



An tÚdarás Árachas Sláinte
The Health Insurance Authority

Report of the Authority to the Minister for Health on an evaluation and analysis of returns from 1 July 2015 to 30 June 2016, including advice on risk equalisation credits.

October 2016

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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 2015 to 30 June 2016.

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 regard to the criteria set out in Section 7E(1)(b) of the Act.

The Authority has been advised that the Report should be prepared on the assumption that the effective date for revised risk equalisation credits and the corresponding stamp duty will be 1 April 2017 and that revised rates will apply for one year.

Section A – Summary and Conclusions

Credits and Stamp Duties enacted last year

The Authority's recommendations in September 2015 were agreed by the Government and enacted by the Oireachtas in December 2015. Key elements of last year's decision were as follows:

- The Age related credits for advanced and non-advanced contracts from 1 March 2016 were set so that the projected net claims cost for any age group would not exceed 130% of the market average claims cost (net of credits and stamp duty). In calculating the credits for advanced contracts, the claims cost was based on contracts that provided cover for semi private rooms (but not private rooms) in most private hospitals.
- The claims costs for the July 2014 to June 2015 time period were smoothed to allow for a possible change in the timing of payments by insurers to public hospitals, following on the change in the charging of private patients receiving in-patient services in public hospitals.
- An increase in payments reflecting health status was enacted through payments of €30 per day case admission.
- Age credits for ages 60-64 were removed as it prevented an increase in stamp duty (assisting the sustainability of the market) and not materially affecting the net financial impact of insurers (apart from GloHealth).
- Stamp duty for Non Advanced contracts were set at 50% of the Advanced Cover contracts (previously the ratio was 60%), assisting the sustainability of the market.

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 2016 shows that, after the application of health credits and stamp duty for policies renewing in 2016, 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.

Review of Market Developments

In the last year, insurers have continued to adopt strategies to segment and select business with lower claims costs through differential pricing to targeted groups. This undermines community rating and the Principal Objective of the Health Insurance Acts. These strategies have included the maintenance of a large number of plans offering similar benefits but with significant differences in pricing, with lower cost plans being mainly sold 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.

There were legislative changes on 1 May 2015 with the introduction of Lifetime Community rating loadings and young adult rates. This has resulted in both an increase in the total numbers insured and also in the age group 18-29. There has also been in the last year an increase in the proportion of the market insured in non-advanced plans and in plans which only cover some public hospitals or with large excesses for private hospitals.

Vhi Insurance DAC became an authorised insurance company in July 2015 which has resulted in a mostly equivalent regulatory position with the other open membership undertakings, except for some specific provisions of the Voluntary Health Insurance (Amendment) Act 2008.

Irish Life Health was established in August 2016 following the completion of Irish Life Group's transactions to acquire Aviva Health (and rename it as Irish Life DAC) and take 100% ownership of GloHealth, where Irish Life previously had a 49% shareholding. As Irish Life DAC and GloHealth will continue to trade separately in the short term, the two undertakings are shown separately in this Report.

Financial Information and Overcompensation

As the current sole net beneficiary of the risk equalisation system, Vhi Insurance DAC financial information is particularly relevant. This is because, in recommending Risk Equalisation Credits, the Authority must have regard to the aim of avoiding overcompensation. Overcompensation arises if an undertaking that is a net beneficiary of the risk equalisation system makes a profit that exceeds a "reasonable profit" over a three year period. The current legislation specifies that a reasonable profit equates to a return on equity that does not exceed 12% per annum. A revised reasonable profit methodology was agreed with the European Commission in January 2016 as 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. This revised definition has not yet been enacted in Irish legislation.



Changes in the Insured Population

The number of insured persons included in returns increased in the period July 2015 – June 2016 by 4.1%. 3% of this 4.1% growth reflected a growth in customers serving initial waiting period at 1 July 2015 following the Lifetime Community Rating membership surge in quarter 2 of 2015.

During the 12 month period, the proportion of the market insured with products that provide non-advanced cover increased from 8% to 10%.

The ageing of the insured market in the last year contributed 0.8% of the increase of 5.3% in the average claims cost per insured person.

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 Authority considers that applying its recommendations will avoid overcompensation to Vhi Insurance DAC arising in the period 2016 - 2018. If overcompensation occurs, the legislation provides that the amount of overcompensation would be repaid to the Fund.
- The fact that net claims cost reduce for older age groups for insurers other than Vhi Healthcare suggests that any increases in the effectiveness of risk equalisation credits should focus on increasing credits related to health status, rather than age credits.
- Public hospital claim costs paid in the year to end June 2016 were €650m, compared to €506m in the July 2014-June 2015 time period and €454m in the July 2013- June 2014 time period. This increase has undoubtedly contributed to premium rate inflation.

Hospital Utilisation Credits Recommendation

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

The Authority is recommending no change in the level of hospital utilisation credits.

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 will not be more than 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 2015 – June 2016 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.

Stamp Duty for non-advanced cover plans

The Authority recommends that the stamp duty paid in respect of non-advanced plans continues at 50% of the stamp duty applying for advanced plans.

Financial Position of the Risk Equalisation Fund

The Risk Equalisation Fund's management accounts for June 2016 indicate a surplus since the commencement of the Fund of €21.3m. The Authority projects that this eventual surplus will be approximately €10m at the end of the claim period for all contracts incepted up to the end of March 2017. This compares to total stamp duties of more than €2,000m paid into the fund since its inception on 1 January 2013.

The Authority, having regard to the aim of avoiding the Fund sustaining surpluses or deficits from year to year, is allowing for this estimated surplus in its recommendation of stamp duties for policies commencing in the period 1 April 2017-31 March 2018.

Conclusion

The Authority proposes that the following credits should apply for health insurance policies that are renewed or entered into on or after 1 April 2017.

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

The credits that currently apply are as follows:

Age Bands	utilisation credits (overnight / day case) from 1 March 2016	Age / gender / level of cover credits from 1 March 2016			
		Non advanced		Advanced	
		Men	Women	Men	Women
64 and under	€90 / €30	€ 0	€ 0	€ 0	€ 0
65-69	€90 / €30	€ 575	€ 375	€1,125	€ 800
70-74	€90 / €30	€ 900	€ 675	€1,800	€1,300
75-79	€90 / €30	€1,175	€ 850	€2,550	€1,900
80-84	€90 / €30	€1,550	€1,100	€3,375	€2,375
85 and above	€90 / €30	€1,775	€1,250	€4,150	€2,775

The Authority notes that the proposed age related credits for older ages for non-advanced contracts insured have increased substantially compared to last year's

recommendation. This is primarily due to the higher claim costs paid to public hospitals.

The Authority considers that the stamp duties that would need to be paid by the insurers of policies that are renewed or entered into between 1 April 2017 and 31 March 2018 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 2017 to 31 March 2018	
	Non-advanced	Advanced
17 and under	€ 74	€148
18 and over	€222	€444

The stamp duties that currently apply are:

Age Bands	Stamp duties from 1 March 2016 to 28 February 2017	
	Non-advanced	Advanced
17 and under	€ 67	€134
18 and over	€202	€403

The Authority is recommending that the stamp duty on advanced contracts increases from €403 to €444 for ages 18 and over.

Projected Net Financial Impacts

The calculations of the projected net financial impacts for a 12 month period are based on the credits and stamp duty applying for policies commencing in the period 1 April 2017 to 31 March 2018.

€m	Aviva Health	GloHealth	Laya Healthcare	VHI Healthcare	Total
Age Related Health Credits					586.0
Hospital Utilisation Credit					143.4
Stamp Duty					-719.4
Total					10.0
Net Financial impact per insured life					€6

The projected net financial impact of the current credits and stamp duty as set out in the September 2015 Report for policies commencing in the period 1 March 2016 to 28 February 2017 are as follows:

	Aviva Health €m	GloHealth €m	Laya Healthcare €m	VHI Healthcare €m	Total €m
Age Related Health Credits					525.3
Hospital Utilisation Credit					131.7
Stamp Duty					-647.0
Total					10.0
Net Financial impact per insured life					€6

The projections for individual insurers are sensitive to developments in each insurer's age profile and market share by age group, which can be influenced by their product or pricing strategy or by developments in one particular insurer. It is not possible to accurately predict many of these factors. As such, projections of the net financial impact on individual insurers are subject to considerable uncertainty and should be viewed as indicative only. For instance in the year to end June 2015,

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 for 2017 renewals will depend on how closely the assumptions made in this report are borne out in practice.

Summary of impact of using alternative methodologies for 2017

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

	Recommended Methodology	Alternative 1	Alternative 2
Benefits used	Returned	Returned	
Age Credit Applicable	65+	65+	65+
Methodology for Age Credits	Stamp Duty Included	Stamp Duty Included	Stamp Duty Included
Claims Cost Ceiling	130%	130%	135%
ARHC stamp duty ratio (Level 1 : Level 2)	50%	50%	50%
Overnight Utilisation payment	€90	€100	€90
Day Case Utilisation payment	€30	€50	€30
Claims smoothing cap	None	None	None
Claims inflation	4.0%	4.0%	4.0%
Stamp Duty (adult rate)			
Non-advanced	€222	€228	€215
Advanced	€444	€455	€429
Projected Net Financial Impact			
Aviva Healthcare			
GloHealth			
Laya Healthcare			
VHI Healthcare			
Total	€10.0m	€10.0m	€10.0m

Projected Net Financial Impact per member			
Aviva Healthcare			
GloHealth			
Laya Healthcare			
VHI Healthcare			
Total	€6	€6	€6

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

Information Returns

Half-yearly returns for the July to December 2015 and January to June 2016 periods were received from Aviva Health Insurance Ireland Ltd (trading as Aviva Health), Vhi Insurance DAC (trading as Vhi Healthcare), iptiQ Insurances (former Quinn Insurance Ltd business), Elips Insurances Ltd (trading as Laya Healthcare) and Great Lakes Reinsurance UK Ltd (trading as GloHealth). The returns were accompanied by independent accountants' reports and analyses of the differences between total claims paid and returned benefits.

Quinn Insurance Ltd ceased writing new 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 numbers for iptiQ Insurances (former Quinn Insurance) and Laya Healthcare are used where appropriate.

Similarly, later in 2016 it is expected that GloHealth customers will be invited to renew their contracts with Irish Life Health, which has been rebranded from Aviva Health, as policies come up for renewal.

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 2015 and on 1 January 2016. Where appropriate, account has also been taken of data submitted for earlier periods.

The information returns received by the Authority include data on "prescribed benefits" and "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".

Prescribed benefits further exclude any amount of benefit exceeding the maximum prescribed benefit levels set out in the Regulations.

Proportion of claims included in returns:

The benefits included in information returns (described as "returned benefits" and "prescribed benefits") as a percentage of total benefits paid for the second half of 2015 and for the first half of 2016 are set out in the Table B.1 below:

Table B.1

Insurer	July-Dec 2015		Jan-June 2016	
	Returned benefits	Prescribed benefits	Returned benefits	Prescribed benefits
Aviva Health				
GloHealth				
Laya Healthcare				
Vhi Healthcare				

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 2015, the second half of 2015 and the first half of 2016. The data excludes members serving initial waiting periods.

Table B.2

Insurer	01-Jul-15		01-Jan-16		01-Jul-16	
	Members 000s	Market Share (%)	Members 000s	Market Share (%)	Members 000s	Market Share (%)
Aviva Health						
GloHealth						
Laya Healthcare						
Vhi Healthcare						
Total	1,936		1,992		2,015	

Table B.3 sets out the number of members serving initial waiting periods by insurer for the second half of 2014, the first half of 2015, the second half of 2015 and the first half of 2016.

Table B.3 – Members serving initial waiting periods

Insurer	01-Jan-14	01-Jul-15	01-Jan-16	01-Jul-16
Aviva Health				
GloHealth				
Laya Healthcare				
Vhi Healthcare				
Total	26,140	98,927	32,364	22,717

The total number of insured persons in Table B.2 increased by 78,821 in the 12 months ended 1 July 2016, with a decrease in the number of insured lives serving waiting periods of 76,210. The changes in the number of insured lives serving initial waiting periods of 26 weeks is due to the surge of new business in Quarter 2 of 2015 in advance of Lifetime Community Rating (LCR) deadline of 1 May 2015.

The insured membership of each of the insurers increased in the last year (Aviva Health: 425, GloHealth: 14,424, Laya Healthcare: 55,003, and Vhi Healthcare: 8,969). Allowing for the reduced number of members serving waiting periods the total number of insured persons has increased by 2,611 (Aviva Health [REDACTED]; GloHealth [REDACTED]; Laya Healthcare [REDACTED]; and Vhi Healthcare [REDACTED]).

As of end June 2016, 46% 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 2015¹.

Vhi Healthcare's market share has fallen since the market was opened to competition in 1997. [REDACTED]

¹Insured population at 1 July 2015 / 2016 and CSO population estimates.

Table B.4

Insurer	Gross Premium Income 2015	
	€m	Market Share (%)
Aviva Health		
GloHealth		
Laya Healthcare		
Vhi Healthcare		
Total	2,331	

Gender profile of insurers' members

The gender distributions of the memberships of the four insurers for the period January to June, 2016 are set out in Table B.5 below. The proportions in each gender for each insurer have remained relatively static for some time.

Table B.5

Gender	Aviva Health	GloHealth	Laya Healthcare	Vhi Healthcare
Male	49%	50%	49%	48%
Female	51%	50%	51%	52%

Age Profile of Insurers Members

The age distribution (average for the period January to June 2016) of each insurer's membership is shown in Table B.6 below. The figures shown in brackets are the corresponding averages for the period January to June 2015.

Table B.6

Age group	Aviva Health	GloHealth	Laya Healthcare	Vhi Healthcare	Market
0-17					23.5% (23.7%)
18-29					10.6% (10.7%)
30-39					14.6% (14.8%)
40-49					16.2% (15.7%)
50-54					7.3% (7.2%)
55-59					6.7% (6.7%)
60-64					6.1% (6.2%)
65-69					5.3% (5.4%)
70-74					4.1% (4.0%)
75-79					2.8% (2.8%)
80-84					1.7% (1.7%)
85+					1.2% (1.1%)

Vhi Healthcare continues to have a much greater proportion of members in the age groups 65 and older compared to the other insurers. In the first six months of 2016, [REDACTED] of its insured population is over the age of 65, while the proportion aged over 65 for Aviva Health, GloHealth and Laya Healthcare are [REDACTED], [REDACTED] and [REDACTED] respectively.

Differences between the proportion of members aged 40-64 are small for the three larger insurers, while GloHealth has a significantly lower proportion in this age group. Laya Healthcare has [REDACTED] of its members, Aviva Health has [REDACTED], GloHealth has [REDACTED] while Vhi Healthcare has [REDACTED].

Vhi Healthcare has a lower proportion insured in the 30-39 age groups than the other insurers. Laya Healthcare has [REDACTED] of its members, Aviva Health has [REDACTED], GloHealth has [REDACTED] while Vhi Healthcare has [REDACTED].

Claims Profile

Analysis of Claims Data and Risk Profiles

The total claim payments made by the open market insurers in 2014, 2015 and the first half of 2016 are set out in Table B.7. It is noted that these figures exclude claim payments by restricted membership insurers.

Table B.7

€m's	Aviva Health	GloHealth	Laya Healthcare	Vhi Healthcare	Total
First Half 2014	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	867
Second Half 2014	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	943
First Half 2015	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	939
Second Half 2015	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	1,040
First Half 2016	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	1,034

The claims paid in the first half of 2016 were €95m higher than the first half of 2015, primarily driven by [REDACTED].

Table B.8 splits out the returned benefit payments between those to public hospitals, private hospitals, and to hospital consultants. The total returned benefits paid were €955m in the first half of 2016 compared to €864m in the first half of 2015. This increase is largely driven by an increase in the payments to public hospitals to €309m in the first half of 2016 compared to €253m in the first half of 2015. The returned benefit cost for public hospitals in the second half of 2015 of €341m was €88m higher than in the second half of 2014. This has resulted in total payments to public hospitals in the July 2015 – June 2016 time period of €650m compared to payments of €506m in the July 2014 – June 2015 time period.

Table B.8

€m		Aviva Health	GloHealth	Laya Healthcare	VHI Healthcare	Total
First Half 2015	Public Hospital					253 (29%)
	Private Hospital					429 (50%)
	Consultant					182 (21%)
	Sub Total					864
Second Half 2015	Public Hospital					341 (35%)
	Private Hospital					438 (45%)
	Consultant					190 (20%)
	Sub Total					970
Total						1,834
First Half 2016	Public Hospital					309 (32%)
	Private Hospital					452 (47%)
	Consultant					193 (20%)
	Sub Total					955

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 2016 is shown in the Tables B.9 and B.10 below (1 July 2015 figures are shown in brackets).

