Report of the Health Insurance Authority to the Dept. of Health on Lifetime Community Rating

May 2017

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1.Introduction

About the Health Insurance Authority

The Health Insurance Authority ("Authority") is a statutory regulator for the Irish private health insurance market. It was established in 2001 under the Health Insurance Act 1994.

The principal functions of the Authority, as set out in the Health Insurance Act 1994 (as amended), 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;
- 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".

Consultation Process

Lifetime Community Rating was introduced to the private health insurance market in Ireland with effect from 1 May 2015. It introduced a late entry loading on health insurance premiums for those aged 35 years or older taking out private health insurance for the first time. This loading is 2% of the gross premium for each year of age that a person exceeds 34 when they first take out private health insurance. The purpose of Lifetime Community Rating (or 'LCR') is to encourage people to take out private health insurance by age 35 and to maintain their health insurance cover thereafter, thereby helping to control the market average claims costs and premium inflation.

Paragraph 7 of the Statutory Instrument introducing LCR stated that the Minister may cause a review of the functioning of these regulations to be carried by the Authority. The Authority was requested by the Department of Health to carry out such a review in 2017. The Authority conducted a public consultation as part of its review and issued a consultation paper in January 2017 to inform and assist those who might wish to make submissions. A copy of the consultation paper is in Appendix A. The Consultation paper was advertised in the national press and interested parties were invited to make submissions by 3rd March 2017. The Authority received 23 submissions. A summary of each submission is included in Appendix 2 to this Report.

2. Summary of Recommendations

Documentation to consumers

The Authority plans to contact the Central Bank of Ireland ("CBI") suggesting that the CBI might review how health insurers communicate with their new customers on how LCR loadings (if applicable) might be lowered. In particular, the Authority believes that insurers should make their best efforts to obtain details of previous continuous periods of cover and take into account statements made by their customers in respect of such cover and not operate on the basis that the onus of proof to "satisfy the undertaking" unduly rests with the customer.

People returning to Ireland and new arrivals

Anyone whose principal residence was outside the State for at least 9 months and moves to live in Ireland should be allocated a credited period equal to the period when their principal residence was outside the State. This credited period would apply provided they purchased an in-patient indemnity health insurance contract within 9 months of their principal residence changing to Ireland.

Meaning of "Principal Residence" and "Ordinarily Resident"

The Authority believes it would be desirable for the health insurance legislation to be amended in order to include definitions of the terms "Principal Residence" and "Ordinarily Resident".

Specific Exemptions from Loadings

The Authority is of the view that it is appropriate for the time period working in the Irish Defence Forces to be recognised as a credited period if a person is buying an in-patient indemnity health insurance contract within 9 months of leaving the Defence Forces.

A small number of staff of the European Union are living and working in Ireland. They have health insurance provided by the Joint Sickness Insurance Scheme of the European Institutions (JSIS). The Authority is of the opinion that members of the JSIS living and in Ireland should be given LCR credits for their time in the JSIS along the same lines as would apply for people returning to Ireland after their principal residence was outside the State.

Gaps in Cover

Australia gives credited periods of up to three years for all gaps in cover. The Authority believes that Ireland should follow the Australian practice.

Period that LCR loadings apply for

The Authority favours the Australian practice of loadings being payable for a total of 10 years rather than throughout life.

Cut-off date for calculating LCR Loading

At present the LCR loading, that a new customer pays, is 2% of the gross premium for each year in age that an individual exceeds 34 when they first take out inpatient private health insurance. The LCR age calculation might be amended so that it was based on a set date in the calendar year (say 1 May of each year rather than each birthday).

Further Review

A further review of the functioning of the LCR regulations should be carried out 3 years after the legislative changes resulting from this review are enacted.

3. Private Health Insurance market in Ireland

The Irish private health insurance system is based on the key principles of community rating, open enrolment, lifetime cover and minimum benefits. These principles aim 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 increased claims cost as they get older and less healthy. 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. A risk equalisation system supports community rating and creates a partial common pool among all open market insurers.

It is in this context that the concept of community rating must be understood. It 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. Exceptions apply in respect of children under 18 years of age, discounts for members of group schemes, young adults and lifetime community rating loadings (the latter two exceptions began on 1 May 2015).

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.

4. Background to Lifetime Community Rating

An unfunded community rated voluntary private health insurance market means that the average claims cost and the resulting premium rates depends on the age profile of those insured in the market. If younger people delay joining the private health insurance market, the average age profile of the market increases resulting in higher average claims per insured life. This may result in insurers increasing premium rates resulting in the cancellation of policies by younger healthier lives thereby further increasing average claims costs. A spiral of this nature can threaten the viability of the market.

The purpose of Lifetime Community Rating (“LCR”) is to encourage people to take out private health insurance at a younger age and to maintain cover, thereby helping to control average claims costs and premium inflation.

Section 7A of the Health Insurance Act 1994 gave the Minister for Health the power to introduce regulations whereby loadings would be applied to health insurance premiums in certain circumstances. The Minister for Health invoked this power in introducing Statutory Instrument No 312 of 2014 which introduced Lifetime Community Rating. This resulted in LCR loadings applying in certain circumstances in respect of policies commencing from 1 May 2015. From that date, people aged 35 and upwards taking out health insurance for the first time were charged a late entry loading. The loading is 2% of the gross premium for each year in age that the person exceeds 34 when they first take out inpatient private health insurance. Credit is given for previous periods of cover and for periods of unemployment (of up to three years) since 2008. The loadings apply for life.

The Authority ran an extensive public information campaign in advance of the 30th April 2015 deadline.

