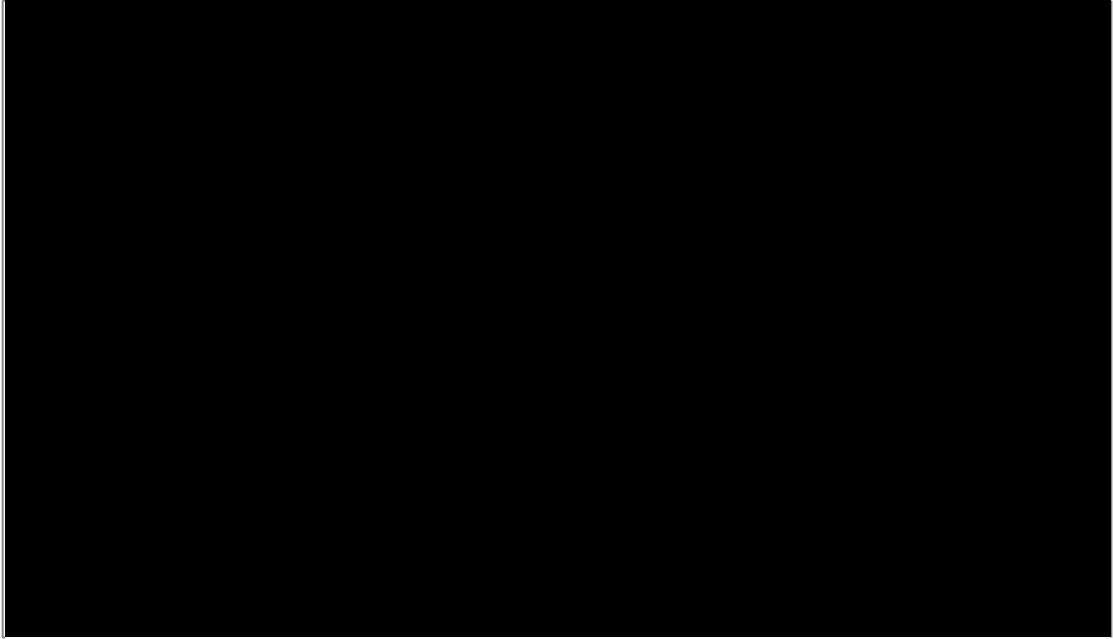


Chart B2.2

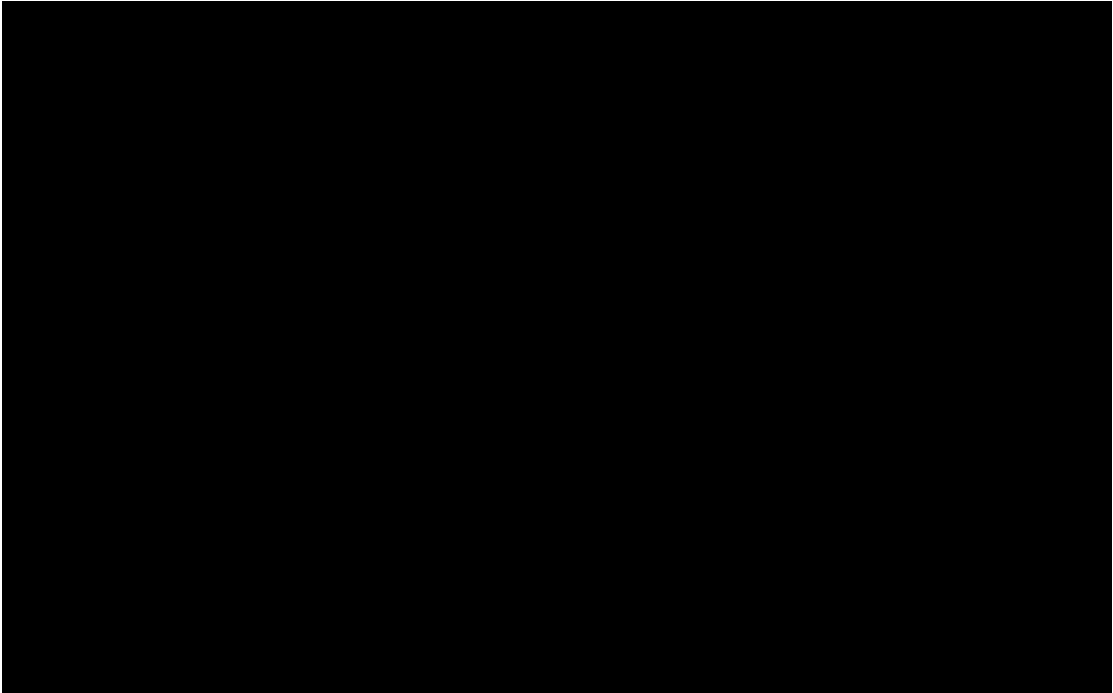