Table B.9

	Level 1 Products	Level 2 Products	Higher Cover Products
Aviva Health			
GloHealth			
Laya Healthcare			
Vhi Healthcare			
Total	11% (12%)	75% (77%)	13% (11%)

The proportion of GloHealth customer with higher cover products has increased during the year. This is due to the launch of a number of contracts which have proved popular with consumers in particular Better Active plan.

Table B.10

	Non-Advanced	Advanced
Aviva Health		
GloHealth		
Laya Healthcare		
Vhi Healthcare		
Total	10% (8%)	90% (92%)

Average claim per member for the market

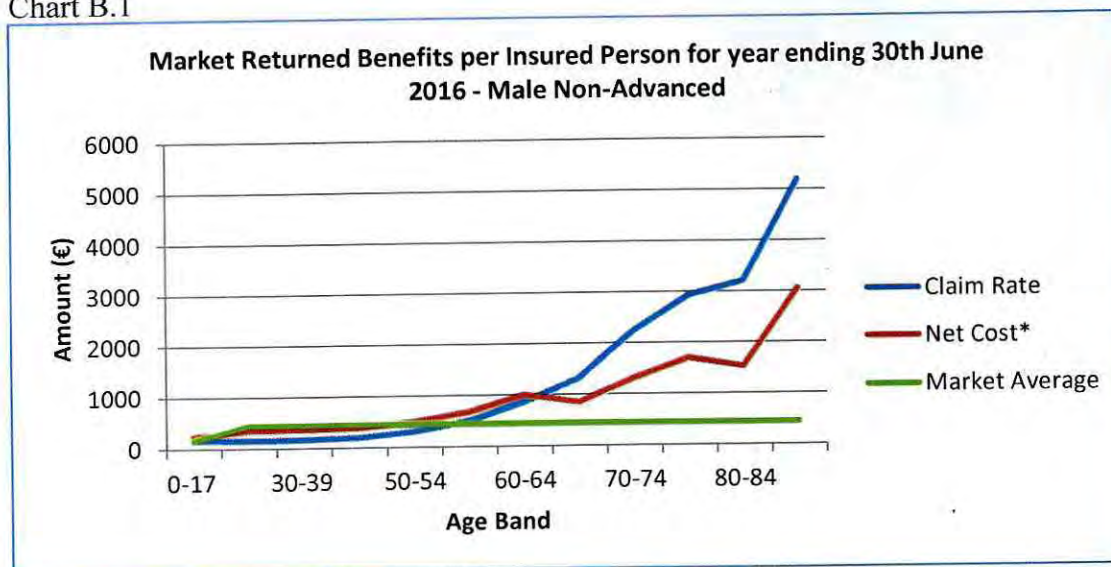
The information returns provide returned benefit for each age and gender for each insurer for the second half of 2015 and the first half of 2016. The average returned benefit per insured person (i.e. the claim rate) for each age group and for the market is calculated from these returns and increases 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 would have on claim rates for the 12 months ending June 2016 for these different cohorts of business. It should be noted that the 2016 credits apply for the policy year from the renewal date on or after 1 March 2016 while the market returned benefits are for the year ending June 2016.

Application of Non-advanced Credits and Stamp Duty to Level 1 Products

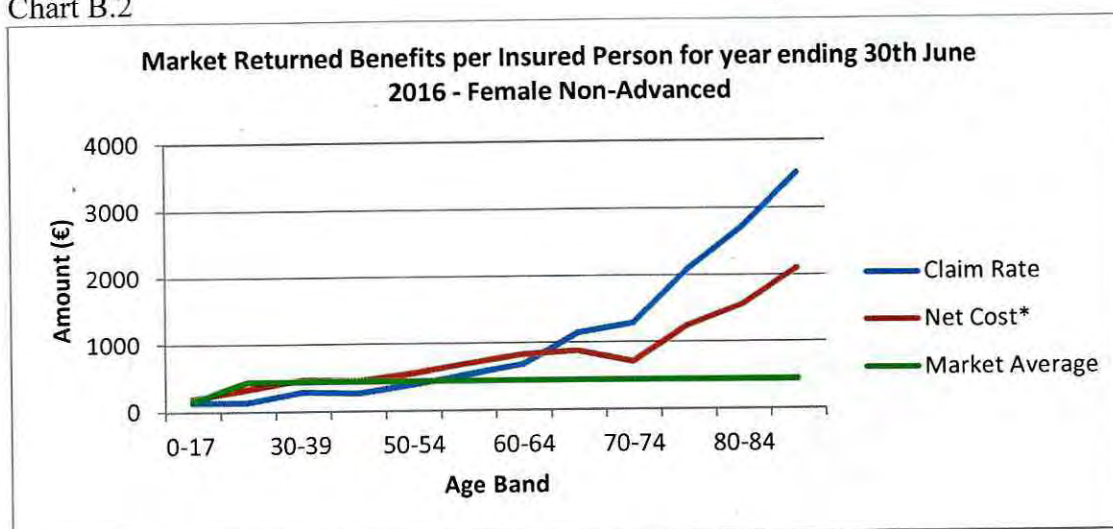
Non-advanced products cannot provide more than 66% of the full cost for hospital charges in a private hospital. The concept of non-advanced contracts commenced on 1 January 2013 and the first contracts were categorised as non-advanced on 31 March 2013. There are currently 42 products being marketed classified as non-advanced with 201,036 members insured. In view of the short period for which these products are classified as non-advanced, delays that occur in claim settlement and the impact of the recent significant growth in non-advanced insured lives due to the LCR deadline, we have used data for Level 1 claim costs as a proxy for non-advanced products claim costs.

Chart B.1



* Net Cost is defined as average returned benefit for July 2015 – June 2016 plus stamp duty less age and hospital utilisation credit for renewals from 1 March 2016 onwards. The same definition on Net Cost is applied to Charts B2 – B.4 below.

Chart B.2



For non-advanced business (using Level 1 products as a proxy) the net cost (after application of the post March 2016 credits and stamp duty) for ages 55 and older are significantly higher than the market average claims costs. This suggests that the age credits for non advanced contracts might be increased.

Application of Advanced Credits and Stamp Duty to Level 2 Products

Chart B.3

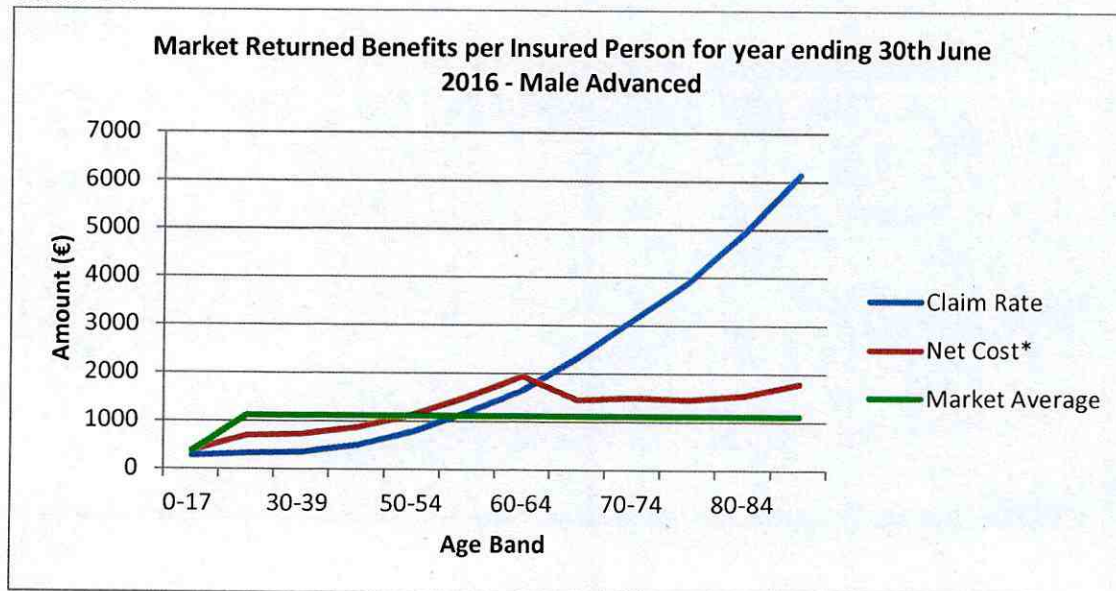
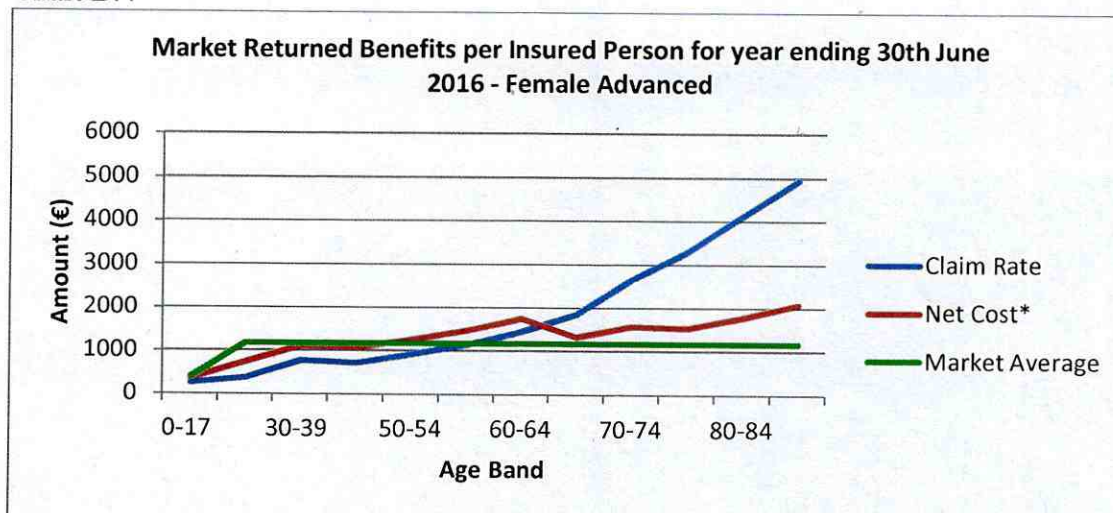


Chart B.4



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

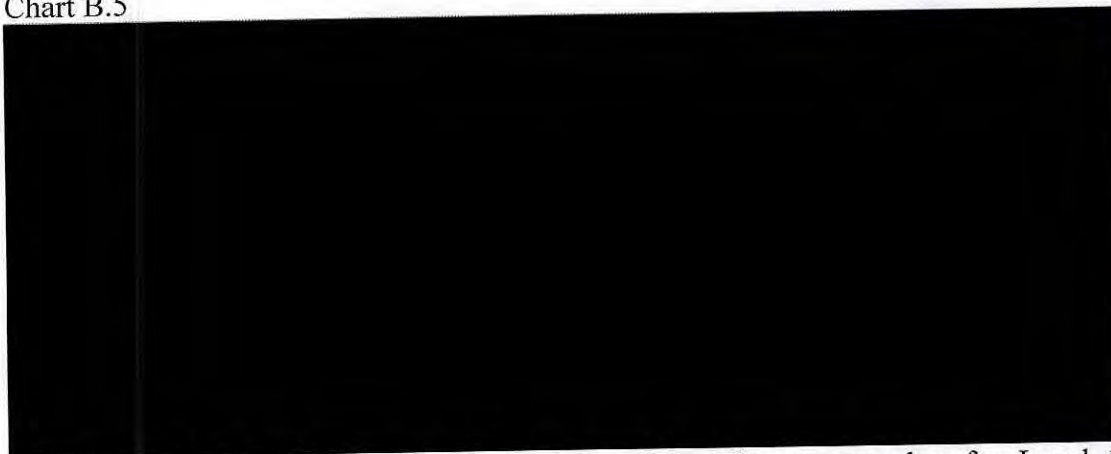
Further analysis of the information returns for July to December 2015 and January to June 2016 is in Appendix 1.

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 2016 in respect of Level 1

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 Laya Healthcare rates of returned benefits per member for Level 1 products are close to Vhi Healthcare's rates. Aviva Health's figures are generally lower than those for both Vhi Healthcare and Laya Healthcare for ages 65 and above. GloHealth's claims experience has been inconsistent at ages 65 and above (although the number of insured lives is low at those ages, so there is insufficient data available for GloHealth to enable a meaningful comparison).

Chart B.6

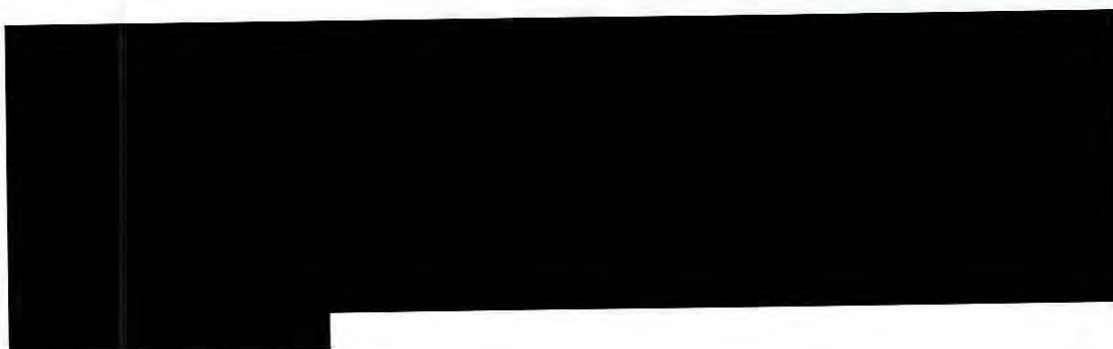
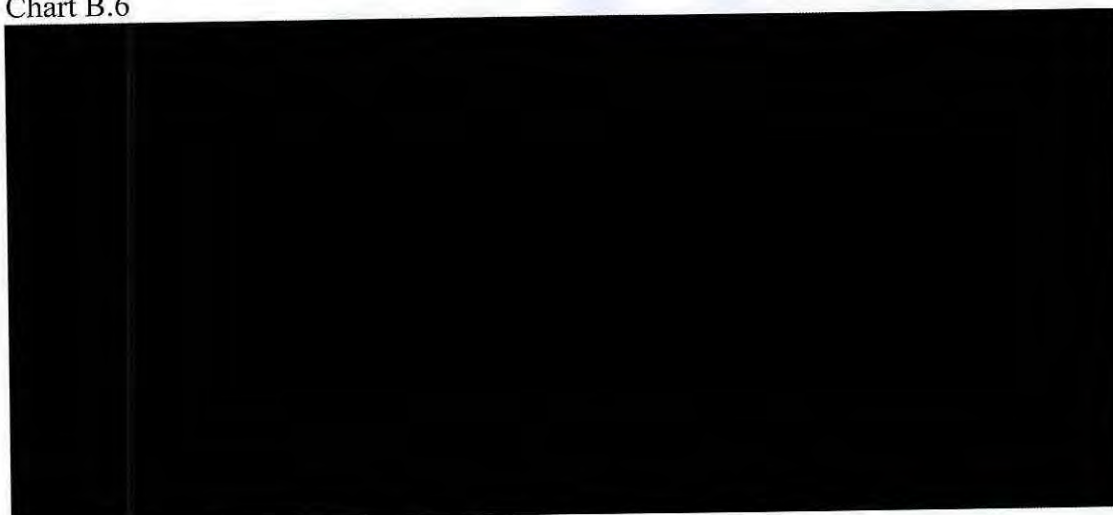


Chart B.7 below shows how the market claim rate varies by level of cover, and by gender.

