



Society of Actuaries in Ireland

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# **Inflationary pressures in the Irish Private Health Insurance market**

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10 November 2016

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# Disclaimer

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**The views expressed in this presentation are those of the presenter(s) and not necessarily of the Society of Actuaries in Ireland**

# Healthcare committee members

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# **Recent Claims Experience and the Historical Impact of Ageing**

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**Martin Kelly**

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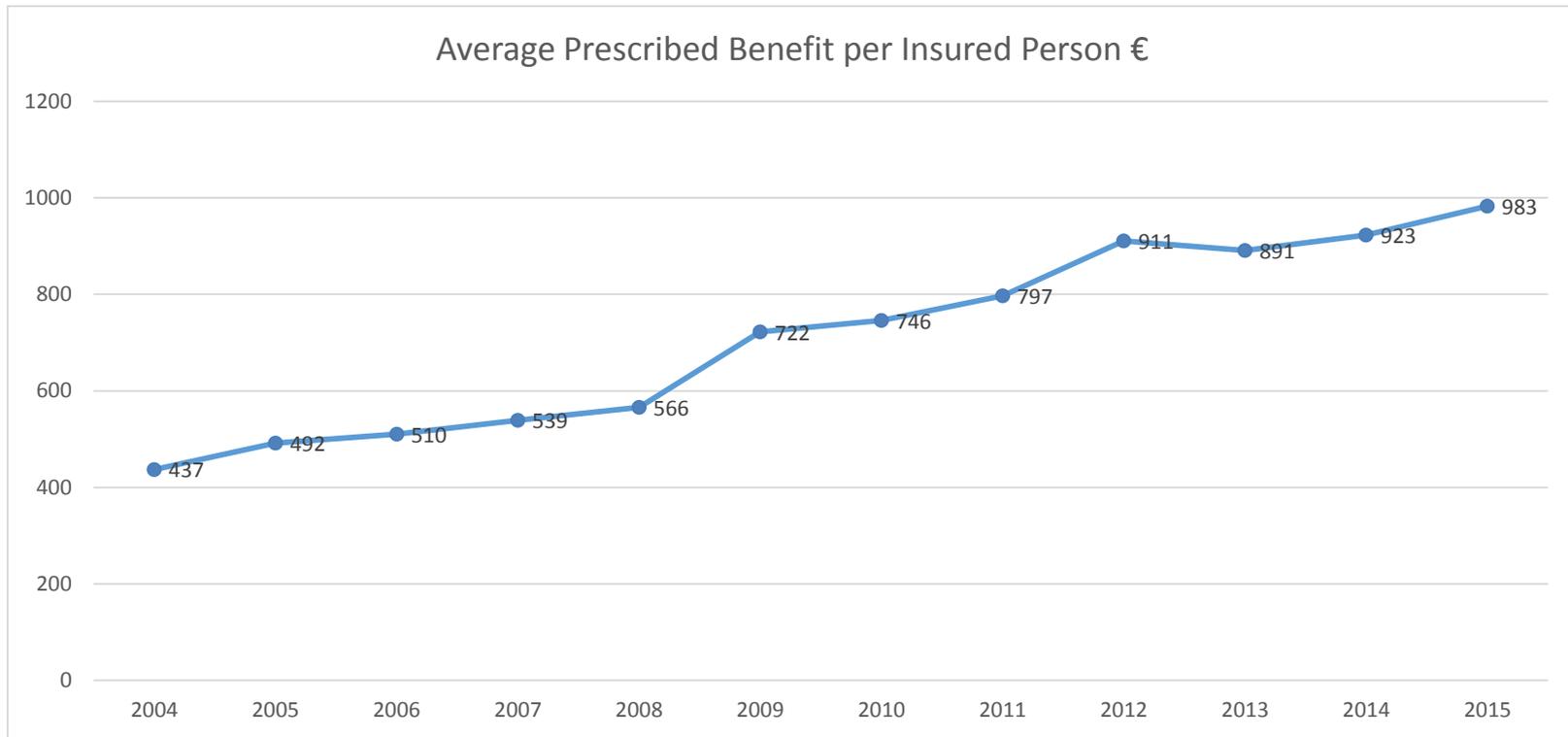
# Recent Claims Experience

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- €2.1bn paid by Irish Health Insurers in 2015
  - 47% Private Hospitals
  - 26% Public Hospitals
  - 20% Consultants
  - 7% Other
- Average Prescribed Benefits per Insured increased by 7.6% per annum over the period 2004 – 2015
- Highest level of growth was in the period 2008 – 2012



