How the Private Health Insurance market can drive reform of the health sector

Contents

Foreword

Ireland's business community requires a healthy workforce. Due to the nature of the health system, which combines public and private provision, it is important that the private health insurance market is efficient and cost effective. The cost of purchasing insurance (for individual and business customers) must be kept to a minimum, in order to maximise uptake. The positive habits that come with taking responsibility for one's own health lead to fewer days being lost to illness. This produces benefits for individuals, businesses, government and the entire economy.

The mix of private and public health provision in Ireland makes the system almost unique in international terms. While everyone is entitled to use public health services, almost 50% of all people choose some form of private health insurance. Furthermore, the majority of private health care is performed in publicly owned and funded facilities.

Brian Nolan describes the relationship between the public and private health systems as "symbiotic";[1] he contends that the system leads to problems in terms of cost, equity and efficiency.

While all of these areas are significant, efficiency is of greatest concern to Chambers Ireland. As an organisation that promotes the benefits of competition in open markets, we believe the current system is underperforming: producing inefficiencies and resulting in unnecessary costs to consumers of private health insurance (both individual and business purchasers) and the public health system.

Currently, providers of private health insurance are required to pay a levy in order to fund tax credits to support the cost of health insurance for older customers. This levy is a barrier to competition and results in higher premiums for all consumers of private health insurance.

Promoting competition within the health care system will not only produce benefits for consumers, patients and insurers, it will also be a driving force for increased productivity and efficiency in the public health system.

With over 80% of all public spending now on education, health and welfare, and with one in three of all public service workers now employed in the health sector, any savings that can be made in this area must be pursued strongly. Reforms in the health insurance sector are a means by which savings in the wider health sector can be achieved.

In the context of the Croke Park Agreement and the need to achieve further significant savings in the public sector, the private health insurance market offers an opportunity to transfer the responsibility for costs away from the already stretched public purse. A properly functioning market allows for the possibility of affecting real change.

The broader political and economic context is also significant. Ireland's joint EU/IMF support package requires stringent cuts to public services. The National Recovery Plan 2011-2013 outlines €746 million of savings in the health sector in 2011 with an additional €680 million of savings forecast for 2012-2014.

Furthermore, as we seek to promote the interests of Ireland's business community, we are concerned about the cost of employment and doing business. As the Government seeks to reduce

[1] Nolan, B (2006) The Interaction of Public and Private Health Insurance: Ireland as a Case Study. P.4

the deficit, it must choose between cost containments and increases in taxes and levies. A reformed private health insurance system in Ireland could ease the financial pressure on the public health system and reduce the need for increased taxes on the business community. These taxes, which are basically a levy on employment, harm the economy and prevent businesses from creating much needed jobs.

Published in 2007, the Barrington Report[2] notes that while there is uncertainty among policy makers about the value of a large and vibrant private health insurance market, it is possible to achieve a health service fit for the 21st century through a combination of public and private arrangements. Rather than directly providing healthcare, the state can empower individuals to purchase private health insurance and encourage the supply side to respond to these consumer demands.

Chambers Ireland shares the broad conclusion reached in the Barrington Report that a vibrant private health insurance market should be encouraged as it puts responsibility for healthcare firmly with the individual, leading to a more proactive approach to their own health management. Furthermore, an increased number of insurance providers will lead to a demand for quality healthcare facilities and the benefits that come from competitive pricing and product innovation.[3]

Finally, concerns have emerged regarding the sustainability of the existing health care system in Ireland.[4] As expenditure on health from private and public sources continues to increase, it is important to examine the future needs of the population and identify the most effective means of meeting these needs.

Summary of Recommendations

1. Private health insurance reforms can deliver savings, which can drive productivity and efficiency in the broader public health system.
2. All providers in the private health insurance market must be required to conform to the standards set out by the Central Bank of Ireland.
3. Any system of risk equalisation must only be an option of last resort. Young families should be incentivised in to the system rather than penalised out. Furthermore, the levies on providers of health insurance should reflect current economic conditions. There is little justification for increasing the cost of doing business during a recession.
4. No new levies should be imposed on providers of private health insurance.
5. The Government should take this opportunity to identify and implement savings in the wider health service.
6. Any future Universal Health Insurance scheme must have the backing of private health insurance providers and should be structured to ensure further competition.