Chart B.7

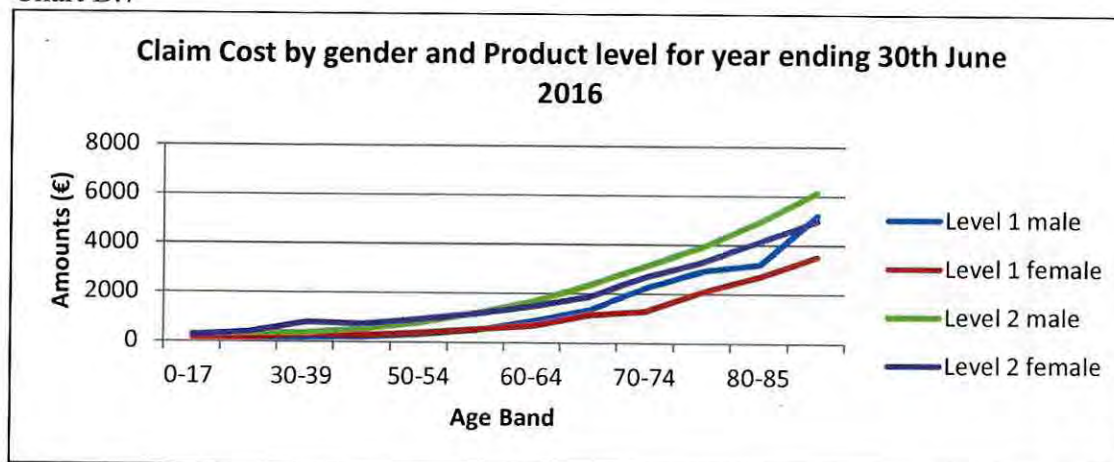
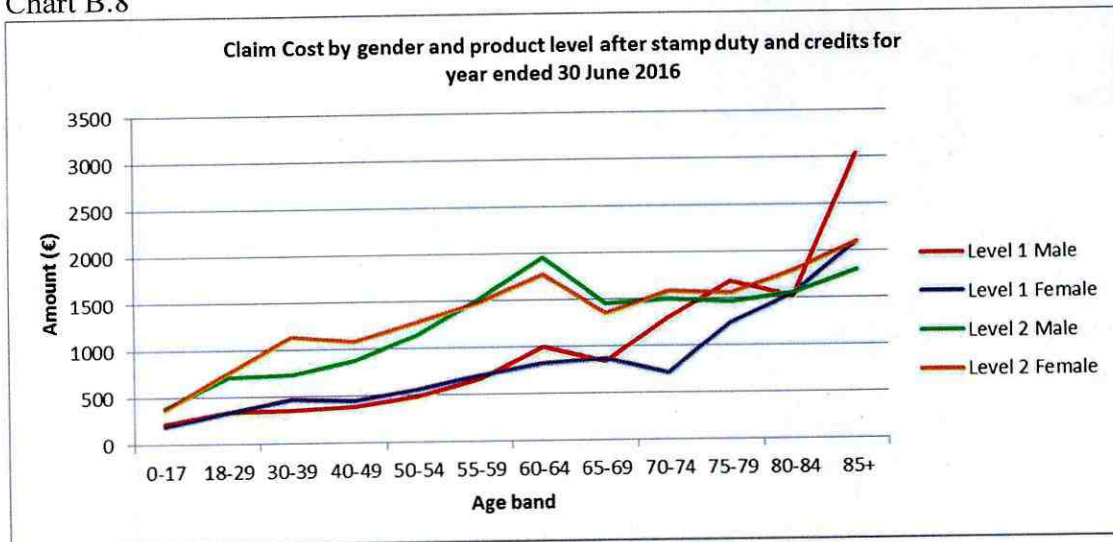


Chart B.7 shows that claim costs for men with Level 2 type products are consistently higher than for men with Level 1 products with the percentage difference varying from 19% to 176% higher depending on the age range. Claim costs for women with Level 2 type products are also consistently higher than for corresponding Level 1 products with the percentage difference varying from 41% to 183% higher depending on age range. Average male costs are higher than female costs for children and ages over 60 for both Level 1 and Level 2 contracts but are lower at younger adult ages.

Impact of 2015 Credits on different market segments

Chart B.8 below shows the impact of the 2016 credits and stamp duties on the net claims by age for Level 1 and Level 2 products and men and women for the market as a whole, applying non advanced credits to Level 1 products and advanced credits to Level 2 products.

Chart B.8



For Level 2 products the net cost generally increases with age for both men and women up to age 60 and is relatively flat between ages 65 and 80. The high Male Level 1 age 85+ claims cost is probably caused by random fluctuations in claim costs due the small number of lives insured (average of 439 over the year).

Section C - Financial Data

Profitability of Registered Undertakings

The profitability of Registered Undertakings' private health insurance business in 2015 is set out in Table C.1. This financial data was provided by Registered Undertakings to the Authority pursuant to Section 7F of the Health Insurance Acts in order to assess whether overcompensation has occurred. It is noted that these figures relate solely to each Undertaking's Irish health insurance business and exclude any profits made if the business is reinsured to other entities in the same group. Undertakings generally have their policy administration and sales/marketing services provided by administration companies that may or may not be part of the same group.

VHi Insurance DAC became a Registered Undertaking in 2015. The health insurance activities of the Voluntary Health Insurance Board (Vhi Board) transferred to Vhi Insurance DAC during 2015. It applied the merger method of accounting, under which only the directly attributable income and expenditure of non-transferred activities were reported in the Vhi Board accounts during 2015. The Voluntary Health Insurance Board remained as a Registered Undertaking as required by the Health Insurance Acts.

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

Table C.1 Accounts for 12 months to end December 2015:

€m's	Aviva Health Insurance Ireland Ltd €m	Elips Insurances Ltd (Laya Healthcare) €m	Great Lakes Reinsurance (UK) PLC (GloHealth) €m	Vhi Insurance DAC €m	Voluntary Health Insurance Board €m	Market €m
Earned premiums before reinsurance and age related credits	330.6	502.5	92.2	1,427.6		2,352.9
Impact of risk equalisation	(36.3)	(53.7)	(24.8)	70.4		(44.4)
Claims incurred before reinsurance	(235.7)	(370.6)	(57.0)	(1,292.7)		(1,956.0)
Claims ratio (Gross of risk equalisation)	71.3%	73.8%	61.8%	90.6%		83.1%
Claims ratio (Net of risk equalisation)	82.3%	84.4%	88.7%	85.6%		85.0%
Expenses & reinsurance	(42.3)	(69.3)	(6.6)	(185.0)	(2.0)	(303.2)
Expenses & Reinsurance as % Earned Premiums	12.8%	13.8%	7.1%	14.3 %		12.9%
Underwriting result	16.3	8.9	3.8	20.3		49.3
Underwriting profit as % earned premiums	5.0%	1.8%	4.1%	1.4%		2.1%
Impact of Investments	0.2	0.1	(0.1)	3.4	1.2	3.6
Profit before tax	16.5	9.0	3.7	23.7	(0.8)	52.9
Profit as % earned premiums	3.5%	1.8%	4.0%	1.7%		2.2%

Gross of the impact of risk equalisation, Vhi Healthcare's claims ratio of 90.6% is significantly higher than the other insurers' claims ratios. Net of the impact of risk equalisation, Vhi Healthcare's claims ratio of 85.6% is similar to other insurers' claims ratios which are in the range 82.3% - 88.7%.

The underwriting profits of the insurers as a percentage of earned premiums vary between 1.4% for Vhi Healthcare to 5.0% for Aviva Health.

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

Estimated Net Financial Impact of the Stamp Duty and Tax Credits

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

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

At the request of the Authority, insurers supplied estimates of the net financial impact of the Risk Equalisation Scheme in respect of 2016 and the actual net financial impact in respect of 2015. It should be noted that insurers' estimates are based on their view of membership figures over the full 2016 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 2015 and the first half of 2016 combined would be half of the amounts shown in the 2015 and 2016 columns in the table.

Table C.2

€m's	Net Financial Impact of Risk Equalisation 2015	Estimated Net Financial Impact of Risk Equalisation in 2016	Estimated Net Financial Impact of Risk Equalisation 1/7/15 – 30/6/16
	€m	€m	€m
Aviva Health	(36.3)		
Elips	(53.7)		
Great Lakes	(24.8)		
Vhi Healthcare	70.4		
Total	(44.4)		

For 2015, insurers' accounts show a total negative net financial impact of €44.4m in respect of risk equalisation. For 2016, 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 31/12/2015	At 30/6/2016	Projected Surplus at end of claim period
	€m	€m	€m
2013 contracts	11.2	10.9	11.0
01/01/2014 – 28/02/2015 contracts	(9.9)	(8.1)	(8.0)
01/03/2015 - 28/02/2016 contracts	17.9	19.3	20.0
01/03/2016 – 31/03/2017 contracts	-	(0.5)	(12.0)
Investment Income Less expenses	(0.3)	(0.3)	(1.0)
Total	18.9	21.3	10.0

The 2015 year end audited Balance Sheet for the Risk Equalisation Fund showed a surplus of €18.9m compared to total stamp duty revenues since 2013 of €1,525m. Management accounts at end June 2016 showed a projected surplus of 21.3m.

In view of the accounting position of the Fund at 30 June 2016, including an allowance last year for a projected surplus of €10m in setting the stamp duty for policies commencing in the period 1 March 2016 to 28 February 2017, the continuation of current credits and stamp duty until 1 April 2017 (when last year's recommendation assumed that they would cease at 1 March 2017), the Authority is of the view that there is likely to be a small surplus of circa €10m in the fund when the credits and stamp duty on all contracts that commence in advance of 1 April 2017 are fully earned.

The insurer's accounts for the three years 2013-2015 show a total impact of the Risk Equalisation Scheme was a reduction in insurers' profits of €88.8m. This is materially different to the Risk Equalisation Fund which showed a surplus of €18.9m. However it should be remembered that the insurers accounting figures for 2013-2015 also include payments in respect of the Interim tax based RES that applied for policies commencing from 2009 -2012, while the Risk Equalisation Fund only commenced in 2013. The insurers' accounts are also prepared on a variety of accounting assumptions which differ from the Risk Equalisation Fund accounting basis.

Section D – Review of market developments

Premium inflation in the market July 2015 – June 2016

In the 12 months to end June 2016, the average gross premium paid by consumers was €1,159, which represents a 3% decrease on the average premium paid in the 12 months to 30 June 2015 (€1,194). 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 2014- June 2015	Average Gross premium paid July 2015- June 2016	% Change
Aviva Health			
GloHealth			
Laya Healthcare			
Vhi Healthcare			
Total Open Membership Insurers	€1,194	€1,159	-3%

The above figures relate to average premiums. Price changes for individual products varied considerably. The average premium is also impacted by consumer actions, e.g. consumers switching to lower cost/benefit plans or premium frequency. The CSO price index for health insurance has increased by 6.5% in the 12 months to the end of May 2016. 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 four open membership insurers has decreased in the last year with 354² inpatient private health insurance plans on the Product Register on 7 July 2016 (excluding restricted undertakings). This is a decrease of 27 plans since 29 July 2015. Of the 354 plans available at 7 July 2016, 42 provide non advanced cover and 311 advanced cover. Aviva provide 71 advanced plans, GloHealth 54 plans, Laya Healthcare 119 plans and Vhi Healthcare 68 plans.

Non advanced products began being marketed from 31 March 2013. In the information returns for 1 July, 2016 there were 201,036 (156,518 at 1 July 2015) persons insured with products that were categorised as non-advanced at that date. This amounts to 10% of the total number of insured persons at that date.

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

Segmentation

The analysis in Section B also shows that, for both Level 1 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 attractive to older, less healthy customers. All insurers, apart from Laya Healthcare have products with reduced orthopaedic benefits in private hospitals, with approximately half of the market insured under these plans.

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

Table D.2

	Aviva Health €	GloHealth €	Laya Healthcare €	Vhi Healthcare €	Weighted Average €	Market
Average Net Claim per insured person (June 2015 - June 2016)³						
18-60					1,022	
Over 60's					1,651	
Average Gross of Tax Relief Premiums per insured person⁴						
18-60					1,465	
Over 60's					1,765	
Difference						
18-60					442	
Over 60's					113	

The average premium per insured person correlates with the average net claim with Vhi having higher premiums and higher net claims and GloHealth having lower net premiums and net claims. 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 better for younger lives notwithstanding higher risk equalisation credits and higher premium being paid to insurers in respect of older lives.

There is continuing evidence that insurers, [REDACTED], are segmenting their customers (to an extent, through self-selection) with the result that

³ Returned benefit – current credits + current stamp duty

⁴ Sum over all products (Number of people in the age group insured with each product at 1 July 2015 multiplied by the price of that product on that date) divided by the total number of people in the age group.

older customers are, on average, paying more for their health insurance than younger customers for similar levels of cover. 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 by under 60's / over 60's for the first half of 2016

Insurer	Average Net Premium		
	<60	>=60	Difference
Aviva Health			
GloHealth			
Laya Healthcare			
Vhi Healthcare			
Market	€1,265	€1,576	25%

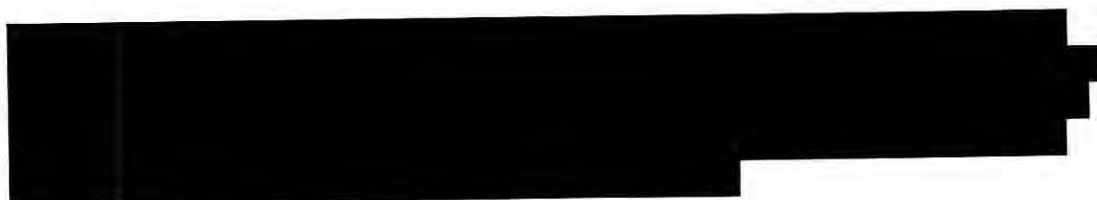
It is interesting to note that the difference in average premiums between the over and under 60's for the market in June 2016 is 25% compared to 33% in June 2015.

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 at reduced premium rates have become more popular;
- Plans that only cover some public hospitals have become more popular increasing to 7% of insured lives at 1 July 2016;
- A growing 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;
- A growing number of policyholders are paying Lifetime Community Rating Loadings. Since the inception of Lifetime Community Rating in May 2015, €1.6m have been paid in loadings to insurers. Its introduction may be assisting in controlling the ageing of the insured market;
- The legislative introduction of young adult rates, instead of student rates, from 1 May 2015 has coincided with an increase in the number of insured lives aged 18-29 of 6,662 in the last year compared to an increase of 1,517 in this age group in the previous year; and
- Vhi Healthcare became an authorised insurance company in July 2015 (named Vhi Insurance DAC) levelling the regulatory position with the other open membership undertakings.

Discussions with insurers

Irish Life Health



[REDACTED]

Laya Healthcare

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

Vhi Healthcare

[REDACTED]

[REDACTED]

[REDACTED]

Section E – Projections

Retrospective review of projections in 2015 Report regarding 2016 credits

Review of Membership Projections in the Authority's 2015 Report

In its 2015 Report, the Authority projected that the change in the age profile of the market in the year ending June 2015 would continue at the same pace over the next 18 months, with an additional uplift of 75,000 insured lives then serving initial waiting periods as a result of Lifetime Community Rating. Table E.1 compares the projected open enrolment market at 1 July 2016 with the actual market as at 1 July 2016 and the percentages of the total market for each age group.

Table E.1

Table E.1

Membership for the Market as of 1 July 2016					
Age Group	Actual		Projected		Net Difference
Aged 17 and under	477,351	(23.7%)	484,344	(23.9%)	-6,993
Aged 18 to age 29	212,652	(10.6%)	205,865	(10.2%)	6,787
Aged 30 to age 39	295,054	(14.6%)	312,222	(15.4%)	-17,168
Aged 40 to age 49	324,180	(16.1%)	326,668	(16.1%)	-2,488
Aged 50 to age 54	146,944	(7.3%)	144,446	(7.1%)	2,498
Aged 55 to age 59	135,572	(6.7%)	133,298	(6.6%)	2,274
Aged 60 to age 64	123,062	(6.1%)	121,369	(6.0%)	1,693
Aged 65 to age 69	106,157	(5.3%)	105,867	(5.2%)	290
Aged 70 to age 74	81,440	(4.0%)	79,886	(3.9%)	1,554
Aged 75 to age 79	55,116	(2.7%)	54,960	(2.7%)	156
Aged 80 to age 84	34,423	(1.7%)	34,460	(1.7%)	-37
Aged 85 and over	22,766	(1.1%)	22,900	(1.1%)	-134
Total	2,014,717	(100.0%)	2,026,285	(100.0%)	-11,568

The above table shows that the projection of the insured population for 1 July 2016 was c. 0.6% higher than the actual 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 age related credits and stamp duty and this is very much in line with the Authority's projection except for ages 30-39 where the actual numbers insured at 1 July 2016 are 17,168 lower than projected and ages 18-29 where the actual numbers insured at 1 July 2016 are 6,787 higher than projected.

Review of Claims Inflation Assumptions in the Authority's 2015 Report

The 2015 report highlighted a wide variation in the claims cost inflation rates over the period 1 July 2014 to 1 July 2015 with particularly large increases experienced in the over age 80 age groups, where the risk equalisation age credits are highest. There were a number of factors which could have impacted on the results such as changes in the speed of claims settlement or the changing of charging structure of public hospitals.

As a result of this analysis, the Authority in projecting average claims costs last year, gave weight not only to the claims costs paid in the July 2014 to June 2015 time

period but also to the average claims costs paid in the July 2013 – 2014 time period. This was done by taking as the base claims cost for projections purposes, the lower of the actual claims cost experienced in the July 2014 to June 2015 time period and the actual claims cost experienced in the July 2013 – June 2014 time period uplifted by 10%. This “smoothed claims cost” was calculated for each insurer for each gender, level of cover and age group.

Thus in its 2015 Report, the Authority considered that a reasonable method for projecting the average returned benefit per insured person for renewals from 1 March 2016 was to project an increase of 4% p.a. over the term of the projection to this “smoothed claims cost”. Ageing of the market would contribute a further 1% per annum to claims inflation over the period.