Chart B2.3

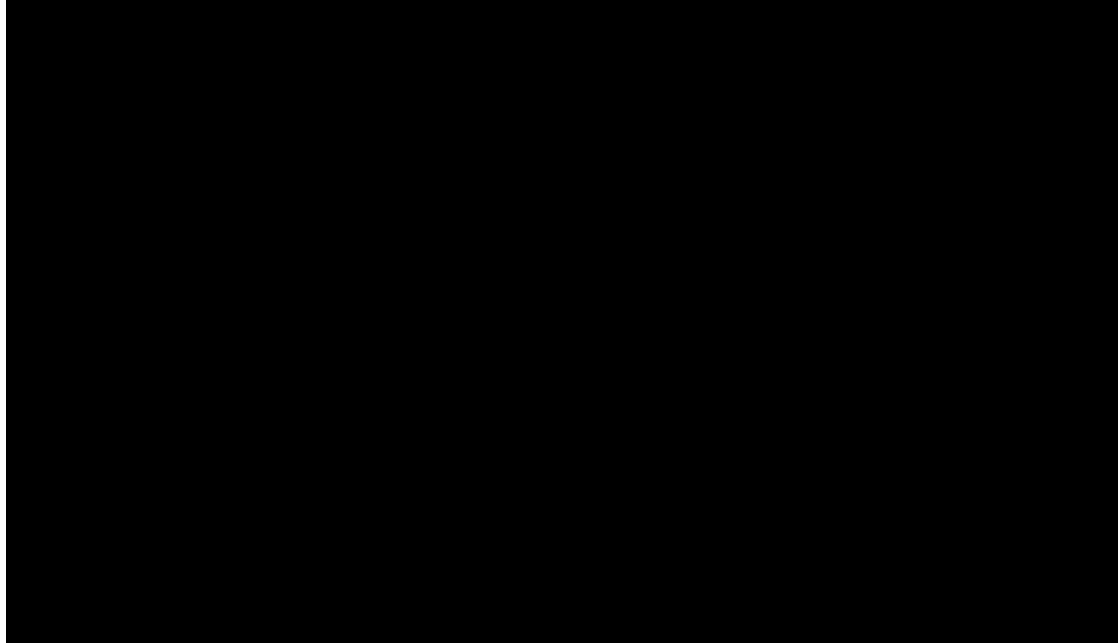
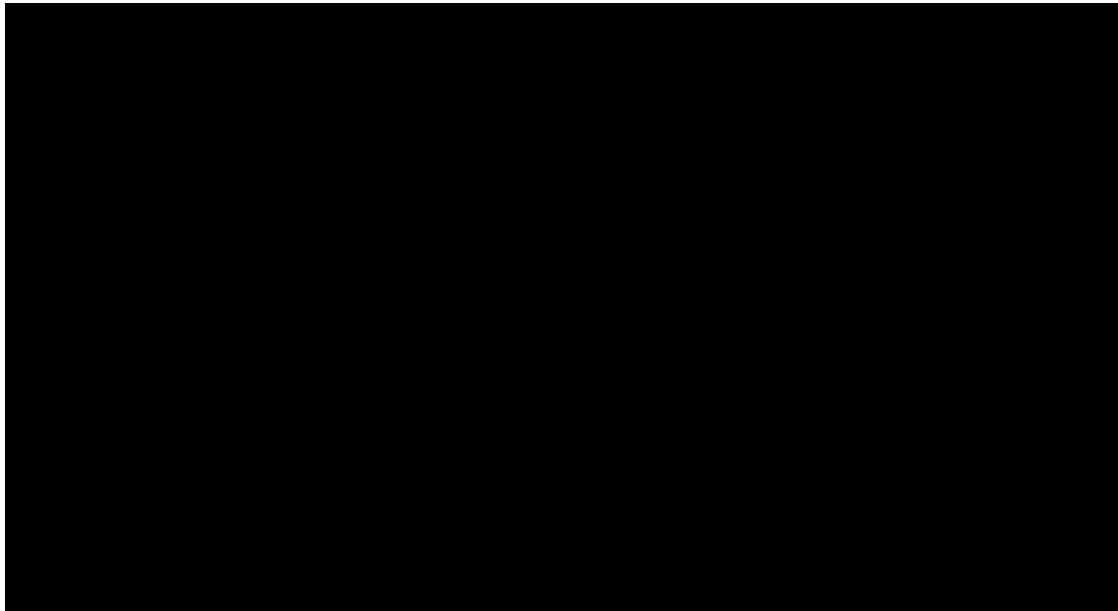