[2] Private Health Insurance Advisory Group (2007). A Business Appraisal of Private Medical Insurance in Ireland. p.3
[3] Ibid. p.4
[4] For instance, in Brick, A and Nolan, A. 2010. The Sustainability of Irish Health Expenditure IN: Callan, T. 2011. ESRI Budget Perspectives 2011

The importance and potential impact of reform

The increased marketisation of private health insurance would have many benefits:

1. For the economy

The relationship between public spending and the overall economy is a particular concern for Chambers Ireland. As an organisation that represents the interests of Ireland's business community, we are concerned that not enough is being done to curb public spending in order to reduce the gap between what we spend as a nation and the revenue that can be raised through taxation.

It is essential that the Government focuses on identifying and pushing through cost containments in all areas of the public sector, and in the health system in particular. The business community, which does so much to provide jobs and create wealth in the economy, must not be burdened with any further taxes. Moves toward a more open and competitive private health insurance market would allow for considerable savings. Not only for patients and consumers but also for the economy as health care providers have to become more efficient and productive in order to attract business from insurance companies.

Furthermore, the cost of work related private health insurance schemes can impact on Foreign Direct Investment (FDI). In the context of the global downturn in the economy, everything that can be done to reduce the cost of doing business and the cost of employment in Ireland ought to be pursued. The Health Insurance Authority's own figures[5] show that 30% of all people with private health insurance are members of a work based scheme. Indeed, 12% of all private health insurance policies are part or totally funded by an employer. As more individuals (particularly younger families) choose to leave private health insurance schemes, the cost of providing work based schemes will increase. There is evidence[6] of a decline in employers organising payment of private health insurance premiums through payroll deductions; however, a more efficient and cost effective system of health insurance could play a part in lowering the cost of doing business in Ireland and attract much needed FDI to these shores.

2. For jobs

The retention of existing jobs and the creation of new positions will be essential components of any economic recovery in Ireland. Therefore, it is essential that the cost of employment remains as affordable as possible. There are explicit ways that these costs rise, such as the suggestion that the cost of PRSI and sick leave will be transferred to employers. However, these costs can also rise in more subtle ways. Responsible employers, who contribute to their employee's health insurance, will be affected by rises in the cost of private health insurance. Increases in the cost of private health insurance could result in firms being less likely to create new jobs or retain existing positions.

The increase in the cost of providing health insurance has been significant over the past four years. Further increases may result in many large employers either no longer providing health insurance or moving to a fixed price contribution. This would, in turn, lead to large numbers of people flooding back into the public health system.

[5] Op. cit. p.10
[6] Op. cit. p.11

3. For patients and consumers

Competition in private health insurance and the wider health care market also produces a range of benefits for patients. The Goodbody report[7] suggests that this goes beyond the fact that competition leads to efficiencies and affordability. It also produces increased innovation and product design, leading to better care for patients. Hospitals are also more likely to attract high quality employees and seek the best staff, as they must compete for business from insurance companies.

History and principles of private health insurance in Ireland

Private health insurance was introduced to Ireland with the enactment of the Voluntary Health Insurance Act, 1957 and the creation of the Voluntary Health Insurance Board. Initially, this was designed to operate on a non-profit and 'mutual assistance' basis. The company now trades under the name Vhi Healthcare (Vhi) although the formal name of the board has never been changed.

Vhi retained a legal monopoly on the provision of private health insurance in Ireland until the Health Insurance Act, 1994, which was introduced in response to the European Union 3rd Directive on Non-Life Insurance. This legislation opened the private health insurance market to competitors and regulated the market.

The Health Insurance Authority is now the independent statutory regulator for the private health insurance market in Ireland. It monitors the operation of health insurance in Ireland and advises the Minister for Health in this regard, including assessing the effect of any regulations or new legislation on consumers.

BUPA was the first company to enter the Irish market in 1997. This was the first time consumers enjoyed a choice of providers. Their entry led to a range of new products and innovations; however, BUPA left the Irish market in 2006 citing the advantages enjoyed by the dominant player in the market and the fact that the Risk Equalisation Scheme would make them unprofitable.[8]

Currently there are a number of providers of private health insurance: these include Laya Healthcare, Aviva and GloHealth.

The health insurance market in Ireland is based on a number of important principles:[9]

1. Open enrolment - At present, health insurance companies must accept anyone who wishes to join, subject to any applicable waiting period before cover takes effect, regardless of age, sex or health status. Restricted membership schemes must accept everyone who is qualified to join.
2. Lifetime cover - Once an individual joins a scheme and continues to pay premiums, the insurance company cannot refuse to provide them with cover.
3. Community rating - This means that the insurance company must charge the same rate for a given level of service, regardless of age, sex or health status. This ought to ensure that all adults pay the same amount for the same benefits. Unlike motor insurance or life insurance,

[7] Op cit. pp.24-25
[8] In effect a commercial entity was driven from the market by levies imposed by Government
[9] http://www.citizensinformation.ie/en/health/health_insurance/private_health_insurance.html

matters such as age, sex, sexual orientation, health or past record of claims do not affect the price charged for insurance.