Accordingly, the 2016 credits and stamp duty assumed that the average market “smoothed claims cost” would increase by approximately 5% p.a. from the 12 months ending 30 June 2015 to the 12 months ending 30 June 2016.

One year has now elapsed since these projections. This subsection reviews how actual claim costs have changed over the year. The claim inflation rates are based on comparing claim payments made from July 2015 – June 2016 with those made in July 2014 – June 2015. As a result, any changes in the speed of payment would impact on the inflation rate.

The percentage change in the average returned benefit per insured person from the twelve month period ending in June 2015 to the twelve month period ending in June 2016 for each insurer and for the market is shown in Table E.2.

Table E.2

Age Group	Aviva Health	GloHealth	Laya Healthcare	Vhi Healthcare	Market
0-17					21%
18-29					-1%
30-39					4%
40-49					0%
50-54					1%
55-59					5%
60-64					7%
65-69					2%
70-74					9%
75-79					7%
80-85					2%
85+					4%
All Ages					5%

The ‘all ages’ percentages is impacted by the ageing of insurers’ portfolios which would contribute about 1% to the ‘all ages’ inflation costs.

There are significant variations in the percentage changes between insurers and between different age groups for each insurer. The level of claims inflation experienced by children was significantly higher than for older ages. Level 1 contracts experienced higher inflation rates than products that covered private hospitals.

Projections for 2017 Credits

Projected age profile of market in 2017

The movement in insured lives between 1 July 2015 and 1 July 2016 in the information returns data is set out in Table E.3.

Table E.3

Open Enrolment Market	01-Jul-15	01-Jul-16	Net Diff
Aged 17 and under	461,361	477,351	15,990
Aged 18 to age 29	205,990	212,652	6,662
Aged 30 to age 39	291,173	295,054	3,881
Aged 40 to age 49	307,701	324,180	16,479
Aged 50 to age 54	138,779	146,944	8,165
Aged 55 to age 59	128,169	135,572	7,403
Aged 60 to age 64	117,741	123,062	5,321
Aged 65 to age 69	103,298	106,157	2,859
Aged 70 to age 74	75,787	81,440	5,653
Aged 75 to age 79	52,438	55,116	2,678
Aged 80 to age 84	32,398	34,423	2,025
Aged 85 and over	21,061	22,766	1,705
Total	1,935,896	2,014,717	78,821

There had been a trend during the recession of lives lapsing cover with the average number of insured falling year on year. In the last two years this trend was reversed. In last year's report there was an increase in insured lives of 51,322 from 1 July 2014 to 1 July 2015. The current 78,821 increase in the number of insured lives represents a continuation of the trend, albeit the figures are heavily influenced by the introduction of LCR.

For the purposes of projecting changes in the insured population, the Authority has assumed an adjusted market size at 1 July 2015 including 75,000 additional lives serving initial waiting periods at that time. These 75,000 lives were allocated by age/gender/product in line with the growth in the market in the period 1 July 2015 to 1 January 2016. After this adjustment the level of growth observed over the period 1 July 2015 to 1 July 2016 is 3,821.

Table E.4

Open Enrolment Market	01-Jul-15	01-Jul-15 Adjusted	01-Jul-16	Net Diff
Aged 17 and under	461,361	480,750	477,351	-3,399
Aged 18 to age 29	205,990	210,105	212,652	2,547
Aged 30 to age 39	291,173	297,815	295,054	-2,761
Aged 40 to age 49	307,701	328,360	324,180	-4,180
Aged 50 to age 54	138,779	150,186	146,944	-3,242
Aged 55 to age 59	128,169	129,212	135,572	6,360
Aged 60 to age 64	117,741	119,058	123,062	4,004
Aged 65 to age 69	103,298	104,734	106,157	1,423
Aged 70 to age 74	75,787	79,486	81,440	1,954
Aged 75 to age 79	52,438	54,728	55,116	388
Aged 80 to age 84	32,398	33,909	34,423	514
Aged 85 and over	21,061	22,554	22,766	212
Total	1,935,896	2,010,896	2,014,717	3,821

The change in the market size and age/gender in the period 1 July 2015 (using adjusted numbers) to 1 July 2016 is assumed to continue during the projection time period until 1 April 2018. Thus the projections assume an increase in the number of insured lives of 3,821 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 is important. The Authority has assumed that the changes in age profile over the twelve months to June 2016 in Table E.4 will continue at the same pace until 1 April 2018 for the market as a whole. The resulting projected numbers are set out in the following table:

Table E.5

	Projected Market 01-April-2018 current trends		
	Non-Advanced	Advanced	Total
Aged 17 and under	37,466	433,937	471,403
Aged 18 to age 29	28,421	188,689	217,110
Aged 30 to age 39	46,415	243,807	290,222
Aged 40 to age 49	42,384	274,481	316,865
Aged 50 to age 54	15,999	125,272	141,271
Aged 55 to age 59	12,122	134,579	146,701
Aged 60 to age 64	8,471	121,598	130,069
Aged 65 to age 69	5,212	103,436	108,648
Aged 70 to age 74	2,428	82,431	84,859
Aged 75 to age 79	1,245	54,550	55,795
Aged 80 to age 84	568	34,755	35,323
Aged 85 and over	305	22,831	23,136
Total	201,036	1,820,368	2,021,404

It is important to note that this projection assumes that there are no major changes to the market during the period of the projection.

Table E.6 below provides details of the number insured in non-advanced policies at 1 July 2015 and 1 July 2016. The approach for projecting the market is to assume that the forecast number of non-advanced contracts at 1 April 2018 will be unchanged from levels observed at 1 July 2016 as the numbers insured in non advanced plans have stayed relatively static over the last six months.

Table E.6

	Non advanced 01-Jul-15	Non advanced 01-Jul-16	Forecast 01-Apr-18
Aged 17 and under	28,939	37,466	37,466
Aged 18 to age 29	27,315	28,421	28,421
Aged 30 to age 39	39,803	46,415	46,415
Aged 40 to age 49	32,791	42,384	42,384
Aged 50 to age 54	11,228	15,999	15,999
Aged 55 to age 59	8,541	12,122	12,122
Aged 60 to age 64	6,078	8,471	8,471
Aged 65 to age 69	3,853	5,212	5,212
Aged 70 to age 74	1,754	2,428	2,428
Aged 75 to age 79	951	1,245	1,245
Aged 80 to age 84	426	568	568
Aged 85 and over	240	305	305
Total	161,919	201,036	201,036

Projected Returned Benefit for each insurer

The claims costs for the twelve months to end June 2016 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 2016 was calculated for each 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 2017 renewals might be projected allowing 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 2017 would be to project an increase of 4% p.a. over the term of the projection to the age specific market claims cost per insured person for the twelve months to end June 2016. As these are age specific rates they do not include the impact of ageing which is provided for in the population projections.

Hospital Utilisation

Historically insurers have received 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 under the 2016 Risk Equalisation Scheme.

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

Table E.7

	Overnight 000's	Daycase 000's	Total 000's
Second Half 2014	587	273	860
First Half 2015	584	282	866
Second Half 2015	679	308	987
First Half 2016	655	318	973

Table E.8 shows the split by insurer for the January to June 2016 time period.

Table E.8

000's	Overnight	Day case	Total
Aviva Health			
GloHealth			
Laya Healthcare			
Vhi Healthcare			
Total	655	318	973

The average overnight days and day case days per insured person in July 2015 – June 2016 time period was calculated for each age group/gender/level of cover/insurer. The Authority has assumed that the average hospital utilisation per life insured for each age group will remain constant over the projection period.

Section F – Credits and stamp duty for policies commencing from 1 April 2017.

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 – 2014;
 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 2015 provided that the risk equalisation credits outlined in Table F.1 below applied from 1 March 2016:

Table F.1

Age Bands	utilisation credits from 1 March 2016	Age / gender / level of cover credits from 1 March 2016			
		Non advanced		Advanced	
		Men	Women	Men	Women
59 and under	€90 / €30	€0	€0	€0	€0
60-64	€90 / €30	€0	€0	€0	€0
65-69	€90 / €30	€ 575	€ 375	€1,125	€ 800
70-74	€90 / €30	€ 900	€ 675	€1,800	€1,300
75-79	€90 / €30	€1,175	€ 850	€2,550	€1,900
80-84	€90 / €30	€1,550	€1,100	€3,375	€2,375
85 and above	€90 / €30	€1,775	€1,250	€4,150	€2,775

The stamp duties outlined in Table F.2 below applied from 1 March 2016:

Table F.2

Age Bands	Stamp duties from 1 March 2015	
	Non-advanced	Advanced
17 and under	€ 67	€134
18 and over	€202	€403

The projected net financial impact in last year's report of the credits and stamp duty enacted for policies commencing in the 1 March 2016 to 28 February 2017 time period are as follows:

Table F.3

€m	Aviva Health	GloHealth	Laya Healthcare	VHI Healthcare	Total
Age Related Health Credits					525.3
Hospital Utilisation Credit					131.7
Stamp Duty					-647.0
Total					10.0
Net Financial impact per insured life					€ 6

The projections for individual insurers are sensitive to developments in each insurer's age profile and market share, 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 2017

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 2017 but before 31 March 2018.

Table F.4

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

The Authority 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 2017.

Table F.5

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

The adult stamp duty for advanced cover contracts at €444 would increase from the €403 it currently is, while the adult stamp duty for non-advanced contracts would increase to €222 from €202.

These calculations of risk equalisation credits and stamp duty for policies commencing from 1 April 2017 are based as follows:

- A hospital utilisation credit of €90 would be made for each night that an insured person spends in a hospital.
- A hospital utilisation credit of €30 would be made in respect of each day case admission.
- The age credits for advanced cover contracts would continue to be based on the average claim costs for Level 2 products (products that, in the main, provide cover for semi-private accommodation in private hospitals, rather than private accommodation). These credits would continue to apply from ages 65 and over.
- The age credits for advanced cover products would continue to be calculated to be the amount necessary so that the net claims cost for no age group from age 65 and over exceeds 130% of the average net claims cost for Level 2 contracts.
- The age credits for non-advanced cover contracts would continue to be based on the average claim costs for Level 1 products (products that, in the main, provide cover for public rather than private hospitals). Due to random fluctuations in the average claims costs for Level 1 contracts (due to the small volume of insured lives at these ages), adjusted claims costs for Level 1 contracts aged over 65 are calculated by applying the average ratio of Level 1 claims cost to Level 2 claims cost for all ages over age 65. This results in the ratio of the adjusted claims costs for Level 1 contracts being 62% of the claims cost of Level 2 contracts.
- 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 Level 1 contracts.
- The Stamp duty for non-advanced contracts shall reflect the lower credits paid in respect of these contracts, and, accordingly, be set at 50% of the rate applying for advanced contracts as in last year's decision.
- The Stamp duty levels would incorporate an anticipated surplus of €10m 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 2017.

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

The calculations of the net financial impact are based on credits and stamp duty applying from 1 April 2017 to 31 March 2018 are set out in Table F.6 below.

Table F.6

€m	Aviva Health	GloHealth	Laya Healthcare	VHI Healthcare	Total
Age Related Health Credits					586.0
Hospital Utilisation Credit					143.4
Stamp Duty					-719.4
Total					10.0
Net Financial impact per insured life					€ 6

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 5% per annum instead of 4% per annum, the health credits, stamp duties and net financial impacts would increase by 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 €403. For 2017 the Authority recommendation results in an adult stamp duty of €444 for advanced cover contracts. The main reasons for the difference (with approximate impacts of each reason) are as follows:

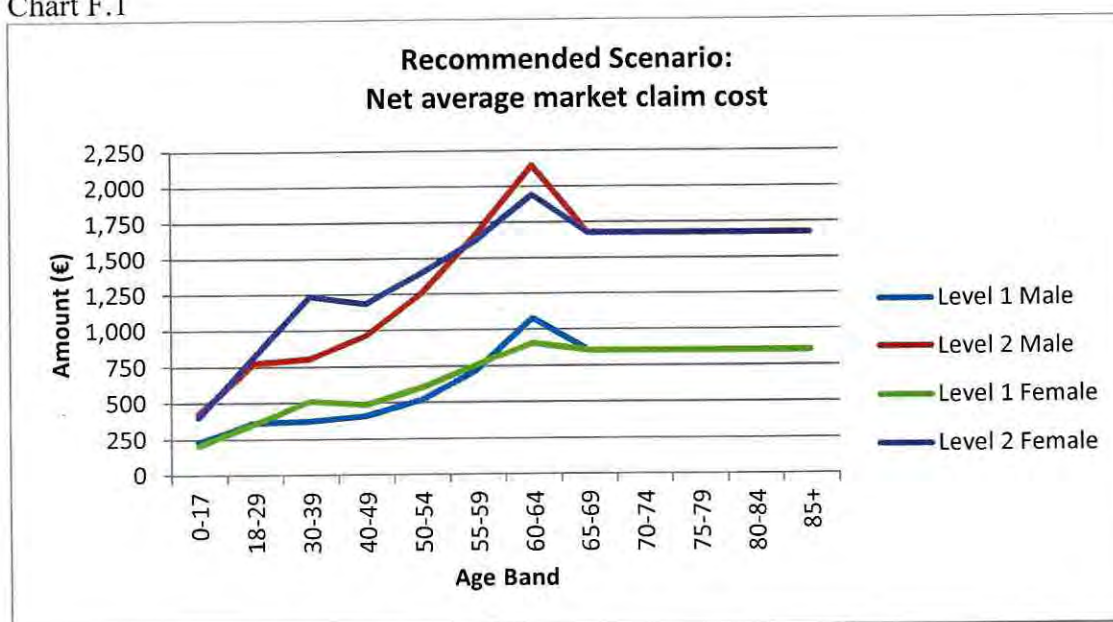
Table F.7

Reasons for Change of Advanced Cover Adult stamp duty from 2016 enacted to 2017 recommended	Monetary effect on stamp duty
2016 enacted stamp duty	€403
Removal of Claims Smoothing (i.e. 10% cap for each age group)	€18
Impact of new claims data (i.e. 2016 average returned benefits)	€26
Impact of membership change in year to 30/6/16	(€8)
Impact of change in hospital utilisation in year to 30/6/16	€4
Impact of April inception date for new credits (instead of March)	€1
2017 Recommended Stamp Duty	€444

Projected impact of the recommendation on market net costs

The following chart shows estimates of the projected claim rate in the policy year commencing from April 2017 after adjusting for the net effect of the recommended utilisation credits, health credits and stamp duties. The Level 1 and Level 2 products highlighted show 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 respectively.