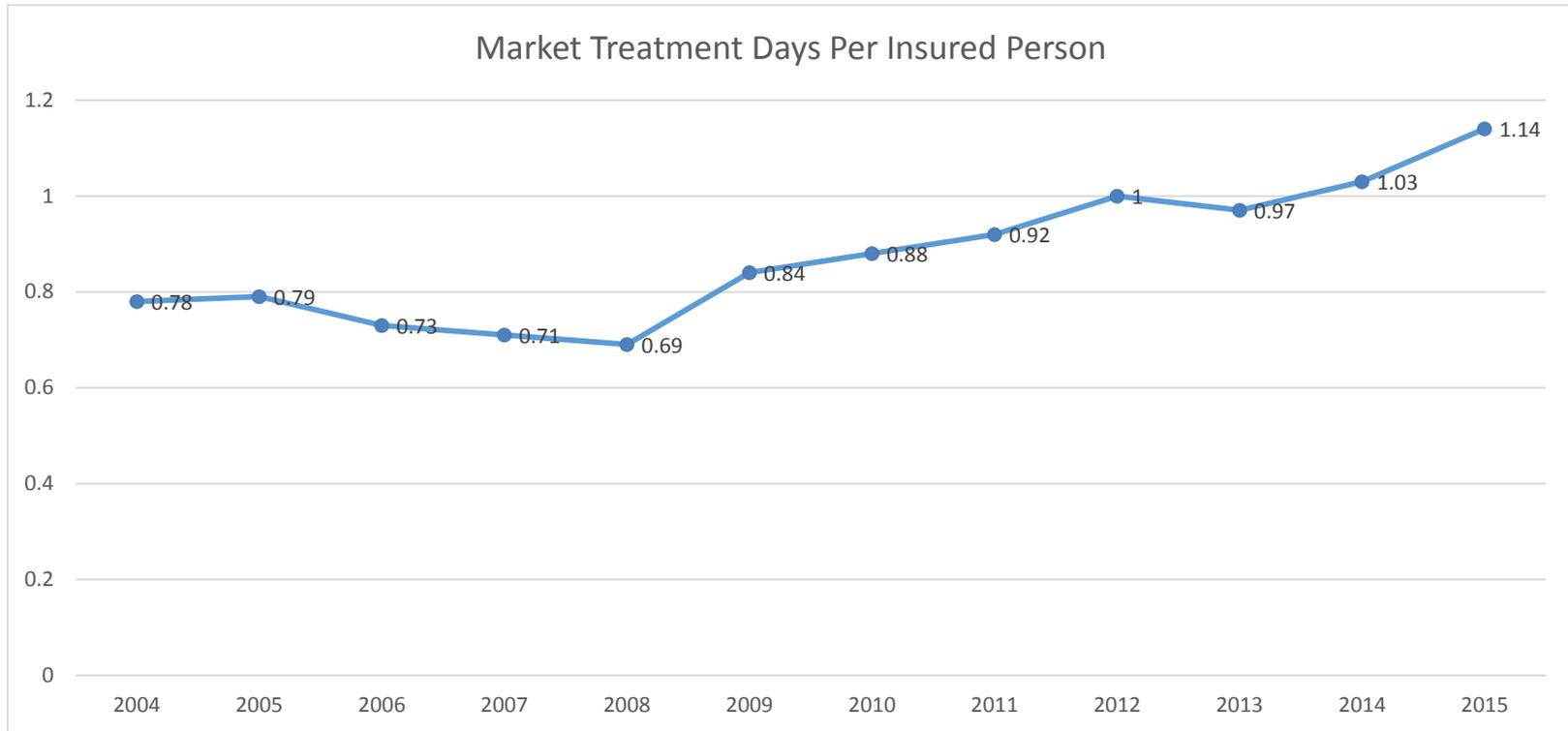
# Recent Claims Experience



- 2004 – 2008: Average growth per annum of 6.7%
  - vs CPI growth of 3.9% p.a.
- 2008 – 2012: Increased to 12.6% p.a.
  - CPI fell by 0.3% p.a.



# Utilisation



- 2004 – 2008: Average Reduction of 3.0% p.a.
- 2008 – 2012: Average Increase of 9.7% p.a.
  - Mainly driven by increases in capacity from new facilities and the impact of ageing



# Impact of Ageing

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- Prior to 2008, when the market was growing, ageing contributed 1.3% p.a. to claims inflation
- Ageing contributed 2.5% p.a. to claims inflation between 2009 and 2015
- Main causes of Ageing in this period:
  - Ageing of General Population (c. 1.0%)
  - Increased take-up amongst older people (c. 0.5%)
  - Reduced take-up amongst younger people (c. 1.0%)



# Ageing of General Population

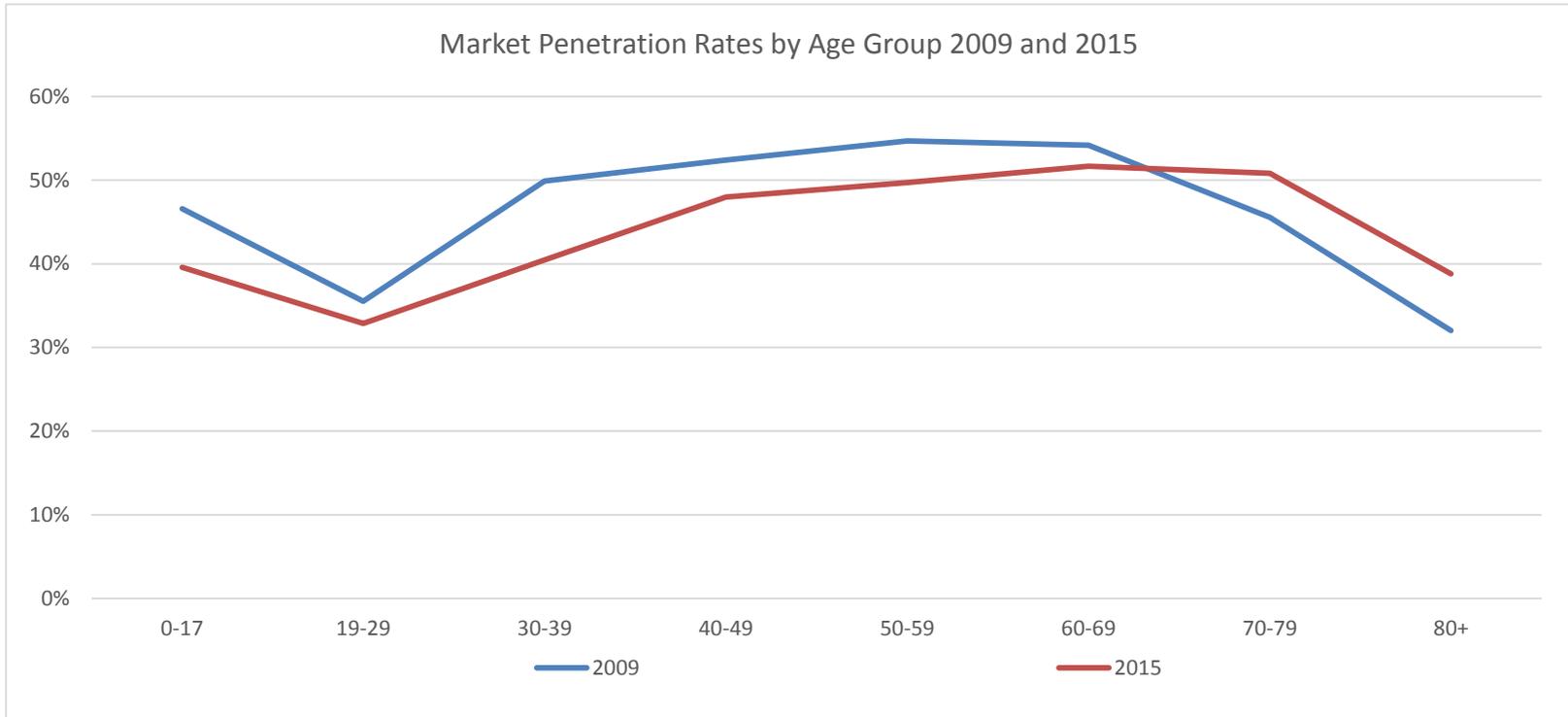
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Age Structure of the Irish Population in the Last Three Censuses and in 2015 Estimate				
Age Group	2002	2006	2011	2015 (Est)
0-19	29.1%	27.2%	27.5%	28.3%
20-29	16.4%	16.9%	14.3%	11.3%
30-39	15.2%	15.8%	16.5%	15.9%
40-49	13.3%	13.6%	13.9%	14.5%
50-59	10.9%	11.1%	11.3%	12.0%
60-69	7.3%	7.7%	8.6%	9.3%
70-79	5.2%	5.0%	5.1%	5.6%
80+	2.6%	2.7%	2.8%	3.1%

