Society of Actuaries in Ireland

Press Release
13th March 2017

Lifetime Community Rating System: Additional Premiums for Life "unduly punitive"

Adopting Australian Approach "would lead to a strain on the system"

In a submission to the Health Insurance Authority the Society of Actuaries in Ireland has put forward an analysis of the structure of the additional premiums paid under the lifetime community rating (LCR) system. Under the current system, somebody who first takes out health insurance after age 34 must pay an additional loading, calculated as 2% of the premium for each year by which he or she is older than 34, for the remainder of his/her lifetime. The analysis carried out by the Society shows that the current requirement that the customer pays the loading for life is unduly punitive but that adopting the approach used in Australia, whereby the additional premiums cease after 10 years, would lead to a strain on the system unless there were an increase in the current loading and/or a reduction in the current age 34 starting point.

In forming this view, the Society recognises that the approach adopted should

- fairly and reasonably compensate the health insurance market for admitting those people who do not join - and do not subsidise – the market when they are young but then take out health insurance in their older years when they are being subsidised by the system, and/or
- incorporate an additional punitive element to act as a deterrent so that people join the health insurance market before the age at which loadings apply.

The Society's analysis shows the current system is aimed at the second potential policy objective above.

The analysis suggests there is scope to reduce the additional premium payment term to 20 years, which would largely meet both of the above potential policy intentions if no other changes to the system are proposed.

The Society notes the Australian approach of a payment term of 10 years is not directly applicable to the circumstances of the Irish health insurance system. In particular:

- The additional premiums under the Australian system start to apply from age 30 instead of from age 35 in the Irish LCR system.
- Australians who do not take out health insurance cover face a potential income tax surcharge. No equivalent potential income tax surcharge applies in Ireland.

The combined effect of these two differences allows the Australian LCR system to offer a lower payment term than Ireland but at the same time maintaining an equivalent level of deterrence to those people considering deferring their take-up of health insurance into their older years.

Ends

The full paper is available here: https://web.actuaries.ie/press/submissions

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Society of Actuaries in Ireland

The Society of Actuaries in Ireland is the professional body for actuaries practising in Ireland. Actuaries provide advice on and relevant solutions for financial, business and societal issues involving uncertain future events. Most of the Society's members work in the financial services industry, and the profession has a statutory role relating to the supervision of pension schemes and insurance companies.

The Society seeks to make an impartial contribution to public debate on social policy and public interest matters where an actuarial perspective can add value.

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