The introduction of lifetime community rating in the Irish private health insurance market: Effects on coverage and plan choice[1]

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Introduction

In response to falling numbers of individuals with health insurance cover, and an ageing consumer profile, lifetime community rating (LCR) regulations were introduced to the Irish health insurance market in May 2015. LCR requires that individuals aged 35 and older, taking out health insurance for the first time pay an additional 'late-entry' penalty on their premium. Subject to some exemptions and limits, this penalty (or loading) is set at 2 percent of an individual's health insurance premium for every year health insurance coverage is postponed from age 35.

The intent was to encourage individuals to take out health insurance cover at relatively younger ages. An adequate supply of younger consumers is crucial to a voluntary health insurance market such as Ireland's. Younger individuals tend to have lower expected claims costs than older individuals which helps to control the price of health insurance.

This analysis examined whether the coming introduction of LCR in May 2015 encouraged individuals to take out health insurance to avoid paying late-entry premium loadings and the effect on plan choice.

Data and Methods

This analysis used quarterly data obtained from the health insurance market regulator, the Health Insurance Authority (HIA), over the period September 2013 to December 2015. To examine the effect the introduction of the policy had on coverage decisions comparison was made between coverage rates for a group subject to the new regulations (those aged 35 to 69) relative to a comparator group

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not subject to the regulations (those aged 26 to 33) before and after the introduction of the regulations. In doing so, a number of potentially important confounding factors such as sex, price trends, unemployment rates, and public hospital system waiting list numbers, were accounted for. Additional analyses examined whether the effect of LCR regulations on coverage differed by age group and, separately, for different types of health insurance plans.

Findings

In the months leading up to the announcement of these regulations (in July 2014), approximately 46 percent of the population aged 35-69 had private inpatient health insurance cover. To avoid paying late-entry premium loadings, findings suggested that the introduction of LCR increased coverage rates for this group by approximately 2.5 percentage points, or 5.4 percent. Breaking these findings down by age, we see the increase in coverage was concentrated in those aged 35-54.

There was also variation in effects observable across different types of health insurance plans. A notable finding of the analysis was that coverage for less expensive low cover plans, known as non-advanced plans, increased by 52.4 percent. This compared to a 3.9 percent increase in coverage for the most common Level 2 plans. LCR was not associated with increased coverage for expensive Level 3+ plans.

Discussion

Ireland is the second country to introduce late-entry premium loadings to its voluntary health insurance market, following Australia in 2000. This analysis adds to the current evidence base and improves understanding of consumer response to these regulations. The introduction of LCR has encouraged insurance take-up by those who may have otherwise postponed take-up to older ages contributing to a reversal in declining overall coverage trends, at least initially. However, the purchase of cheaper plans by relatively younger consumers could be contributing to increased risk segmentation within the market. This results in younger individuals overall paying less for their insurance than older individuals, undermining solidarity principles. Moreover, these cheaper insurance plans tend to offer limited benefits and consumers may still face significant out-of-pocket costs to access private care.

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