- Over 60's increased from 15.1% to 18.0%
- Over 60's growth fastest 2011 to 2015 (16.4% to 18.0%)
- 20-29 age group reduced from 16.4% to 11.3%



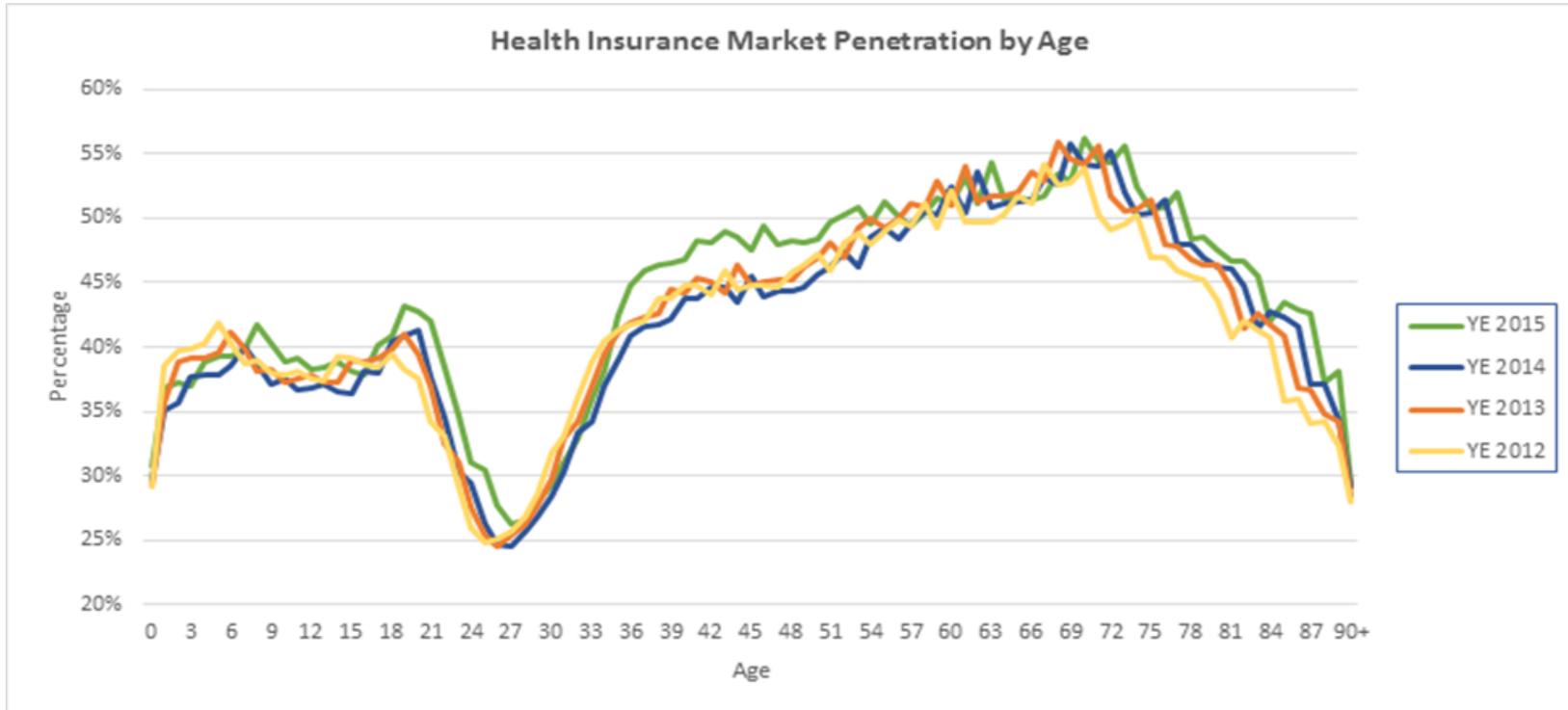
# Market Penetration by Age



- Under 70's take-up reduced
- Over 70's take-up increased
- 19-29 has the lowest take-up
- 30-39 had the largest reduction during the period



# Market Penetration by Age



- Low take-up of young adults
- Introduction of Lifetime Community Rating
- Introduction of Young Adult Rates



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**Long-Term Demographic Premium  
Inflation Projection & Determinants of  
Health Insurance Take-Up**

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Ivor O'Shea

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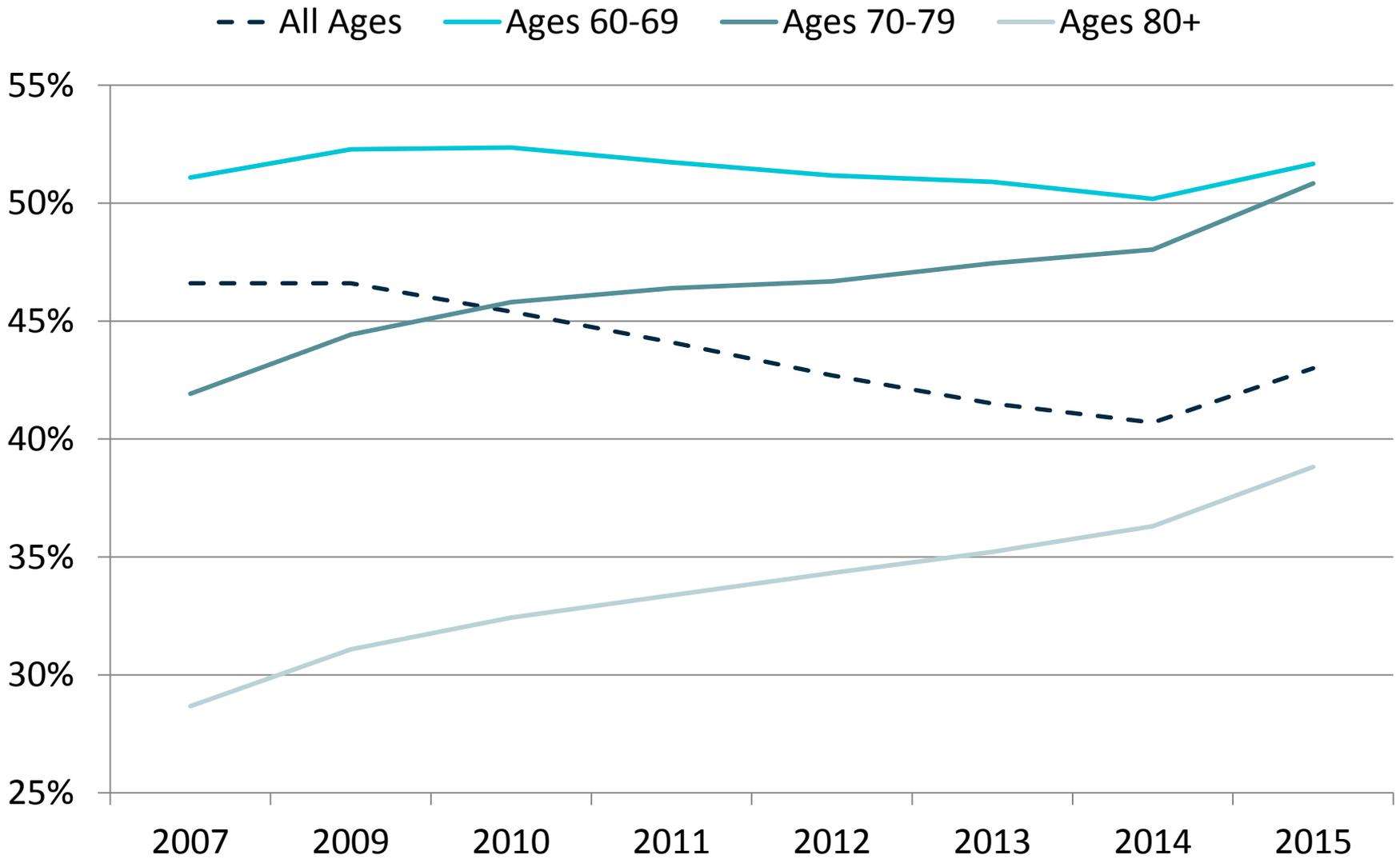
# 'Demographic' Premium Inflation Projection

