

2016

Annual Report & Accounts



An tÚdarás Árachas Sláinte
The Health Insurance Authority

The Health Insurance Authority

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Contents

1	Chairperson's Statement	2
2	Membership and Management of the Authority	4
	Membership	4
	How the Authority Operates	6
	Management	7
3	Functions of the Authority	9
3.1	Regulation	11
3.1.1	Regulatory Structure of the Market	11
3.1.2	Regulatory Developments in 2016	11
3.1.3	Irish Risk Equalisation Scheme	12
3.1.4	The Risk Equalisation Fund	14
3.1.5	The Register of Health Benefits Undertakings	14
3.1.6	The Register of Health Insurance Contracts	14
3.2	Research and Advice	16
3.2.1	Monitoring the Health Insurance Market	16
3.2.2	Commissioned Research on the Health Insurance Market	18
3.2.3	Other commissioned research	19
3.2.4	Advice	19
3.3	Consumer Interest	20
3.3.1	Consumer Queries and Complaints	20
3.3.2	Website	21
4	Corporate Affairs	22
4.1	Strategy	22
4.2	Corporate Governance	23
4.3	Resources	27
5	Report and Accounts 2016	28
5.1	The Health Insurance Authority Report and Financial Statements for the year 1 January 2016 to 31 December 2016	28
5.2	The Risk Equalisation Fund Report and Financial Statements for the year 1 January 2016 to 31 December 2016	47
6	Appendices	60
	Appendix A - Statistics Relating to the Private Health Insurance Market in Ireland 2016	60
	Appendix B - Claim Variation by age	62
	Appendix C - Age Structure of Market	63
	Appendix D - The Register of Health Benefits Undertakings as at 31 December 2016	64
	Appendix E - Attendance at Authority Meetings for 2016	65
	Attendance at Audit Committee Meetings for 2016	65
	Appendix F - Risk Equalisation Rates	66
	Appendix G - Lifetime Community Rating Statistics	69

Chairperson's Statement

In accordance with Section 33(2) of the Health Insurance Act, 1994, I am pleased to present the Annual Report and Accounts of the Health Insurance Authority ("the Authority") for the year ending 31 December 2016.

The Authority fulfils a number of functions in relation to the private health insurance market in Ireland, whose regulatory system is based on the key principles of community rating, open enrolment, lifetime cover and minimum benefits. During 2016, improvements in the wider economy resulted in a further increase in the numbers insured to 2.15m (46% of the population) at 31 December, an increase of 30,000 compared with the prior year. In the last 2 years, growth in employment, reduction in net emigration, the introduction of young adult rates and lifetime community rating have all helped to reverse the previous trend of declining numbers experienced since the market peaked at 2.30m in December 2008.

The Authority recognises that the market can be difficult for consumers to navigate due to the number of product variants available and the rate at which products or their prices are updated. As an indicator of activity levels, the Authority reviewed over 1,150 samples of new or revised contracts during the year, while the number of products available increased from 360 to 373.

The Authority's comparison tool, www.hia.ie/ci/health-insurance-comparison is of fundamental importance in enabling consumers to compare all the available products in the market, tailoring the search to meet their requirements. This forms part of the Authority's consumer information function, with whom consumers can also raise queries directly, for example, in relation to concerns about switching insurers, waiting periods or lifetime community rating. The Authority also provides information through other channels such as the media, the distribution of consumer information booklets, and material accompanying renewal statements issued by insurers.

From November 2016, through to early January 2017, the Authority conducted an advertising campaign across radio, tv, digital and other media. The campaign was designed to highlight to consumers the importance of reviewing their plan before they renew and to increase awareness of the facility to compare plans. Over the course of the campaign, the Authority's website experienced a significant increase in traffic.

The Minimum Benefits Regulations are intended to provide an underpin to the market in that they specify the minimum benefit level that each product must provide. These minimum benefit levels have remained unaltered since the market was first opened to competition 20 years ago. The Authority believes that a review of the Regulations could reduce the range of techniques through which insurers seek to segment consumers and differentiate product prices by life stage. This segmentation can undermine the principle of community rating for the market as a whole, albeit insurers must apply a single premium rate for each product, regardless of the age, gender or health status of the insured.

The Authority is responsible for the administration and maintenance of the Risk Equalisation Scheme, an essential support to community rating, and the 2016 accounts of the Risk Equalisation Fund set up under the Scheme are included in this Report. The Fund is managed on the basis that income and outgo will be in balance over time, with any projected surplus or deficit being taken into account in the Authority's annual review and recommendations to the Minister.

The Authority is currently in discussions with the Department of Health and the insurance industry with a view to including new measures of health status (Diagnosis Related Groups) within the Risk Equalisation Scheme transfer calculations. This will take time and money to implement, given that the required data is not currently recorded consistently across all hospitals. It is likely to place an additional data gathering and reporting burden on insurers and will add to the complexity of the Scheme generally. While the objective is to better equalise risk in relation to the higher costs of insuring less healthy consumers, it will be important to ensure that the costs of introducing these new measures are not excessive relative to the benefits.

I am pleased to recognise the work and dedication of the Members of the Authority during 2016. I would also like to thank the Minister for Health, Mr Simon Harris TD, and his predecessor, Dr Leo Varadkar TD, as well as officials in the Department of Health, for their support during the year.

Finally, the Authority expresses its appreciation of the work done by the staff of the Authority and the commitment shown by them throughout 2016.



Sheelagh Malin

Chairperson

30 June 2017



2

Membership and Management of the Authority

Membership

The Members of the Authority are appointed by the Minister for Health (“the Minister”) for terms of up to five years. The Members of the Authority are:



Ms. Sheelagh Malin (Chairperson) – Appointed 6 May, 2010, Re-appointed 1 February, 2016

Ms. Malin is a Fellow of the Society of Actuaries in Ireland. She has over 25 years management experience in the life assurance industry, including Managing Director, Finance Director, Compliance Officer, product development and marketing roles. She serves as an Independent Non-Executive Director on a number of insurance company boards.



Mr. Ian Britchfield – Appointed 20 June, 2016

Mr. Britchfield has 24 years’ experience in the insurance and reinsurance industries. He is a Fellow of the Institute of Chartered Accountants in Ireland and a member of the Institute of Directors. He acts as an Independent Non-Executive Director for a number of companies in the insurance/reinsurance sector. Previously he spent more than ten years with Renaissance Reinsurance where he was Managing Director of their Irish operations and prior to that served as Finance Director with Aon Insurance Managers. He spent the first seven years of his career with PricewaterhouseCoopers in Ireland and Bermuda.



Mr. Sean Coyle – Appointed 1 February, 2016

Mr. Coyle is Finance Director & Divisional Managing Director, Aquilant at UDG Healthcare plc.. Prior to joining UDG Healthcare plc he held a number of senior finance and commercial roles in Aer Lingus plc and Ryanair Holdings plc where he was CFO and Director of Scheduled Revenue respectively. He is a Fellow of the Institute of Chartered Accountants in Ireland and trained with KPMG. He has represented Ireland on the European Healthcare Distributors Association and is familiar with various healthcare models across Europe.



Dr. Fiona Kiernan – Appointed 1 February, 2016

Dr. Fiona Kiernan is a Consultant in Anaesthesia and Intensive Care Medicine in Beaumont Hospital, and a Fellow of the College of Anaesthetists of Ireland. Along with her medical degree, she also holds a Masters in Health Economics, Policy and Management from the London School of Economics and Political Science, and is studying for a doctorate in Economics with the Department of Economics in University College Dublin. She has lectured on topics of resource allocation and health economics within the College of Anaesthetists, and has presented internationally on healthcare utilization and access to healthcare. Her current areas of research involve the income-health relationship in Ireland, and health system performance measurement in Irish hospitals.



Mr. James A. McNamara – Appointed 1 February, 2016

Mr. McNamara has been Chief Executive Officer of Cork University Hospital Group since 1992 and has been a member of various national advisory and consultancy bodies for the Department of Health and Children including the National Cardiovascular Strategy Group (1998) and Comhairle na nOspideal (2004). In 2004 he was appointed to the Change Management Team for the Health Service Executive to plan the transformation of the Irish healthcare system and in this role he managed the national Hospitals Office team. He served for six years as a member of the board of the Irish Blood Transfusion Board and chaired the Finance Committee of this Board for a number of years. He was a member of the board of the Road Safety Authority from 2005 to 2010 and also chaired the audit committee. He has completed an MSc in Management Practice with Trinity College and the Irish Management Institute and is currently studying for his doctorate in Business Administration at Henley Management College & Reading University in London.

Mr. Jim Joyce (Chairman) – Term of Office completed 31 January, 2016

Mr. Dónall Curtin – Term of Office completed 31 January, 2016

Prof. Anthony Staines – Term of Office completed 31 January, 2016

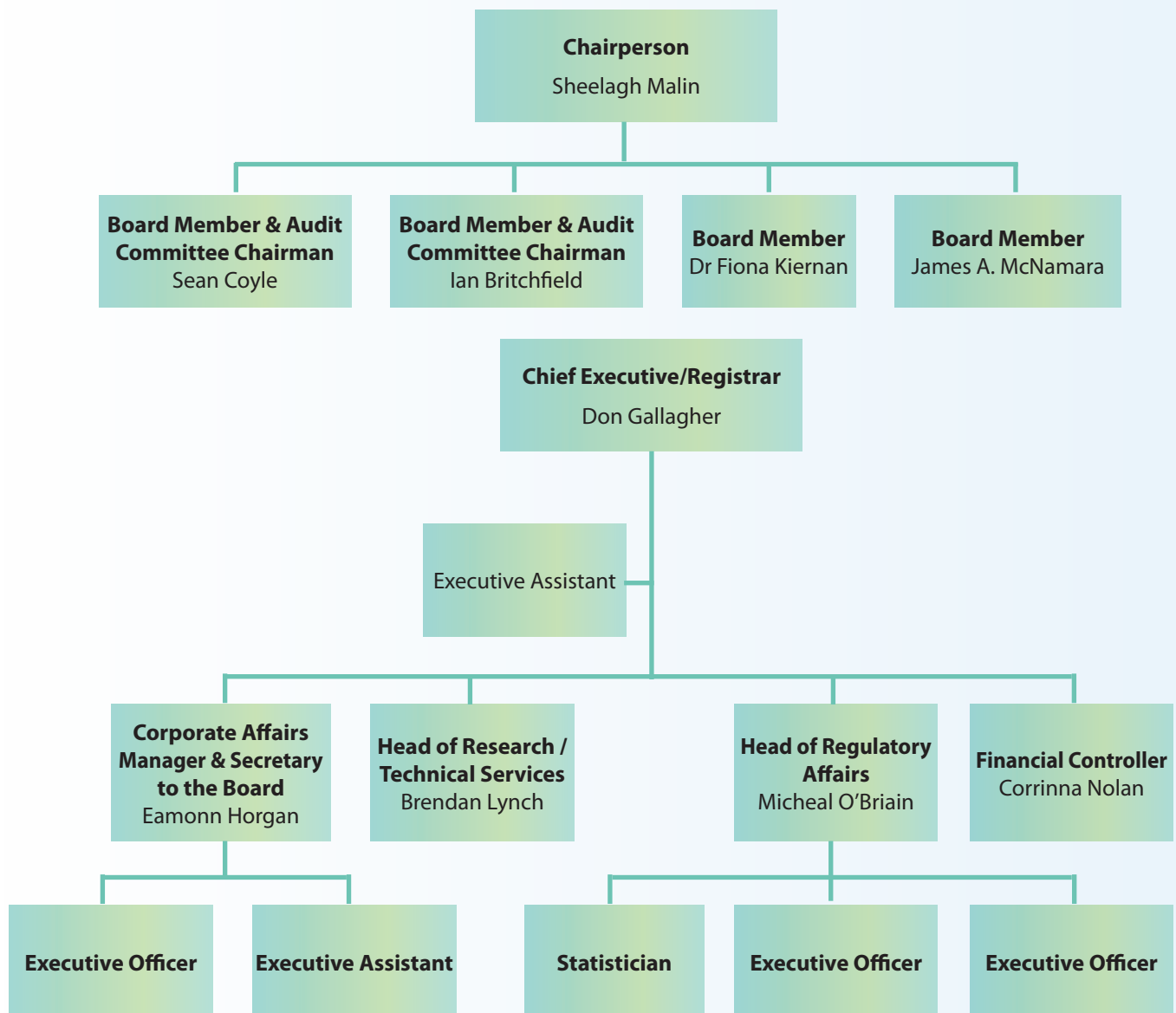
Mr. Paul Turpin – Term of Office completed 31 January, 2016

How the Authority Operates

The Authority was established by Ministerial Order on 1 February 2001, under the Health Insurance Act, 1994 as amended (the "Act"). Schedule 1 of the Act establishes the Authority as a corporate body and the arrangements for appointing the Chairperson and Members of the Authority. The Authority consists of five members appointed by the Minister for Health, one of whom is appointed as chairperson.

The Authority has put in place Rules of Business (Terms of Reference) which set out the arrangements for Authority membership, the calling and conducting of meetings, the role of the Secretary of the Board, and the Authority's duties and reporting responsibilities. The Rules were updated in early 2017 in line with the new Code of Practice for the Governance of State Bodies 2016.

Organisational Structure of the HIA - December 2016



Management

The Management of the Authority are as follows:



Mr. Don Gallagher
Chief Executive/Registrar

Mr. Gallagher holds an MSc in Management from Trinity College, Dublin and is an experienced international Chief Executive who has managed and served on the Board of national and international insurance and wealth management companies. Most recently Mr. Gallagher was CEO and Executive Director of the European subsidiary of a leading global life insurer. Previously Mr. Gallagher had been Senior Vice President and Managing Director with a major Canadian life insurer both in Ireland and Canada. Mr Gallagher was appointed to the Financial Services Ombudsman Council in January 2017.



Mr. Eamonn Horgan
Corporate Affairs Manager/Secretary to the Authority

Mr. Horgan holds a Master of Science degree, and post graduate qualifications in business and finance and in corporate governance. He held operations and production management positions in private industry before joining the Authority as Corporate Affairs Manager.



