Society of Actuaries in Ireland

News Release

Ireland's Risk Equalisation System Needs To Be Strengthened

- *Morbidity data relating to patients' type and severity of sickness should be collected from private hospitals says actuarial expert.*
- *The Society's seminar today (26/09/2018) brought together international and domestic experts to discuss how cross subsidies in the health insurance market can be modified in the future.*
- *Risk sharing and enhanced risk equalisation would ensure the best value for health insurance customers and the health system as a whole, and support the implementation of the Sláintecare proposals.*

The Society of Actuaries in Ireland seminar today (26/09/2018) on the future regulation of the Irish health insurance market focused on how the private health insurance regulatory structure should be changed to adapt to a changing market environment. Private health insurance continues to be an important part of the wider health system with over 44% of the population currently purchasing it.

At the seminar today, John Armstrong, a long-standing health insurance actuary in the Irish market and a researcher at the Erasmus University in Rotterdam, said:

"We should strengthen our risk equalisation system in line with best international practice to copper-fasten equity in the private health insurance market. Doing so will discourage all insurers from selecting and targeting young and healthy rather than relatively older and sicker groups in society. It will also support the reform proposals in *Sláintecare*.

"A key next step in improving risk equalisation will be to collect morbidity data from private hospitals. Such data is currently not collected. This will be challenging, given the complexities and cost in collecting such data, and may lead to controversy.

"I would have liked to have seen more discussion of the positive role of private health insurance in the *Sláintecare* report. Solidarity mechanisms such as community rating and risk equalisation provide a clear indication of how private health insurance can be used for the common good as espoused in the report."

This theme of the importance of moving towards health-status risk equalisation was supported by Prof. Richard van Kleef from the Erasmus School of Health Policy and Management in the Erasmus University in Rotterdam.

Prof. Richard van Kleef said:

“The design of health-based risk equalisation comes with data requirements and tradeoffs and the design of health-based risk equalisation is (and might always be) work in progress.

“Health-based risk equalisation compensates insurers for systematic differences in spending between people in good health and those in poor health. Three decades of research have led to sophisticated health indicators being deployed in many countries based on diagnoses, utilisation and spending.”

As an alternate to risk equalisation Prof. Tom McGuire from the Department of Health Policy, Harvard Medical School, Harvard University provided evidence as to the incentives that might arise from the use of a risk sharing mechanism under which actual costs are shared between insurers rather than expected costs.

Prof. Tom McGuire said:

“Risk sharing is a tool a regulator can use to complement health status based risk equalisation. Under such arrangements, risk can be shared with consumers, providers, other plans and even regulators. It is a common feature of health plan payment systems (including in Ireland) and is a useful mechanism given that a very few members of a health insurance market account for a large share of cost and risk. Risk sharing, such as reinsurance, is very effective at improving the match between credits (i.e. plan payments to costs) for this group.

“In summary, risk sharing and morbidity based risk equalisation policies should be chosen together taking advantage of the strengths of each.”

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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 members of the profession hold statutory or regulated roles relating to the financial management 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.

The views expressed are those of the speakers at the seminar and not necessarily those of the Society of Actuaries in Ireland.

Background information

The seminar provides an additional input into the work of the Risk Equalisation Review Group of the Department of Health as it considers changes to the system.

The speakers have all recently worked together on a new book titled *"Risk adjustment, Risk Sharing and Premium Regulation in Health Insurance Markets: Theory and Practice." Edited by Thomas G. McGuire and Richard C. van Kleef* published by Academic Press. John Armstrong wrote the chapter on Ireland for this publication.

Terminology

Community rating is the long-established requirement in the Irish health insurance market that all consumers should be charged the same premium regardless of their risk profile. Thus, an 80 year old must be charged the same premium as a 35 year old for the same product. This contrasts with practice in, for example, the motor insurance market where younger drivers can be charged a different premium compared to older drivers.

Risk equalisation is a tool that is used to provide for cross-subsidies between consumers in the market depending upon their risk characteristics. Many different countries have forms of risk equalisation in place as part of their health insurance markets including Belgium, Germany, the Netherlands, Switzerland and Ireland in Europe; Australia, Chile, Colombia, Israel and the United States outside of Europe.

Risk equalisation in Ireland operates under a system of credits administered by the Health Insurance Authority. At present, credits (i.e. cross subsidies) are in place based upon the following risk characteristics: age, gender and type of cover. The credits are funded by a risk equalisation levy paid by insurers for each insured person.

Risk sharing is a tool for sharing the actual claims costs of insurers. It, therefore, should be considered as an alternative to risk equalisation, which is based upon predicting expected claims costs. In Ireland, an element of the transfers between insurers is based on risk sharing mechanism as insurers are compensated based upon the hospital utilisation experience of their members.

Morbidity data highlights the presence of disease or other adverse health event, including illness, injury or disability in individuals.

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