The Authority has collected lifetime community rating data since commencement of LCR. Insurers submit half yearly information to the Authority on the number of insured lives paying lifetime community rating loadings and the amount of the loadings.

5. Experience since Lifetime Community rating was introduced on 1 May 2015

Table 1 sets out the change in the in-patient insured lives by age group from 1 January 2015 to 1 January 2017 of the open membership undertakings. It shows an increased total market size. These new customers were mostly under age 50, improving the age profile of the market.

Table 1:

	01-Jan-15	**01-Jan 2017**	**Net Diff**
Aged 17 and under	441,354	481,122	39,768
Aged 18 to age 29	203,084	216,507	13,423
Aged 30 to age 39	274,356	292,224	17,868
Aged 40 to age 49	293,455	326,145	32,690
Aged 50 to age 59	261,995	284,171	22,176
Aged 60 to age 64	117,031	124,443	7,412
Aged 65 to age 69	103,530	107,605	4,075
Aged 70 to age 74	76,298	84,450	8,152
Aged 75 to age 79	53,139	56,412	3,273
Aged 80 to age 84	33,290	35,720	2,430
Aged 85 and over	22,689	23,819	1,130
Total	**1,880,221**	**2,032,618**	**152,397**

Table 2 shows the increase over time in the number of insured lives paying LCR loadings and their percentage of the insured market. Unsurprisingly, these figures show an increase over time as loadings only apply for policies commencing from 1 May 2015. 77% of those currently paying loadings are in the age range 34-49.

Table 2

	No. of Insured Persons paying loadings	**% of Insured Population paying loadings**
01-Jul-15	869	0.04%
01-Jan-16	5,389	0.3%
01-Jul-16	10,687	0.5%
01-Jan-17	15,132	0.7%

Table 3 shows the percentage of the open membership market premium income that comprises of LCR loadings. The percentage is small but increasing.

Table 3

LCR Data for the Market			
Date	**Loadings paid**	**Premium Income**	**LCR Loadings as a % of Premium Income**
J-J 2015	€105,668.21	1,155,973,621	0.01%
J-D 2015	€605,051.00	1,174,651,154	0.05%
J-J 2016	€1,022,687.00	1,198,058,352	0.09%
Total	€1,733,406.21		

6. Submissions Received

The Authority received 23 submissions from the following organisations. A summary of each submission is in Appendix 2.

- Laya Healthcare
- Vhi Insurance DAC
- Representative Association of Commissioned Officers
- Department of Foreign Affairs & Trade
- Department of Jobs Enterprise and Innovation
- Department of Defence
- Dept. of Justice and Equality
- Staff Unions of Department of Foreign Affairs & Trade
- Public Service Executive Union (Justice & Equality Branch)
- AON Healthcare Advisors
- Lyons Financial Services
- Dr. Brian Turner, Dept. of Economics, UCC
- Irish Hospital Consultants Association
- St. Patrick’s Mental Health Services
- Society of Actuaries in Ireland
- Insurance Ireland
- Michael O Sullivan
- Michael Lynch
- Claire O Riordan
- Louise Hartigan
- Alan Richardson
- Mary Chambers
- Jonathan McGlennan

7. Rationale for recommendations

Documentation to consumers

The Authority notes the assertion of Insurance Ireland that:

"Insurers have made every effort to ensure that the documentation currently issued is clear and concise regarding the loadings applied and how they may be lowered if further detail of previous eligible cover is provided. The combination of disclosure requirements set out within the Health Insurance Acts, the requirements of the Consumer Protection Code (CPC) and guidance issued from the Central Bank of Ireland have made this documentation complex and unwieldy for the consumer.

Insurance Ireland would propose that the documentation issued for renewals and new business be re-examined to encourage co-operation and integration of requirements between regulators to ensure consistency in approach and language used".

15,000 customers paid LCR loadings of €2.4m in 2016. The Authority has reviewed the documentation sent by insurers to new customers being charged LCR loadings. It concluded that the documentation is confusing and does not clearly set out the methods by which consumers might be able to reduce or even eliminate LCR loadings. LCR Statutory Instrument No. 312 of 2014 states that a credited period is given when a person "satisfies the undertaking". The insurers appear to operate on the basis that the onus of proof of previous insurance / overseas residence must be supplied by the customer beyond any reasonable doubt to the insurer before credited periods are granted.

The Central Bank of Ireland ("CBI") enforces its Consumer Protection Code on all financial institutions marketing products in Ireland. One of the Code's General Principles is that "*a regulated entity must ensure that, in all its dealings with customers and within the context of its authorisation, it makes full disclosure of all relevant material information, including all charges, in a way that seeks to inform the customer"*.

The Authority plans to contact the CBI suggesting that the CBI might review how health insurers communicate with their new customers on how LCR loadings (if applicable) might be lowered. In particular, the Authority believes that insurers should make their best effort to obtain details of previous continuous periods of cover and take into account statements made by their customers in respect of such cover and not operate on the basis that the onus of proof to "satisfy the undertaking" unduly rests with the customer.

People returning to Ireland and new arrivals

At present, anyone whose principal residence on 1 May 2015 was outside the State and returns to live in Ireland can avoid LCR loadings if they take out private health insurance within nine months of returning to Ireland. However people who move abroad post 1 May 2015 and subsequently return to Ireland when aged 35 or over may have LCR loadings applying to their private health insurance. A number of employers (in particular in the public sector) who move their staff overseas made submissions to the Authority that their staff should not be disadvantaged by paying LCR loadings due to residing overseas for a number of years for work reasons.