Mr. Brendan Lynch
Head of Research/Technical Services

Mr. Lynch is an economist and also a qualified solicitor. He has a Masters degree in Economics and a Diploma in European Law. He has worked as an economic consultant, stockbroker economist and as an economic adviser to the Minister for Finance.



Ms. Corrinna Nolan
Financial Controller

Ms. Nolan holds a BA in Accounting and Human Resources and is a member of both Chartered Accountants Ireland and the Insurance Institute of Ireland. Prior to joining the Authority Ms. Nolan worked within the Insurance Supervision Division of the Central Bank of Ireland, and held previous roles in financial services audit.



Mr. Micheal O'Briain
Head of Regulatory Affairs

Mr. O'Briain is a Fellow of the Society of Actuaries in Ireland. He has over 30 years' management experience in the life assurance industry. He was Executive Director and Appointed Actuary of an Irish life assurance company prior to joining the Authority.



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3

Functions of the Authority

The Authority was established by Ministerial Order on 1 February, 2001 under the Health Insurance Act, 1994 and operates in accordance with the provisions of this Act and the Health Insurance (Amendment) Acts (collectively “the Health Insurance Acts”).¹

The Health Insurance Acts provide for the regulation of the business of private health insurance in Ireland following the enactment of the European Union “Third Non-Life Insurance Directive”. This Directive sets out the requirements of the internal market for Member States regarding non-life insurance, including health insurance. This European legislation allows individual Member States to adopt the specific requirements in a manner most appropriate to their particular national legal system and national healthcare system.

The Principal Objective of the Health Insurance Acts is set out in legislation as follows:

“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, and taking into particular account for the purposes of that objective:

- a) the fact that the health needs of consumers of health services increase as they become less healthy, including as they approach and enter old age,
- b) the desirability of ensuring, in the interests of societal and intergenerational solidarity, and regardless of the health risk status or age of, or frequency of provision of health services to, any particular generation (or part thereof), that the burden of the costs of health services be shared by insured persons by providing for a cost subsidy between the more healthy and the less healthy, including between the young and the old, and, without prejudice to the generality of that objective, in particular that the less healthy, including the old, have access to health insurance cover by means of risk equalisation credits,
- c) the manner in which the health insurance market operates in respect of health insurance contracts, both in relation to individual registered undertakings and across the market, and
- d) the importance of discouraging registered undertakings (health insurers) from engaging in practices, or offering health insurance contracts, whether by segmentation of the health insurance market (by whatever means) or otherwise, which have as their object or effect the favouring of the coverage by the undertakings of the health insurance risk of the more healthy, including the young, over the coverage of the health insurance risk of the less healthy, including the old.”

Community rating means measures which, whether in whole or in part, apply towards the achievement of the principal objective.

The principal functions of the Authority are as follows:

- To monitor the health insurance market and to advise the Minister (either at his or her request or on its own initiative) on matters relating to health insurance;
- To monitor the operation of the Health Insurance Acts and, where appropriate, to issue enforcement notices to enforce compliance with the Acts;

¹ The Health Insurance Act, 1994 (Establishment Day) Order, 2001 (S.I. No. 40 of 2001).

- To carry out certain functions in relation to health insurance stamp duty and risk equalisation credits and in relation to the risk equalisation scheme;
- To take such action as it considers appropriate to increase the awareness of members of the public of their rights as consumers of health insurance and of health insurance services available to them; and
- To maintain “The Register of Health Benefits Undertakings” (“the Register”) and “The Register of Health Insurance Contracts”.

The Authority shall exercise such powers as are necessary for the performance of its functions. The Minister may assign further responsibilities to the Authority as provided for in the Acts.

3.1 Regulation

3.1.1 Regulatory Structure of the Market

The Irish private health insurance regulatory system is based on the key principles of community rating, open enrolment, lifetime cover and minimum benefit. It aims to ensure that private health insurance does not cost more for those who need it most. The system is unfunded, meaning that there is no fund built up over the lifetime of an insured person to cover their expected claims cost. Instead, the money contributed by insured people is pooled by each insurer and the cost of claims in any given year taken from the pools.

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

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

Under the Minimum Benefit Regulations, all insurance products that provide cover for inpatient hospital treatment must provide a certain minimum level of benefits. It is considered necessary to regulate the minimum level of benefits because of the complex and specialist nature of private health insurance products, which without regulation, could result in consumers being provided with products that do not provide a sufficiently comprehensive level of cover.

Risk equalisation is a process that aims to address differences in insurers' claim costs that arise due to variations in the health status of their members. Risk equalisation involves payments to or from insurers related to the risk profile of their membership. Risk equalisation is a common mechanism in countries with community rated health insurance.

3.1.2 Regulatory Developments in 2016

The Health Insurance (Amendment) Act 2016 was enacted in December 2016. It specified the circumstances in which a registered undertaking may terminate or refuse to renew a health insurance contract. It amended, from 1 April 2017, the risk equalisation credits and levy that apply under the risk equalisation scheme. It also made a number of other technical amendments to the 2016 – 2020 Risk Equalisation Scheme.

Insurers selling health insurance contracts to persons "ordinarily resident in the State" are required to be registered with the HIA and to comply with the provisions of the Health Insurance Acts. The HIA has determined that "ordinarily resident" in the State in respect of non-European Economic Area students means attending a course of study of more than one academic year's duration. The Authority wrote to a number of insurers in 2016 who were then selling (or considering selling) such contracts informing them of this determination. ACE European Group Limited did not accept this determination and the Authority consequently served an Enforcement Notice on it in March 2017.

Lifetime community rating was introduced into the Irish private health insurance market on 1 May 2015. The Minister for Health requested that a review of Lifetime Community rating be carried out by the Authority in 2017. As a result the Authority released a consultation paper on the topic in January 2017 and requested submissions from stakeholders and interested parties.

Level of Cover

Under the Health Insurance (Amendment) Act 2012, the Authority determines which types of health insurance contracts are Non-Advanced contracts, to which the lower levels of risk equalisation credits and community rating levies apply. The definition of a Non-Advanced contract requires that the contract provides for not more than 66 %

of the full cost for hospital charges in a private hospital or not more than the prescribed minimum payments under the Minimum Benefit Regulations, whichever is greater. If the Authority is satisfied that a type of health insurance contract is Non-Advanced, it specifies this in Regulations and on the Register of Health Insurance Contracts. There were two Regulations promulgated by the Authority during 2016.

On 1 January 2017 there were 41 types of health insurance contracts specified as being Non-Advanced by the Authority. Each of the Open Membership Undertakings (health insurers that must accept all customers who wish to obtain private health insurance (subject to certain limited restrictions as specified in the legislation)) has at least one type of Non-Advanced contract. On 1 January 2017 there were 332 Advanced types of health insurance contracts, compared to 318 on 1 January 2016.

3.1.3 Irish Risk Equalisation Scheme

2016 - 2020 Risk Equalisation Scheme

The 2016-2020 Risk Equalisation Scheme was notified to the European Commission as a State Aid that was compatible with the internal market. It replaced the 2013 – 2015 Risk Equalisation Scheme. In February 2016, following negotiations between Irish and EU officials, the European Commission stated that it was not raising objections to this notified aid Scheme.

The main elements of the Risk Equalisation Scheme are the following:

- Risk equalisation credits are paid from the Risk Equalisation Fund (“REF”) operated by the Authority.
- Risk equalisation credits payable in respect of premiums vary on the basis of age, gender, and level of cover. To protect competition, the credits are set so that the net projected average claims cost for any age group in receipt of age-related credits are expected to not go below 125% of the projected market average net claims cost.
- Risk equalisation credits are also payable in respect of hospital claims. Specifically, a fixed amount is payable from the REF for each overnight and day-case stay an insured person spends in private hospital accommodation or in a publicly funded hospital where a charge is payable under Section 55 of the Health Act 1970 for such a stay. This reduces the cost to the insurer of insuring less healthy individuals.
- The cost of the credits is recouped by the REF through a community rating levy which varies between children and adults and between two levels of cover (Advanced and Non-Advanced).

Community rating levy payments are paid by insurers to the Revenue Commissioners who in turn transfer the money to the REF. Risk equalisation credits are paid out of the REF to the insurers by the Authority. Any surpluses or deficits in the REF are carried forward and allowed for in setting future levy amounts.

The Health Insurance Acts set out the process around setting risk equalisation credits:

- Claims data on the insured population and other data included in returns from insurers, are evaluated and analysed by the Authority every six months.
- Twice a year the Authority issues a report to the Minister on its evaluation and analysis of these returns. The second report includes recommendations on the amounts of the risk equalisation credits and the amounts of the community rating levies. The recommendations have regard to the principal objective of the Health Insurance Acts, the aim of avoiding overcompensation, the aim of maintaining the sustainability of the health insurance market and the aim of having fair and open competition.
- If the Minister proposes to change the risk equalisation credits, he does so by proposing amendments to the Health Insurance Acts, where the amounts of the credits are specified.
- The Minister may, having regard to the Authority’s Report, the principal objective, the aim of avoiding overcompensation, the aim of maintaining the sustainability of the health insurance market and the aim of

having fair and open competition, make recommendations to the Minister for Finance on the amounts of the community rating levies, which are provided for in the Stamp Duties Consolidation Acts.

- The amounts of the risk equalisation credits and the community rating levies become law if enacted by the Oireachtas.

Risk Equalisation Rates Applying in 2016

The rates of the risk equalisation credits and the community rating levy that applied to contracts commencing and renewing in 2016 are set out in Appendix F.

For contracts written before 1 March 2016, the risk equalisation credits were set so that the projected market claim cost (net of risk equalisation) for all age groups from age 60-64 and above would be less than or equal to 130% of the projected market average claim cost. (Without risk equalisation, the projected claim rate for older age groups would be up to 400% of the market average claim rate). The community rating levy was set at the amount projected to fund the credits with the levy for Non-Advanced plans equalling 60% of the rate applying for Advanced plans.

For policies commencing on or after 1 March 2016 the risk equalisation credits were set so that the projected market claims cost (net of risk equalisation) for all age groups from age 65-69 and over would be less than or equal to 130% of the projected market claim cost. The community rating levy was set at the amount projected to fund the credits with the levy for Non-Advanced plans equalling 50% of the rate applying for Advanced plans.

Risk Equalisation Rates applying from 1 April 2017

During 2016, the Authority received information returns for the second half of 2015 and for the first half of 2016 from each of the Open Membership Undertakings. Reports on the evaluations and analyses of these returns, were submitted to the Minister in April and October 2016. The October 2016 Report included the Authority's recommendation on the amounts of the Risk Equalisation Credits and Community Rating Levies for policies commencing from 1 April 2017.

The rates applying from 1 April 2017 were given effect in the Health Insurance (Amendment) Act 2016 and are set out in Appendix F. These credits were set so that the projected market claim cost (net of risk equalisation) for all age groups from ages 65-69 and over would be less than or equal to 130% of the projected market average claim cost. The community rating levy was set at the amount projected to fund the credits with the levy for Non-Advanced plans equalling 50% of the rate applying for Advanced plans.

Overcompensation Assessment

The Authority is also required to assess whether the Risk Equalisation Scheme overcompensates any insurer.

- Once a year, by 1 May, insurers are required to provide the Authority with profit and loss accounts and balance sheets for the previous financial year insofar as they relate to Irish health insurance business;
- The Authority assesses if any insurer has been overcompensated by the risk equalisation scheme, enabling them to earn in excess of a reasonable profit. The assessment as to whether the 2016 – 2020 Risk Equalisation Scheme results in overcompensation is based on whether a net beneficiary's Return on Sales gross of reinsurance and excluding investment activities exceeds 4.4% per annum, calculated on a rolling three year basis. The first such overcompensation test will be carried out in 2019 for the period 2016 – 2018 inclusive;
- If the Authority determines under the Health Insurance Acts that an insurer (which is a net beneficiary of the risk equalisation scheme) has been overcompensated, the Authority shall issue a draft report to the insurer. The Authority will then take account of any submissions received from that insurer before making a final determination on overcompensation; and
- If the Authority determines that overcompensation has occurred, it issues a report to the Minister and the insurer concerned stating the amount of the overcompensation. The insurer must then refund the amount of overcompensation to the REF.

The overcompensation assessment carried out in 2016 was in respect of the time period 1 January 2013 to 31 December 2015. One undertaking, Vhi Healthcare, was a net beneficiary in this time period. The Authority determined that Vhi Healthcare had not been overcompensated.

3.1.4 The Risk Equalisation Fund

The Risk Equalisation Fund (“REF”) was established in 2013 under the Health Insurance (Amendment) Act 2012. Under this Act, the Authority is responsible for administering and maintaining the REF.

The Health Insurance Act 1994 (Risk Equalisation Scheme) Regulations 2013 were introduced in February 2013. These Regulations set out the structures for submitting risk equalisation credit claims and returns by registered undertakings to the Authority and the validation of those claims by the Authority. Interim claims are submitted by the 21st day of the month immediately following the month to which the interim claim relates. Once the Authority is satisfied that the risk equalisation credits claimed are properly due to an undertaking, the Authority arranges payment of the due amount from the REF.

The community rating levy is collected as stamp duty by the Revenue Commissioners from registered undertakings on a quarterly basis. It is due on the 21st day of the second month following the end of each quarter. The quarterly levy amount is then paid by the Revenue Commissioners into the REF’s current account. Funds not immediately required in the REF current account are invested in Exchequer Notes. Exchequer Notes are short term debt instruments issued by the National Treasury Management Agency.

The Authority engages internal audit consultants to carry out an annual review of the Authority’s procedures for administering the REF. Management accounts are prepared and submitted to the Members of the Authority on a monthly basis.

3.1.5 The Register of Health Benefits Undertakings

The Authority is responsible for the maintenance of “The Register of Health Benefits Undertakings” (“the Register”). Section 14 of the Health Insurance Act 1994, provides that any health insurer carrying on health insurance business in Ireland is required to register with and obtain a certificate from the Authority.