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, calculated for men and women combined. 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 2017 to 31 March 2018 are illustrated in the following charts. Separate charts are shown for Level 1 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

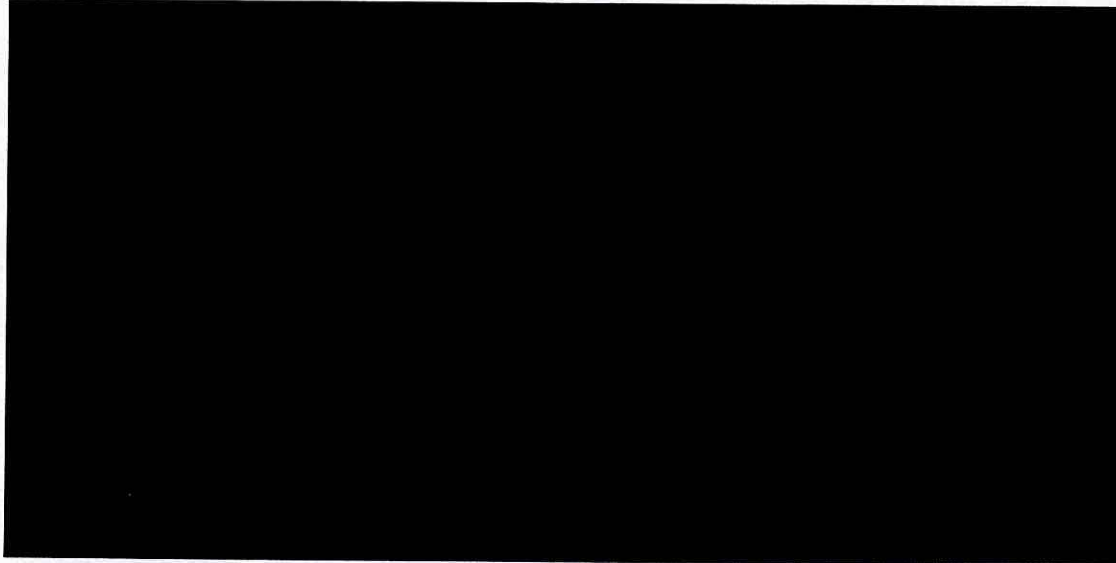


Chart F.3

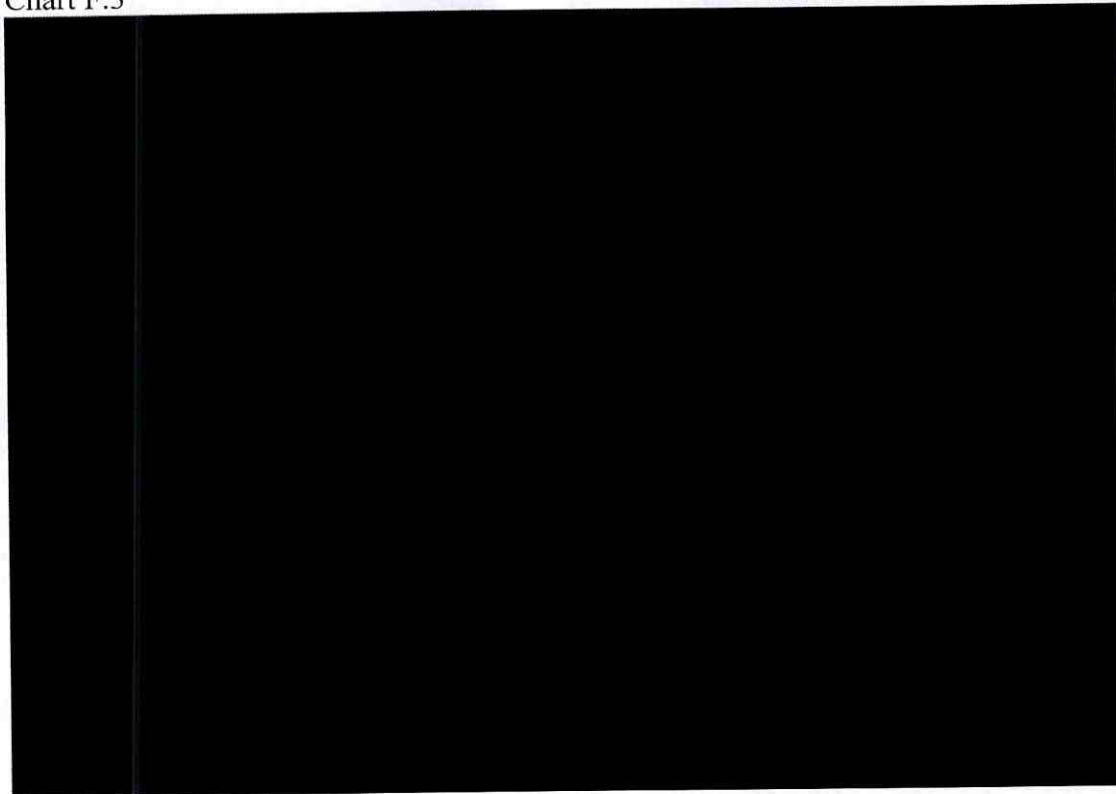


Chart F.4

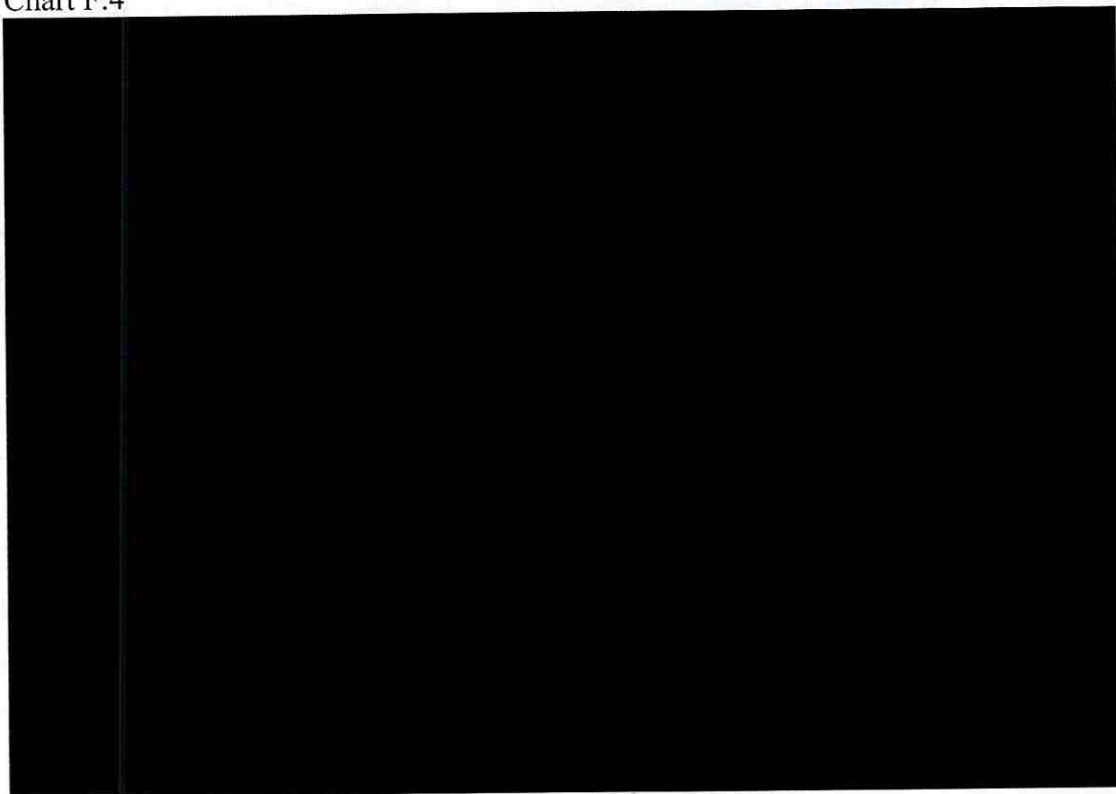


Chart F.5



The market net claims costs are 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.

[Redacted text block]

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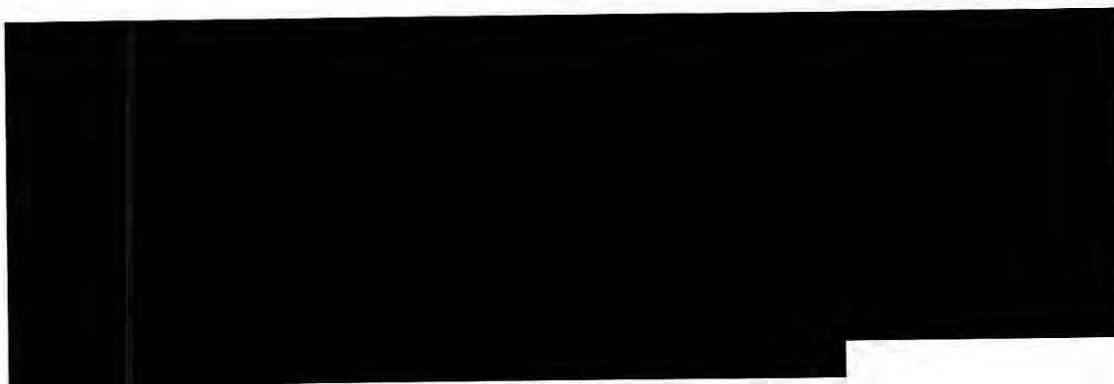
Commentary on the recommended risk equalisation credits and stamp duties

Recommendation

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

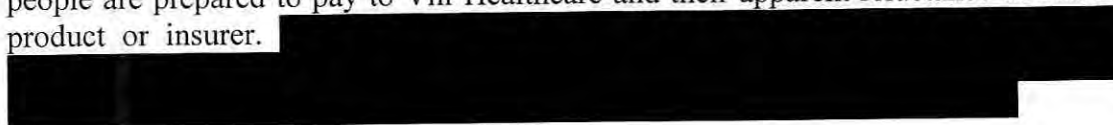
If any insurer has much higher claim costs for any age group this can impact negatively on the Authority's objectives as set out in the legislation. In particular:

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



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

Vhi Healthcare has a market disadvantage in relation to the higher claims costs of the older people that it insures but it has a benefit in terms of the premium that these people are prepared to pay to Vhi Healthcare and their apparent reluctance to switch product or insurer.



Accordingly, the Authority recommends the following:

- Age Credits should again not apply for the age group 60-64. If the insured market ages in line with the total population, the difference in the average claims cost across the market and the average for ages 60-64 will continue to narrow each year as a result of ageing. This will result in the age credits, on a constant methodology, reducing in monetary amounts over time. The market share of each insurer [redacted] for the age group 60-64 does not vary significantly as shown in Table B6 with the percentage varying from [redacted] for the three larger insurers. As a result, including age credits for

ages 60-64 does not materially affect the projected net financial impact for the insurers;

- The hospital utilisation credit for overnight stays remains at €90 per night and for day case admissions at €30 per admission. This supports the Principal Objective of reducing the differential in the net claims cost of unhealthy and healthy people. This will provide an incentive for insurers to eliminate unnecessary overnight stays in hospitals, support the cost of day case procedures and encourage the transition of procedures to lower cost, medically appropriate settings;
- 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 should remain at 50%.

Principal Objective of Health Insurance Act 1994 -2015

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

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

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

However, as expected claim costs by age differ between insurers and across products, no level of age related 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 2016, there remains a significant level of segmentation, whereby older less healthy people are on average paying more for their health insurance. Table D.3 shows the current extent of this risk segmentation by age for Level 2 contracts.

The risk equalisation system currently allows for a small measure of compensation for health status through a payment of €90 for each overnight stay in a hospital and €30 per day case admission.

Avoiding overcompensation

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

In making its recommendation to the Minister for Health on the level of risk equalisation credits, the Authority has regard to the aim of avoiding overcompensation in the future. The credits and stamp duties proposed in this report will have a financial impact on insurers in the years 2017, 2018 and 2019.

[REDACTED]

The Authority has assessed whether its recommendations on credits and stamp duty in this Report are likely to result in overcompensation to Vhi Insurance DAC or the Voluntary Health Insurance Board based on the current overcompensation test of a return on equity of no more than 12% per annum [REDACTED]

[REDACTED]

Table F.10
Vhi Insurance DAC Accounts

€m's	2015	2016	2017	2018
Earned premiums before reinsurance and age related credits	1,427.6	[REDACTED]	[REDACTED]	[REDACTED]
Profit before tax and investment activities	20.3	[REDACTED]	[REDACTED]	[REDACTED]
Return on investment activities	3.4	[REDACTED]	[REDACTED]	[REDACTED]
Profit before tax	23.7	[REDACTED]	[REDACTED]	[REDACTED]
Equity	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Return on Equity	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Return on Sales	1.7%	[REDACTED]	[REDACTED]	[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

As a result of this analysis, the Authority considers that the proposed risk equalisation credits and stamp duty in this report will avoid overcompensation arising during the projection time period for either Vhi Insurance DAC or the Voluntary Health Insurance Board. If overcompensation actually occurs, the legislation provides that the amount of overcompensation would be repaid to the 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 two years with a stable proportion of insured lives under age 50, modest average premium increases and an improved economic position.

Economic Circumstances

According to the summer 2016 ESRI forecasts, the Irish economy is expected to grow by 4.8% in 2016 and by 4.3% next year. Employment in Q2 2016 was 2.9% higher than Q2 2015. The ESRI are forecasting that employment will grow by 2.7% in 2017. Employment is the main determinant of demand for health insurance. The latter has been on a growth trend since Q3 2014, having fallen significantly during the years since 2009.

Price inflation has been broadly zero since 2013 and health sector price inflation is also zero at present. The ESRI are forecasting that the consumer price index will rise by 1% in 2017. Hourly earnings are forecast to rise by 2.3% both this year and next year.

The health insurance price sub-index of the consumer price index did not rise in 2015. However, it began rising in January of this year and in July this year, the sub-index was 7.6% higher compared to one year ago.

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 four 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 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 pathways.

Summary of impact of using alternative methodologies for 2017

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

Table F.10

	Recommended Methodology	Alternative 1	Alternative 2
Benefits used	Returned	Returned	Returned
Age Credit Applicable from age	65+	65+	65+
Methodology for Age Credits	Stamp Duty Included	Stamp Duty Included	Stamp Duty Included
Claims Cost Ceiling	130%	130%	135%
ARHC stamp duty ratio (Level 1 : Level 2)	50%	50%	50%
Overnight Utilisation payment	€90	€100	€90
Day Case Utilisation payment	€30	€50	€30
Claims smoothing cap	None	None	None
Claims inflation	4.0%	4.0%	4.0%
Stamp Duty (adult rate)			
Non-advanced	€222	€228	€215
Advanced	€444	€455	€429
Projected Net Financial Impact			
Aviva Healthcare	████	████	████
GloHealth	████	████	████
Laya Healthcare	████	████	████
VHI Healthcare	████	████	████
Total	€10.0m	€10.0m	€10.0m
Projected Net Financial Impact per member			
Aviva Healthcare	████	████	████
GloHealth	████	████	████
Laya Healthcare	████	████	████
VHI Healthcare	████	████	████
Total	€6	€6	€6

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

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

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

Benefit per Insured Person

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

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

Table A1.1

Average Returned Benefits per Insured Person (€)				
Insurer	July-Dec 2014	Jan-June 2015	July-Dec 2015	Jan-June 2016
Aviva Health				
GloHealth				
Laya Healthcare				
Vhi Healthcare				
Market	554	540	586	566

The market returned benefits per insured person has reduced to €566 in the current period from €586 in the six months ending December 2015.

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 2014	Jan-June 2015	July-Dec 2015	Jan-June 2016
Aviva Health				
Glo Health				
Laya Healthcare				
Vhi Healthcare				
Market	100%	100%	100%	100%

Returned benefits for the 12 months to the end of June 2016 broken down by age group and level of cover are shown in the following tables:

Table A1.3: Male Non-Advanced

Age Group	Aviva Health €	GloHealth €	Laya Healthcare €	Vhi Healthcare €	Weighted Market Average €
0-17					132
18-29					104
30-39					118
40-49					144
50-54					221
55-59					350
60-64					627
65-69					850
70-74					1,459
75-79					1,628
80-84					1,817
85+					5,515
All Ages					217

Table A1.4: Male Level 1

Age Group	Aviva Health €	GloHealth €	Laya Healthcare €	Vhi Healthcare €	Weighted Market Average €
0-17					154
18-29					136
30-39					151
40-49					181
50-54					289
55-59					493
60-64					849
65-69					1,310
70-74					2,224
75-79					2,915
80-84					3,197
85+					5,172
All Ages					435

Table A1.5: Male Level 2

Age Group	Aviva Health €	GloHealth €	Laya Healthcare €	Vhi Healthcare €	Weighted Market Average €
0-17					271
18-29					322
30-39					351
40-49					499
50-54					783
55-59					1,186
60-64					1,645
65-69					2,326
70-74					3,111
75-79					3,896
80-84					4,924
85+					6,134
All Ages					1,113

Table A1.6: Male Level 2+

Age Group	Aviva Health €	GloHealth €	Laya Healthcare €	Vhi Healthcare €	Weighted Market Average €
0-17					266
18-29					311
30-39					341
40-49					492
50-54					786
55-59					1,208
60-64					1,714
65-69					2,446
70-74					3,289
75-79					4,258
80-84					5,353
85+					6,671
All Ages					1,215

Table A1 7: Female Non-Advanced

Age Group	Aviva Health €	GloHealth €	Laya Healthcare €	Vhi Healthcare €	Weighted Market Average €
0-17					108
18-29					100
30-39					228
40-49					205
50-54					317
55-59					371
60-64					454
65-69					836
70-74					811
75-79					1,733
80-84					2,002
85+					2,478
All Ages					245

Table A1.8: Female Level 1

Age Group	Aviva Health €	GloHealth €	Laya Healthcare €	Vhi Healthcare €	Weighted Market Average €
0-17					129
18-29					131
30-39					284
40-49					259
50-54					378
55-59					529
60-64					671
65-69					1,136
70-74					1,280
75-79					2,079
80-84					2,706
85+					3,513
All Ages					435

Table A1.9: Female Level 2

Age Group	Aviva Health €	GloHealth €	Laya Healthcare €	Vhi Healthcare €	Weighted Market Average €
0-17					248
18-29					370
30-39					777
40-49					718
50-54					925
55-59					1,151
60-64					1,454
65-69					1,858
70-74					2,664
75-79					3,302
80-84					4,130
85+					4,955
All Ages					1,178

Table A1.10: Female Level 2+

Age Group	Aviva Health €	GloHealth €	Laya Healthcare €	Vhi Healthcare €	Weighted Market Average €
0-17					242
18-29					362
30-39					760
40-49					716
50-54					946
55-59					1,206
60-64					1,509
65-69					1,986
70-74					2,894
75-79					3,610
80-84					4,418
85+					5,287
All Ages					1,276

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 2014	Jan-June 2015	July-Dec 2015	Jan-June 2016
Aviva Health				
Glo Health				
Laya Healthcare				
Vhi Healthcare				
Market	1,021	998	983	981

Average returned benefits per treatment day have fallen by 2% across the market as a whole over the past 12 months.