The Authority believes that there should be equal treatment for people moving abroad pre and post 1 May 2015. The Authority therefore proposes that the legislation be changed so anyone whose principal residence has been outside the State for at least 9 months and moves to live in Ireland should be allocated a credited period equal to the period when their principal residence was outside the State. This credited period would apply provided they purchased an in-patient indemnity health insurance contract within 9 months of their principal residence changing to Ireland.

Any change in the LCR rules will have transitional effects on a small number of consumers. Under this proposed amendment anyone, whose principal residence on 1 May 2015 was outside the State, would move from being exempted from LCR loadings on their return to Ireland under the current rules to being given a credited period for the time spent living outside the State under the proposed rules. This proposed change will also result in a small number of people who moved abroad since 1 May 2015 getting credited periods for the time spent living abroad.

Meaning of “Principal Residence” and “Ordinarily Resident”

The Term “Ordinarily Resident” is referred to in the Health Insurance Acts but the term is not defined. The term “Principal Residence” is referred to in LCR legislation but again is not defined. The Authority has taken legal advice in relation to the interpretation of the term “ordinarily resident”. Following the receipt of this advice, the Authority decided that it should interpret the term “ordinarily resident in the State” in respect of non– EEA students as being where they are attending a course of study in the State of more than one academic year’s duration. The Authority has issued an Enforcement Notice relating to its interpretation of “Ordinarily Resident”.

The Authority believes it would be desirable for the Health Insurance Acts to be amended in order to include definitions of these terms.

The Authority recognises that there may be legal complications relating to defining these terms that extend beyond health insurance legislation.

Specific Exemptions from Loadings

The Authority does not, in general, favour specific exemptions from LCR loadings being applied for particular groups of people due to considerations of the fairness of selectively exempting certain categories of consumers. However Members of the Defence Forces are different to other groups in that they are prohibited from using private medical healthcare unless referred by a Defence Forces doctor. The Dept. of Defence has suggested that credits should be given for the time spent serving in the Defence Forces. The Authority notes that Australia gives such special treatment to its Defence Forces in its lifetime cover regulations.

The Authority is of the view that it is appropriate for the time period working in the Irish Defence Forces to be recognised as a credited period if a person is buying an in-patient indemnity health insurance contract within 9 months of leaving the Defence Forces.

A case for exemption from LCR loadings applies in respect of staff of the European Union (EU) who are living and working in Ireland. These people (and members of their family, subject to certain conditions) are covered by the Joint Sickness Insurance Scheme of the European Institutions (JSIS). The Government of Ireland has signed a Memorandum of Understanding which states that Ireland recognises the medical insurance provided by JSIS for officials of the European Union. The Authority's understanding is that this means that staff working for the EU, while living and in Ireland, should be treated identically to other EU staff working in locations outside Ireland. As a result, the Authority is of the opinion that members of the JSIS living in Ireland should be given LCR credit for their time in the JSIS along the same lines as applies for people returning to Ireland after their principal residence was outside the State.

The Authority is of the view that the issues arising for other public officials seconded to work abroad are satisfactorily dealt with by the proposed change to the LCR regulations (as set out above) for people returning to Ireland.

<u>Gaps in Cover</u>

The LCR Regulations include an allowance of up to three years for periods of unemployment after 1 January 2008, if in receipt of a relevant social welfare payment. The rationale is that some credit should be given where a person is forced for economic reasons to cancel their health insurance. However, the legislation does not give any allowance for breaks in cover for reasons other than unemployment. Examples of other gaps in cover that might merit a credit are in respect of unemployment of a self-employed person (where they are not entitled to a social welfare payment) or a person involved in the full time care of a dependant relative.

Australia gives credited periods for all gaps in cover of up to three years. The Authority believes that Ireland should follow the Australian practice. It notes that such a change in legislation might reduce the current LCR loading for an existing customer at their next renewal of their contract. It would also remove the need for customers to provide details to insurers of relevant social welfare documentation, proving unemployment.

<u>Period that LCR loadings apply for</u>

The Society of Actuaries in Ireland submission asserts that the current LCR system "goes beyond fair and reasonable compensation and incorporates an additional punitive element". They argue that LCR loadings should not be paid throughout life.

In Ireland, the proportion of insured population paying loadings is currently 0.7% but this will increase over time as the scheme matures. Australia brought in LCR loadings in 2000 with the loadings applying throughout life. In 2007, the scheme was amended so that the loadings would be automatically waived once ten years of loadings were paid. In 2016, loadings were paid by 13.8% of adults in Australia.

The Authority favours the Australian practice of loadings being payable for a total of 10 years rather than throughout life as applies currently or for a term of 20 years as suggested by the Society of Actuaries in Ireland in its submission. The purpose of an LCR loading is to encourage people to buy and maintain health insurance rather than to increase insurers' premium revenue. The Authority proposal would still result in a significant financial incentive remaining for consumers to purchase private health insurance before LCR loadings applied but the loadings would not be punitive. The current lifetime application of loadings is a major disincentive for people to take out private health insurance once a loading applies.

<u>How insurers satisfy themselves in relation to credited periods</u>

The Authority believes that a working group of insurers and HIA should meet to review and hopefully simplify the methodology by which insurers satisfy themselves in relation to credited periods for previous cover. The working group should also review how evidence of overseas residence is determined.

<u>Cut-off date for calculating LCR Loading</u>

At present the LCR loading, that a new customer pays, is 2% of the gross premium for each year in age that an individual exceeds 34 when they first take out inpatient private health insurance. The LCR age calculation might be amended so that it was based on a set date in the calendar year (say 1 May of each year rather than each birthday). It would allow the health insurance industry to focus a marketing campaign at that time of the year on citizens over the age 34 that do not have health insurance. If these citizens bought private health insurance prior to 1st May, they would reduce their LCR loadings by 2% compared to deferring purchase to post 1st May. Australia made a change of this nature to their rules in 2003.