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- Used CSO Population Projection 2016-2046
- Opted for 'M2F2' projection basis
  - M2 = Moderate immigration levels (middle variant of 3)
  - F2 = Gradual reduction in fertility (lower variant of 2)
- Take-up rates constant over projection period
  - But adjustments used for ages  $\geq 70$
  - No adjustment for potential long-term LCR impact
- Not a proxy for projecting overall health spending inflation

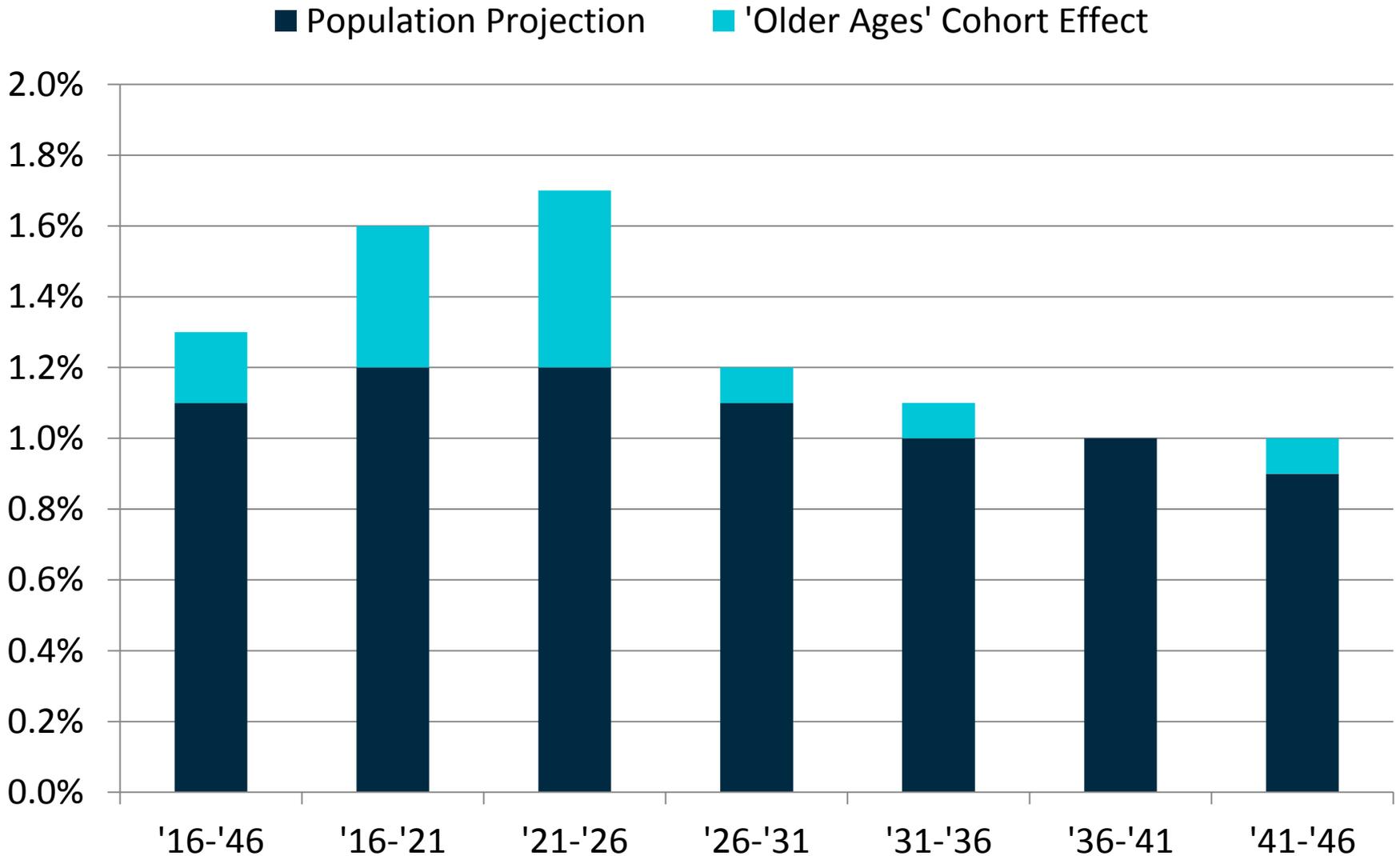


# Take-Up Levels - Age Cohort Effect





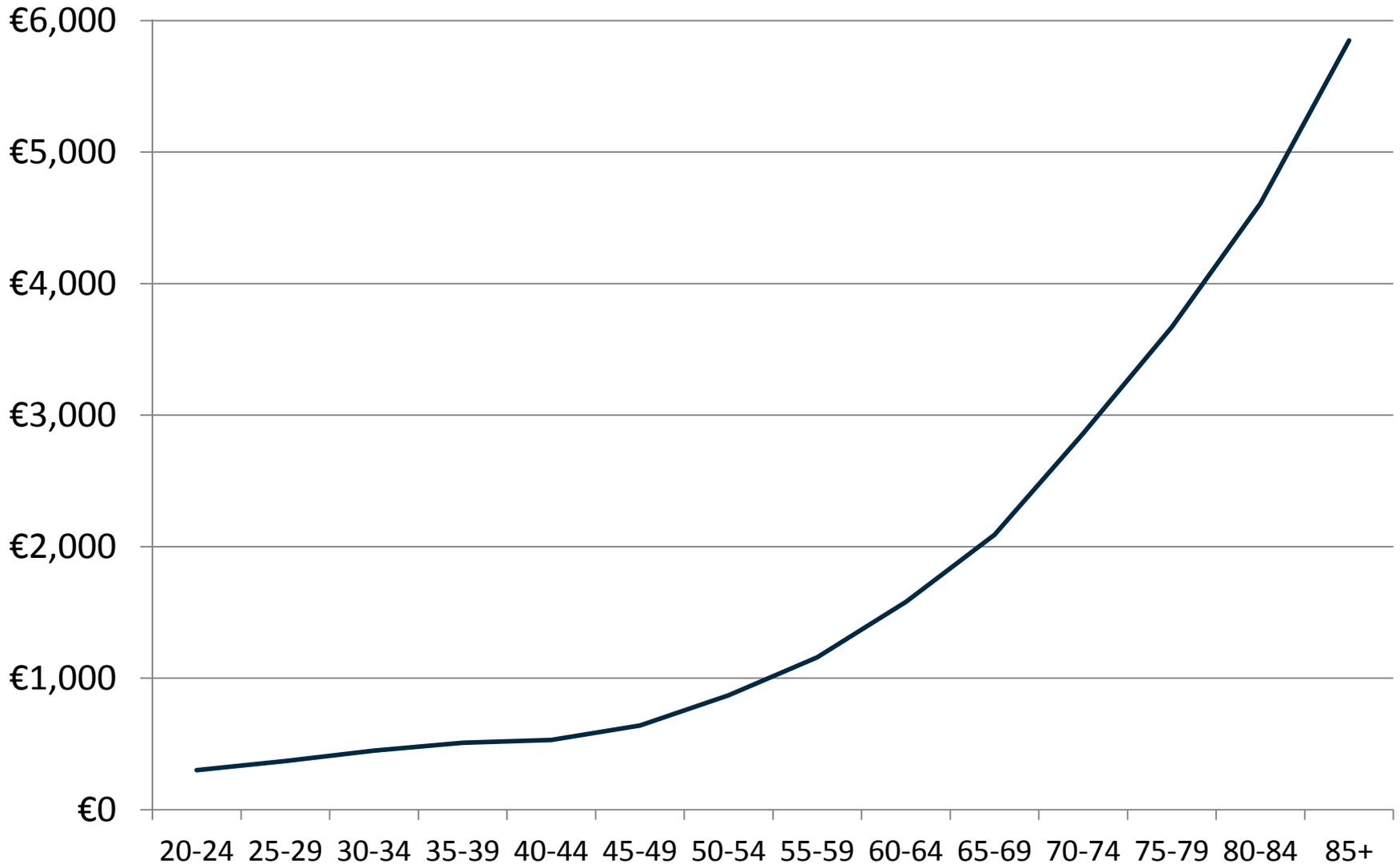
# Premium Inflation Projection (Central)





# Average Claim Amounts (2015 – All Insurers)

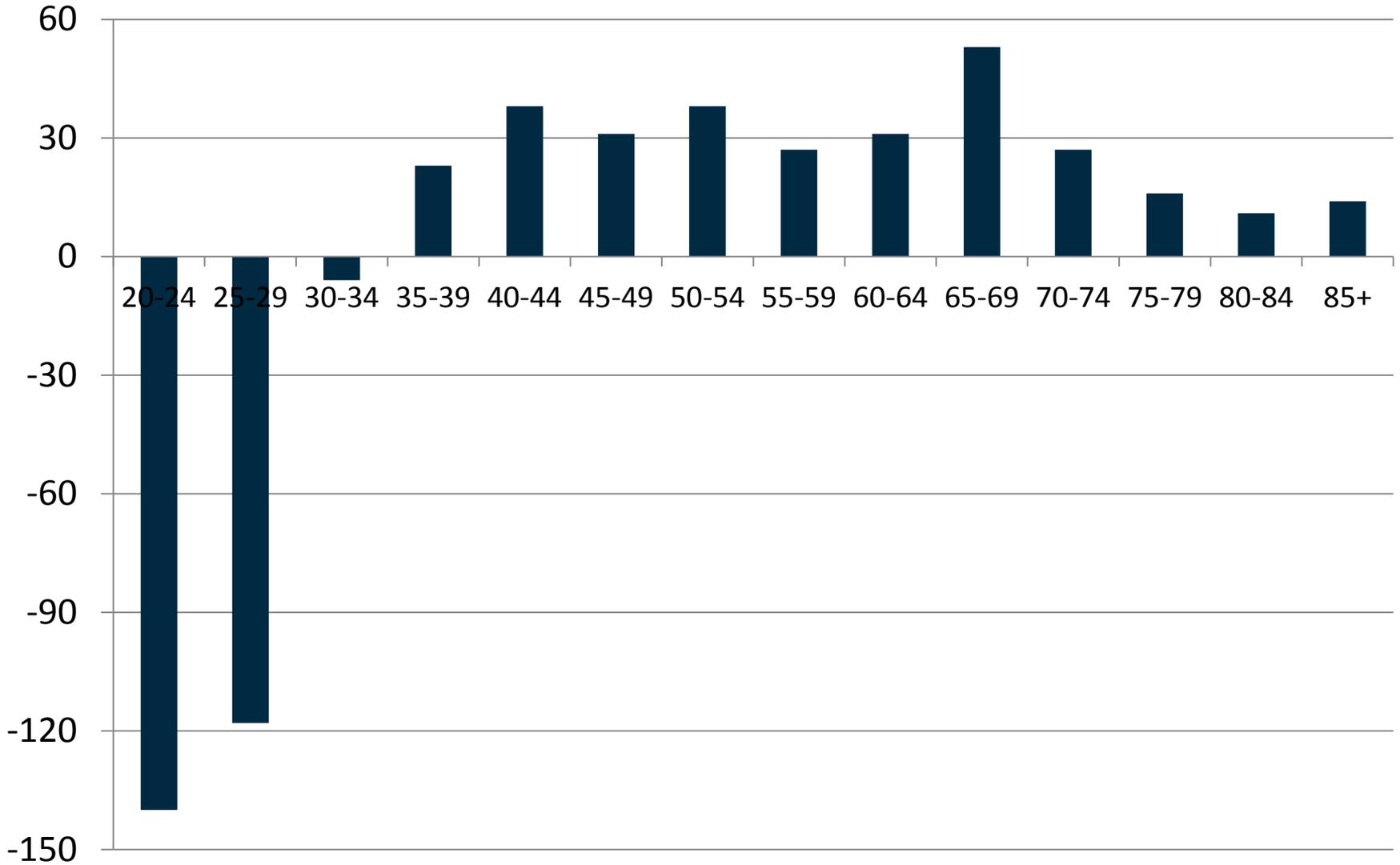
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# Population Change 2008 – 2015 (000's)