Application for renewal of registration is required on an annual basis. Upon registration, a certificate is issued to the health insurer, confirming that the insurer may offer private health insurance in accordance with the terms of its rules and within the relevant legislation.

There are two types of health insurance undertaking in Ireland. Open Membership Undertakings are health insurers that must accept all customers who wish to obtain private health insurance (subject to certain limited restrictions as specified in the legislation). Restricted Membership Undertakings are mainly vocational schemes, membership of which is restricted to employees of particular organisations. No new Restricted Membership Undertakings may be established.

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

3.1.6 The Register of Health Insurance Contracts

The Authority is responsible for maintaining the “Register of Health Insurance Contracts”. Section 7AC of the Health Insurance Act 1994 states that the Register shall be in such form and shall contain such particulars relating to any type of health insurance contract on offer in the State as may be specified by the Authority. The contents of the Register are available for inspection on the Authority’s website at: <http://www.hia.ie/consumer-information/register-of-health-insurance-contracts> or at the offices of the Authority.

Product Notification

Registered Undertakings are required to submit samples of each new or revised contract to the Authority not later than 30 days before first offering such a product.

An undertaking will maintain all offers for not less than 60 days on the same terms and conditions and the product has to be for a period of 12 months unless there is good and sufficient reason for a different term.

Insurers submitted more than 1,150 samples of new/revised contracts to the Authority in 2016, a similar level to 2015.

Review of Product Notifications for Compliance

The Authority reviews the details of all product notifications to ensure that they are not contrary to the Health Insurance Acts. Where the Authority has a concern about a contract, it highlights to the insurer the contract features that may be in breach of the legislation and discusses the matter with the insurer. On all such occasions during the year, the insurer addressed the Authority's concerns either by amending the contract or by adequately explaining how the contract complies with legislation.



3.2 Research and Advice

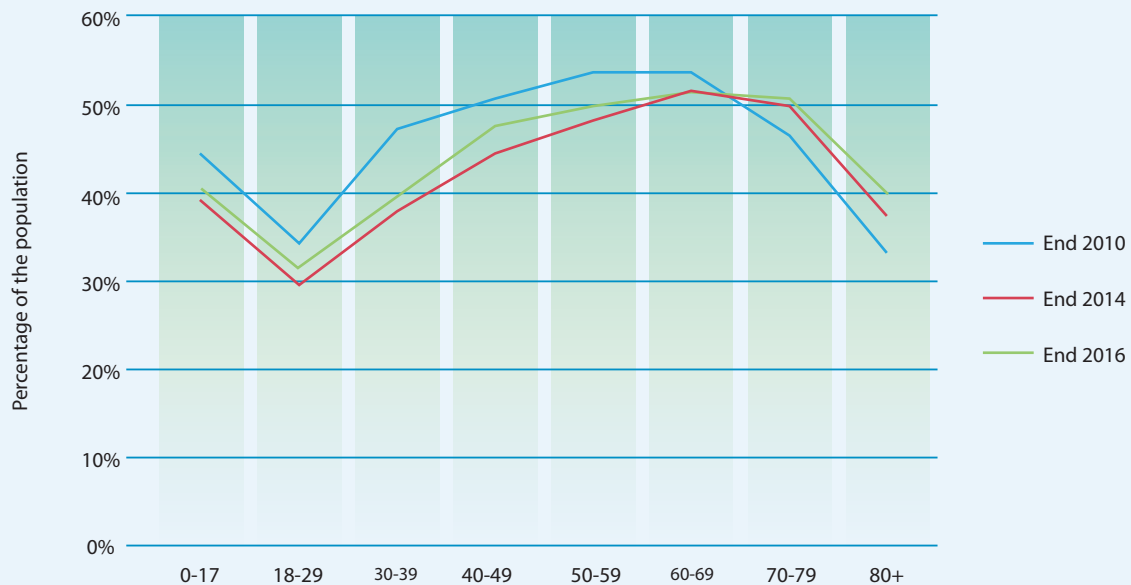
3.2.1 Monitoring the Health Insurance Market

Size of the Market

The health insurance market is the largest non-life insurance market in Ireland. Premium income in 2016 was €2.53bn compared to €2.45bn in 2015. Of the total, €120m was accounted for by Restricted Membership Undertakings. Premiums per person rose marginally by 0.3% in 2016 after falling by 2.2% in 2015 when there was significant switching to cheaper policies.

The number insured at the end of 2016 in the health insurance market was 2.15m (including children), which represented 46% of the population. Numbers insured in December 2016 were 1.4% higher than 12 months previously, with demand rising due to rising employment with the background of a growing economy (See Appendix A, Table 1). Numbers insured ceased falling in the third quarter of 2014 following the deep recession in the 2009 to 2012 period. The peak in numbers insured was 2.30m at the end of 2008 (51% of population).

Market Penetration Rates by Age Group
2010, 2014 and 2016



The average age of the population is increasing and the percentage of the population in the oldest age cohorts is steadily rising, which is leading to an increased demand for healthcare. The proportion of the population with health insurance varies significantly by age and the proportions in the oldest age groups are rising faster than the average. Consequently, the percentage of the insured population aged over 60 has increased by 0.8% per annum since 2009 and was 21.3% at end 2016. Both trends (ageing of the population and faster ageing of the part of the population with health insurance) are expected to continue for the medium term.

During the recession, there was a notable decrease in the numbers insured in the young adult cohorts, especially the 18-29 cohort (310,000 at end 2008 to 203,000 at end 2013 in open enrolment insurers) but also the 30-39 cohort (365,000 at end 2008 to 281,000 at end 2013). This was partly due to a reduction in the young adult population but also because the proportion of young adults with health insurance fell. This trend has reversed in the last two years due to growth in employment and an associated reduction in net emigration of young adults. The introduction of both young adult discounts and lifetime community rating in 2015 has also had an effect.

The gradual ageing of the insured population will probably lead to higher claims per person insured, even if there are no cost increases in healthcare provision. If the numbers of young adults insured had continued to fall, this would have caused a more rapid ageing of the insured population and probably would have led to a significant rising trend of claims per person insured.

At year-end 2016, there were four Open Membership Undertakings operating in the market. However, Irish Life Health and GloHealth were in the process of merging their operations, which took effect in late February 2017. In

December 2016, Vhi Healthcare’s market share was 50%, having been 95% in the mid-1990s before the market was opened to competition. Laya Healthcare had a 26% market share; Irish Life Health had 14% and GloHealth a 6% share. Restricted Membership Undertakings have a combined 4% market share (See Appendix A, Table 3). Market shares vary significantly by the ages of the insured, as set out in Appendix C, although the degree of variation has been reducing in recent years. For instance, at the end of 2016, Vhi Healthcare insured 66% of those aged 70-79 with insurance, compared to 72% at the end of 2014 and 80% at the end of 2011.

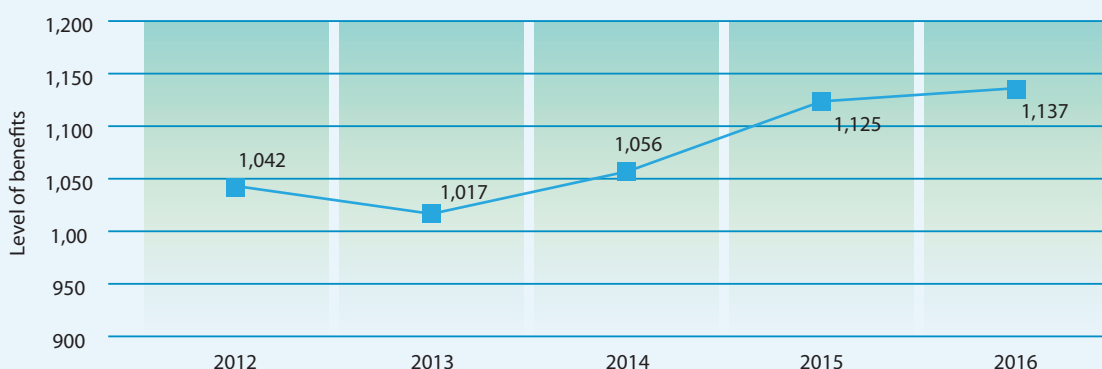
Cost of Health Insurance and Healthcare Claims Costs.

The average amount paid for a health insurance premium for in-patient cover in 2016 was €1,177 (for contracts within the scope of the Risk Equalisation Scheme), compared to €1,173 in 2015 and €1,200 in 2014. Until 2015, there had been a continuous increase in the average health insurance premium since 2001. These figures are based on gross premium levels but child premiums and young adult discounts have a lowering effect on the average figure. The net premiums that consumers are billed for by insurers are reduced by income tax relief, which is 20% of the gross premium up to a maximum of €200 and which the insurers receive directly from the Revenue Commissioners.

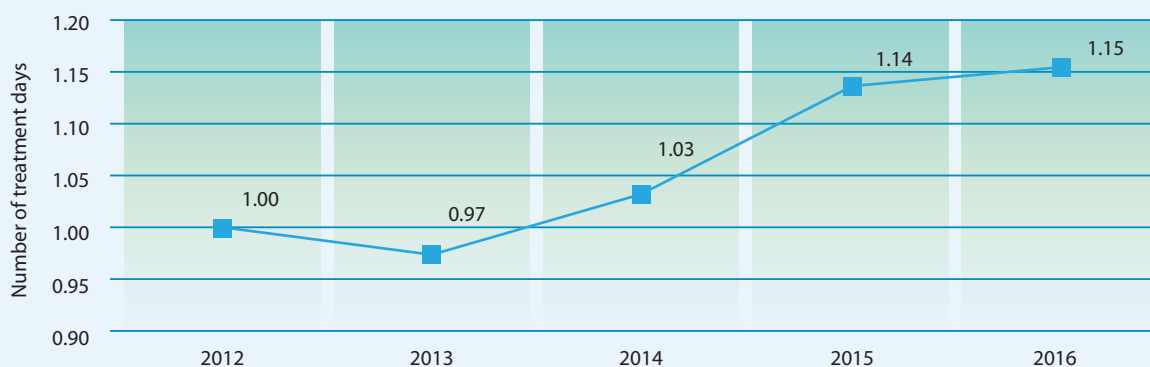
The average of the claims paid per insured person increased by 1% in 2016, following a 6.5% increase in 2015 and a 3% increase in 2014. These increases were probably higher because of the change in rules for charging private patients in public hospitals in January 2014, which is described below. Nevertheless, the rate of increase is still lower than the 12.6% average annual increase between 2008 and 2012. During 2014 and 2015, both overall consumer price inflation and health sector inflation were close to zero. Health sector inflation was 1.2% in 2016. Restraining the growth in insurance claims is critical to the sustainability of the voluntary health insurance market, especially when considered in the context of acknowledged long-term drivers of healthcare costs, viz; lower tolerance of people towards ill-health, new medical and surgical interventions and population ageing.

The following charts show how the rates of claims paid and treatment days per insured person have changed between 2012 and 2016 inclusive. Children are given a weighting of 1/3rd in these calculations to reflect the lower premium paid. (The claims figures are based on a technical definition in the Information Returns Regulations of “returned benefits”.

Market returned benefits per insured person from 2012 to 2016



Market treatment days per insured person from 2012 to 2016



Changes to Charging Rates for Public Hospitals

From the beginning of 2014, new charges for private accommodation in public hospitals applied as set out in the Health (Amendment) Act, 2013. While some charges were lower than before, the biggest change was that anyone that decided to waive their right to be treated publicly (and thus be a private patient) would be liable to a minimum daily charge of €813 for each night in most acute public hospitals, irrespective of the designation of the bed that they occupied (€1000 for a single room and €407 for a daycase). The effect of this change on claims appears to have occurred with a time lag with more of the increasing effect on claims occurring in 2015 and some continuing effect in 2016.

Product Developments

There were 373 health insurance products with in-patient benefits being marketed at the end of 2016, compared to 360 at end of 2015 and 355 at end 2014. The merger of Irish Life Health and GloHealth in late February 2017 will lead to a reduction in the total number of products marketed by the combined insurer. Features of the market include:

- 10% of in force health insurance contracts at end 2016 were subject to the lower Non-Advanced rate of stamp duty, which was the same as at end 2015.
- 7% of the insured population had policies that did not cover all public hospitals at the end of 2016; again the same as at end 2015.
- There is some segmentation in the market. Excluding restricted membership undertakings, VHI insures 52% of the market by lives but 66% of the 70-79 age cohort and 81% of those aged 80 and over. Again excluding restricted membership undertakings, VHI's market share of premium income is 60.3%, compared to 63.7% of claims paid. By contrast, the other insurers have their highest market shares by lives in the younger age groups. (VHI Healthcare receives a significant net benefit from the risk equalisation scheme, whereas the other insurers don't).
- The combined effect of targeted product features and the difference in premiums for different products means that those over the age of 60 pay, on average, premiums that are 34% higher (31% higher in 2015) than the premiums paid by those under the age of 60 for the most popular levels of cover. (Older consumers are likely to have a greater requirement for full orthopaedic cover, which was only available with more expensive policies in three of the four open enrolment insurers at end 2016. On average, older consumers desire a better level of hospital coverage compared to younger consumers).

3.2.2 Commissioned Research on the Health Insurance Market

The Authority commissions consumer research on the health insurance market every two years. Its latest round of opinion research was published in spring 2016. (The survey was done in November 2015.) It can be viewed on the Authority's website at: <http://www.hia.ie/publication/consumer-surveys/2016>. The series of research reports provides valuable information on the health insurance market, including trends over time.

The main reasons cited for having health insurance concern the cost of medical treatment, along with the perceived standard of, and perceived lack of access to, public services. Another reason for having health insurance that was given by 17% of those surveyed is that they were offered insurance in a work-based group scheme.

After falling back in 2013, satisfaction with all aspects of health insurance improved in 2015. 56% of the survey gave a rating of at least eight out of ten to their current health insurer. There was a sharp decrease in the proportion who feel that premium increases are inappropriate.

Nearly one in four in the survey have switched health insurer at some time with a quarter of those having switched more than once. The main reason for switching is cost saving (65%).