Implementing a change of this nature involves IT systems changes for the health insurance industry. As the purpose of such a change is to assist the health insurance industry, it should only be implemented if the industry is in favour.

<u>Transitional Measures</u>

Health insurance contracts are one year renewable contracts. The Authority considers that any changes in legislation should be applicable from the next renewal date after the enactment of the changes in the legislation. This might result in a different loading applying from the next renewal but would have no impact on past or current LCR loadings.

<u>Further Review</u>

A further review of the functioning of the LCR regulations should be carried out 3 years after the legislative changes resulting from this review are enacted.

Other issues raised

It was suggested that insurers should have the discretion to waive LCR loadings. However, this would enable insurers to further segment the market than at present as insurers would be inclined to primarily waive loadings for large corporates and for younger healthier people. Switching between insurers would also become more complex as the decision to waive loadings by the original insurer would not be automatically applied by the insurer the customer was switching to.

It was suggested that more comprehensive statistics on LCR should be published by the Authority so as to better inform the general public. The Authority, in future, will publish annual statistics by individual age of the number of lives with private health insurance and the number of lives and LCR loadings being paid.

Insurance Ireland suggests that The Health Insurance Authority should have an LCR calculator on its website. The Authority's comparison tool is already very complex for customers to use. It is designed primarily to enable customers compare the prices and benefits of alternative products when they are considering switching products. If an LCR loading applies to this customer, it will be same percentage irrespective of which product is chosen. The Authority does not favour adding an LCR calculator into the comparison tool as it would significantly increase the complexity of use of the comparison tool for consumers. The Authority notes that none of the insurers have an LCR calculator on their website, presumably for similar reasons.

Appendix A. Consultation Paper

Lifetime Community Rating Consultation Paper

January 2017

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1. Introduction

Lifetime Community Rating was introduced to the private health insurance market in Ireland with effect from 1 May 2015. It introduced a late entry loading on health insurance premiums for those aged 35 years or older taking out private health insurance for the first time. This loading is 2% of the gross premium for each year of age that a person exceeds 34 when they first take out private health insurance. The purpose of Lifetime Community Rating (or 'LCR') is to encourage people to take out private health insurance at a younger age and to maintain cover thereby helping to control average claims costs and premium inflation.

Paragraph 7 of the Statutory Instrument introducing LCR states that: "the Minister may cause a review of the functioning of these regulations to be carried by the Authority at any time after 30 April 2017." The Authority has been requested by the Department of Health to carry out such a review in 2017 and is conducting a public consultation as part of its review. This consultation paper has been issued by the Authority to inform and assist those who may wish to make a submission as part of this review.

The Authority invites submissions on the operation of Lifetime Community Rating in the private health insurance market in Ireland by 3rd March 2017. Details of how to make a submission are set out later in this paper.

2. About the Health Insurance Authority

The Health Insurance Authority ("Authority) is a statutory regulator for the Irish private health insurance market. It was established in 2001 under the Health Insurance Act 1994.

The principal functions of the Authority, as set out in the Health Insurance Act 1994 (as amended), 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;
- 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".

3. Private Health Insurance market in Ireland

The Irish private health insurance system is based on the key principles of community rating, open enrolment, lifetime cover and minimum benefits. These principles aim 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 increased claims cost as they get older and less healthy. 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. A risk equalisation system supports community rating and creates a partial common pool among all open market insurers.

It is in this context that the concept of community rating must be understood. It 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. Exceptions apply in respect of children under 18 years of age, discounts for members of group schemes, young adults and lifetime community rating loadings (the latter two exceptions began on 1 May 2015).

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.

4. Background to Lifetime Community Rating

An unfunded community rated voluntary private health insurance market means that the average claims cost and the resulting premium rates depends on the age profile of those insured in the market. If younger people delay joining the private health insurance market, the average age profile of the market increases resulting in higher average claims per insured life. This may result in insurers increasing premium rates resulting in the cancellation of policies by younger healthier lives thereby increasing average claims costs. A spiral of this nature can threaten the viability of the market.

The purpose of Lifetime Community Rating ("LCR") is to encourage people to take out private health insurance at a younger age and to maintain cover, thereby helping to control average claims costs and premium inflation.

Section 7A of the Health Insurance Act 1994 -2015 gave the Minister for Health the power to introduce regulations whereby loadings would be applied to health insurance premiums in certain circumstances. The Minister for Health invoked this power in introducing Statutory Instrument No 312 of 2014 which introduced Lifetime Community Rating. This resulted in LCR loadings applying in certain circumstances in respect of policies commencing from 1 May 2015. From that date, people aged 35 and upwards taking out health insurance for the first time are charged a late entry loading. The loading is 2% of the gross premium for each year in age that the person exceeds 34 when they first take out private health insurance. Credit is given for previous periods of cover and for periods of unemployment since 2008. The loadings apply for life.

The Authority ran an extensive public information campaign in advance of the 30th April 2015 deadline.

The Authority has collected lifetime community rating data since commencement of LCR. Insurers submit half yearly information to the Authority on the number of insured lives paying lifetime community rating loadings and the amount of the loadings.

A simple Questions and Answers description of lifetime community rating is set out in Appendix 1 of this paper. If a reader requires a more detailed description, they should refer to the Statutory Instrument mentioned above.

Paragraph 7 of the Statutory Instrument states that: “the Minister may cause a review of the functioning of these regulations to be carried out by the Authority at any time after 30 April 2017”. The Authority has been requested by the Department of Health to carry out such a review in 2017. This consultation paper has been issued by the Authority to assist it in this review of Lifetime Community Rating.

