

## **Private Health Insurance in Ireland: *Market Penetration and Lifetime Community Rating Reforms***

**By**

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### **Key Point:**

In 2008 the Irish health insurance market was in a strong position with over half of the Irish population covered by private health insurance. However, the sustainability of the market was put into question during the Great Recession due to a significant exodus of the younger population up-taking health insurance. A key emphasis of public policy in reversing these trends has been to encourage young people to take out and maintain health insurance coverage through the introduction of discounts and Lifetime Community Rating (LCR) loadings. While in the short-term these policies appear to have been successful, it is too early to project the long-term impact of this reform. In the long-term, the continued strength of the market remains a policy concern due to an ageing private health insurance market and the economic costs associated with maintaining health insurance. Despite improvement in the economy and employment levels in recent years, the premium costs of health insurance remains a principal deciding factor for people renewing or taking out health insurance for the first time across all age groups.

### **Review of Irish Health Insurance Market Structures and Trends:**

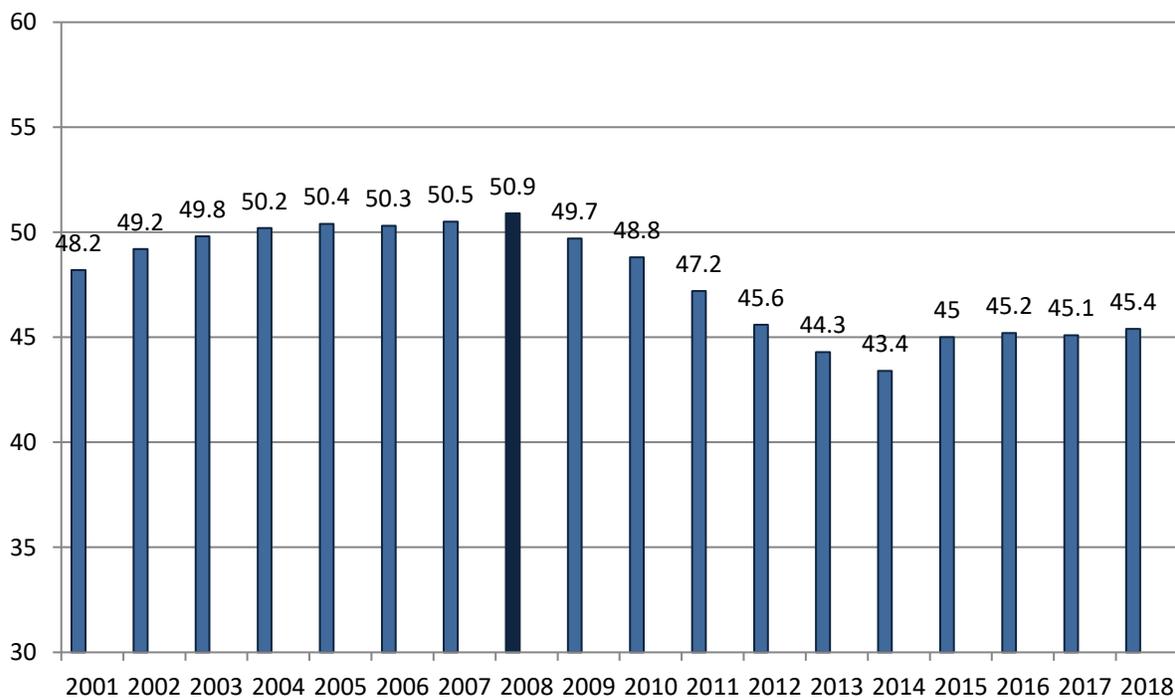
The Irish health insurance system is based on the key principles of community rating, open enrolment, life-time cover and minimum benefits. These principles ensure that private health insurance does not cost more for those who need it the most. The concept of community rating implies that the level of risk which a particular consumer poses to an insurer does not affect the premium paid (i.e. everyone is charged the same premium irrespective of age, gender and current or future state of health). Open enrolment and lifetime cover mean that with the exception of limited circumstances each health insurer must accept all applicants for health insurance and renew consumers' policies regardless of their age or health status<sup>1</sup>.