Chart B2.4



## Alternative 2

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

The total risk equalisation credits are financed by a stamp duty which varies by product level. The stamp duty for Non-Advanced contracts is set at 40% of the stamp duty relating to Advanced contracts. The risk equalisation fund is projected to have a surplus of €28m when the contracts written prior to 1 April 2019 have fully earned credits and stamp duty.

The age credits for Advanced cover contracts are based on the average claim costs for all Advanced contracts. The age 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 July 2017 – June 2018 time period.

Table B2.7

Table B2.7

Age	Stamp duty per person (€)		Credit per person (€)				Total Bed Utilisation Credits (€million)	Total Credits (€million)	Total Stamp Duty (€million)
	Non Advd	Advd	Non-Advanced		Advanced				
			Men	Women	Men	Women			
0-17	62	156	0	0	0	0	8.5	0.0	75.2
18-29	187	468	0	0	0	0	6.6	0.0	105.3
30-39	187	468	0	0	0	0	11.9	0.0	119.7
40-49	187	468	0	0	0	0	15.6	0.0	147.4
50-54	187	468	0	0	0	0	9.1	0.0	65.6
55-59	187	468	0	0	0	0	11.0	0.0	62.6
60-64	187	468	0	0	0	0	13.8	0.0	57.6
65-69	187	468	425	275	1,100	700	16.6	98.2	51.7
70-74	187	468	700	525	1,850	1,350	20.5	154.6	45.6
75-79	187	468	950	800	2,850	2,075	19.9	159.8	30.8
80-84	187	468	1,125	1,000	3,525	2,725	16.8	128.3	19.6
85+	187	468	1,525	1,200	5,050	3,450	16.4	114.5	13.3
2017 Scheme Surplus									28.0
Total							166.7	655.4	822.1
Projected Surplus									0.0

Table B2.8

	Irish Life Health	Laya Healthcare	VHI Healthcare	Total
Age Related Health Credits				655.4
Hospital Bed Utilisation Credit				166.7
Stamp Duty				-794.1
<b>Total</b>				<b>28.0</b>

The projected net financial impact of renewals from 1 April 2019 – 31 March 2020 is a net benefit of [REDACTED]