5. Experience since Lifetime Community rating was introduced on 1 May 2015

Table 1 sets out the change in the in-patient insured lives by age from 1 January 2015 to 30 June 2016 of the open membership undertakings. It shows an increased total market size due primarily to new customers purchasing private health insurance in the grace period before LCR applied. These new customers were mostly under age 50, improving the age profile of the market.

Table 1:

	01-Jan-15	**01-Jul-16**	**Net Diff**
Aged 17 and under	441,354	477,351	35,997
Aged 18 to age 29	203,084	212,652	9,568
Aged 30 to age 39	274,356	295,054	20,698
Aged 40 to age 49	293,455	324,180	30,725
Aged 50 to age 54	135,463	146,944	11,481
Aged 55 to age 59	126,532	135,572	9,040
Aged 60 to age 64	117,031	123,062	6,031
Aged 65 to age 69	103,530	106,157	2,627
Aged 70 to age 74	76,298	81,440	5,142
Aged 75 to age 79	53,139	55,116	1,977
Aged 80 to age 84	33,290	34,423	1,133
Aged 85 and over	22,689	22,766	77
Total	**1,880,221**	**2,014,717**	**134,496**

Table 2 shows the increase over time in the number of insured lives paying LCR loadings and their percentage of the insured market. Unsurprisingly these figures show an increase over time as loadings only apply for policies commencing from 1 May 2015. The Authority believes that a significant proportion of those paying loadings are members of group schemes.

Table 2

	No. of Insured Persons paying loadings	**% of Insured Population paying loadings**
01-Jul-15	869	0.04%
01-Jan-16	5,389	0.3%
01-Jul-16	10,687	0.5%

Table 3 shows the percentage of the market premium income that comprises of LCR loadings. The percentages are very small but increasing.

Table 3

LCR Data for the Market			
Date	Loadings paid	Premium Income	LCR Loadings as a % of Premium Income
J-J 2015	€105,668.21	1,155,973,621	0.01%
J-D 2015	€605,051.00	1,174,651,154	0.05%
J-J 2016	€1,022,687.00	1,198,058,352	0.09%
Total	€1,733,406.21		

Tables 4 and 5 shows the loading and age profile of the 10,687 members paying LCR loadings in the first half of 2016. 73% of those paying loadings have loadings of 20% or less of the premium. 78% of those paying loadings are aged less than 50.

Table 4

First half of 2016		
Loading	Number of lives	Loading in half year
2% - 10%	5,343	€172,431
12% - 20%	2,512	€244,835
22% - 30%	1,355	€212,874
32% - 40%	696	€149,753
42% - 50%	380	€100,004
52% - 60%	188	€59,691
62% - 70%	**213**	**€83,098**
Total	**10,687**	**€1,022,687**

Table 5

Age	Number of lives	Loadings paid in half year
30-39	4,234	€136,700
40-49	4,116	€414,674
50-59	1,555	€273,556
60-69	582	€133,974
70-79	150	€37,022
80+	50	€26,761
Total	**10,687**	**€1,022,687**

6. Likely future developments in the market

The Irish population is likely to continue ageing. The insured population is likely to age at a quicker rate than the general population due to the current age profile of the insured market. Lifetime Community Rating will encourage young people to take out private health insurance at younger ages and discourage them from cancelling their cover. As a result, Lifetime Community Rating is likely to slow down the ageing of the health insurance market thereby lowering the inflation of health insurance claims and premiums.

The Healthcare Committee of the Society of Actuaries in Ireland recently prepared a research paper on "inflationary pressures in the Irish Private Health Insurance Market". This included an assessment of the impact of ageing on PHI premiums. An extract from this paper set out below:

"Financial Impact of Ageing
The ageing of the insured population contributed approximately 2.5% p.a. to claims inflation between 2009 and 2015. This compares with an ageing impact of approximately 1.3% when the market was growing up to 2008. The total impact of 2.5% p.a. can be attributed to the ageing of the general population (c. 1.0%), increased penetration rates at older ages (c. 0.5%) and reduced market penetration rates at younger ages (c. 1.0%).

Summary of Analysis of Ageing
The preceding analysis shows that there are three causes for the recent ageing of the insured population:

- *The ageing of the general population: The portion of this factor that relates to increasing longevity, reduced fertility rates and the ageing of cohorts was almost inevitable and is likely to continue. A significant factor in recent years has also been the emigration of young adults. Between 2009 and 2015, the impact on claims costs of the ageing of the general population is estimated to have been approximately 1.0% p.a.*
- *An increase in penetration rates amongst older people: This factor was almost inevitable as age groups with higher penetration rates get older. It will continue for the next ten years as the penetration rates of those aged over 80 will increase from 39% to c. 50% in line with the penetration rate currently applying in the 70-79 age group. However, the effect of this factor over the next ten years would be expected to be lower than in the last ten years because the penetration rate in the 70-79 age group is already close to the peak. Between 2009 and 2015, the impact of this factor is estimated to have been approximately 0.5% p.a.*

- *Reduced penetration rates at younger adult lives: There has been a very large reduction in the penetration rate in the 30-39 age group (of 10 percentage points) and smaller reductions in the penetration rates in the 40-49 and 18-29 age groups (of 4 and 3 percentage points respectively). Between 2009 and 2015, the impact of this factor is estimated to have been approximately 1.0 % p.a.*

We note that the introduction of LCR in 2015 meant that there was a net zero impact from ageing on claims inflation from 2015 due to the offsetting arrival of new younger members in the market".