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<sup>1</sup> Health Insurance Authority (2017) *Lifetime Community Rating Consultation Paper*. [Online] Available at: [https://www.hia.ie/sites/default/files/Lifetime%20Community%20Rating%20Consultation%20Paper%202017\\_0.pdf](https://www.hia.ie/sites/default/files/Lifetime%20Community%20Rating%20Consultation%20Paper%202017_0.pdf)

Figure 1 shows that during the period 2001 to 2008 the Irish health insurance market was in a strong position with the percentage of the Irish population with health insurance increasing from 48% in 2001 to a peak of nearly 60% in 2008. However, during the Great Recession the market’s sustainability was put into question as health insurance coverage decreased significantly, reaching the lowest point of 43% in 2014.

**Figure 1 Percentage of the Irish population with Private Health Insurance 2001-2017<sup>2</sup>**



Source: Health Insurance Authority (2017) *2017 Annual Report and Accounts*. [Online] Available at: <https://www.hia.ie/publication/annual-reports-accounts> HIA (2019) *Market Figures September 2018*. [Online] Available at: <https://www.hia.ie/publication/market-statistics>

Table 1 shows the number of people with private health insurance by age group during the period 2009 to 2017. During and immediately after the Great Recession (between the years 2009 to 2014), the number of people under the age of 60 years with health insurance fell considerably. The decline was greatest amongst individuals between the ages of 18-39 years. By contrast the number of those aged 60 years and over with health insurance increased by 57,000 between 2009 and 2014, and continued to rise during economic recovery.

<sup>2</sup> All data in Figure one relate to the total health insurance market – Open Enrolment and Restricted Undertakings. The latter refers to people who are members of a particular group, normally vocational groups or employees such as ESB workers, Prison workers and members of An Garda Síochána (HIA, 2017).

During economic recovery, the health insurance market experienced a gradual increase in the younger population with insurance coverage. An additional 109,000 younger adults (0-59 years of age) took out health insurance between 2014 and 2017, of which 60,000 people were in the 40-59 age group. This general increase in insurance coverage is probably mainly attributable to the introduction of LCR loadings in May 2015, as well as insurance discounts for younger participants<sup>3</sup>.

**Table 1 Number Holding Private Health Insurance by Age Group<sup>4</sup>.**

Age Group	2009	2010	2011	2012	2013	2014	2015	2016	2017
0-17	518,000	505,000	495,000	479,000	462,000	454,000	475,000	481,000	481,000
18-29	310,000	284,000	256,000	230,000	211,000	203,000	210,000	217,000	221,000
30-39	365,000	351,000	331,000	312,000	295,000	281,000	297,000	292,000	285,000
40-49	321,000	315,000	308,000	302,000	296,000	293,000	322,000	326,000	328,000
50-59	272,000	272,000	269,000	266,000	263,000	261,000	276,000	284,000	286,000
60-69	197,000	204,000	208,000	211,000	215,000	217,000	224,000	232,000	236,000
70-79	101,000	106,000	110,000	114,000	119,000	125,000	132,000	141,000	149,000
80+	39,000	42,000	44,000	46,000	49,000	52,000	55,000	60,000	63,000
<b>Total</b>	<b>2,123,000</b>	<b>2,079,000</b>	<b>2,021,000</b>	<b>1,960,000</b>	<b>1,910,000</b>	<b>1,886,000</b>	<b>1,991,000</b>	<b>2,033,000</b>	<b>2,049,000</b>

Source: Health Insurance Authority (2012) *2012 Annual Report and Accounts*; Health Insurance Authority (2014) *2014 Annual Report and Accounts*; Health Insurance Authority (2017) *2017 Annual Report and Accounts*. [Online] Available at: <https://www.hia.ie/publication/annual-reports-accounts>

### **Changes to Irish Health Insurance Market – Introduction of LCR Loadings and Market Penetration**

With Ireland having a community rated health insurance system, the strength of the health insurance market relies on an influx of younger people. Moreover, as younger people claim less on average, this means that a strong market base of young members keeps premiums down for everybody. Conversely, if an individual waits until they are older to take out insurance this may result in the cost of health insurance premiums increasing for everyone.