Table A1.12

Average Returned Benefits per Treatment day as a % of the Market Average				
Insurer	July-Dec 2014	Jan-June 2015	July-Dec 2015	Jan-June 2016
Aviva Health				
GloHealth				
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 2014	Jan-June 2015	July-Dec 2015	Jan-June 2016
Aviva Health				
GloHealth				
Laya Healthcare				
Vhi Healthcare				
Market	0.543	0.541	0.596	0.577

Table A1.14

Average Treatment day per Insured Person as a % of the Market Average				
Insurer	July-Dec 2014	Jan-June 2015	July-Dec 2015	Jan-June 2016
Aviva Health				
GloHealth				
Laya Healthcare				
Vhi Healthcare				
Market	100%	100%	100%	100%

Age/Sex Risk Profile Index

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

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

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

Table A1.15

Age/Sex Risk Profile Index				
Insurer	July-Dec 2014	Jan-June 2015	July-Dec 2015	Jan-June 2016
Aviva Health				
GloHealth				
Laya Healthcare				
Vhi Healthcare				
Market	100%	100%	100%	100%

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

Hospital Utilisation Risk Profile Index

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

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

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

Table A1.16

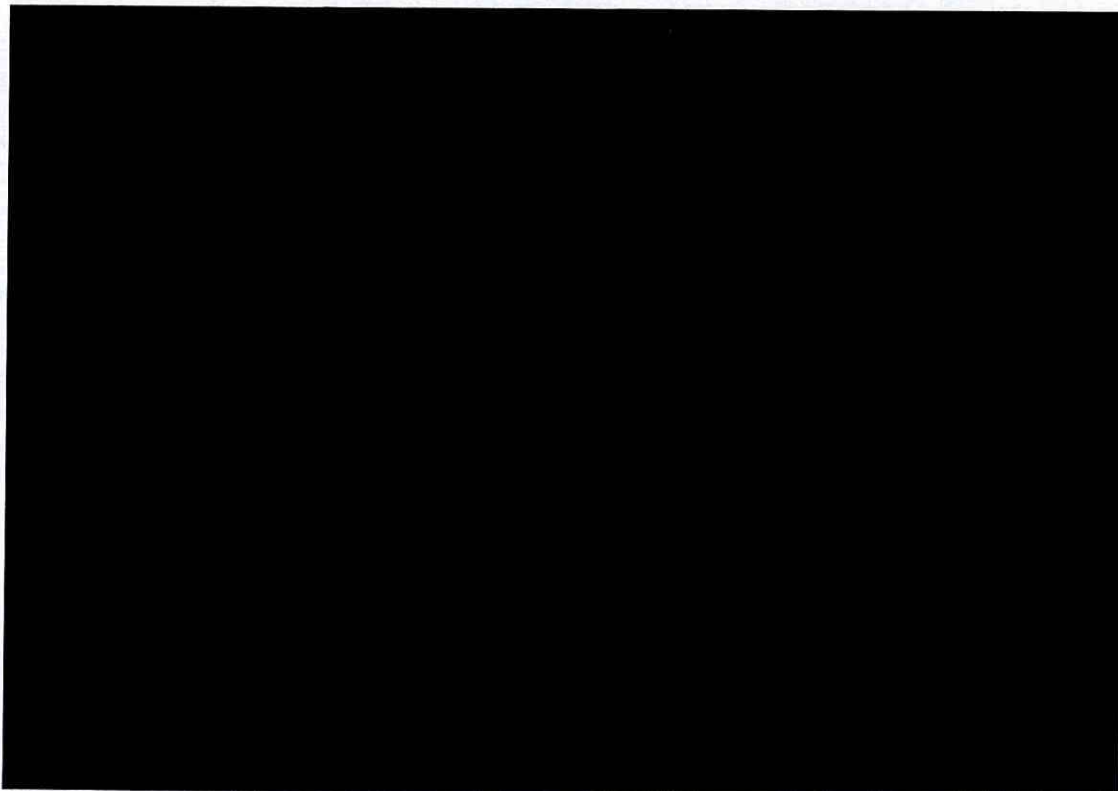
Hospital Utilisation Risk Profile Index (Percentage of Vhi Healthcare's Index)				
Insurer	July-Dec 2014	Jan-June 2015	July-Dec 2015	Jan-June 2016
Aviva Health				
GloHealth				
Laya Healthcare				
Vhi Healthcare	100%	100%	100%	100%



As Chart A1.1 shows,



Chart A1.1



The corresponding in-patient and day case averages are shown in Charts A1.2 and A1.3 respectively.

Chart A1.2

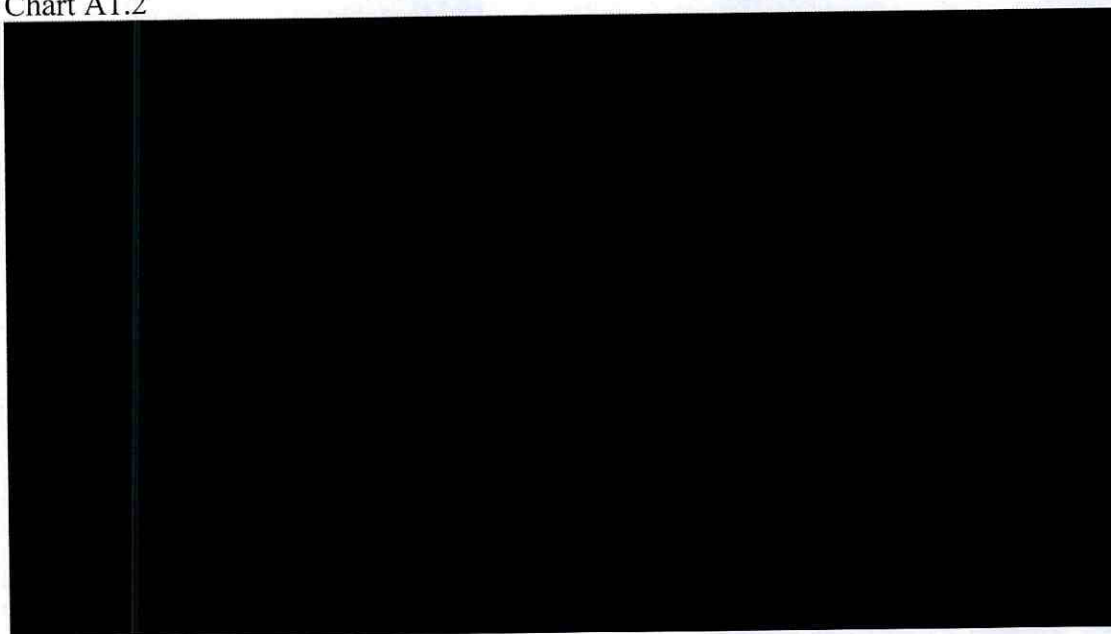
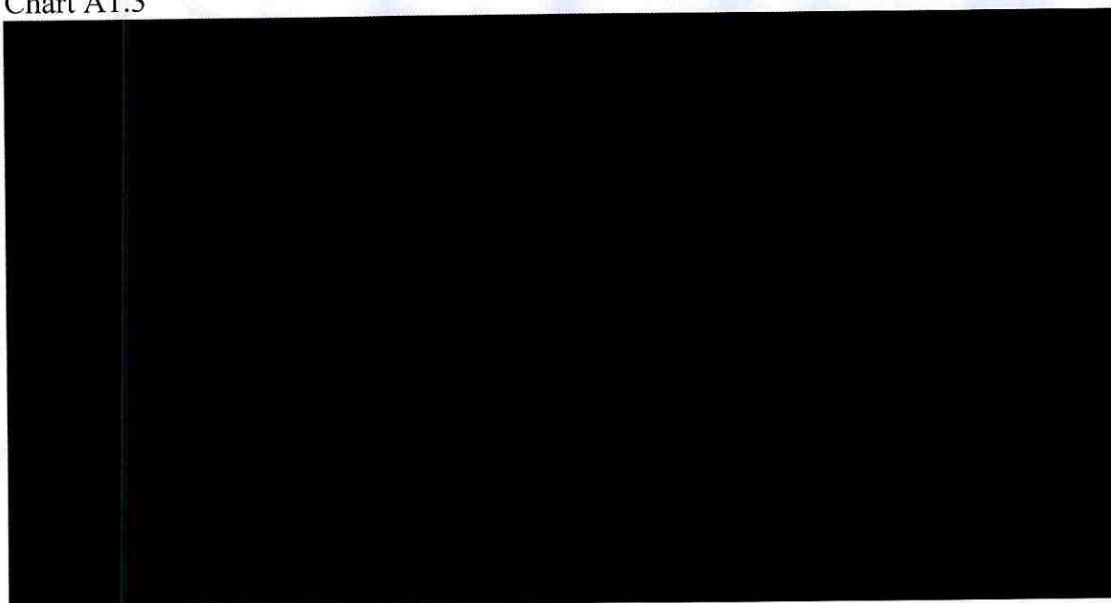


Chart A1.3



Appendix B – Credits and Stamp Duty from 1 April 2017 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 2018 (the midpoint of the average policy incepted between 1 April 2017 and 31 March 2018). 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 2018				
Age Group	Non Advanced		Advanced	
	Male	Female	Male	Female
0-17	19,150	18,316	226,562	214,680
18-29	13,989	14,432	93,349	91,447
30-39	22,359	24,056	113,528	135,440
40-49	21,438	20,946	136,134	147,060
50-54	8,110	7,889	62,227	69,410
55-59	6,129	5,993	58,935	65,143
60-64	4,280	4,191	54,978	60,065
65-69	2,673	2,539	48,453	52,734
70-74	1,245	1,183	37,931	41,561
75-79	593	652	24,780	29,318
80-84	251	317	14,781	19,246
85+	105	200	8,026	14,579
Total	100,322	100,714	879,685	940,683

Table B2.2

Projected Average Returned Benefit at 1 April 2018 (€)				
Age Group	Non Advanced		Advanced	
	Male	Female	Male	Female
0-17	168	141	296	271
18-29	149	143	351	405
30-39	165	310	383	849
40-49	198	283	546	784
50-54	315	413	855	1,010
55-59	538	578	1,296	1,258
60-64	927	732	1,796	1,588
65-69	1,582	1,264	2,540	2,030
70-74	2,116	1,812	3,398	2,910
75-79	2,650	2,246	4,255	3,607
80-84	3,350	2,810	5,379	4,512
85+	4,173	3,370	6,700	5,412
All Ages	374	409	1,304	1,357

Table B2.3

Projected Total Hospital Nights at 1 April 2018				
Age Group	Non Advanced		Advanced	
	Male	Female	Male	Female
0-17	2,754	2,355	50,300	44,370
18-29	1,539	1,509	21,406	27,401
30-39	3,553	5,607	24,952	76,104
40-49	3,120	4,096	36,631	58,171
50-54	1,720	2,642	25,508	34,027
55-59	2,614	2,363	40,966	48,961
60-64	3,121	2,221	54,926	53,918
65-69	2,778	2,684	68,409	62,317
70-74	3,117	1,152	80,851	81,228
75-79	1,409	1,389	75,986	80,968
80-84	909	823	65,215	77,047
85+	731	649	52,540	79,426
Total	27,364	27,490	597,692	723,937

Table B2.4

Projected Total Day Case Admissions at 1 April 2018				
Age Group	Non Advanced		Advanced	
	Male	Female	Male	Female
0-17	718	517	13,459	9,956
18-29	771	878	11,266	11,904
30-39	1,521	2,277	16,825	27,199
40-49	1,918	2,845	29,710	48,429
50-54	983	1,367	19,743	31,102
55-59	1,177	1,389	29,037	37,799
60-64	1,091	1,191	33,886	40,046
65-69	817	925	40,000	41,117
70-74	503	436	40,192	40,128
75-79	305	251	28,067	28,054
80-84	103	142	16,631	17,533
85+	54	64	7,694	9,516
Total	9,961	12,282	286,511	342,784

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 €90 is applied for overnight inpatient stays and €30 is applied for day stays. Claims inflation is assumed to be 4% per annum.

The total risk equalisation credits are financed by a stamp duty which varies by product level. The stamp duty for non-advanced contracts is set at 50% of the stamp duty relating to advanced contracts. The risk equalisation fund is projected to have a surplus of €10m when the contracts written prior to 1 April 2017 have fully earned credits and stamp duty.

The age credits calculations are based on the actual claims costs for July 2015 – June 2016 time period.

Table B2.5

Age	Stamp duty per person (€)		Credit per person (€)				Total Bed Utilisation Credits	Total Credits (€million)	Total Stamp Duty (€million)
	Non Advd	Advd	Non-advanced		Advanced				
			Men	Women	Men	Women			
0-17	74	148	0	0	0	0	9.7	0.0	67.0
18-29	222	444	0	0	0	0	5.4	0.0	90.2
30-39	222	444	0	0	0	0	11.4	0.0	118.6
40-49	222	444	0	0	0	0	11.7	0.0	131.4
50-54	222	444	0	0	0	0	7.3	0.0	59.2
55-59	222	444	0	0	0	0	10.6	0.0	62.5
60-64	222	444	0	0	0	0	12.6	0.0	55.9
65-69	222	444	850	525	1,175	675	14.7	98.2	47.1
70-74	222	444	1,250	1,075	1,950	1,500	17.4	144.2	37.2
75-79	222	444	1,750	1,425	2,750	2,125	16.1	133.5	24.5
80-84	222	444	2,375	1,925	3,750	2,925	14.0	115.3	15.6
85+	222	444	2,975	2,375	4,875	3,700	12.5	94.8	10.2
2015 Scheme Surplus									10.0
Total							143.4	586.0	729.4

Table B2.6

	Aviva Health	GloHealth	Laya Healthcare	VHI Healthcare	Total
Age Related Health Credits					586.0
Hospital Bed Utilisation Credit					143.4
Stamp Duty					-719.4
Total					10.0

The projected net financial impact of renewals from 1 April 2017 – 31 March 2018 is a net benefit of [REDACTED]

[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 2016 (adjusted to allow for the impact of LCR) would continue through to 1 April 2018. If this assumption was borne out, the memberships at that date would be [REDACTED]