7. Australian experience

Australia has a voluntary community rated private health insurance market that is broadly similar to Ireland. Australia introduced Lifetime Community Rating (called Lifetime Health Cover) into its market in July 2000 in an attempt to stop its cycle of falling membership amongst younger lives. The loading was a permanent mandatory increase in premiums for new entrants over age 30 of an amount that was 2% per year of age in excess of 30 with a maximum loading of the 70% of standard premium. Cumulative breaks of cover of up to 3 years were allowed without a loading applying on re-joining the market. The experiment was very successful with 2.7m people taking out private health insurance in quarters 2 and 3 of 2000. These lives were predominantly in the age group 30-50.

In 2003, the scheme was amended following a review so that the age calculation on joining was based on the age as at 1 July for loading calculation purposes. The purpose of this change was to allow the industry to focus its marketing efforts in the period running up to 30 June of each year due to a higher loading applying if a person delayed joining beyond 1 July of a year. From 2003 loadings no longer applied for continuous periods overseas of more than one year if private health insurance commenced within one year of returning to Australia. New arrivals to Australia were given one year to join without loadings applying where previously the waiving of loadings only applied to Australian citizens joining within 6 months of arrival.

In 2007, the scheme was amended so that loadings would be automatically waived once ten years of loadings were paid. Periods of loaded premiums could be joined together provided the gap in cover did not exceed three years.

As at 30 June 2016, 13.8% of Australian adults pay a Lifetime Community Rating loading. Approximately 1% of the total membership had their loading removed in the previous 12 months after paying a loading for 10 years.

8. Some questions and issues raised with the Authority in advance of this review

The following LCR issues have been raised with the Authority prior to the commencement of this review.

Insurers' documentation of LCR loadings
Over 10,000 lives are paying Lifetime Community Rating loadings as at 1 July 2016. It has been asserted that some policyholders are not aware that they are paying these loadings, especially those in employer sponsored schemes. As a result, some lives may not be claiming credit for previous periods of eligible cover.

Should the documentation issued to new insured lives be amended (and if so, how) to make it clearer how the LCR loading might be lowered if the insurer was provided with details of previous eligible cover?

People moving overseas post 1 May 2015 and then returning to Ireland
Anyone whose principal residence on 1 May 2015 was outside the State and returns to live in the State can avoid Lifetime Community Rating loadings by taking out the cover within nine months of returning to Ireland.

People who move abroad post 1 May 2015 and subsequently return to Ireland when aged 35 or over may have LCR loadings applying. A number of employers who move their staff overseas have made representations to the Authority that relief from loadings should apply to their returning staff.

Should there be a change in legislation so that an exemption from LCR loadings applies along Australian lines for people moving to / returning to Ireland?

Interpretation of legislation
The terms "Principal Residence" and "Ordinarily Resident" are referred to in the health insurance legislation. However, the terms are not defined in the legislation and as a result there may be the potential for disputes as to how these terms should be interpreted.

Should these terms be defined in the legislation and, if so, in what manner should they be defined?

Defence Forces
Defence Forces personnel and their families are covered by international health insurance plans on deployment overseas. These plans are not eligible cover for the purposes of LCR loadings.

A historical arrangement exists whereby members of the Defence Forces can attend a Defence Forces Medical Officer when requiring medical treatment with the cost of any private treatment covered by the Medical Corps.

These health arrangements cease when the defences member retires from or leaves the Defence Forces. If the person takes out private health insurance at that time, the period of employment in the Defence Forces is not taken into account in assessing LCR loadings.

Should the LCR legislation be amended in respect of the Defence Forces and if so, in what manner should it be amended?

Period of time that LCR loadings apply

In Ireland, LCR loadings apply for life. In Australia, the loadings apply for 10 years.

Should the period of time that LCR loadings apply be changed and if so in what manner should they be changed?

Other Issues

The Authority invites submissions from the public on the issues outlined above, or on any other matters concerning the operation of Lifetime Community Rating in the Private Health Insurance market in Ireland.

Are there any other issues relating to Lifetime Community Rating that you wish to bring to the Authority's attention?

9. Submissions and Queries

Stakeholders and interested parties are invited to propose amendments in the LCR legislation that address any or all of the questions and issues raised in this consultation paper, or any other matters relevant to Lifetime Community Rating. Submissions should be specific and outline the perceived advantages and disadvantages of any proposal. Responses to this consultation paper should be submitted by post or by email to reach the Authority by 3rd March 2017.

Post: The Health Insurance Authority
Canal House
Canal Road
Dublin 6

Email: lcrconsultation@hia.ie

Please note that the Authority is a listed body under the Freedom of Information Acts 1997 to 2014 and proposes to make all responses to this consultation paper publicly available. Stakeholders should not include commercially confidential information that it does not wish to be published and the Health Insurance Authority accepts no liability whatsoever for the content of stakeholder consultation responses that are subsequently published by the Health Insurance Authority. The Health Insurance Authority shall not publish any information which we deem potentially libellous or defamatory.

Appendix 1

Lifetime Community rating explained

Q What is Community Rating?

Community rating is a system whereby everyone pays the same premium for a particular health insurance plan irrespective of age, gender or likely future state of their health. There are limited exceptions such as reduced rates applying for children, young adults and members of group schemes.

Q What is Lifetime Community Rating?

Lifetime Community Rating modifies community rating so that the premium that individuals pay for health insurance increases with the age at which they enter the private health insurance market. It does not vary in relation to their current age. Under this system, a 50 year old who has held insurance since he or she was 30 would pay the same as a 30 year old, but a 50 year old who purchases insurance for the first time would pay more than a 30 year old.

Q Why was Lifetime Community Rating introduced?