Chart B2.5

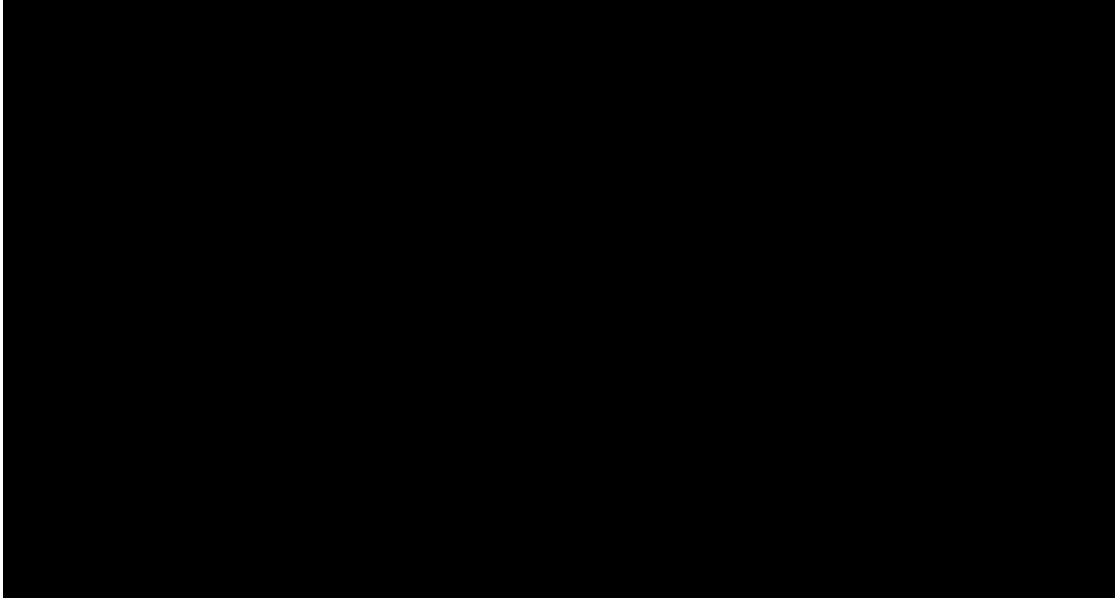


Chart B2.6

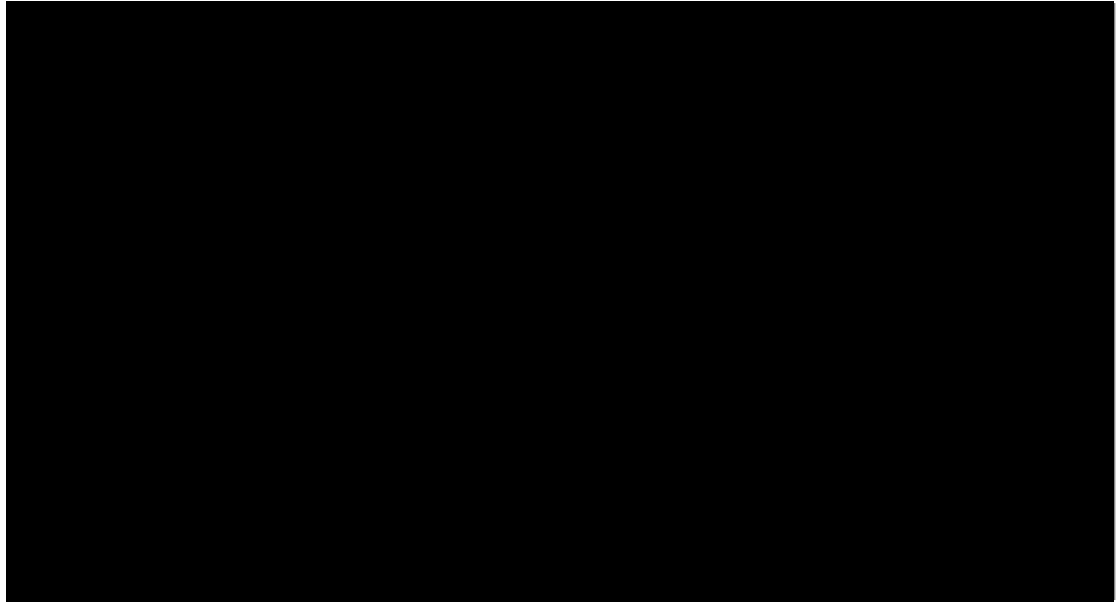