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

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

Chart B2.1

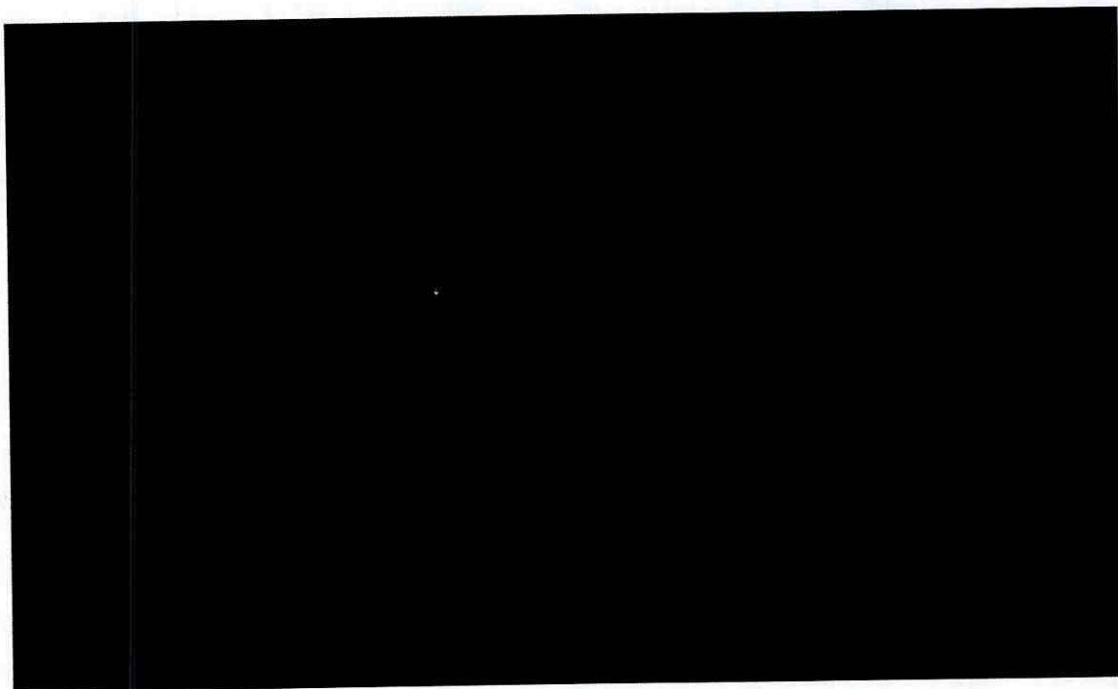


Chart B2.2

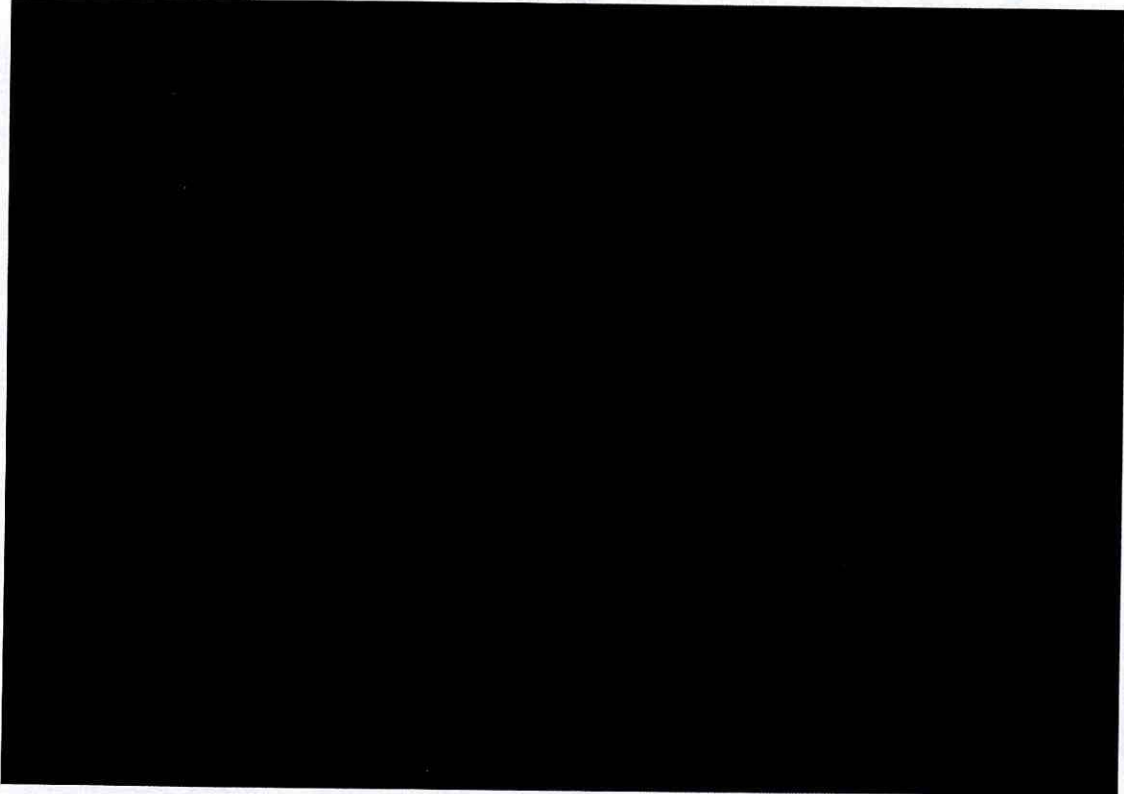


Chart B2.3

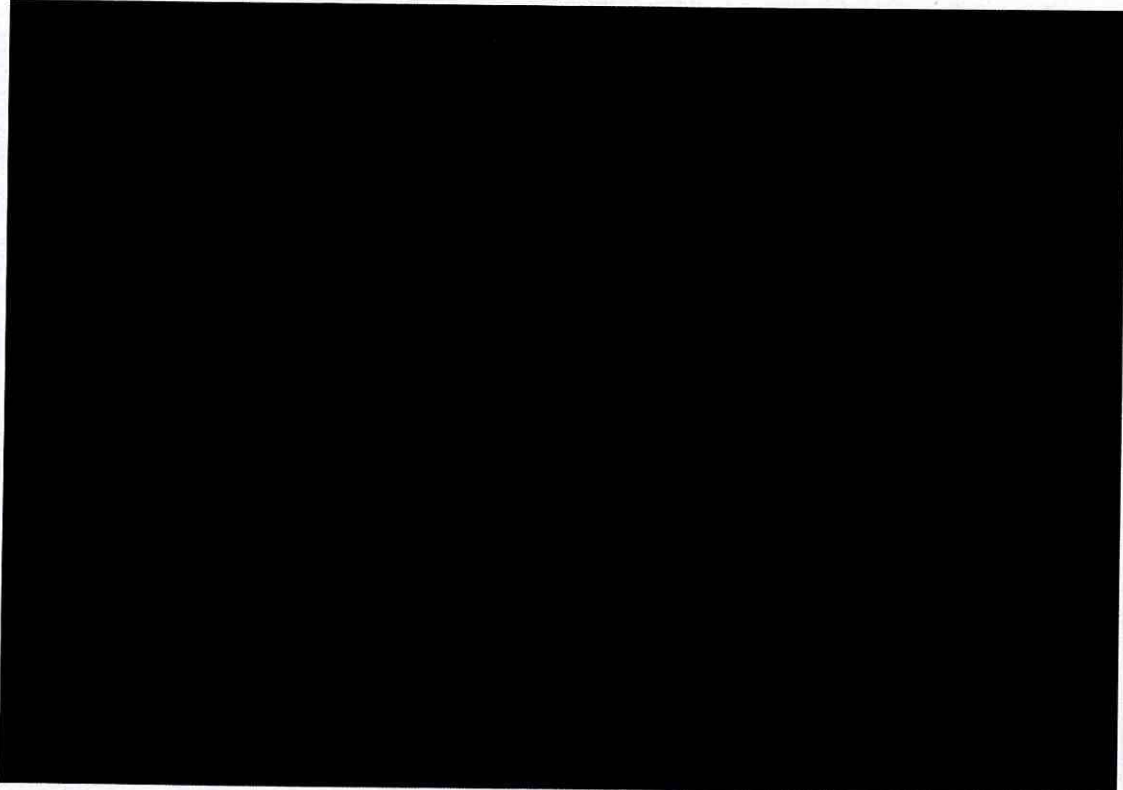
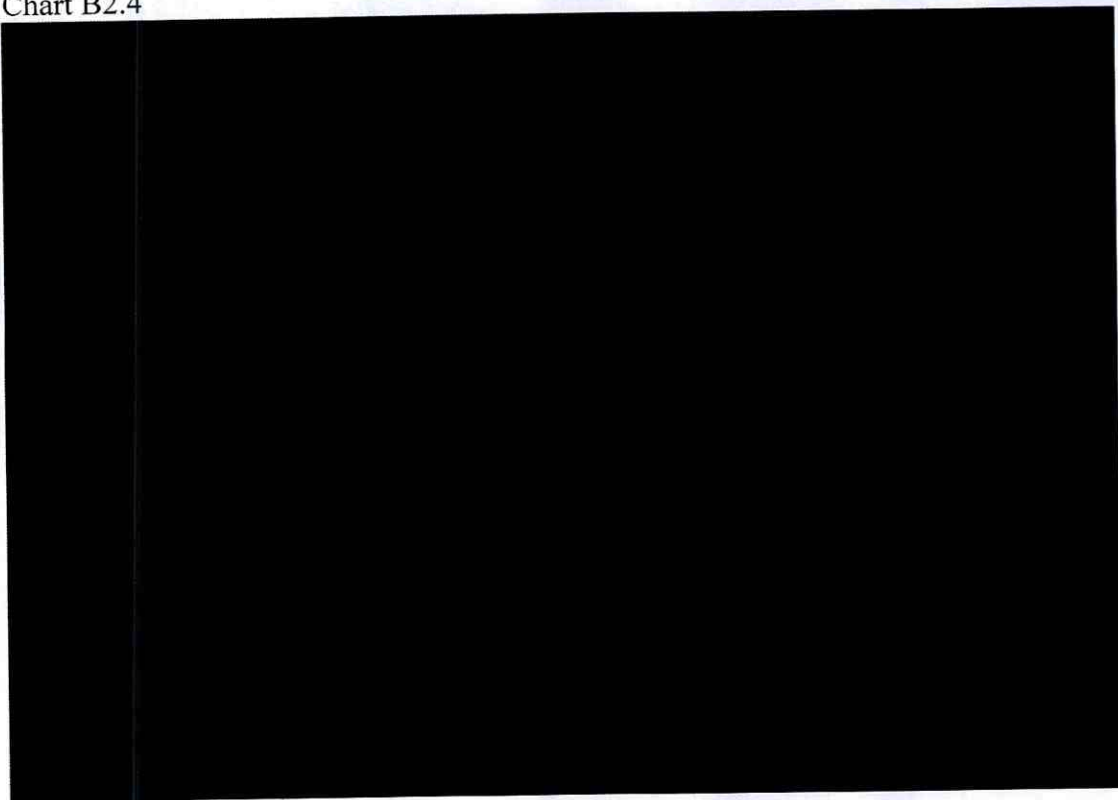


Chart B2.4



Alternative 1

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

The total risk equalisation credits are financed by a stamp duty which varies by product level. The stamp duty for non-advanced contracts is set at 50% of the stamp duty relating to advanced contracts. The risk equalisation fund is projected to have a surplus of €10m when the contracts written prior to 1 April 2016 have fully earned credits and stamp duty.

The age credits calculations are based on the actual claims costs for July 2015 – June 2016 time period.

Table B2.9

Age	Stamp duty per person (€)		Credit per person (€)				Total Bed Utilisation Credits	Total Credits (€million)	Total Stamp Duty (€million)
	Non Advd	Advd	Non-advanced		Advanced				
			Men	Women	Men	Women			
0-17	76	152	0	0	0	0	11.2	0.0	68.7
18-29	228	455	0	0	0	0	6.4	0.0	92.3
30-39	228	455	0	0	0	0	13.4	0.0	121.5
40-49	228	455	0	0	0	0	14.3	0.0	134.5
50-54	228	455	0	0	0	0	9.0	0.0	60.6
55-59	228	455	0	0	0	0	13.0	0.0	64.0
60-64	228	455	0	0	0	0	15.2	0.0	57.3
65-69	228	455	829	524	1,149	664	17.8	96.3	48.3
70-74	228	455	1,223	1,064	1,931	1,470	20.7	142.1	38.1
75-79	228	455	1,725	1,398	2,702	2,090	18.8	131.2	25.1
80-84	228	455	2,344	1,891	3,701	2,869	16.1	113.5	15.9
85+	228	455	2,911	2,333	4,815	3,642	14.2	93.4	10.5
2015 Scheme Surplus									10.0
Total							170.2	576.5	746.7

Table B2.10

	Aviva Health	GloHealth	Laya Healthcare	VHI Healthcare	Total
Age Related Health Credits	■	■	■	■	576.5
Hospital Bed Utilisation Credit	■	■	■	■	170.2
Stamp Duty	■	■	■	■	-736.7
Total	■	■	■	■	10.0

The projected net financial impact of renewals from 1 April 2017 – 31 March 2018 is