Community rated markets depend on a continuing influx of younger people. Younger people claim less on average and, accordingly, a continuing influx of younger people keeps premiums down for everybody. Conversely, if people wait until they are older before taking out private health insurance, premiums will increase for everybody.

Lifetime Community Rating encourages people to join the private health insurance (PHI) market at a younger age and this helps in controlling premium inflation.

Q When was lifetime community rating introduced?

Loadings have applied to people aged higher than 34 taking out inpatient private health insurance for the first time since 1 May 2015.

Q What loadings apply?

A loading of 2% of the gross premium applies for every year of age higher than age 34 that an individual has attained when they first purchase inpatient private health insurance.

Q Do loadings apply for life?

Yes, the loading applies throughout the lifetime of a person who purchases inpatient health insurance since 1 May 2015.

Q Are health insurance cash plans included in Lifetime Community Rating?

No. Loadings do not apply to health insurance cash plans. If a person did not hold an inpatient private health insurance plan by 30 April 2015 and is over age 34, a loading is applied to any inpatient plans purchased after this date.

Q If a person is aged over 34 and has never had health insurance, does that mean that they will have to pay a higher premium when they purchase health insurance?

Yes, a loading will be applied to the premium of 2% for every year over age 34 that has been attained.

Q Is a loading applied to a person aged over 34 who switches from a cash plan to an inpatient private health insurance plan?

Yes. Health insurance cash plans are not included in Lifetime Community Rating, so a loading will be applied when a switch to, or a purchase of an inpatient private health insurance plan is made.

Q Are previous periods of inpatient cover taken into account in calculating the loading?

Yes, previous periods of cover are taken into account in calculating the loading that will apply. Periods of cover held on a health insurance cash plan will not be taken into account for the purposes of calculating loadings.

Q I am 50 now, I had inpatient private health insurance for 5 years in my late 20s / early 30s and then I let it lapse. Will I have to pay Lifetime Community Rating loadings, given that I first got insurance under age 35?

Your insurer will be required to calculate your age at entry under Lifetime Community Rating. This will be your age when you purchase insurance less any previous periods of cover (in this example 50 – 5 = 45). You will pay the same loading as a 45 year old who is purchasing private health insurance for the first time, i.e. 22%.

Q Is credit given for cover as a child under their parent's policy when calculating my Lifetime Community Rating loading?

No. Credit does not apply to periods of cover as a child.

Q Do emigrants have to pay a loading when they return to Ireland?

Anybody who lived outside of the State on 1 May 2015 and returns to live in Ireland has 9 months to purchase inpatient private health insurance to avoid the loading under Lifetime Community Rating.

Q How does a person prove that they were not resident in Ireland on 1 May 2015 and returned to Ireland in the last 9 months?

The onus is on the person to prove these facts to the insurer's satisfaction. This can be done for instance by providing copies of bank statements opened while abroad, evidence of accommodation lease arrangements or utility bills paid while abroad. Travel documentation or application for a PPS number would be accepted as proof of taking up residency in Ireland.

Q Is there any allowance made for people who had to give up health insurance cover because they could not afford it due to losing their job in the Great Recession?

The Regulations include an allowance of up to three years after 1 January 2008, for periods of unemployment. Such periods will be treated as if the person did have insurance cover when calculating any premium loading.

Q What is the maximum loading that can apply?

The maximum loading that can apply is 70% of the gross premium in the event of a person aged 69 or older purchasing inpatient private health insurance for the first time.

Q Do all health insurers apply the loadings?

All insurers must apply the loadings to their inpatient private health insurance plans.

Q What happens if a person switches insurer?

Switching insurers does not affect the loading. Any loadings continue to apply and insurers supply each other with proof of an individual's previous cover.

Can a person drop their health insurance for a period without a loading applying?

Breaks in cover of up to 13 weeks are allowed without affecting the loading.

Example

I am 45 year old and I am taking out health insurance for the first time. My community rating premium (after tax relief) is €1,000 per annum. What premium shall I pay including the lifetime community rating loading?

The annual premium is €1,000 plus €200 tax relief	= €1.200
The loading is 22% of the gross premium of €1,200	= € 264
Gross premium including LCR loading	= €1,464
Tax relief of 20% gross premium limited to €200	= € 200
Amount payable	= €1,264

Appendix 2.

Appendix 2	
Synopsis of Submissions	
Name	**Suggestion**
Jonathan McGleenan	Time of 2 years or more spent outside the country should be credited to the consumer.
Michael O'Sullivan	The levy is unfair and should be abolished
Michael Lynch	Cover held abroad by those who emigrate should be considered as continuous cover for the purposes of calculating LCR credits. Alternatively people who go abroad to work should be allowed to continue to hold their domestic policy at a nominal rate.
AON Healthcare Advisors	There should be a more uniform and consistent approach between insurers in terms of collaborating and sharing information to calculate LCR loadings. Insurers should be allowed to waive loadings to relieve the financial burden on companies who are supporting the market through the provision of young, healthy customers. There may be a need to waive loadings for those travelling abroad to work.
Claire O'Riordan	The 2% loading per year is too high and should be waived after a set period of time similar to the Australian system.
Representative Association of Commissioned Officers (RACO)	Members currently have to double up on insurance to avoid loadings later in life. An exception should be made for the Defence Forces so their time spent insured with the Defence Forces insurance is considered continuous cover for the purposes of calculating LCR loadings similar to the system in place for the Australian Armed Forces