Chart B2.7

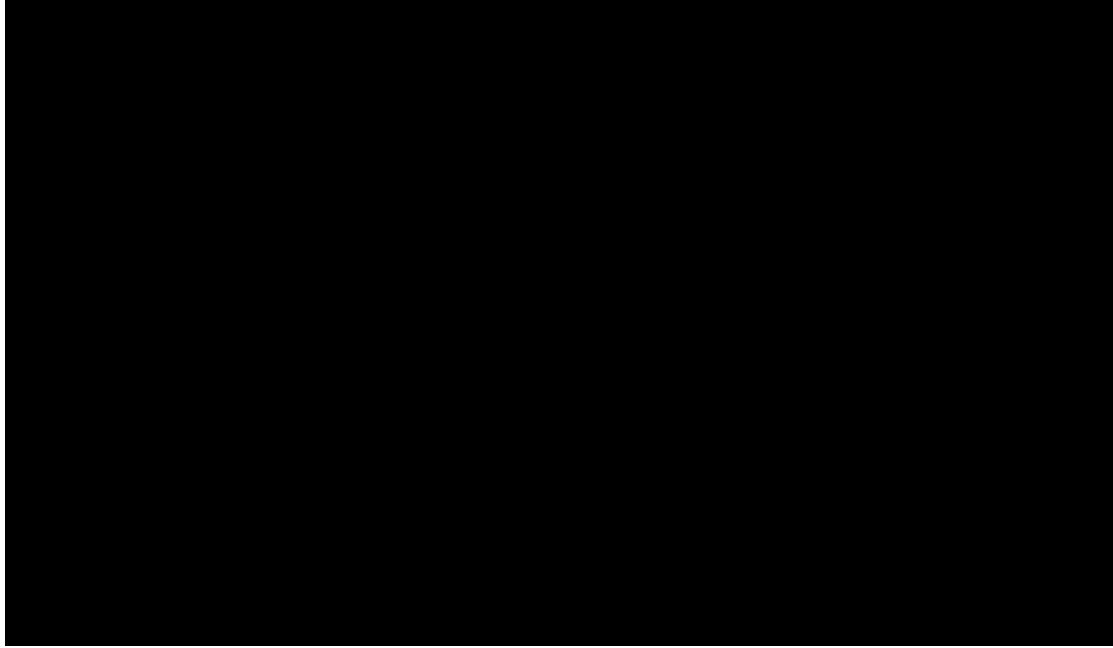
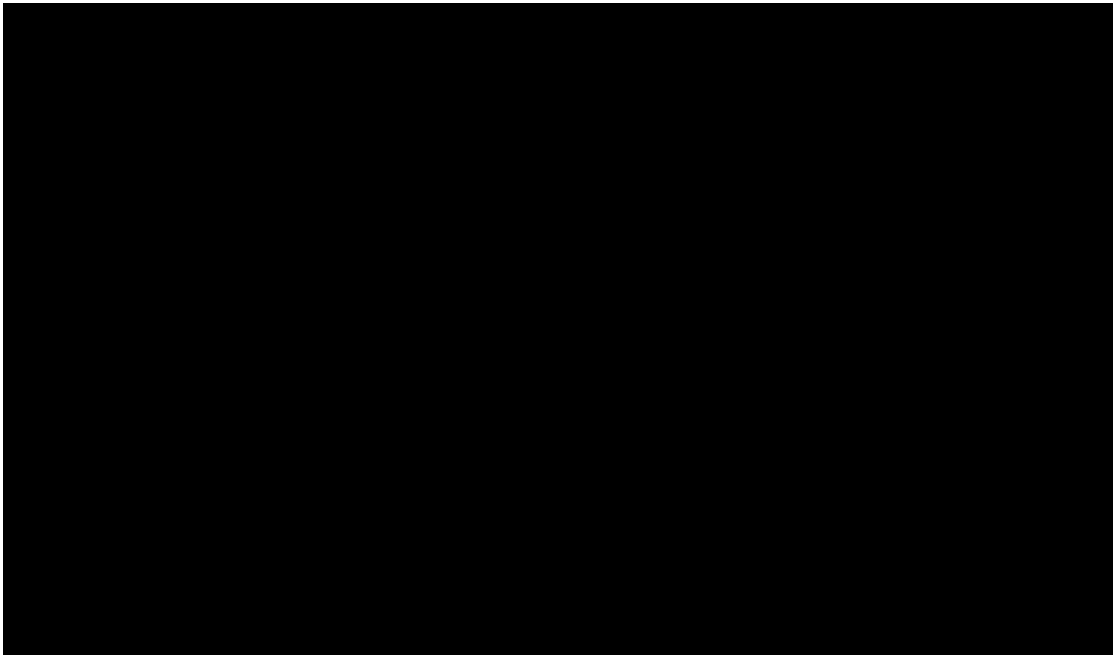