In an attempt to offset such a potential distortion in the Irish health insurance market, LCR loadings took effect in May 2015. The new system introduced a late entry loading on health insurance premiums (payable for ten years) for those aged 35 years or older who took out

<sup>3</sup> There is no data available that shows health insurance patterns for specific age groups affected by the reforms (i.e. 35-39 years age group) for the years 2014 and 2015.

<sup>4</sup> The numbers contained in this table are based on Open Membership undertakings. The data table differs from the previous table listed 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 not subject to health insurance stamp duty and the age related health credits.

health insurance for the first time. Table 2 shows examples of how the loading applied accounted for 2% of the gross premium for each year that a person exceeds the age of 34<sup>5</sup>.

*Table 2 LCR Loadings Examples*

Age of Insured Person taking out insurance for the first time.	Percentage Rate of Loading
35 Years	2%
45 Years	22%
55 Years	42%
65 Years	62%
69+ Years	70%

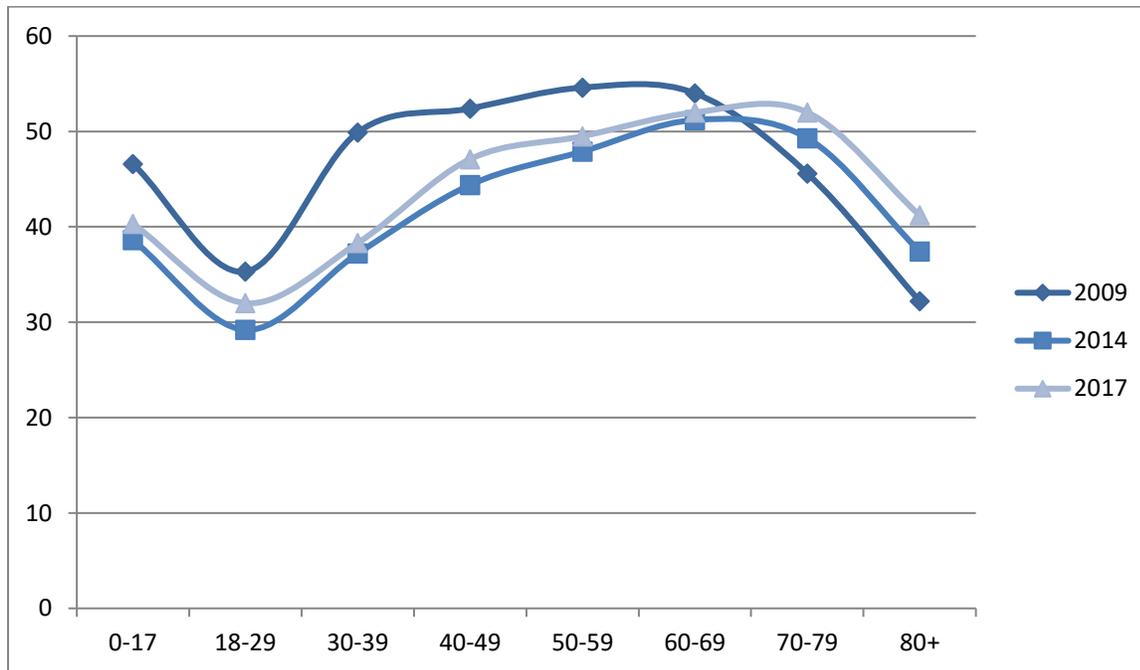
Source: Health Insurance Authority (2017) *Private Health Insurance: Lifetime Community Rating Consultation Paper*.