Staff Unions of Dept. of Foreign Affairs and Trade	Most staff do hold private health insurance, which is transferred to VHI Global when abroad and therefore should not be considered as new entrants to the market when they return. To account for all aspects of an employee's career postings abroad, there should be no lower or upper limit to the time required to be spent abroad for the purposes of waiving the loading for DFA employees. Nor should there be a limit on the number of periods which could be spent abroad. Alternatively the definition of residency could be addressed in the legislation so that health insurers tendering for the DFAT group could factor in a portion from the domestic element of the policy to contribute to the pool. Lastly it was suggested that a specific exemption for all those serving the State abroad would suffice.
Dept of Foreign Affairs and Trade	Legal advice shows the State would be responsible for loadings arising directly as a result of serving the State abroad. There should be credits for time spent abroad serving the state, or remove the once-off nature of amnesty for those abroad on 1 May 2015. Officials serving abroad should also be considered ordinarily resident, as they are currently viewed by the State in the areas of tax, welfare and citizenship.
Public Service Executive Union (Justice & Equality Branch)	Supports suggestions made by DFAT
Lyons Financial Services	Documentation should prominently display loadings with information on how to offset your loading at every renewal. People moving overseas to work should be exempt from loadings on return if they either buy within 9 months or if they show they had to go abroad to work. Defence Forces should be exempt from loadings on retirement but not for initial waiting periods. LCR loadings should apply for life and more emphasis should be placed on promoting commencement of health insurance before 34.
Laya Healthcare	The wording of documentation does not need to be changed. Credit should be applied to those moving abroad, similar to the Australian model. The definition of ordinarily resident should follow the tax laws. There should be no exemption for the Defence Forces. The Defence Forces should continue to provide medical cover post retirement. Loadings should not be amended at this time. The method used to satisfy the insurer in relation to LCR credits should be simplified. A working group should be established to this end.

Irish Hospital Consultant's Association	HIA should undertake awareness campaigns for LCR periodically. Members should always be asked to provide proof of previous cover. The agents should explain the significance of the customer's answer. A full or partial exemption should be provided to those who have to move abroad for a period of time and can show they were insured prior to departure.
Dept. of Jobs, Enterprise and Innovation	Supports Dept of Foreign Affairs's recommendations
Louise Hartigan	Those employed by the State and sent abroad to work should be considered as having continuous cover where they hold another health insurance contract, or those sent abroad should be exempt from paying a loading.
Department of Defence	Members deployed overseas should be given credit for time abroad or should be excluded from LCR
Alan Richardson	Loadings should be less or absent where someone has joined the workforce late on account of study, caring, child-rearing etc. Consideration should be made for those made redundant at any time, or emigrate. Immigrants should also be encouraged to take up insurance through a credit. Loadings should be cancelled on a decreasing scale of say, 7 to 10 years. Insurers should also be forced to be clearer in the benefits and caveats of their policies to encourage take up amongst the younger generation.
VHI Insurance DAC	A tool to calculate LCR loadings should be made available on the HIA's website. Those who spend periods of 1 year or more outside the State should have 1 year to buy health insurance when they return to avoid loadings. Waiting periods would still apply. The HIA may wish to consider scenarios involving shorter periods of time spent outside the State. Ordinarily resident should be defined but an impact assessment should first be undertaken to ensure consistency across legislation and that there are no unforeseen impacts on other legislative provisions. Waiving of LCR for companies that self-insure could undermine community rating, if companies decide to continue to self-insure young healthy members and get insurance for high-risk members. Loadings should be removed after 10 years payment. Lifetime application of penalties does not incentivise further uptake of insurance. The current LCR documentation process can be onerous if verification of previous cover fails. A central database of member cover should be developed and maintained by the HIA. There should be ongoing reviews of LCR every 2 years and also for the community rated market in general. Young adult rates could continue up to age 34.

St. Patrick's Mental Health Services	A plain English booklet should be provided to anyone with a loading on their premium, perhaps supplied by the HIA. Employers with insurance schemes should have a clear understanding of LCR facilitated through provision of a video or online campaign. Definition of ordinarily resident should align with tax definitions to avoid confusion. The Defence Forces should continue to cover their members past retirement. Loadings should be time limited to 10 years.
Society of Actuaries in Ireland	Exemptions from loadings may affect the balance of a community rated market and any exemption granted for the Defence Forces should not be seen as setting a precedent. Loadings should be applied for 20 years, or if shorter, the age that a loading first applies should be lowered to match a lower term. The HIA should publish more comprehensive statistics on LCR so as to inform the general public better. Another review should take place in 2 years' time.
Insurance Ireland	The insurer's documentation is unwieldy. It should be syncronized across insurers and between regulators. HIA should have an LCR calculator in their website. People who emigrate should be exempted from loadings when they return if they purchase insurance within a specified timeframe. They do not recommend a waiver for the Defence Forces as it undermines community rating. They recommend more analysis to decide whether a cap should be placed on the number of years a person spends paying the loading. An EDI file should be created and held by the HIA/CBI to make retrieval of consumer cover easier. A biennial review should be held on the private health insurance market to establish solutions to an evolving industry.
Mary Chambers	Lifetime Community Rating must stay but the age at entry loading should be abolished
Dr. Brian Turner ; Dept. of Economics, UCC	HIA should issue an information guide on LCR which the insurers must include in renewals. Those temporarily resident outside the State should have their loadings reduced by the number of years they were absent from the State. Definition of ordinarily resident should align with the tax definitions. The term 'principal residence' should be changed to avoid confusion with Revenue's 'principal private residence' term. A campaign should be focused on cash plan holders to make them aware that cash plans do not count for the purposes of calculating LCR loadings.
Dept. of Justice and Equality	Employees abroad on State business should have an exemption from loadings when they return or be provided with credits for serving abroad, which recognises varied lengths of service. Employees abroad are already deemed to be resident for tax purposes and many social services. They and their family members travelling with them, should also be considered resident for health insurance purposes.