Not surprisingly with voluntary insurance, 62% of those with health insurance are in the ABC1 socio-demographic

category compared to 41% of the population generally. 70% of adults with health insurance are married compared to 50% of the adult population.

The survey was conducted face to face with a nationally represented sample of 1,832. Quotas were set around gender, social class and region.

3.2.3 Other commissioned research

As in previous years, the Authority procured a report from its financial and economic consultants on an overcompensation assessment in relation to the risk equalisation scheme as required by the Health Insurance Acts. The new Risk Equalisation Scheme 2016 to 2020 introduces a different methodology and benchmark for carrying out the overcompensation assessment and the first assessment with the new methodology is required in 2019 for the three years 2016 to 2018. No annual assessments are required in 2017 and 2018.

3.2.4 Advice

The Authority regularly advises Department of Health officials on various aspects of health insurance and also meets regularly with Department officials. Key topics for advice are prospective legislative changes related to health insurance, possible changes and future developments to the risk equalisation scheme and developments/data in the health insurance market.



3.3 Consumer Interest

3.3.1 Consumer Queries and Complaints

The Authority's functions include taking "such action as it considers appropriate to increase the awareness of members of the public of their rights as consumers of health insurance and of health insurance services available to them" as well as monitoring and, where necessary, ensuring compliance with the Health Insurance Acts.

Within this remit, the Authority aims to increase consumer awareness of their rights and assist them in understanding health insurance products. The Authority also monitors the provision of information to consumers by insurers as well as monitoring compliance with the Health Insurance Acts.

Consumer Information

The Authority assists consumers by answering queries regarding health insurance and by assisting them in resolving disputes with insurers. In 2016 the volume of queries and complaints received by the Authority was 5,018 contacts (2015: 7083). Topics that were most frequently raised with the Authority were:

- Requests for comparisons between health insurance products;
- Cancellation policies of insurers;
- Rights in relation to switching insurers;
- Lifetime Community Rating;
- General queries regarding health insurance products and waiting periods;
- The cost of private health insurance;
- Service standards of insurers; and
- Requests for the Authority's information publications.

During 2016, the Authority intervened successfully on behalf of consumers in relation to issues arising with respect to their health insurance as well as providing information to consumers allowing them to make significant savings on their health insurance premiums. Two examples of cases addressed by the Authority are set out below.

Case Study 1

A consumer contacted the Authority regarding a Lifetime Community Rating loading applied to his premium. The insurer's customer service agent had incorrectly calculated the loading on his premium. He had attempted to resolve the matter through the insurer's customer service department, but he was not satisfied with their response and the application of a loading.

The Authority contacted the consumer's insurer to query the application of a loading. The insurer acknowledged that a mistake had been made when calculating the consumer's loading. The insurer confirmed that previous periods of cover should be accounted for and no loading should apply.

The insurer undertook to retrain the customer service agent and to clarify Lifetime Community Rating regulations and to contact the consumer to apologise and confirm no loading would apply. The customer was satisfied with the outcome.



Case Study 2

An elderly couple called to the offices of the Authority and advised they were on one of the older plans on the market and had never considered switching before. However, due to the increasing costs of their health insurance plan, they could no longer afford to maintain paying the premiums. Additionally, the couple were nervous about switching and were afraid they would lose cover in the process.

An agent from the Authority reviewed their needs. The agent explained the switching process to the couple and assured them that only higher benefits carry additional waiting periods. Any benefit that is the same or less would be covered straight away, regardless of whether it was an existing or new condition being treated.

The agent offered them some alternatives to their existing plan, which provided more cover at a much lower premium. The couple decided to cancel their existing policy and set up the new policy with the new insurer. The couple saved over €5,000 from making the switch.

3.3.2 Website

The Authority maintains a website, which provides information to consumers in line with the consumer information functions allocated to the Authority in the Health Insurance (Miscellaneous Provisions) Act, 2009.

The website includes a plan comparison facility, which allows consumers to choose the most appropriate plans for their circumstances and compare benefits and prices of plans side by side. This comparison facility provides consumers with access to details of every plan on the market and is the only resource where this information is available.

The website received over 496,000 visitors in 2016, an increase of over 15% on 2015 (428,000). Our Facebook and Twitter pages continued to gain additional followers during this year.

4 Corporate Affairs

4.1 Strategy

During 2015, the Authority developed a Strategic Plan for the three-year period 2016 to 2018 setting out the Mission, Core Values, Vision, Goals and Strategic Objectives. The Authority aims to continue to strengthen its role and services in line with its statutory remit, through the application of forward planning and continuous improvement. The Plan was developed by way of:

- A review of the Strategic Plan of the Authority for the period 2012 – 2014;
- A series of strategy workshops involving the management of the Authority and Authority Members;
- Detailed SWOT analysis (Strengths, Weaknesses, Opportunities, Threats);
- Detailed PEST Analysis (Political, Economical, Social, Technological);
- Identification of key considerations for the Authority; and
- Development of the Strategic Plan.

The Authority completed a review of the Strategic Plan for 2016-2018 towards the end of 2016, and confirmed that the existing Mission, Vision, Core Values and Strategic Goals remain appropriate. Some minor changes to the actions required to support the Authority's objectives have been reflected in the updated document and in the Service Plan for 2017. The Plan is available on the Authority's website at www.hia.ie

The following statements incorporate the core purpose and strategic focus of the HIA for the ensuing three years.

The Vision of the Authority

"To be recognised as an effective independent regulator of, and an authoritative source of information and advice on, the Irish health insurance market."

The Mission of the Authority

The mission of the Authority is:

"To benefit the common good by supporting community rating, open enrolment and lifetime cover in a competitive voluntary health insurance market."

The Values of the Authority

The Authority has adopted the following values to apply in its activities:

- act always with independence, impartiality and integrity;
- work in a professional and effective way;
- be a trusted custodian of assets under its management;
- actively engage with stakeholders and be receptive to new ideas and suggestions from all sources;
- be pro-active and innovative in its approach;
- maintain transparency in all of its activities; and
- value its people.

The Authority acknowledges the importance of and is guided by its Vision, Mission and Values in maintaining high standards and quality provision of service.

4.2 Corporate Governance

Corporate Governance Code of Practice

The Code of Practice for the Governance of The Health Insurance Authority is based on the updated Code of Practice for the Governance of State Bodies issued by the Department of Finance in May 2009. The Department of Public Expenditure and Reform published a revised Code of Practice for the Governance of State Bodies (2016) which came into effect on 1 September 2016. The revised Code's provisions supersede the standards previously issued in October 2001 and May 2009 by the Department of Finance.

With the assistance of the Department of Health, management are currently updating relevant documents, i.e, terms of reference, written charters etc, with a view to being compliant with the new Code in respect of 2017.

Ethics in Public Office

The Authority is included in Statutory Instrument No. 699 of 2004 for the purposes of the Ethics in Public Office Acts, 1995 and 2001. The Members of the Authority and relevant staff have fulfilled their obligations under this legislation.

Protected Disclosure

In accordance with Section 21 of the Protected Disclosures Act, 2014 the Authority has established and maintains procedures for current or former employees to make protected disclosures in relation to the Authority and its work and for dealing with such disclosures. Written information in relation to these procedures has been provided to all employees.

In respect of 2016 no disclosures were made to the Authority under the Protected Disclosures Act 2014.

Annual Report and Accounts

The Annual Accounts for 2016 were prepared and submitted to the Office of the Comptroller and Auditor General ("the C&AG") for audit. These Accounts have been audited and approved by that office and are set out in Section 5 of this Annual Report and Accounts.

Internal Audit

The Authority's Audit Committee met four times in 2016. Membership and attendance at meetings of the Audit Committee throughout 2016 can be found at Appendix E. The Audit Committee agreed a programme of internal audits and during 2016 the Committee directed that a number of audits be conducted on its behalf by BDO, the Authority's appointed internal auditors. The internal auditors conducted separate audits on the internal financial controls for the Health Insurance Authority and the Risk Equalisation Fund. Reports were submitted to the Audit Committee and the Authority. The Audit Committee met with both the internal and external auditors during the year. Action plans were prepared by the Authority's executive to address audit findings and these were monitored by the Audit Committee.

The Audit Committee oversaw the annual financial statements and accounting policy, risk management, internal controls and value for money issues.

Risk Management

The Authority in undertaking its role and functions, is exposed to a variety of strategic, operational and financial risks. These risks may arise from either internal or external sources and may prevent, or seriously affect the ability of the Authority in achieving its objectives.

In line with the “Risk Management Guidance for Government Departments and Offices”, issued by the Department of Finance, March 2004 and the Code of Practice for the Governance of State Bodies, 2009, the HIA has developed a policy document on identifying, evaluating and managing the risks it faces. Effective risk management allows the Authority improve its strategic, operational and financial management.

Risk Management is included within the Terms of Reference of the Audit Committee and the Committee is directly tasked with the oversight of the HIA and REF risk management. Risk management is a standing item on the agendas of both the Authority and Audit Committee. In addition, on an annual basis the Authority reviews the risks identified on the risk register and the management plan for mitigating the identified risks. Risks identified throughout the year will be added to the Risk Register on an on-going basis. High ranking risks (those rated as amber or red), new risks and changing risks on the Risk Register are reviewed a further twice per year by the Authority.

Following the issuing of the new Code of Practice for the Governance of State Bodies, August 2016, the Audit Committee in February 2017 reviewed and updated its Terms of Reference and Charter in compliance with the new Codes requirements and became the Audit and Risk Committee.

The high-ranking risks on the Authority’s risk register at the end of 2016 were as follows:

Table 1 - High Ranking Risks and Mitigating Actions from the Risk Register

Risk Definition	Mitigating Action
Inadequate consumer understanding of health insurance cover leading to a significant negative impact for consumers	<ul style="list-style-type: none"> • Authority’s consumer information function and communication plans • Advise the Minister on market issues and legislative issues • All open insurers to comply with Central Bank of Ireland Consumer Protection Code
Loss of key personnel from the Authority	<ul style="list-style-type: none"> • Maintenance of sufficient financial reserves to ensure ongoing availability of external service providers • Succession/contingency planning within the Authority
Increased risk segmentation between and within insurers leading to an undermining of the ‘principal objective’	<ul style="list-style-type: none"> • Risk Equalisation Scheme • Consumer information function and communication plans • Statutory provisions to comply with Health Insurance Acts • Bi annual reports to the Department of Health on the evaluation and analysis of information returns • Advise on updating Minimum Benefits Regulations • Continue to advise on the updating and improving the risk equalisation system • Monitor difference in average premium for different age groups • All open insurers to comply with Central Bank of Ireland Consumer Protection Code
Risk of major non-compliance with health insurance legislation by a non-registered insurer or related entity	<ul style="list-style-type: none"> • Authority function to monitor the market and the information provided • Enforcement powers for the Authority

Official Languages

The Authority is compliant with the Official Languages legislation and maintains contact with the Department of Arts, Heritage, Regional, Rural and Gaeltacht Affairs in this regard.

During 2016, the Authority began preparing its first Irish Language Scheme under Section 11 of the Official Languages Act 2003. Section 11 provides for the preparation by public bodies of a statutory scheme detailing the services they will provide

- through the medium of Irish;
- through the medium of English; and
- through the medium of Irish and English.

The Scheme has been developed by the Authority having regard to the Guidelines prepared under Section 12 of the Official Languages Act 2003. On approval by the Minister for the Department of Arts, Heritage, Regional, Rural and Gaeltacht Affairs, the Scheme will set out the measures to be adopted to ensure that a range of some services not provided through the medium of Irish will be so provided within the agreed timeframe. The Scheme, on approval, will be available on the Authority's website at www.hia.ie

Freedom of Information and Parliamentary Questions

The Authority continues to meet its obligations in relation to responding to Freedom of Information requests and parliamentary questions. The Authority came within the scope of the Freedom of Information Act with the passage of the Freedom of Information Act 1997 (Prescribed Bodies) Regulations 2006, effective from 31 May 2006. The Authority remains within the scope of Freedom of Information legislation following the enactment of the Freedom of Information Act 2014.

In addition to processing requests made under the Freedom of Information Act 2014 as they are received, the Authority published two booklets, "A Guide to the Functions of and Records Held by the Authority" and "A Guide to the Rules, Procedures, and Practices of the Authority", which together guide applicants through the Freedom of Information process.

The guides are compiled in accordance with the Freedom of Information Acts and are published on the Authority's website. A new Freedom of Information Act 2014 was signed into law on 14 October 2014 and gave effect to significant changes to the operation of Freedom of Information requests. The Authority has updated its policies and procedures in accordance with the new legislation.

In compliance with Section 8 of the Freedom of Information Act 2014, the Authority prepared and published a Publication Scheme having regard to the principles of openness, transparency, and accountability. The Publication Scheme allows for the publication or giving of records in an open and accessible manner on a routine basis outside of Freedom of Information provided that such publication or giving of access is not prohibited by law. The Scheme commits the Authority to making information available as part of its normal business activities in accordance with the Scheme.

The Authority received three Freedom of Information requests during 2016 and provided information in respect of seventeen parliamentary questions.

Communications Strategy

The Authority operates a policy of openness, consultation and discussion with relevant interested parties. The Authority welcomes communication with consumers, stakeholders and other interested parties in the provision of a regulatory service and in the performance of its functions.

The Authority developed a Communication Plan for 2016 to assist the Authority in implementing its Corporate Strategy and to achieve its Corporate Goals and Strategic Objectives with a considered and effective programme of communications activities.

During 2016, the Authority engaged in a number of communications campaigns employing both targeted public relations activities and advertising to inform and deepen the understanding of the public around the community-rating private health insurance market, and changes to the operation of this market.

The primary communications activities comprised of the following:

- Publication of the Authority's Annual Report;
- Publication of the Authority's Quarterly Newsletters;
- Responding to queries from media on a range of matters concerning private health insurance including
- Charges to patients with PHI cover in public hospitals;
- Switching of cover providers;
- Anti-fraud activities in the area of PHI; and
- Policy Renewal Advertising Campaign.