Figure 2 shows how market penetration rates vary by age for open membership insurers and how they have changed in the period 2009 to 2017. Between 2009 and 2014 the market penetration rate fell for all age groups up to the age of 70 and increased for the older age groups. The increase in the penetration rates of the older population is predictable due to factors such as an ageing general population. For the younger population, the greatest decline in penetration was among the 30-39 year age group (a decrease of 10 percentage points). Since the introduction of LCR, there appears to be a general increase in penetration rates between the years 2014 and 2017. This is particularly evident for those between the ages of 39 to 50. An increase in the penetration rates is also apparent amongst young adults aged 18-29. However, it is likely that these increases are related to the introduction of young adult discounts.

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<sup>5</sup> Health Insurance Authority (2017) *2017 Annual Report and Accounts*.

Figure 2 Market Penetration by Age Group - 2009, 2014 and 2017



Source: Health Insurance Authority (2017) *2017 Annual Report and Accounts*; CSO (2019) *Census of the Population* [Online] Available at: <https://www.cso.ie/px/pxeirestat/statire/SelectVarVal/Define.asp?Maintable=PEA01&PLanguage=0>

Table 3 shows the age profile and loadings paid by new entrants in the first half of 2016. The fact that most of the loadings were borne by those in the younger age groups suggests that the introduction of LCR has had a positive impact on the Irish health insurance market with 10,687 new members paying a total of €1,022,687 in loadings during this period in 2016. In 2017, this had increased to 26,000 people paying a total of €4.5 million in loadings for that year<sup>6</sup>.

<sup>6</sup> Health Insurance Authority (2017) *2017 Annual Report and Accounts*.

**Table 3 LCR Loadings Paid by Age Profile, first half of 2016**

Age Group	Number of Lives	Loadings paid in half year
30-39	4,234	€136,700
40-49	4,116	€414,574
50-59	1,555	€273,556
60-69	582	€133,974
70-79	150	€37,022
80+	50	€26,761
<b>Total</b>	<b>10,687</b>	<b>€1,022,687</b>

Source: Health Insurance Authority (2017) *Private Health Insurance: Lifetime Community Rating Consultation Paper*

Notwithstanding the general increase in health insurance holders, not enough time has elapsed to project the long-term impact of LCR in terms of the take-up and age profile of the market. As Figure 1 shows above, despite economic growth, rising employment and the introduction of LCR loadings the overall increase in the percentage of the population with health insurance has been incremental – increasing by just half of one percentage point since the reforms took effect in 2015.

### **Factors impacting market penetration in health insurance**

The long-term rate of market penetration may also depend on perceptions held by existing and potential consumers of Private Health Insurance. Overall, there continues to be a strong perception that having private health insurance leads to swifter access and positive health care outcomes. In a national consumer survey commissioned by the HIA (2017)<sup>7</sup>, 59% of those surveyed believe that health insurance allows people to skip queues and 57% are of the view that it ensures a better level of service. Having private health insurance is also deemed to be a necessity rather than a luxury. Other factors incentivising the use of private health insurance include: costs of medical treatment/accommodation; perceptions on the public services being inadequate; and perceived lack of access to public services.

Notwithstanding these perceptions on the advantages of having insurance coverage, economic considerations remain a dominant factor among those who made the decision to relinquish or never become health insurance holders. According to individuals surveyed who relinquished their health insurance coverage (n=149) in 2017, 63% reported that the expense of premiums was a dominant reason for cancelling their insurance coverage (and increased by 10 percentage points on a survey conducted in 2015).

<sup>7</sup> Health Insurance Authority (2017) *Health Insurance Authority: A review of Private Health Insurance in Ireland, 2017*. [Online] Available at: <https://www.hia.ie/publication/consumer-surveys>

Similar to those who have relinquished their health insurance coverage, economic considerations was also a dominant reason for individuals (n=923) who never had health insurance. Among those surveyed in 2017, 27% believed that if they had more money they would obtain health insurance coverage, while 24% believed that if the premiums were reduced/cheaper they would consider taking out health insurance.