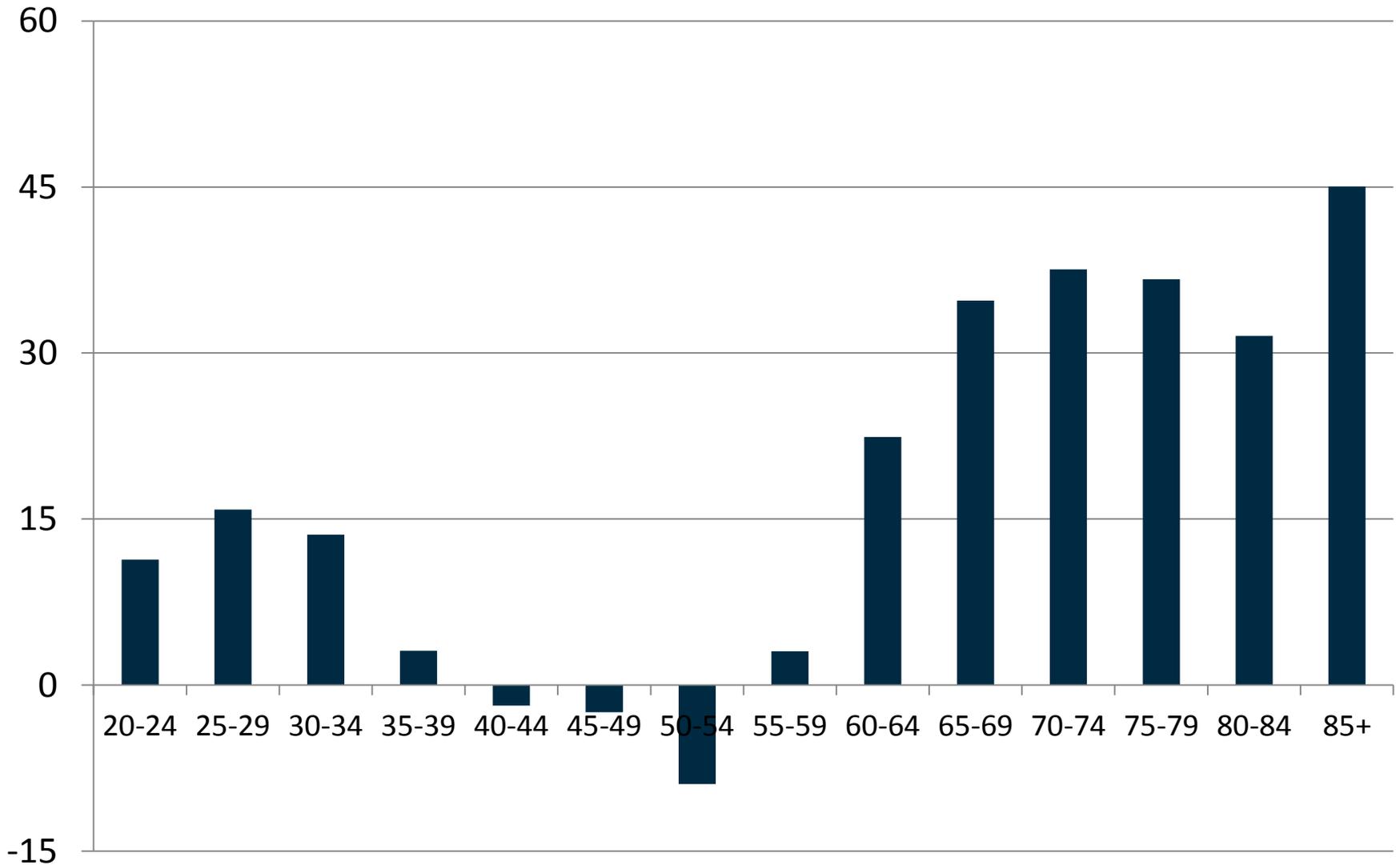
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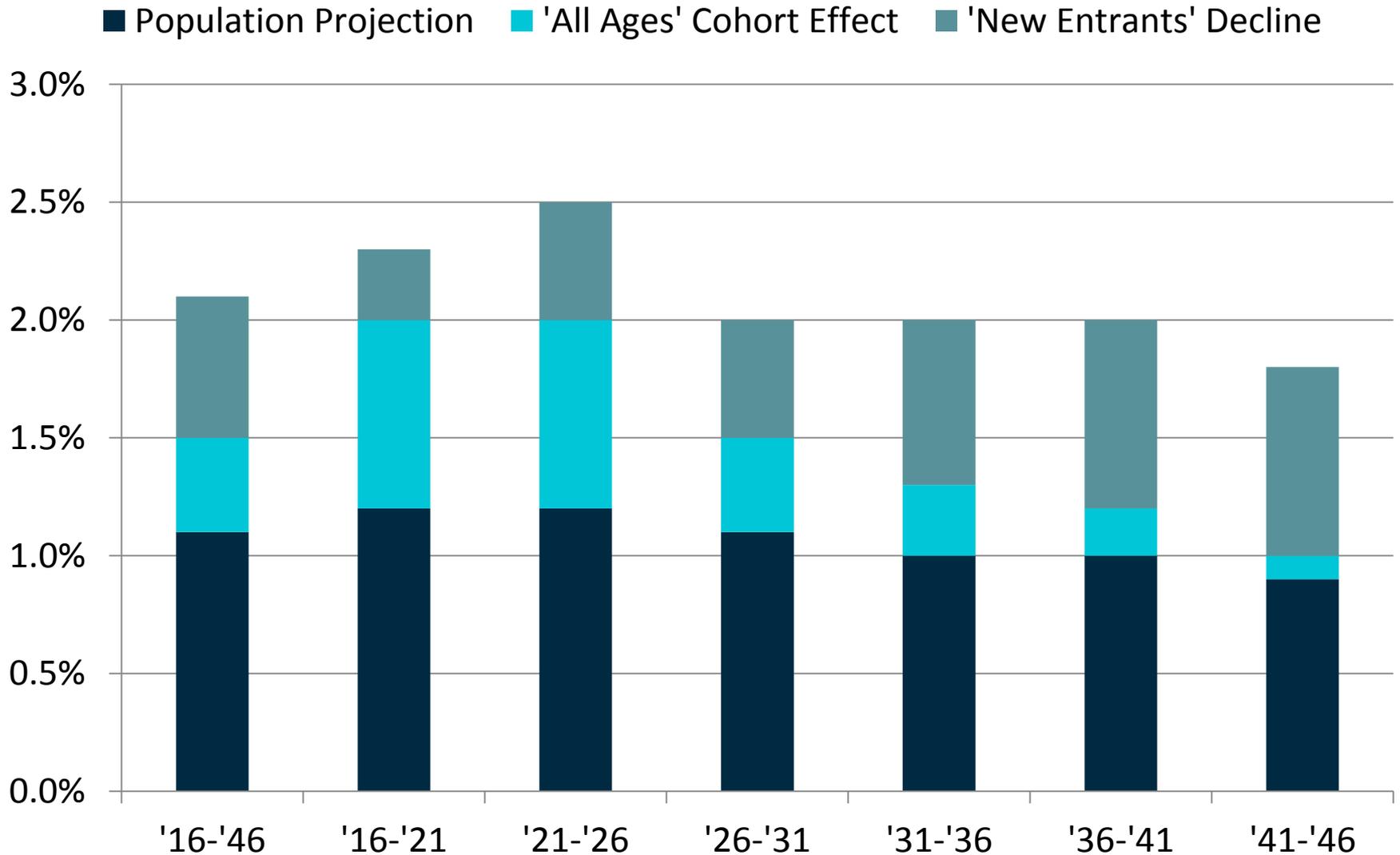
# Proj. Population Change 2016 – 2046 (000's)