Energy Consumption

The public sector has been set a target by the Government of a 33% energy efficiency savings by 2020, equal to 3,240 GWh. This represents 10% of the energy saving required by 2020 for the entire economy (a national target of 20% saving has been set for the economy as a whole). To achieve the targeted saving the National Energy Efficiency Action Plan (NEEAP) was developed which along with the European Communities (Energy End-Use Efficiency and Energy Services) Regulations 2009 mandated the following obligations and targets;

- All public sector bodies from 1 January 2011 shall include in annual reports, a statement describing the actions it is taking to improve its energy efficiency and an assessment of its progress towards the 33% target;
- Put energy efficiency programmes in place for Government Departments, State Agencies, Local Authorities, the Health Service and all other areas of the public sector;
- Implement energy-efficient procurement practices; and
- All public sector buildings over 1,000m² must have a Display Energy Certificate on show to demonstrate actual energy use and the Building Energy Rating.

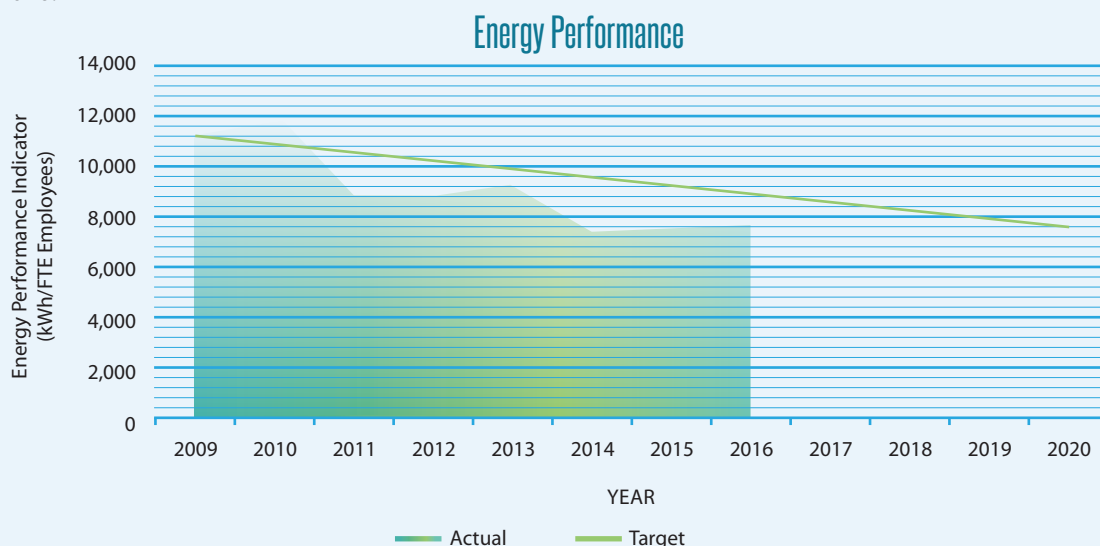
The Authority has one office which is located in Canal House. The offices are situated on one floor of a multi occupancy office building owned by the Construction Workers Pension Scheme Trustees Limited. The floor area leased does not exceed 1,000m² where a Display Energy Certificate is required.

The Authority reports on its energy performance to the Sustainable Energy Authority of Ireland under SI No 542/2009 – European Communities (Energy End Use Efficiency and Energy Services) Regulations 2009. The report on the energy consumption is based on the proportion of Authority staff within the whole building. This approach has been taken as some floors within the building were unoccupied during the reporting period.

In 2016, the Authority consumed 44.9 kWh of energy, consisting of:

- 30.6 kWh of electricity and
- 14.3 kWh of fossil fuels (heating)

The following graph shows the historical energy performance for the Authority starting at the base line year of 2009 up to 2016.



Energy Efficiency Programme Actions Undertaken in 2016

- Heating managed in line with current weather conditions;
- Information Technology and other equipment replaced with more energy efficient equipment when replacements are required;
- The increased use of digital correspondence where practical; and
- The continued promotion of responsible energy usage within the organisation.

Energy Efficiency Programme Actions Planned for 2017

- Procurement of energy efficient multi-functional devices when replacing equipment;
- To continue working with Construction Workers Pension Scheme Trustees Ltd and its agents to introduce energy usage reduction measures where practical;
- The promotion of increased use of digital correspondence; and
- The continued promotion of responsible energy usage within the organisation.

The Authority has achieved savings to date of 0.3% above average placing it in the 11th percentile of all reporting public bodies and it is on target to meet the target of 33% energy efficiency saving by 2020.

4.3 Resources

Staff

The Authority employs eleven members of staff.

Funding

The operations of the Authority are funded by a levy on registered undertakings in accordance with Section 17 of the Health Insurance Act, 1994. The 2010 Levy Regulations² set the rate to be paid by registered undertakings at 0.12% of premium income of registered undertakings. Statutory Instrument 528/2014, Health Insurance Act 1994 (Section 17) Levy Regulations 2014 further amended the income levy setting the rate at 0.01% for 2015 and 2016 and at 0.09% from 2017. The levy is payable to the Authority on a quarterly basis. Registered undertakings are also obliged to submit details of the numbers of insured persons and the premium income. These statistics are summarised in Appendix A. The Register of Health Benefits Undertakings as at 31 December 2016 is set out in Appendix D.

²The Health Insurance Act, 1994 (Section 17) Levy (Amendment) Regulations, 2010 (S.I. No. 539 of 2010).

5

Report and Accounts 2016

5.1 The Health Insurance Authority Report and Financial Statements for the year 1 January 2016 to 31 December 2016

To the Minister for Health

In accordance with the terms of Section 32(2) of the Health Insurance Act, 1994, The Health Insurance Authority presents its Report and Accounts for the twelve-month period ended 31 December 2016.

The Health Insurance Authority

(“the Authority”)

Report and Financial Statements

ContentsPage

Authority Information	30
Report of the Comptroller and Auditor General	31
Statement on Internal Financial Control	33
Statement of Responsibilities of the Authority	35
Financial Statements	36 - 46

The Health Insurance Authority

Authority Information

Members of the Authority

Sheelagh Malin (Chairperson)	Appointed 6 May, 2010 Reappointed 1 February, 2016
Sean Coyle	Appointed 1 February, 2016
Dr Fiona Kiernan	Appointed 1 February, 2016
James A McNamara	Appointed 1 February, 2016
Ian Britchfield	Appointed 20 June, 2016
Jim Joyce	Term ended 31 January, 2016
Dónall Curtin	Term ended 31 January, 2016
Paul Turpin	Term ended 31 January, 2016
Professor Anthony Staines	Term ended 31 January, 2016

Chief Executive/Registrar

Don Gallagher

Secretary

Eamonn Horgan

Bankers

AIB plc.
40/41 Westmoreland Street
Dublin 2

Permanent TSB
56/59 St Stephen's Green
Dublin 2

RaboDirect
Charlemont Place
Dublin 2

Auditors

Comptroller and Auditor General
3A Mayor Street Upper
Dublin 1

Offices

Canal House
Canal Road
Dublin 6



Report of the Comptroller and Auditor General

The Health Insurance Authority

I have audited the financial statements of the Health Insurance Authority for the year ended 31 December 2016 under the Health Insurance Act 1994 (as amended). The financial statements comprise the statement of income and expenditure and retained revenue reserves, the statement of financial position, the statement of cash flows and the related notes. The financial statements have been prepared in the form prescribed under Section 32 of the Act, and in accordance with generally accepted accounting practice.

Responsibilities of the Authority

The Authority is responsible for the preparation of the financial statements, for ensuring that they give a true and fair view and for ensuring the regularity of transactions.

Responsibilities of the Comptroller and Auditor General

My responsibility is to audit the financial statements and to report on them in accordance with applicable law. My audit is conducted by reference to the special considerations which attach to State bodies in relation to their management and operation.

My audit is carried out in accordance with the International Standards on Auditing (UK and Ireland) and in compliance with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements, sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of

- whether the accounting policies are appropriate to the Authority's circumstances, and have been consistently applied and adequately disclosed
- the reasonableness of significant accounting estimates made in the preparation of the financial statements, and
- the overall presentation of the financial statements.

I also seek to obtain evidence about the regularity of financial transactions in the course of audit.

In addition, I read the Authority's annual report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by me in the course of performing the audit. If I become aware of any apparent material misstatements or inconsistencies, I consider the implications for my report.

Opinion on the financial statements

In my opinion, the financial statements:

- give a true and fair view of the assets, liabilities and financial position of the Authority as at 31 December 2016 and of its income and expenditure for 2016; and
- have been properly prepared in accordance with generally accepted accounting practice.

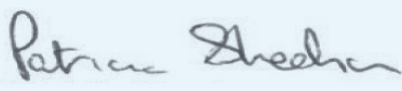
In my opinion, the accounting records of the Authority were sufficient to permit the financial statements to be readily and properly audited. The financial statements are in agreement with the accounting records.

Matters on which I report by exception

I report by exception if I have not received all the information and explanations I required for my audit, or if I find

- any material instance where money has not been applied for the purposes intended or where the transactions did not conform to the authorities governing them, or
- the information given in the Authority's annual report is not consistent with the related financial statements or with the knowledge acquired by me in the course of performing the audit, or
- the statement on internal financial control does not reflect the Authority's compliance with the Code of Practice for the Governance of State Bodies, or
- there are other material matters relating to the manner in which public business has been conducted.

I have nothing to report in regard to those matters upon which reporting is by exception.



Patricia Sheehan

For and on behalf of the
Comptroller and Auditor General
22 June 2017



The Health Insurance Authority

Statement on Internal Financial Control

The Members of the Authority acknowledge that the board of the Authority is responsible for the Health Insurance Authority's system of internal financial control.

The Members also acknowledge that such a system of internal financial control can provide only reasonable and not absolute assurance that assets are safeguarded, transactions authorised and properly recorded and any material errors or irregularities are either prevented or would be detected in a timely manner.

The Members of the Authority have set out the following key procedures designed to provide effective internal financial control within the Authority: -

As provided for in Section 26(5) of the Health Insurance Act, 1994, the Chief Executive/Registrar ("the CE") is responsible for carrying on and managing and controlling generally the administration and business of the Authority and shall perform such other functions as may be determined by the Authority. The Members of the Authority have agreed that the CE and staff are responsible for operational matters. The CE reports to the Members at their meetings which are usually held on a monthly basis.

A formal process for the identification, evaluation, mitigation and management of business risk has been undertaken and includes:

- The identification and nature of risks;
- The likelihood of occurrence;
- The financial or other implications;
- Mitigating factors;
- Measures to manage the identified risks; and
- Monitoring and reporting on the process.

The Department of Public Expenditure and Reform published a revised Code of Practice for the Governance of State Bodies (the "Code") in August 2016. State bodies have two options in relation to financial statements for financial reporting periods beginning before 1st September 2016.

- a) Early adopter whereby the state body chooses to adopt the provisions of the revised Code in relation to all of 2016, or
- b) To continue to apply the 2009 version of the Code of Practice for the Governance of State Bodies.

The Authority has chosen to comply with the 2009 Code of Practice for the Governance of State Bodies for the 2016 financial reporting period. Management are working with the Department of Health to be fully compliant with the provisions of the revised Code during 2017.

The Members have adopted rules in relation to the procedure and business of the meetings of The Health Insurance Authority for their meetings.

The Authority implements a set of financial procedures setting out the financial instructions, notes of procedures and delegation practices. The Audit Committee oversees the preparation of financial statements and statements of accounting policy, risk management, internal controls (including internal and external audit) and value for money issues. The Committee met to review the financial matters relating to the year 2016. Consultants have been engaged in key areas where such services were deemed appropriate including accountants and internal audit consultants.

The Authority has in place a computer software system incorporating an accounting package and a payroll package to facilitate the internal financial controls of the Authority.

Due to the size of the organisation and the number of staff employed, the Authority engaged an external accounting firm to prepare and monitor the financial statements for the Authority and to perform a monthly financial reporting mechanism on the management of the accounts generally, including budgets.

We confirm that a review of the effectiveness of the system of internal financial controls was carried out in respect of 2016.

Signed on behalf of the Members of the Authority



Sheelagh Malin

Chairperson

The Health Insurance Authority

19 May 2017

Date

The Health Insurance Authority

Statement of Responsibilities of the Authority

Section 32(2) of the Health Insurance Act, 1994, requires the Members of the Authority to prepare financial statements in such form as may be approved by the Minister for Health after consultation with the Minister for Finance. In preparing those financial statements, the Authority is required to:

- Select suitable accounting policies and then apply them consistently;
- Make judgements and estimates that are reasonable and prudent;
- State whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Authority will continue in operation.

The Authority is responsible for keeping proper accounting records, which disclose in a true and fair manner at any time the financial position of the Authority and which enable it to ensure that the financial statements comply with Section 32(2) of the Act. The Authority is also responsible for safeguarding the assets of the Authority and for taking reasonable steps for the prevention and detection of fraud and other irregularities.



Sheelagh Malin
Chairperson



Sean Coyle
Member

19 May 2017
Date

The Health Insurance Authority

Statement of Income and Expenditure and Retained Revenue Reserves for the year ended 31 December, 2016

	Notes	12 months ended 31 December, 2016 €	12 months ended 31 December, 2015 €
Income	2	428,153	381,493
Administration Costs	3	(1,635,883)	(2,340,037)
Excess of expenditure over income		(1,207,730)	(1,958,544)
Interest Receivable		19,004	51,608
Deficit for the year		(1,188,726)	(1,906,936)
Retained revenue reserves at beginning of year		9,825,648	11,732,584
Retained revenue reserves at end of year		8,636,922	9,825,648

There are no recognised gains or losses, other than those dealt with in the Statement of Income and Expenditure and Retained Revenue Reserves.



Sheelagh Malin
Chairperson



Sean Coyle
Member

19 May 2017
Date

Notes 1 to 14 form part of these Financial Statements.