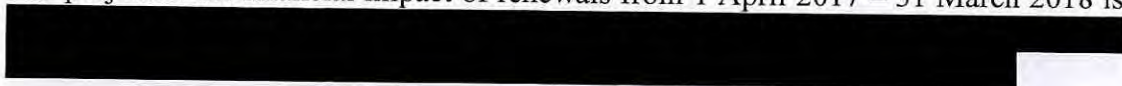


Chart B2.9

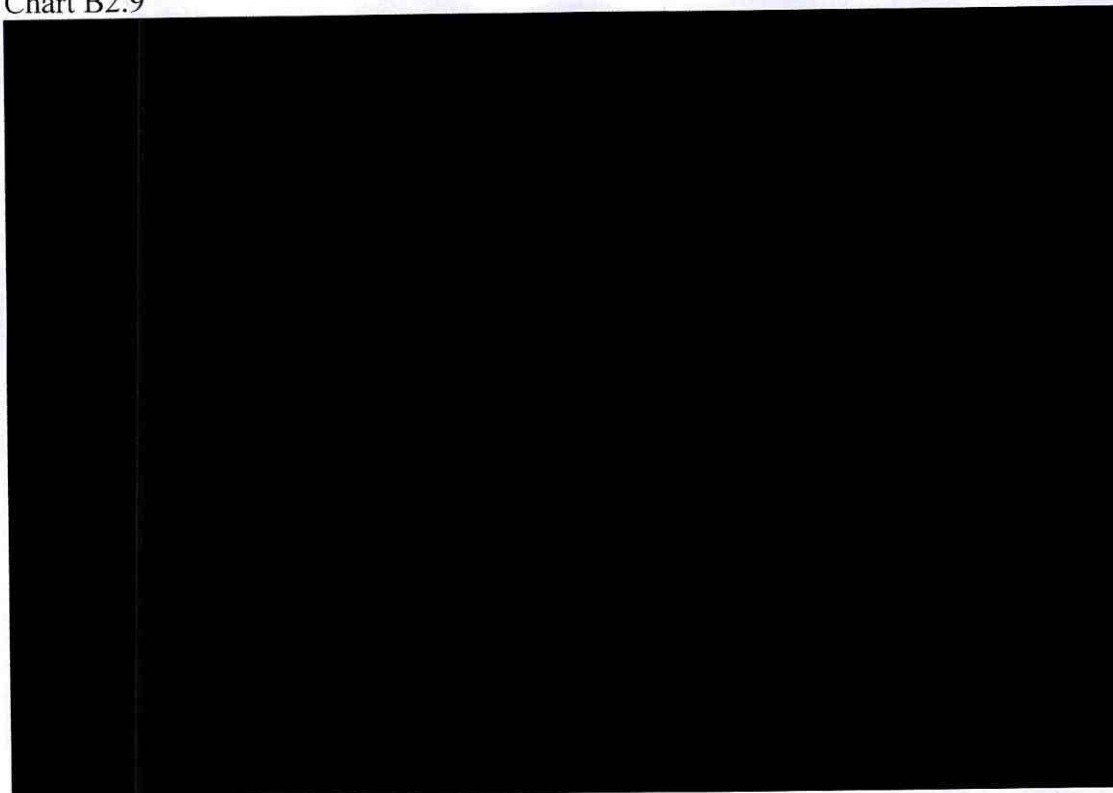


Chart B2.10

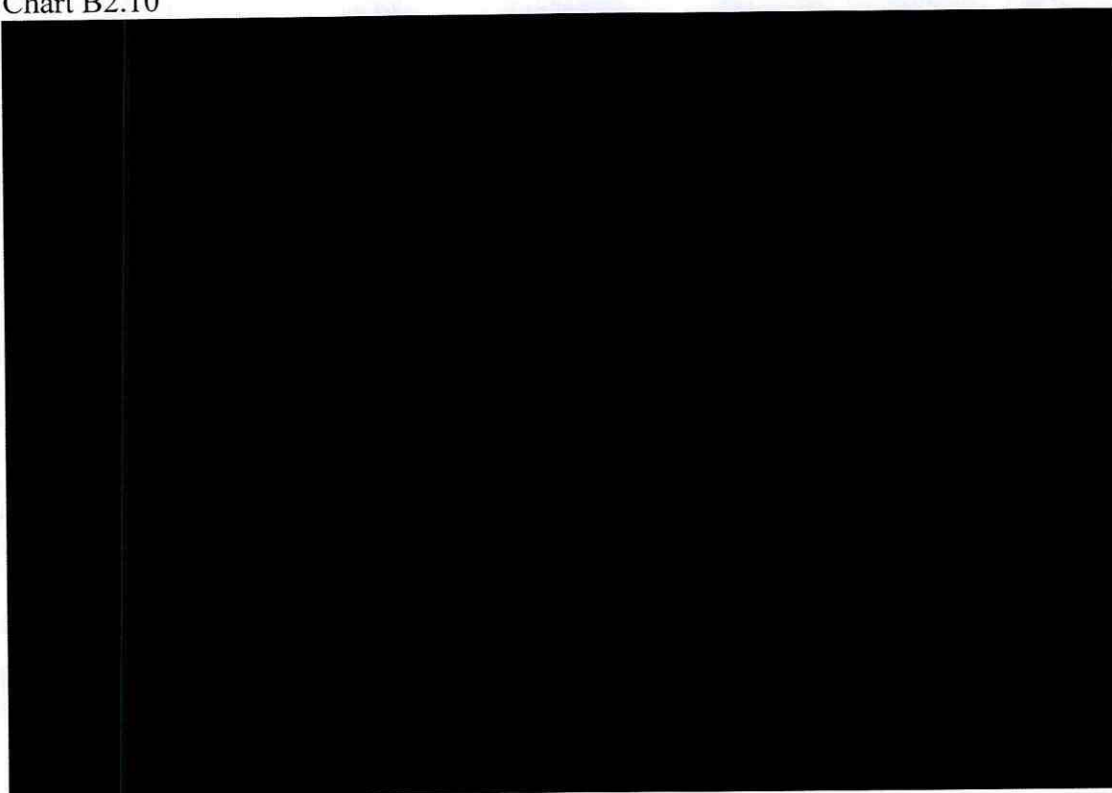


Chart B2.11

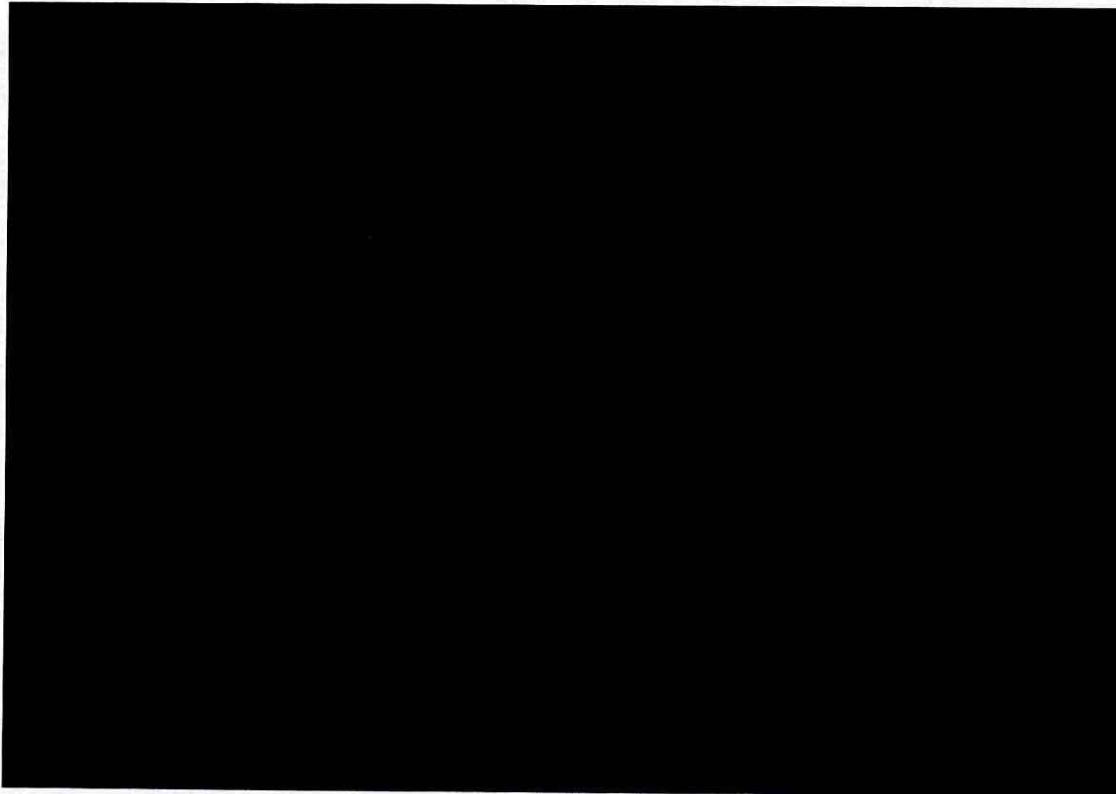
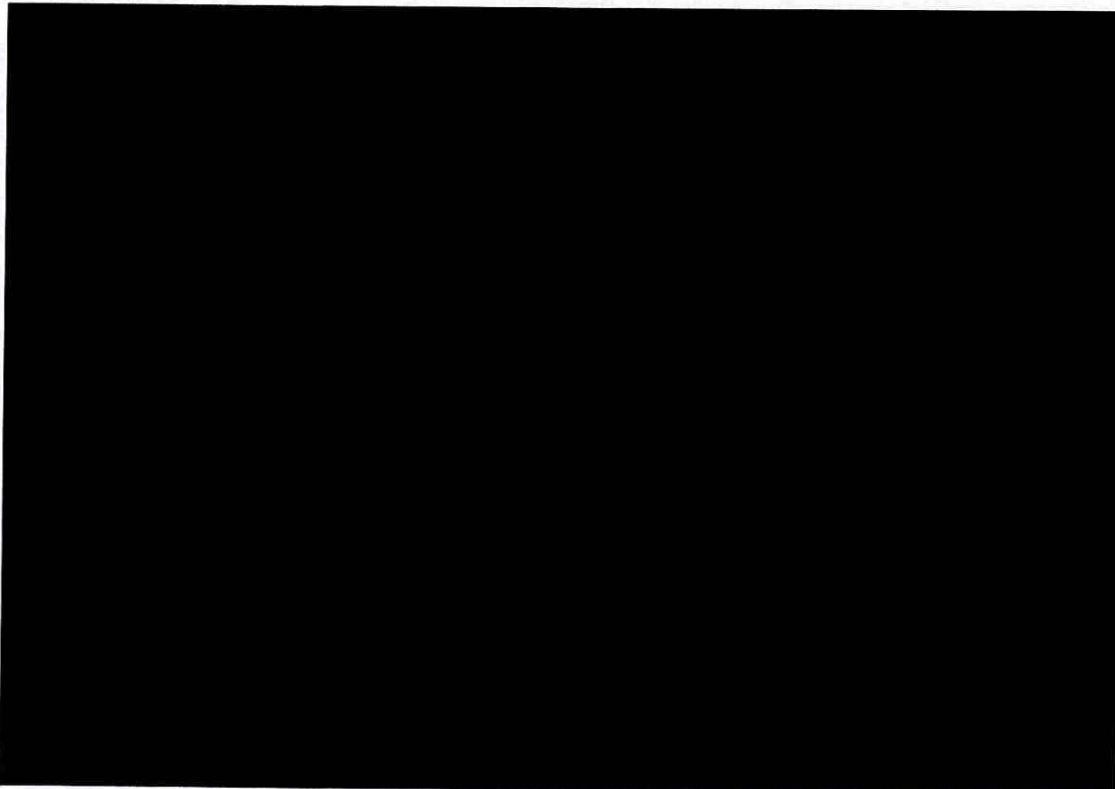


Chart B2.12



Alternative 2

This option calculates credits from by gender, product level and age such that for each age group over 65, the net cost should not be more than 135% of the average net cost across all groups. A hospital utilisation credit of €90 is applied for overnight inpatient stays and €30 is applied for day stays. Claims inflation is assumed to be 4% per annum.

The total risk equalisation credits are financed by a stamp duty which varies by product level. The stamp duty for non-advanced contracts is set at 50% of the stamp duty relating to advanced contracts. The risk equalisation fund is projected to have a surplus of €10m when the contracts written prior to 1 April 2016 have fully earned credits and stamp duty.

The age credits calculations are based on the actual claims costs for July 2015 – June 2016 time period.

Table B2.11

Table B2.11									
Age	Stamp duty per person (€)		Credit per person (€)				Total Bed Utilisation Credits	Total Credits (€million)	Total Stamp Duty (€million)
			Non-advanced		Advanced				
	Non Advd	Advd	Men	Women	Men	Women			
0-17	72	143	0	0	0	0	9.7	0.0	64.8
18-29	215	429	0	0	0	0	5.4	0.0	87.1
30-39	215	429	0	0	0	0	11.4	0.0	114.6
40-49	215	429	0	0	0	0	11.7	0.0	126.9
50-54	215	429	0	0	0	0	7.3	0.0	57.2
55-59	215	429	0	0	0	0	10.6	0.0	60.4
60-64	215	429	0	0	0	0	12.6	0.0	54.0
65-69	215	429	799	494	1,089	600	14.7	89.7	45.5
70-74	215	429	1,210	1,035	1,880	1,416	17.4	137.7	35.9
75-79	215	429	1,717	1,380	2,661	2,043	16.1	128.8	23.7
80-84	215	429	2,342	1,881	3,672	2,834	14.0	112.3	15.0
85+	215	429	2,934	2,332	4,805	3,616	12.5	93.0	9.9
2015 Scheme Surplus									10.0
Total							143.4	561.5	705.0

Table B2.12

	Aviva Health	GloHealth	Laya Healthcare	VHI Healthcare	Total
Age Related Health Credits	■	■	■	■	561.5
Hospital Bed Utilisation Credit	■	■	■	■	143.4
Stamp Duty	■	■	■	■	-695.0
Total	■	■	■	■	10.0

The projected net financial impact of renewals from 1 April 2017 – 31 March 2018

Chart B2.13

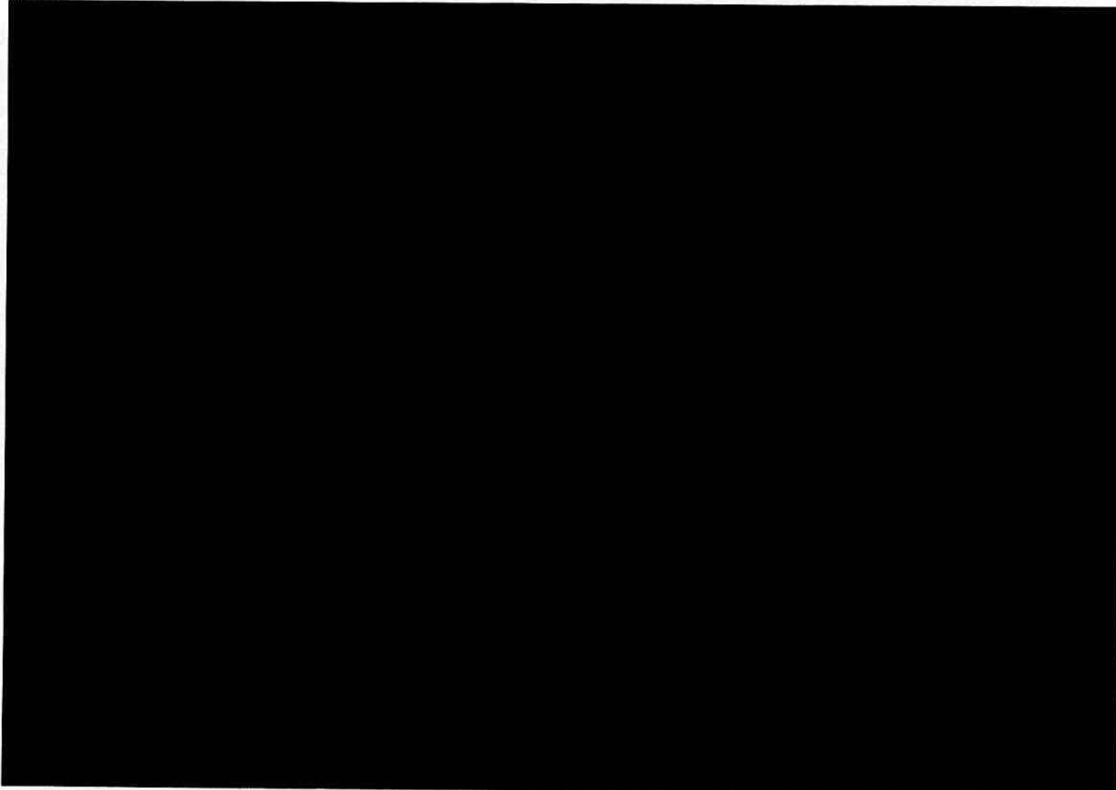


Chart B2.14

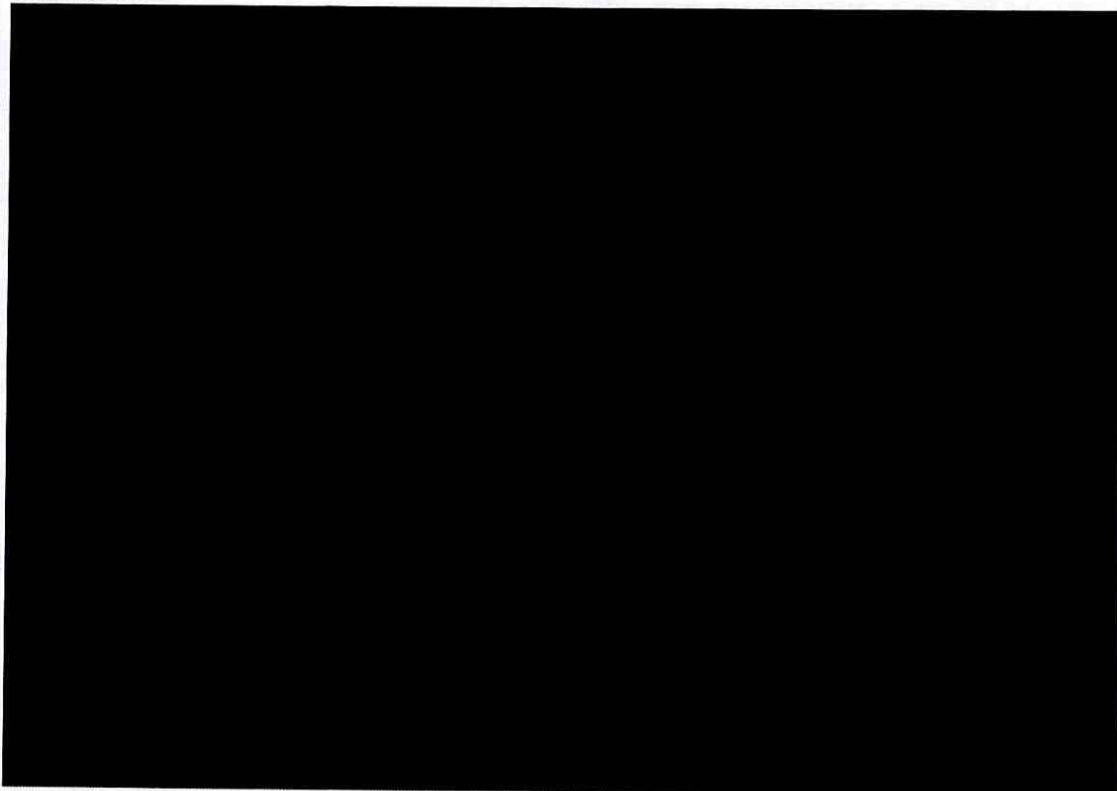


Chart B2.15

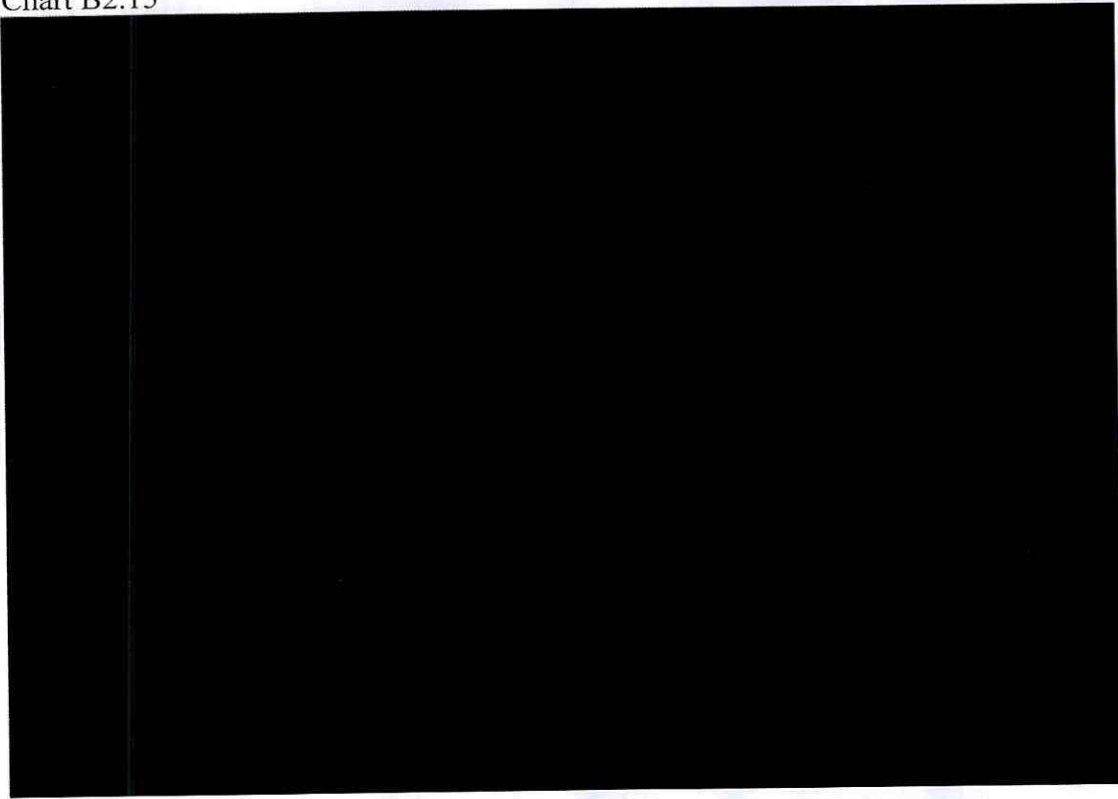


Chart B2.16