7 Year 'Run Rate'





# Premium Inflation Projection (Adverse)





# Premium Inflation vs. Take-Up

Year	Average Gross Premium (€)	Average Gross Premium (% Change)	Health Insurance Take-Up Rate
2006	607		46.2%
2007	667	+10.0%	46.6% ???
2008	724	+8.4%	47.6% ???
2009	822	+13.6%	46.6%
2010	890	+8.3%	45.4%
2011	926	+4.0%	44.1% ???
2012	1,048	+13.2%	42.7%
2013	1,150	+9.7%	41.5%
2014 *	1,200	+4.3%	40.7%

\* Premium tax relief curtailed



# Premium Inflation vs. Take-Up vs. Disposable Income

Year	(A) Average Gross Premium (% Change)	(B) Average Disposable Income (% Change)	(A) Minus (B)	Health Insurance Take-Up Rate
2006				46.2%
2007	+10.0%	+5.5%	+4.4%	46.6%
2008	+8.4%	+6.7%	+1.7%	47.6%
2009	+13.6%	-6.4%	+20.0%	46.6%
2010	+8.3%	-7.7%	+16.0%	45.4%
2011	+4.0%	-2.8%	+6.8%	44.1%
2012	+13.2%	+0.2%	+13.0%	42.7%
2013	+9.7%	-1.4%	+11.1%	41.5%
2014	+4.3%	+3.2%	+1.1%	40.7%



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# **Premium inflation Analysis of recent trends**

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Brendan McCarthy

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# Market Trends – some thoughts

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- Claims/premium inflation has been a key challenge for the market:
  - Ageing of existing customer base
  - Exit of healthier lives due to affordability reasons
  - Sicker population remaining leading to higher average claims cost per member
  - Public bed re-designation
- Trend in consumers choosing cheaper plans appears to have emerged
- Is this downgrading?
  - Consumers shopping around for the best price is not necessarily the same as downgrading cover
  - Increase in the range of products on offer with some newer products being priced more competitively to address market exits
  - Ability to afford increasing premiums in the current economic environment



# Real vs Actual Price Inflation

	2010	2011	2012	2013	2014	2015	Total 2010 - 2015	Total 2011 - 2015
Average Premium Paid in Calendar Year	€890	€926	€1048	€1150	€1,200	€1,173		
% Growth in Ave Premium		4%	13%	10%	4%	-2%	32%	27%
% Growth in CSO Index to end June		21%	15%	12%	9%	-3%	65%	36%

- CSO index reflective of actual price changes and therefore does not allow for customer actions
- 2010 – 2015:
  - 65% increase in prices compared to 32% increase in actual payments
  - 50% of price increases mitigated by customer switching
- 2010 – 2011:
  - Large price increases for legacy policies with orthopaedic benefits
  - New policies with orthopaedic restrictions introduced
  - 80% of price increases mitigated by large number of customers switching to the newer products
- 2011 – 2015 more benign



# Impact of Consumer Switching

	Level 1 Products	Level 2 Products	Higher Cover Products
Cover Provided	Mainly in public hospitals	Semi-Private accommodation in private hospitals	Private accommodation in private hospitals
1 July 2012	16%	76%	9%
1 July 2013	15%	78%	7%
1 July 2014	14%	78%	7%
1 July 2015	12%	77%	11%

- Small movements to higher levels of cover

	Non-Advanced	Advanced
Cover Provided	<66% hospital charge Subject to minimum set out in 1994 Act	Everything else
1 July 2013	6%	94%
1 July 2014	6%	94%
1 July 2015	8%	92%

- Growth in numbers of non-advanced contracts in 2015 due to LCR
- **Difficult to draw meaningful conclusions given narrow data set**



# Analysis of Premium Levels by Age

Year	Average Premium	18-29	30-39	40-49	50-54	55-59	60-64	65-69	70-74	75-79	80-84	85+
2015	1,147	1,139	1,148	1,202	1,320	1,458	1,595	1,744	1,888	1,993	2,098	2,170
2014	1,242	1,231	1,272	1,332	1,457	1,601	1,735	1,874	1,984	2,062	2,133	2,173
2013	1,324	1,310	1,359	1,431	1,578	1,734	1,890	2,041	2,131	2,206	2,260	2,289