The Health Insurance Authority

Statement of Financial Position as at 31 December 2016

	Notes	2016 €	2015 €
Fixed assets			
Tangible assets	6	51,994	84,338
Current assets			
Cash and cash equivalents		10,467,549	11,343,106
Prepayments and other debtors	7	334,473	285,902
		10,802,022	11,629,008
Creditors (amounts falling due within one year) Creditors and accruals	8	(2,217,094)	(1,887,698)
Net current assets		8,584,928	9,741,310
Total assets less current liabilities		8,636,922	9,825,648
Net assets		8,636,922	9,825,648
Represented by			
Retained revenue reserves		8,636,922	9,825,648
		8,636,922	9,825,648



Sheelagh Malin
Chairperson



Sean Coyle
Member

19 May 2017
Date

Notes 1 to 14 form part of these Financial Statements.

The Health Insurance Authority

Statement of Cash Flows
for the year ended 31 December, 2016

	Notes	2016 €	2015 €
Reconciliation of operating deficit to net cash inflow from operating activities			
Operating deficit for year		(1,188,726)	(1,906,936)
Depreciation	6	41,422	42,928
(Increase) / decrease in debtors	7	(70,255)	668,478
Increase in creditors	8	329,396	180,286
Net cash outflow from operating activities		(888,163)	(1,015,244)
Cashflow from investing activities			
Payments to acquire tangible fixed assets	6	(9,078)	(34,941)
Decrease increase in cash and cash equivalents		(897,241)	(1,050,185)
Cashflow from financing activities			
Interest earned		(18,845)	(51,608)
Interest received		40,529	44,762
Decrease increase in cash and cash equivalents		(875,557)	(1,057,031)
Cash and cash equivalents at 1 January		11,343,106	12,400,137
Cash and cash equivalents at 31 December		10,467,549	11,343,106
Decrease increase in cash and cash equivalents		(875,557)	(1,057,031)



Sheelagh Malin
Chairperson



Sean Coyle
Member

19 May 2017
Date

Notes 1 to 14 form part of these Financial Statements.

The Health Insurance Authority

Notes (forming part of the financial statements)

1. Accounting Policies

The significant accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all years presented unless otherwise stated.

Basis of Preparation

The financial statements have been prepared in compliance with Financial Reporting Standard 102 "The Financial Reporting Standard Applicable in the UK and Republic of Ireland" ("FRS 102"). The financial statements have been prepared on the accruals basis of accounting in accordance with generally accepted accounting principles and under the historical cost convention.

The financial statements of the Authority are presented in Euro ("€") which is also the functional currency of the Authority.

The Authority is of the opinion that there are no critical judgements that have a significant impact on the amounts recognised in the financial statements.

Levy Income

The levy income represents the amount receivable by the Authority in respect of the period. This takes account of payments made to the Authority in accordance with the Health Insurance Act 1994 (as amended). The reasonableness of this figure is checked against the expected levy income based on the Authority's profile of private health insurance schemes.

Expenditure Recognition

Expenditure is recognised in the financial statements on an accruals basis as it is incurred.

Tangible Fixed Assets

Tangible fixed assets are stated at cost less accumulated depreciation. Depreciation, charged to the Statement of Income and Expenditure and Retained Revenue Reserves, is calculated in order to write off the cost of fixed assets over their estimated useful lives, under the straight-line method, at the annual rate of 33 1/3% for computer equipment and 20% for all other assets from date of acquisition.

Foreign Currencies

Transactions denominated in foreign currencies are converted into euro during the year and are included in the Statement of Income and Expenditure and Retained Revenue Reserves for the period.

Monetary assets and liabilities denominated in foreign currencies are converted into euro at exchange rates ruling at the balance sheet date and resulting gains and losses are included in the Statement of Income and Expenditure and Retained Revenue Reserves for the period.

Risk Equalisation Fund

The Risk Equalisation Fund (the "Fund") was established on 1 January 2013 under the Health Insurance (Amendment) Act 2012. The Authority is responsible for maintaining, protecting, administering and applying the Fund and recoups the costs incurred from the Fund. The basis for recouping costs comprises full apportionment of costs which are directly related to the Fund and partial apportionment of costs incurred by the Authority as set out in Note 14 of the financial statements. Separate financial statements are prepared by the Authority for the fund on an annual basis.

Retirement Benefits

In accordance with Section 28 of the Health Insurance Act, 1994, the Authority may, with the consent of the Minister for Health and the Minister for Public Expenditure and Reform, make a scheme for the granting of superannuation benefits to staff members of the Authority. The Health Insurance Authority Employee Superannuation Scheme (SI 637 of 2016) was signed 21 December 2016 in which the Rules set out in the Schedule to the Rules for Pre-existing Public Service Pension Scheme Members Regulations 2014 (S.I. No. 582 of 2014) are adopted as a Scheme for the granting of superannuation benefits to or in respect of members of the staff, including the Registrar, of the Health Insurance Authority. The Authority is making the necessary deductions from salaries which are retained by the Authority, but are not recognised as income. The Authority is also providing for employer contributions to the Scheme. The Health Insurance Authority is in discussions with the Department of Health in regard to the Health Insurance Authority's pension funding mechanism. Pending the outcome of those discussions, it is not clear that the financial statements will require the actuarially calculated pension charge or the actuarially calculated pension liability and pension asset in respect of the Health Insurance Authority's superannuation scheme.

As a result the accounting policy with regard to pensions is to treat them as a defined contribution plan in accordance with section 28.13 of FRS 102. **See Note 10** for further details.

New Entrant staff employed by the Authority after 1 January 2013, are members of the Single Public Service Pension Scheme in accordance with Public Service Pensions (Single Scheme and Other Provisions) Act 2012. The Authority makes the necessary deductions from salaries for staff who are part of the scheme. Employee and employer contributions are transferred to the Department of Public Expenditure and Reform on a monthly basis in accordance with the Public Service Pensions (Single Scheme and Other Provisions) Act 2012.

2. Income

Section 17 of the Health Insurance Act, 1994 provides for the payment of an income levy by registered undertakings to the Authority every quarter in order to fund the operations of the Authority and make adequate provision for contingencies. The Health Insurance Act, 1994 (Section 17) Levy Regulations, 2001 set the rate for the income levy at 0.14% of the assessable amount paid to all commercial and restricted undertakings in Ireland. The rate was subsequently reduced to 0.12% by the Health Insurance Act 1994 (Section 17) Levy (Amendment) Regulations 2010. Statutory Instrument 528/2014, Health Insurance Act 1994 (Section 17) Levy Regulations 2014 further amended the income levy setting the rate at 0.01% for 2015 and 2016 and at 0.09% from 2017.

	2016 €	2015 €
Income Levy	241,245	235,404
Recharged Risk Equalisation Fund costs (Note 13)	186,908	146,089
	428,153	381,493

3. Administration Costs

	2016 €	2015 €
Salaries, pension cost and other staff costs (Note 4)	804,165	760,046
Training costs	15,532	25,863
Directors Fees (Note 4)	17,264	20,948
Recruitment	-	9,040
Rent, Service Charges and Maintenance	112,983	79,883
Consultancy (Note 5)	277,657	455,653
Insurance	17,515	18,979
Computer and Stationery Costs	34,899	28,952
Other Administration Costs ³	38,246	36,787
Consumer Information ⁴	266,700	851,758
Audit	9,500	9,200
Depreciation	41,422	42,928
	1,635,883	2,340,037

Administration expenses of €186,908 (2015: €146,089) in respect of the Risk Equalisation Fund are recouped from the Fund and treated as income (see **Note 13**).

The amount expended on foreign travel in the year was nil (2015: nil).

4. Directors Fees and CEO Remuneration

Fees payable to individual board members for 2016 were Jim Joyce (Outgoing Chairman) €718 (2015: €8,978), Sheelagh Malin (Chairperson) €7,343 (2015: €5,985), Dónall Curtin €529 (2015: €5,985), Sean Coyle €5,486, Ian Britchfield €3,188, Dr. Fiona Kiernan €0, James A McNamara €0. Expenses paid to individual board members for 2016 were Ian Britchfield €324 and James McNamara €3,327.

The Chief Executive Don Gallagher's salary for 2016 was €88,454 (2015: €85,127). The CEO received travel and subsistence of €199 (2015: €416). The CEO's pension entitlements are in line with standard entitlements in the model public sector defined benefit superannuation scheme. The CEO did not receive any perquisites or benefits in 2016.

The number of staff employed by the Authority at 31 December 2016 was 11 or 10.6 WTE (2015: 10 or 9.6 WTE). The Authority reports 11 staff under the employment control framework.

³ Other Administration Costs include €1,202 (2015: €1,095) in relation to staff and board related events.

⁴ Expenditure on consumer information increased in 2015 due to a public information campaign conducted by the HIA in the run up to the introduction of lifetime community rating at a cost of €815,715.

5. Consultancy Costs

	2016 €	2015 €
Accountancy	68,374	58,417
Actuarial Services	75,645	125,995
Legal Services	29,923	22,909
Communications	46,126	48,178
Research	22,906	43,081
Superannuation	1,095	1,740
Translation Services	2,838	2,186
Economic consultancy ⁵	30,750	153,147
	277,657	455,653

⁵ Decreased economic consultancy expenditure between 2015 and 2016 arose from work in respect of the approval process for the 2016 Risk Equalisation Scheme being carried out internally by HIA staff compared to externally by third parties in 2015.

6. Tangible Fixed Assets

	Computer Equipment €	Office Fitting, Furniture & Equipment €	Website Development €	Office Fit Out €	Total €
Cost					
At 31 December 2015	69,056	328,901	102,325	51,383	551,665
Additions during year	8,136	942	-	-	9,078
Disposals during year	-	-	-	-	-
At 31 December 2016	77,192	329,843	102,325	51,383	560,743
Depreciation					
At 31 December 2015	48,125	324,043	72,631	22,528	467,327
Charge for year	11,754	2,126	17,265	10,277	41,422
Depreciation on disposals	-	-	-	-	-
At 31 December 2016	59,879	326,169	89,896	32,805	508,749
Net Book Value					
At 31 December 2016	17,313	3,674	12,429	18,578	51,994
At 31 December 2015	20,931	4,858	29,694	28,855	84,338
In respect of prior year					
Cost					
At 31 December 2014	58,903	328,354	87,888	51,383	526,528
Additions during year	19,957	547	14,437	-	34,941
Disposals during year	(9,804)	-	-	-	(9,804)
At 31 December 2015	69,056	328,901	102,325	51,383	551,665
Depreciation					
At 31 December 2014	45,768	322,058	54,126	12,251	434,203
Charge for year	12,161	1,985	18,505	10,277	42,928
Depreciation on disposals	(9,804)	-	-	-	(9,804)
At 31 December 2015	48,125	324,043	72,631	22,528	467,327
Net Book Value					
At 31 December 2015	20,931	4,858	29,694	28,855	84,338
At 31 December 2014	13,135	6,296	33,762	39,132	92,325

7. Prepayments and other debtors

	2016 €	2015 €
Levy income receivable (Note 2)	56,958	59,166
Accrued interest	1,586	23,270
Prepayments and Other Debtors	39,375	33,057
Travel Cards	1,168	-
Risk Equalisation Fund	235,386	170,409
	334,473	285,902

8. Creditors (amounts falling due within one year)

	2016 €	2015 €
Trade creditors and accruals	274,750	145,110
Pensions provision (Note 10)	1,855,614	1,678,990
Pension levy	3,962	4,237
Single Public Service Pension Scheme	661	635
PAYE/PRSI	28,399	28,114
Professional Services Withholding Tax	46,690	5,170
Value Added Taxation	7,018	25,442
	2,217,094	1,887,698

9. Commitments under Operating Leases

The Health Insurance Authority rents offices at Canal House, Canal Road, Dublin 6 at a cost of €50,000 per annum. The Authority entered into a 10 year lease for the offices in May 2012. There is a break clause in the lease agreement from May 2017, amounts disclosed from this date are estimated.

At the year end, the Authority has the following annual commitments that fall due as follows:

	2016 €	2015 €
within 1 year	50,000	50,000
Later than one year but within 5 years	200,000	200,000
Later than 5 years	50,000	100,000
	300,000	350,000

10. Pensions Provision

As discussed in the accounting policies on superannuation the Authority operates a pension scheme for its employees. The Health Insurance Authority Employees Superannuation Scheme (SI 637 of 2016) was signed 21 December 2016 in which the Rules set out in the schedule to the Rules for Pre-existing Public Service Pension Scheme Members Regulations 2014 (S.I No 582 of 2014) are adopted as a Scheme for the granting of superannuation benefits to or in respect of members of the staff, including the Registrar, of the Health Insurance Authority.

Contributions including employer contributions are at a rate of 25% from July 2006 (16.66% previously) of pensionable pay and are charged to the Statement of Income and Expenditure and Retained Revenue Reserves. The accumulated contributions for both schemes are held for the account of the Minister for Health.

Benefit entitlements of employees will be a function of their service with the Authority and of their previous service in the civil or public service, where appropriate. The Authority is not funded in respect of such benefit entitlements. It is not probable that the Authority will have an obligation to transfer resources embodying economic benefits (other than for normal employer contributions) for benefits payable to members. Actuarial risk and investment risk is not expected to arise for the Authority.

As a result the requirements in FRS 102 with regard to defined benefit plans are not deemed to apply and no further disclosures are considered necessary.

The following contributions are included in the heading "Salaries and Staff Costs" (**Note 3**):

	2016 €	2015 €
At beginning of period	1,678,990	1,508,743
Employee Contributions	24,794	24,422
Employer Contributions	151,830	145,825
Total	1,855,614	1,678,990

In addition in 2016 €32,095 was deducted from staff by way of pension levy and was paid over to the Department of Health.

In 2016 €5,744 was deducted from staff in respect of the Single Public Service Pension Scheme and transferred to the Department of Public Expenditure and Reform.

11. Capital Commitments

There were no commitments for capital expenditure at 31 December 2016.

12. Related Party Disclosures

Key management personnel in the Authority consist of the CEO and Authority Members. Total compensation paid to key management personnel, including Authority Members' fees and expenses and total CEO remuneration, amounted to €105,718 (2015: €106,075).

For a breakdown of the remuneration and benefits paid to key management personnel, please refer to **Note 4**.