Chart B2.8



### Alternative 3

This option calculates credits by gender, product level and age such that for each age group over 65, the net cost should not be more than 130% of the average net cost across all groups. A hospital utilisation credit of €100 is applied for overnight inpatient stays and €50 is applied for day stays. Claims inflation is assumed to be 2% per annum and bed night inflation is assumed to be 1% per annum.

The total risk equalisation credits are financed by a stamp duty which varies by product level. The stamp duty for Non-Advanced contracts is set at 40% of the stamp duty relating to Advanced contracts. The risk equalisation fund is projected to have a surplus of €28m when the contracts written prior to 1 April 2019 have fully earned credits and stamp duty.

The age credits for Advanced cover contracts are based on the average claim costs for Level 2 products. The age 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 on based on claims arising in the July 2017 – June 2018 time period.

Table B2.9

Table B2.7

Age	Stamp duty per person (€)		Credit per person (€)				Total Bed Utilisation Credits (€million)	Total Credits (€million)	Total Stamp Duty (€million)
	Non Advd	Advd	Non-Advanced		Advanced				
			Men	Women	Men	Women			
0-17	57	142	0	0	0	0	8.5	0.0	68.5
18-29	171	426	0	0	0	0	6.6	0.0	95.8
30-39	171	426	0	0	0	0	11.9	0.0	109.0
40-49	171	426	0	0	0	0	15.6	0.0	134.2
50-54	171	426	0	0	0	0	9.1	0.0	59.7
55-59	171	426	0	0	0	0	11.0	0.0	57.0
60-64	171	426	0	0	0	0	13.8	0.0	52.4
65-69	171	426	375	250	1,000	650	16.6	90.0	47.0
70-74	171	426	625	450	1,700	1,175	20.5	138.7	41.5
75-79	171	426	875	700	2,650	1,825	19.9	144.9	28.0
80-84	171	426	975	875	3,125	2,350	16.8	112.2	17.8
85+	171	426	1,275	1,025	4,375	2,950	16.4	98.5	12.1
2017 Scheme Surplus									28.0
Total							166.7	584.3	751.0
Projected Surplus									0.0

Table B2.10

	Irish Life Health	Laya Healthcare	Vhi Healthcare	Total
Age Related Health Credits				584.3
Hospital Bed Utilisation Credit				166.7
Stamp Duty				-723.0
<b>Total</b>				<b>28.0</b>

The projected net financial impact of renewals from 1 April 2019 – 31 March 2020 is a net benefit of [REDACTED]