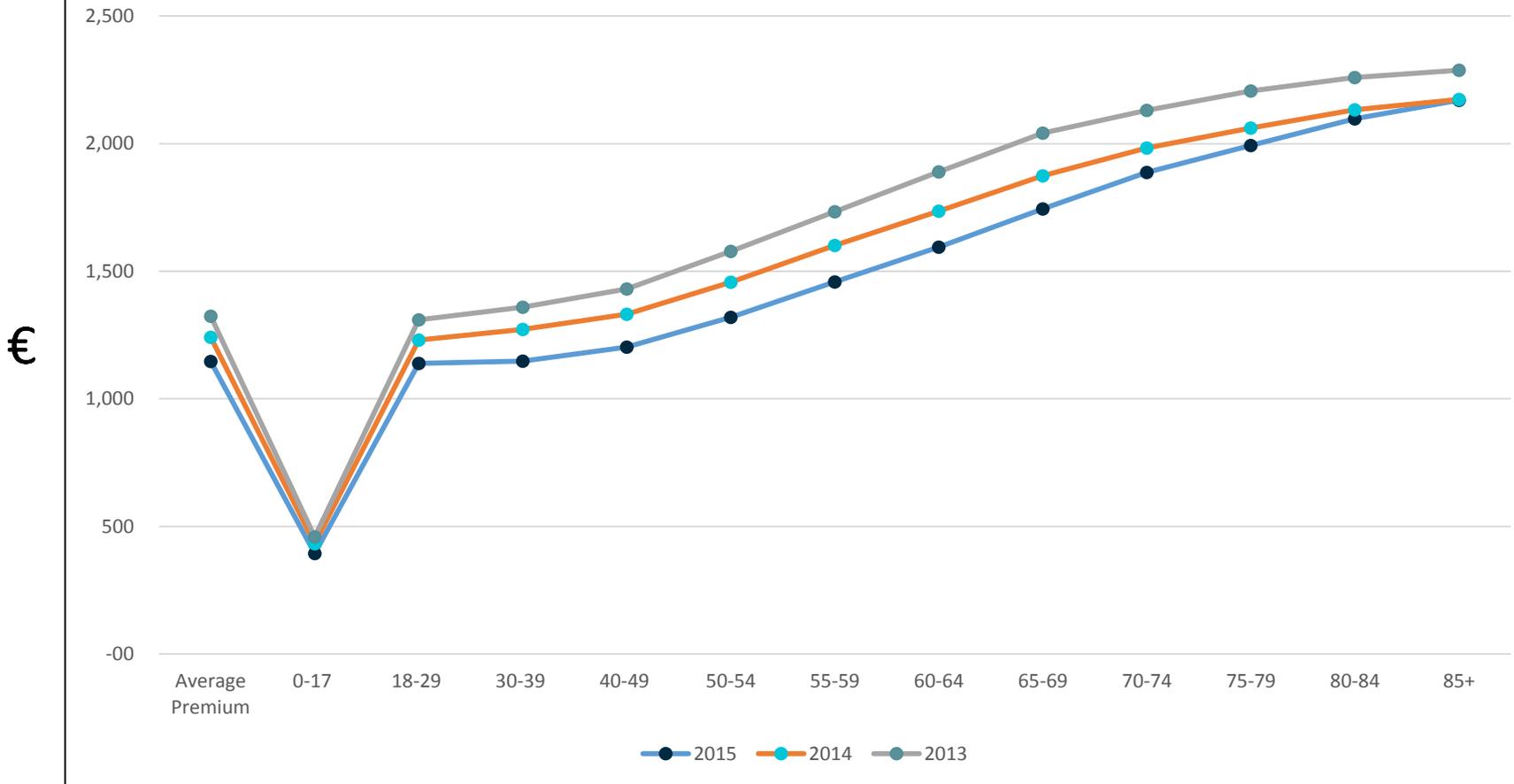
Year	% Change	18-29	30-39	40-49	50-54	55-59	60-64	65-69	70-74	75-79	80-84	85+
<b>Change in premiums</b>												
2015	-8%	-7%	-10%	-10%	-9%	-9%	-8%	-7%	-5%	-3%	-2%	0%
2014	-6%	-6%	-6%	-7%	-8%	-8%	-8%	-8%	-7%	-7%	-6%	-5%

- Average Premium based on actual product mix but July 2015 prices
- Trend of premiums increasing with age
- Customer switching observed to keep the premium levels down although more pronounced at younger ages
- **Again difficult to draw meaningful and concrete conclusions given narrow data set**



# Analysis of Premium Levels by Age

Premium Split by Age - 2015 Prices



Age Group



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# **An introduction to medical Inflation**

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**Christelle Sotura**

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# History of Medical Inflation

- Historically, "medical inflation" has been significantly higher than general inflation and even exceeded economic growth.
- Net medical inflation is defined as medical inflation netted of general inflation.
- The most significant factor influencing health care expenditure is economic growth.

	Gross medical trend			Net of general inflation		
	2014	2015	2016	2014	2015	2016
<b>Global</b>	10.3%	8.7%	9.1%	6.1%	5.5%	5.5%
<b>Europe</b>	5.9%	5.7%	5.9%	4.2%	4.1%	4.2%
<b>North America</b>	8.5%	5.3%	5.8%	6.7%	3.6%	4.3%
<b>Asia Pacific</b>	10.1%	10.4%	9.4%	5.5%	6.2%	6.3%
<b>Middle East / Africa</b>	12.3%	13.3%	11.6%	7.0%	6.7%	5.3%
<b>Latin America &amp; Caribbean</b>	14.4%	16.7%	20.0%	8.5%	9.8%	9.0%

Source: AON Hewitt 2015 and 2016 reports (2016 rates are estimates) on medical trends rates globally for medical plans that are managed by employers.



# Key drivers of medical inflation

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- Healthcare price increases above inflation:
  - New medical technology;
  - Lack of provider competition; and
  - Cost shifting (to private payers)
- Increased utilisation:
  - New medical technology
  - Demographic change
  - Lifestyles; and
  - Overuse of care



# Factors Influencing Recent Trends

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- In recent years, both public and private sectors have made efforts to counteract the drivers of medical inflation:
  - Shifts in treatment from in-patient to day-care/out-patient settings
  - Activity based hospital payment
  - Increasing rates of generic drug use
  - Increased cost-sharing e.g. high-excess plans in the US and now Irish market as well
  - Price control measures on plans and providers by Medicare and Medicaid in the USA.
- Recession also impacted medical inflation (zero growth in the OECD area in 2010 – 2011).



# Medium to long-term outlook

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- Medical inflation continues to be a major concern.
- Further scope exist to drive efficiency (although some could be counter-effective)
  - Technology
  - Behaviour/Lifestyle
  - Increased-cost sharing
- Eventually, growth in medical costs must be constrained by the resources available to pay for them.
- In the medium term, there appears to be an expert consensus that medical inflation will continue to exceed general inflation as well as economic growth.



**Questions?**