The Authority has adopted procedures in accordance with the guidelines issued by the Department of Finance in relation to the disclosure of interests by Authority Members and the Authority has adhered to these procedures. There were no transactions in the year in relation to the Authority's activities in which board members had an interest.

13. Risk Equalisation Fund

The Health Insurance (Amendment) Act 2012 provides for the establishment of the Risk Equalisation Fund (the Fund) from 1 January 2013. Stamp Duty payments for policies commencing or renewing on or after 1 January 2013 are paid by insurers to the Revenue Commissioners who in turn transfer the money to the Fund. Risk Equalisation Credits are paid, on behalf of consumers, out of the Fund to the health insurance undertakings by the Health Insurance Authority. Separate financial statements are prepared in respect of the Fund on an annual basis. The Authority is responsible for administering and maintaining the Fund.

There are no employees directly employed by the Fund. Total costs of €186,908 (2015: €146,089) in respect of the Fund were charged by the Authority for 2016 as follows:

Type of cost	Total recharged to Fund	
	2016 €	2015 €
Salary and staff costs	142,905	116,464
Rent, service charges and maintenance	19,434	11,379
Computer and stationery costs	7,707	4,260
Other administrative costs	16,710	13,754
Other consultancy costs	152	232
	186,908	146,089

14. Approval of Financial Statements

The Financial Statements were approved by the Members of the Authority on 19 May, 2017.



The Risk Equalisation Fund Report and Accounts 2016

5.2 The Risk Equalisation Fund Report and Financial Statements for the year 1 January 2016 to 31 December 2016

To the Minister for Health

In accordance with the terms of the Health Insurance Act 1994 (as amended), The Health Insurance Authority presents the Financial Statements of the Risk Equalisation Fund for the 12 month period ended 31 December 2016.

The Health Insurance Authority

(“the Fund”)

Report and Financial Statements

Contents	Page
Report of the Comptroller and Auditor General	49
Statement of Responsibilities	51
Financial Statements	52 - 59



Report of the Comptroller and Auditor General

The Risk Equalisation Fund

I have audited the financial statements of the Risk Equalisation Fund for the year ended 31 December 2016 under the Health Insurance Act 1994 (as amended). The financial statements comprise the statement of income and expenditure and retained revenue reserves, the statement of financial position, the statement of cash flows and the related notes. The financial statements have been prepared in the form prescribed under Section 11D(8) of the Act, and in accordance with generally accepted accounting practice.

Responsibilities of the Health Insurance Authority

The Health Insurance Authority is responsible for the preparation of the financial statements, for ensuring that they give a true and fair view and for ensuring the regularity of transactions.

Responsibilities of the Comptroller and Auditor General

My responsibility is to audit the financial statements and to report on them in accordance with applicable law. My audit is conducted by reference to the special considerations which attach to State bodies in relation to their management and operation.

My audit is carried out in accordance with the International Standards on Auditing (UK and Ireland) and in compliance with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements, sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of

- whether the accounting policies are appropriate and have been consistently applied and adequately disclosed
- the reasonableness of significant accounting estimates made in the preparation of the financial statements, and
- the overall presentation of the financial statements.

I also seek to obtain evidence about the regularity of financial transactions in the course of audit.

In addition, I read the Health Insurance Authority's annual report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by me in the course of performing the audit. If I become aware of any apparent material misstatements or inconsistencies, I consider the implications for my report.

Opinion on the financial statements

In my opinion, the financial statements:

- give a true and fair view of the assets, liabilities and financial position of the Fund as at 31 December 2016 and of the transactions of the Fund for 2016; and
- have been properly prepared in accordance with generally accepted accounting practice.

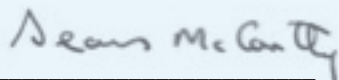
In my opinion, the accounting records of the Health Insurance Authority were sufficient to permit the financial statements to be readily and properly audited. The financial statements are in agreement with the accounting records.

Matters on which I report by exception

I report by exception if I have not received all the information and explanations I required for my audit, or if I find

- any material instance where money has not been applied for the purposes intended or where the transactions did not conform to the authorities governing them, or
- the information given in the Health Insurance Authority's annual report is not consistent with the related financial statements or with the knowledge acquired by me in the course of performing the audit, or
- there are other material matters relating to the manner in which public business has been conducted.

I have nothing to report in regard to those matters upon which reporting is by exception.



Seamus McCarthy

Comptroller and Auditor General

22 June 2017

The Risk Equalisation Fund

Statement of Responsibilities

Section 11D (8) of the Health Insurance Act of 1994 (as amended) (the 'Act') requires the Health Insurance Authority (the 'Authority') to prepare financial statements. In preparing those financial statements, the Authority is required to:

- Select suitable accounting policies and then apply them consistently;
- Make judgements and estimates that are reasonable and prudent;
- State whether the financial statements have been prepared in accordance with applicable accounting standards, identify those standards, and note the effect and the reason for any material departure from those standards; and
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Fund will continue in operation.

The Authority is responsible for ensuring that adequate accounting records are kept which correctly explain and record the transactions of the Fund, enable at any time the assets, liabilities and financial position of the Fund to be determined with reasonable accuracy and enable them to ensure that the financial statements comply with Section 11D(8) of the Act. The Authority is also responsible for safeguarding the assets of the Fund and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.



Sheelagh Malin
Chairperson



Sean Coyle
Member

19 May 2017
Date

The Risk Equalisation Fund

Statement of Income and Expenditure and Retained Revenue Reserves for the year ended 31 December 2016

	Notes	2016 €'000	2015 €'000
Income			
Stamp Duty	2	641,278	638,516
Expenditure			
Risk equalisation premium credit	3	511,728	512,512
Hospital utilisation credit	4	107,691	95,669
Staff and other costs	5	235	161
Total Expenditure		619,654	608,342
Excess of income over expenditure		21,624	30,174
Investment Income		-	22
Surplus for the year		21,624	30,196
Retained Revenue Reserves at beginning of year		18,908	(11,288)
Retained Revenue Reserves at end of year		40,532	18,908

There are no recognised gains or losses, other than those dealt with in the Statement of Income and Expenditure and Retained Revenue Reserves.



Sheelagh Malin
Chairperson



Sean Coyle
Member

19 May 2017
Date

Notes 1 to 11 form part of these Financial Statements

The Risk Equalisation Fund

Statement of Financial Position at 31 December 2016

	Notes	2016 €'000	2015 €'000
Current Assets			
Short term deposits		60,000	227,744
Cash and cash equivalents		188,628	250
Prepayments and other debtors	6	185,489	175,675
		434,117	403,669
Creditors (amounts falling due within one year)			
Creditors and accruals	7	(346,277)	(336,761)
Hospital Utilisation Credit Provision	8	(47,308)	(48,000)
		(393,585)	(384,761)
Net Assets		40,532	18,908
Representing			
Retained Revenue Reserves		40,532	18,908



Sheelagh Malin
Chairperson



Sean Coyle
Member

19 May 2017
Date

Notes 1 to 11 form part of these Financial Statements.

The Risk Equalisation Fund

Statement of Cash Flows
for the year ended 31 December 2016

	Notes	2016 €'000	2015 €'000
Reconciliation of excess of income over expenditure to net cash inflow from operating activities			
Operating excess of income over expenditure for year		21,624	30,174
Increase in debtors	6	(9,814)	(1,656)
Increase in creditors	7 & 8	8,824	26,123
Net cash inflow from operating activities		20,634	54,641
Cash inflow from investing activities			
Bank interest received		-	22
Net cash inflow from investing activities		-	22
Increase in cash and cash equivalents		20,634	54,663
Cash and cash equivalents at 1 January		227,994	173,331
Cash and cash equivalents at 31 December		248,628	227,994
Increase in cash and cash equivalents		20,634	54,663



Sheelagh Malin
Chairperson



Sean Coyle
Member

19 May 2017
Date

Notes 1 to 11 form part of these Financial Statements

The Risk Equalisation Fund

Notes (forming part of the financial statements)

1. Accounting Policies

The significant accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all years presented unless otherwise stated.

Basis of Preparation

The financial statements have been prepared in compliance with Financial Reporting Standard 102 "The Financial Reporting Standard Applicable in the UK and Republic of Ireland" ("FRS 102"). The financial statements have been prepared on the accruals basis of accounting in accordance with generally accepted accounting principles and under the historical cost convention.

The financial statements of the Authority are presented in Euro ("€'000") which is also the functional currency of the Authority.

General Information

The Health Insurance Act 1994, as amended by the Health Insurance (Amendment) Act 2012, provided for risk equalisation whereby registered undertakings receive credits in relation to certain classes of insured persons so that registered undertakings do not collect a premium payable in respect of provision of health insurance to the individual. The 2012 Act also provided for the establishment of the Risk Equalisation Fund.

The Act provided that all stamp duty paid by virtue of Section 125A of the Stamp Duties Consolidation Act 1999 in respect of health insurance contracts commencing on or after 1 January 2013 be paid into the Fund.

Payments out of the Fund include:

- Risk equalisation premium credit – the level of risk that a particular consumer poses to a registered undertaking does not affect the premium paid. All insured individuals are charged the same premium for a particular plan, irrespective of age, gender and the current or likely future state of their health subject to exceptions in respect of children under 18 years of age, discounts for members in group schemes, young adults and lifetime community rating loadings. The Risk Equalisation Scheme provides that registered undertakings receive higher premiums in respect of insuring older, and generally less healthy people, with the higher amount paid by way of a risk equalisation premium credit from the Fund. The level of risk equalisation credits payable from the Fund in respect of premiums vary on the basis of age, gender and level of cover.
- Hospital utilisation credit – a specified amount is payable from the Fund for each stay an insured person spends in private hospital accommodation or in a publicly funded hospital where a charge is payable under Section 55 of the Health Insurance Act 1970 for such a stay.

Accounting Period

The financial statements are for the year from 1 January 2016 to 31 December 2016.

Income

Stamp Duty income is recognised in the financial statements over the term of the relevant insurance contract, assumed to be twelve months in all cases. Stamp duty on policies commencing on or after 1 January 2013 is paid by registered undertakings to the Revenue Commissioners on a quarterly basis. The stamp duty is then paid into the Fund. The receipts of the Fund in the financial year are adjusted to take account of:

- Accrued stamp duty which represents outstanding stamp duty due to the Fund at the year end and represents amounts payable by registered undertakings in relation to the last quarter of the financial year. This amount due is recorded as a debtor to the Fund.
- Un-earned stamp duty represents the estimated proportion of stamp duty paid into the Fund during the financial year and accrued at year end which relates to the unexpired term of the relevant insurance contracts at the balance sheet date. This amount is recorded as un-earned stamp duty at the balance sheet date (see **Note 7** – Creditors and accruals).

Expenditure Recognition

Expenditure is recognised in the financial statements on an accruals basis as it is incurred.

Risk Equalisation Premium Credit

Risk equalisation premium credit is accounted for on an accruals basis. Registered undertakings claim risk equalisation premium credit from the Fund on a monthly basis. In determining the amount to be recognised as an expense in the financial year, the payments made from the Fund are adjusted to take account of:

- Amounts claimed and payable to registered undertakings which have not been paid at the balance sheet date.
- Un-expensed risk equalisation premium credit – a majority of individuals pay insurance policies either by monthly instalments or annually in advance. Credits claimed in relation to monthly instalments are expensed in the month to which the claim relates. Credits claimed for policies paid annually in advance are expensed uniformly over the twelve months of the contract. At the balance sheet date any amounts paid to registered undertakings which have not been expensed are recognised as a debtor (see **Note 3**).

Critical Accounting Judgements and Estimates

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities at the balance sheet date and the amounts reported for revenues and expenses during the year. However, the nature of estimation means that the actual outcomes could differ from those estimates. The following judgements have had the most significant effect on the amounts recognised in the financial statements.

The level of reserves in respect of future claims included in the financial statements should at least be as strong as a best estimate and should at all times be sufficient to cover any liabilities arising in respect of hospital episodes yet to be claimed as far as can reasonably be foreseen. The hospital utilisation credit provision is calculated based on independent actuarial advice using a number of generally accepted actuarial techniques to arrive at the central estimate and a range of reasonable estimates. The provision recorded in the financial statements is at least as strong as a best estimate derived using generally accepted actuarial methods.

Hospital Utilisation Credit

The hospital utilisation credit is accounted for on an accruals basis. In determining the amount to be recognised as an expense in the financial year, the payments made from the Fund are adjusted to take account of:

- Amounts claimed by and payable to registered undertakings which have not been paid at the balance sheet date.
- A provision for hospital utilisation credit arising in respect of hospital episodes which had occurred in the financial year but had not been claimed by registered undertakings at year end. The provision assumes that the number of nights and days in private hospital accommodation is uniform across contracts commencing on different dates and that hospitalisation occurs uniformly throughout the policy period. The settlement period for hospital claims can vary considerably. This may result in registered undertakings making a claim for a hospital utilisation credit a year or more after a hospital episode.
- An adjustment in respect of any under or over provision for unclaimed credits in respect of prior financial years that remains outstanding at the balance sheet date.

2. Income

Stamp duty payments for policies commencing or renewing on or after 1 January 2013 are paid by registered undertakings to the Revenue Commissioners who in turn transfer the money to the Risk Equalisation Fund.

	2016 €'000	2015 €'000
Stamp duty paid into the Fund	641,635	641,522
Stamp duty receivable movement in year	7,394	4,425
Un-earned stamp duty movement in year	(7,751)	(7,431)
	641,278	638,516

3. Risk equalisation premium credit

	2016 €'000	2015 €'000
Payments made to registered undertakings	511,786	512,260
Risk equalisation premium credit payable to registered undertakings movement in year	2,361	(2,480)
Un-expensed risk equalisation premium credit movement in year	(2,419)	2,732
	511,728	512,512

4. Hospital utilisation credit

	2016 €'000	2015 €'000
Payments made to registered undertakings	109,043	74,472
Hospital utilisation credit payable to registered undertakings movement in year	(660)	5,601
Hospital utilisation credit provision movement in year	(692)	15,596
	107,691	95,669

5. Staff and other costs

	2016 €'000	2015 €'000
Health Insurance Authority recharged costs comprise:		
Salaries and staff costs	137	110
Training costs	3	4
Directors Fees	3	4
Rent, service charge and maintenance	19	11
Insurance	3	3
Computer and stationery	6	6
Other administration costs	7	4
Depreciation	7	6
	185	148
Costs directly charged to the Fund:		
Consultancy	1	7
Audit	9	3
Accountancy	38	-
Legal	-	1
Insurance	2	2
	50	13
	235	161

The cost included in the Statement of Income and Expenditure and Retained Revenue Reserves for the year 2016 is prepared using the accruals basis of accounting.