Chart B2.9

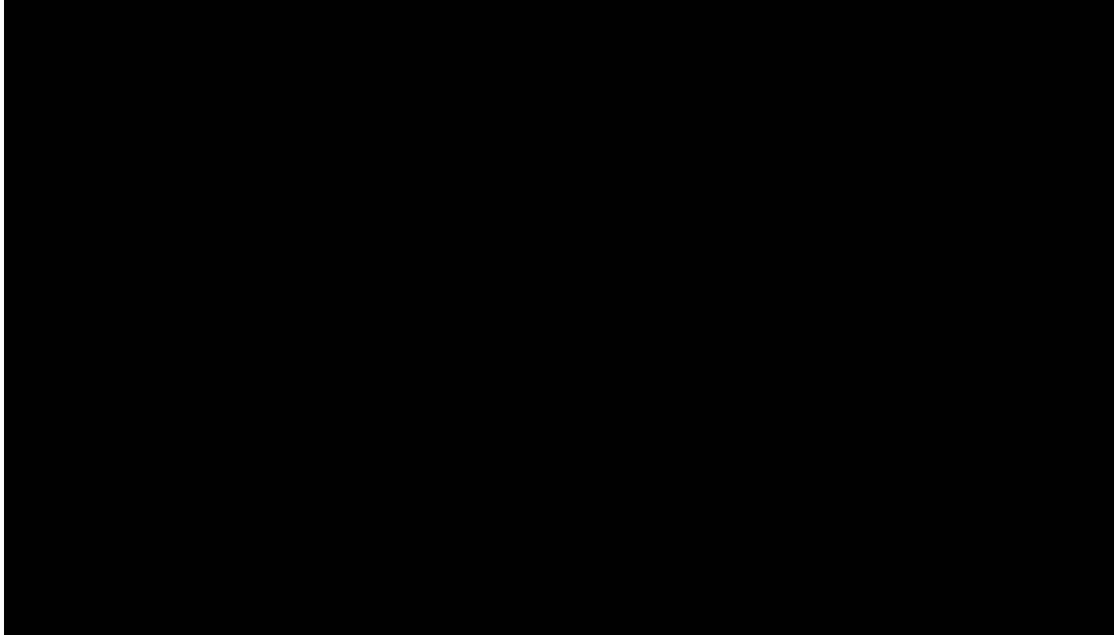


Chart B2.10

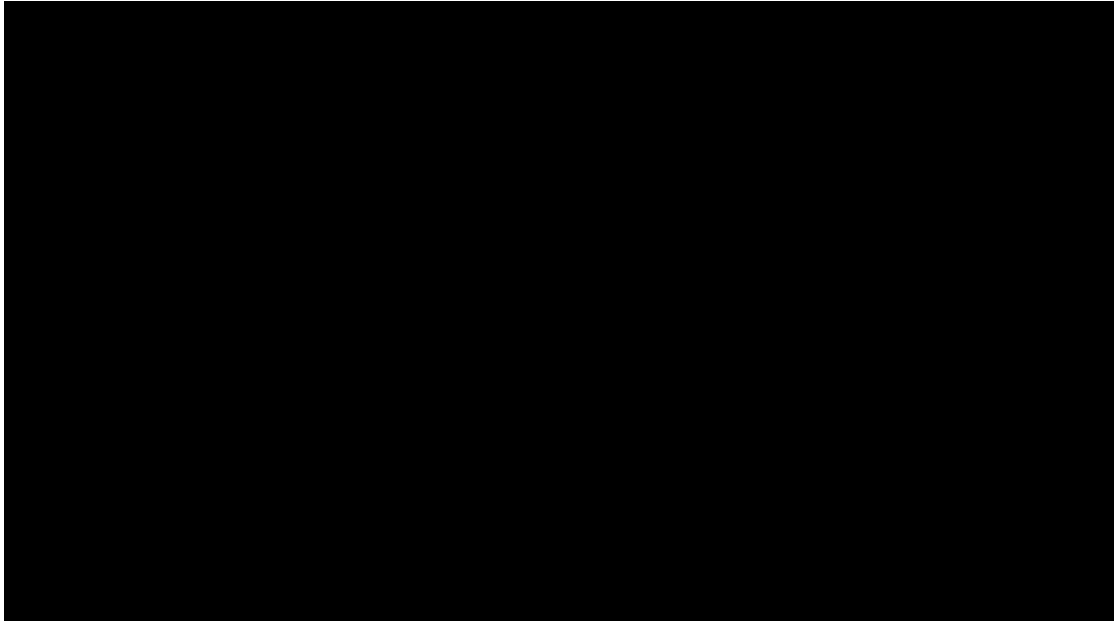


Chart B2.11



Chart B2.12