6. Prepayments and other debtors

	2016 €'000	2015 €'000
Un-expensed risk equalisation premium credit	50,903	48,484
Accrued stamp duty receivable	134,586	127,191
	185,489	175,675

7. Creditors and accruals

	2016 €'000	2015 €'000
Stamp duty un-earned	245,306	237,555
Risk equalisation premium credit payable	82,012	79,651
Hospital utilisation credit payable	18,723	19,383
Health Insurance Authority	236	172
	346,277	336,761

8. Hospital Utilisation Credit Provision

	2016 €'000	2015 €'000
At start of year	48,000	32,404
Arising during the year	107,691	93,670
Utilised during the year	(108,383)	(80,074)
Movement in unused amounts	-	2,000
At end of year	47,308	48,000

9. Financial Position of the Risk Equalisation Fund

As per the the Statement of Income and Expenditure and Retained Revenue Reserves, the retained reserves were €40.5m (2015: €18.9m). Any surplus or deficit arising in respect of past and current contract periods is taken into account when making recommendations to the Minister on risk equalisation credits and stamp duty.

At 31 December 2016, the Risk Equalisation Fund held cash and cash equivalents of €249m (2015: €228m).

10. Disclosure of Interests

The Authority has adopted procedures in accordance with the guidelines issued by the Department of Finance in relation to the disclosure of interests by Authority Members and the Authority has adhered to these procedures. There were no transactions in the year in relation to the Fund's activities in which Authority members had an interest.

11. Approval of Financial Statements

The Financial Statements were approved by the Members of the Authority on 19 May, 2017.

6

Appendices

Appendix A

Statistics Relating to the Private Health Insurance Market in Ireland, 2016

Table 1: Insured Persons ^{6,7}

Year Ended	Total Insured Persons (000s)	Private Health Insurance Coverage as % of Population
December 2001	1,871	48.2%
December 2002	1,941	49.2%
December 2003	1,999	49.8%
December 2004	2,054	50.2%
December 2005	2,115	50.4%
December 2006	2,174	50.3%
December 2007	2,245	50.5%
December 2008	2,297	50.9%
December 2009	2,260	49.7%
December 2010	2,228	48.8%
December 2011	2,163	47.2%
December 2012	2,099	45.7%
December 2013	2,049	44.5% ⁸
December 2014	2,025	43.8%
December 2015	2,122	45.5%
December 2016	2,152	45.8%

⁶ All figures relate to the total private health insurance market, i.e. open enrolment and restricted undertakings.

⁷ Population figures are based on Central Statistics Office population estimates.

⁸ The Coverage as a % of Population figures for 2013, 2014 and 2015 differ to previously published statistics in line with the latest population figures published by the Central Statistics Office.

Table 2: Premium Income

Year	Total Income (€m)
2002	821.9
2003	978.2
2004	1,061.1
2005	1,152.7
2006	1,299.5
2007	1,477.8
2008	1,652.2
2009	1,846.7

Year	Total Income (€m)
2010	1,949.1
2011	2,061.4‡
2012	2,240.7‡
2013	2,388.5‡
2014	2,444.9‡
2015	2,462.4‡
2016	2,528.0‡

‡ includes HSF from 2011 when they were first registered with the Authority

Table 3: Market Shares+

The following table shows how market shares have changed since the establishment of the Authority.

December	Irish Life Health*†	Laya Healthcare**	Vhi Healthcare	GloHealth†	Restricted Membership Undertakings***
	%	%	%	%	%
2001	–	13%	82%	–	5%
2002	–	15%	80%	–	5%
2003	–	17%	78%	–	5%
2004	–	19%	76%	–	5%
2005	1%	21%	74%	–	4%
2006	3%	21%	72%	–	4%
2007	5%	21%	70%	–	4%
2008	8%	22%	67%	–	4%
2009	10%	23%	63%	–	4%
2010	14%	21%	62%	–	4%
2011	18%	21%	57%	–	4%
2012	17%	22%	56%	1%	4%
2013	15%	23%	54%	4%	4%
2014	15%	23%	53%	5%	4%
2015	14%	26%	51%	5%	4%
2016	14%	26%	50%	6%	4%

+ Numbers insured with in-patient cover

* In respect of 2007 and earlier years the data relates to VIVAS Health.

** In respect of 2012, the data is a sum of the market shares of Quinn Insurance Ltd (Under Administration) and Elips Insurance Ltd. Previous years relate to Quinn Healthcare or (2006 and earlier) BUPA Ireland.

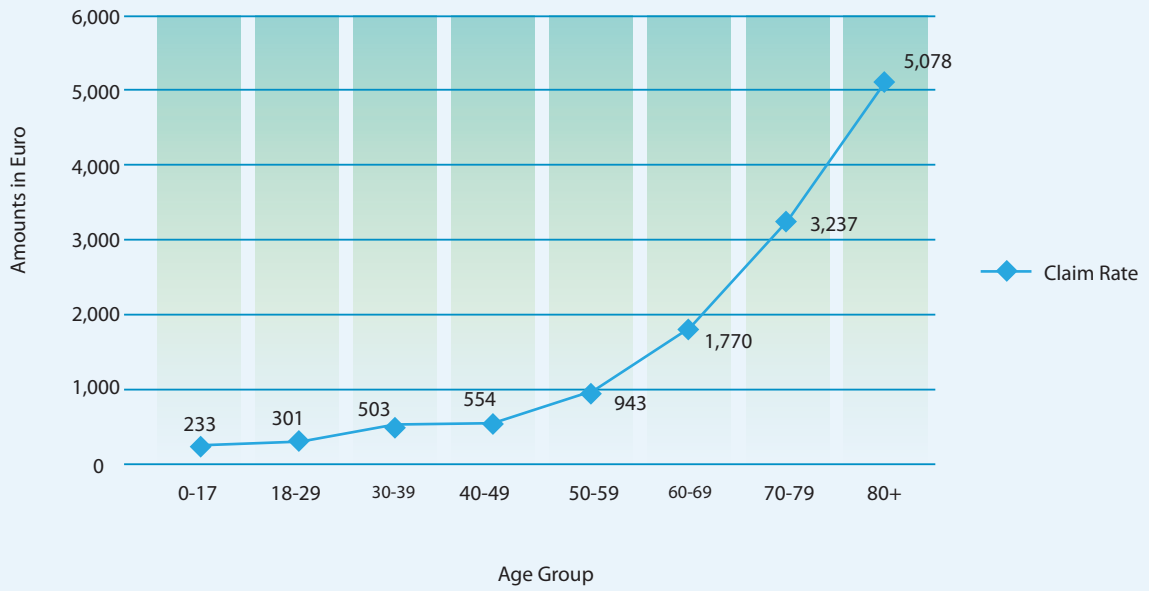
*** These mainly consist of the Garda, ESB and Prison Officer Schemes.

*† Irish Life Health will acquire GloHealth in 2017. Aviva Health was acquired by Irish Life in 2016 and changed its name to Irish Life Health

Appendix B

Claim variation by age

Claims included in Returns per Insured Person in 2016



Appendix C

Age Structure of Market

The following table shows how the age structure of the market has changed since the end of 2013. The tables in this section are based on information returns received from Open Membership Undertakings. The data in these returns differs from data included in earlier tables in that it excludes people who are serving initial waiting periods, people who are insured with Restricted Membership Undertakings and people who are insured with products that are not subject to the health insurance stamp duty and the age related health credits.

Numbers insured in 000s				
Age Group	2013	2014	2015	2016
0-17	462	454	475	481
18-29	211	203	210	217
30-39	295	281	297	292
40-49	296	293	322	326
50-59	263	261	276	284
60-69	215	217	224	232
70-79	119	125	132	141
80+	49	52	55	60

The following table shows how market shares varied with age at the end of 2016. The table below refers to Open Membership Undertakings only and excludes the Restricted Membership Undertakings.

Age Group	Irish Life Health	Laya Healthcare	Vhi Healthcare
	%	%	%
0-49	23%	28%	49%
50-59	20%	27%	53%
60-69	18%	28%	54%
70-79	12%	22%	66%
80+	7%	12%	81%
Total	21%	27%	52%

Appendix D

The Register of Health Benefits Undertakings as at 31 December 2016

Open Membership Undertakings

1. Irish Life Health DAC (trading as Irish Life Health);
2. Elips Versicherungen AG (Elips Insurances Ltd.) (trading as Laya Healthcare);
3. Great Lakes Reinsurance (UK) PLC (trading as GloHealth);
4. H.S.F. Health Plan Limited (trading as Hospital Saturday Fund);
5. Vhi Insurance DAC (trading as Vhi Healthcare);
6. The Voluntary Health Insurance Board;

Restricted Membership Undertakings

1. ESB Staff Medical Provident Fund;
2. Goulding Voluntary Medical Society;
3. Irish Life Assurance plc Outdoor staff Benevolent Fund;
4. Irish Life Medical Aid Society;
5. New Ireland/Irish National Staff Benevolent Fund;
6. Prison Officers Medical Aid Society; and
7. St Paul's Garda Medical Aid Society.



Appendix E

Attendance at Authority Meetings for 2016

Authority Member	Meeting Attended ⁹
Ms. Sheelagh Malin, Chairperson	10
Mr. Ian Britchfield	5 ¹⁰
Mr. Sean Coyle	8
Dr. Fiona Kiernan	9
Mr. James A. McNamara	9
Mr. Jim Joyce	1 ¹¹
Mr. Donall Curtin	1
Prof. Anthony Staines	1
Mr. Paul Turpin	1

Attendance at Audit Committee Meetings for 2016

Audit Committee Member	Meeting Attended ¹²
Mr. Sean Coyle, Chairman	3
Mr. Ian Britchfield	1
Dr. Fiona Kiernan	2
Mr. James A. McNamara	2
Ms. Sheelagh Malin	3
Mr. Paul Turpin	1
Mr. Donall Curtin	1

⁹ There were a total of ten Authority meetings held in 2016

¹⁰ Mr Ian Britchfield was appointed to the Authority on 20 June 2016

¹¹ The terms of appointment of Mr Joyce, Mr Curtin, Ms Malin, Prof. Staines & Mr Turpin expired on the 31 January 2016. Ms Malin (re-appointed), Mr Coyle, Dr Kiernan & Mr McNamara were appointed to the Authority on 1 February 2016.

¹² There were a total of four Audit Committee meetings held in 2016.

The terms of appointment of Ms Malin, Mr. Turpin & Mr Curtin as Audit Committee Members expired on the 31 January 2016. Ms Malin (re-appointed), Mr Coyle, Dr Kiernan & Mr McNamara served as Members of the Audit Committee on an interim basis. Following the appointment of Mr Ian Britchfield to the Authority on 20th June 2016, the Authority appointed Mr Coyle and Mr Britchfield as Members of the Audit Committee

Appendix F

Risk Equalisation Rates

Rates Applying for Contracts Commencing/Renewing from 1 March 2015 to 28 February 2016

Risk Equalisation Premium Credits

Contract Type	Non-Advanced		Advanced	
	Male	Female	Male	Female
60-64	€200	€150	€425	€300
65-69	€525	€350	€1,075	€725
70-74	€825	€600	€1,750	€1,200
75-79	€1,025	€800	€2,250	€1,700
80-84	€1,475	€1,025	€2,975	€2,125
85+	€1,750	€1,125	€3,725	€2,475

A hospital bed utilisation credit of €90 is paid in respect of each qualifying night spent in hospital by an insured person.

Community Rating Stamp Duties

Community Rating Stamp Duties (Contract Type)	Non-Advanced	Advanced
Adult	€240	€399
Child	€80	€135

Rates Applying for Contracts Commencing/Renewing from 1 March 2016 to 31 March 2017

Risk Equalisation Premium Credits

Contract Type	Non-Advanced		Advanced	
	Male	Female	Male	Female
65-69	€575	€375	€1,125	€800
70-74	€900	€675	€1,800	€1,300
75-79	€1,175	€850	€2,550	€1,900
80-84	€1,550	€1,100	€3,375	€2,375
85 and above	€1,775	€1,250	€4,150	€2,775

A hospital utilisation credit of €90 is paid in respect of each qualifying night spent in hospital by an insured person. A hospital utilisation credit of €30 is paid in respect of each qualifying day admission to a hospital by an insured person.

Community Rating Stamp Duties

Community Rating Stamp Duties (Contract Type)	Non-Advanced	Advanced
Adult (18 and over)	€202	€403
Child (17 and under)	€67	€134

Rates Applying for Contracts Commencing/Renewing from 1 April 2017 onwards

Risk Equalisation Premium Credits

Contract Type	Non-Advanced		Advanced	
	Male	Female	Male	Female
65-69	€850	€525	€1,175	€675
70-74	€1,250	€1,075	€1,950	€1,500
75-79	€1,750	€1,425	€2,750	€2,125
80-84	€2,375	€1,925	€3,750	€2,925
85 and above	€2,975	€2,375	€4,875	€3,700

A hospital utilisation credit of €90 is paid in respect of each qualifying night spent in hospital by an insured person. A hospital utilisation credit of €30 is paid in respect of each qualifying day admission to a hospital by an insured person.

Community Rating Stamp Duties

Community Rating Stamp Duties (Contract Type)	Non-Advanced	Advanced
Adult (18 and over)	€222	€444
Child (17 and under)	€74	€148

Appendix G

Lifetime Community Rating Statistics

Number of lives paying lifetime Community Rating loadings in 2016 was 15,000.

Total Lifetime Community Rating loadings paid in 2016 was €2.4 million compared to €711,000 in 2015.