4. Minimum benefits – These oblige all insurers to provide a minimum level of medical and surgical procedures within all plans.

While these principles are uncontroversial, the mechanisms by which they are achieved are more problematic.

The Health Insurance Authority was tasked with introducing and operating a system of Risk Equalisation (RE). This is effectively designed to subsidise the cost of older and sicker people, and aims to neutralise the differences in claims costs of insurers due to the age profile of their members. The Goodbody Report,[10] commissioned by Vivas Health (now Aviva) states that RE is essential for two main reasons: it prevents 'price following' which results in new entrants to the market acting in a manner that artificially inflates prices; and it limits 'predatory behaviour', whereby a new entrant to the market makes a short term gain followed by an early exit.

However, the Barrington Report[11] contends that in a system where all insurance companies are required to offer community rates, lifetime cover and open enrolment there ought to be no need to transfer funds between issuers. The market alone should be enough to guarantee the best prices for consumers. A transfer mechanism should only be available as a last resort.

On the 16th of July 2008, the Supreme Court ruled that the Risk Equalisation Scheme was unconstitutional. The Government announced, in November 2008, an interim scheme of age related tax credits to support the cost of health insurance for older people. This is designed to ensure older people pay the same premium net of these tax credits for their health insurance as younger adults pay. These credits are funded by a levy paid by health insurers.

The Government, on 27th May 2010, announced a new strategy and set of actions for the health insurance market. These actions included the development of a new Risk Equalisation Scheme to start in 2013. This scheme, which comes into force with the enactment of the Health Insurance (Amendment) Bill in January 2013, introduces a levy with two rates: a higher rate for private care and a lower rate for public care.

Problems with the existing system

A number of independent analyses of private health insurance in Ireland identify a range of factors within the current system which prevent it from realising the benefits of a fully open market.

Many of these problems stem from the fact that all providers of private health insurance are not competing on a level playing fired.

The Goodbody report[12] highlights how a company can benefit from a dominant position within the market. It can build upon brand recognition, which perpetuates the perception that it is the most

[10] Improving the Regulation of PHI (March 2007)
[11] Op. Cit. p.15
[12] Op. cit. p.2/20-21

secure provider of private health insurance. It also benefits from operating with economies of scale; enjoying certain efficiencies related to its larger membership that are simply not possible for new entrants. New entrants also find it hard to compete as they experience considerable costs associated with launching new products and services. Furthermore, as things stand, not all insurance providers are required to maintain solvency reserves. Finally, while all private health insurance providers are regulated by the Health Insurance Authority, not all are subject to regulation and oversight by the Central Bank; only certain providers must conform to the standards set out by this body and pay the costs of the required regulation.

This cost of regulation results in a significant increase in the cost of capital for those providers. Were this cost to continue to rise, this could impact on the profitability of companies and lead to their exit from the market. This would subsequently reduce levels of competition and, if costs continue to rise, could lead to further price increases.

Issues relating to regulation are frequently cited as the main barrier to an open and competitive market. The major requirement of capital in the private health insurance industry is to fund assets required to comply with regulations set out by the Central Bank. All commercial participants, regulated in Ireland, in the market must provide capital equal to at least 40% of their annual premiums as a solvency margin.

The Barrington Report states that exemption from these regulations would be akin to receiving a subsidy from the State. The authors estimate that the annual value of this "might reasonably be quantified at €25-45 million." [13]

Many of the authors cited previously suggest that the lack of fair competition in the private health insurance market and the levies imposed on insurance companies have been the main causes of the recent price rises. It is accepted that unit costs in medical care will continue to rise; however, much can be done to ease the burden on consumers. The Millward Browne Lansdowne Report (commissioned by the Health Insurance Authority) shows that incidence of holding private health insurance is currently at 43%, down from 52% in 2005.[14] This report shows that the contraction is greatest among those in the 25-34 age group (see Figure 1), and that the main reason cited for cancelling insurance policies is a change in the individual's economic situation. Furthermore, policies held by families with children have fallen by 12% since 2009. This contraction of younger, and usually healthier, people from the market (the very group whose policies support the older cohort) leads to increased premiums for those that remain. This in turn undermines the sustainability of a Health Insurance Market model based on community rating rather than risk rating.

[13] Op. cit. p.20

[14] Health Insurance Authority (2012) Report on the Health Insurance Market: By Millward Brown to the Health Insurance Authority p.3

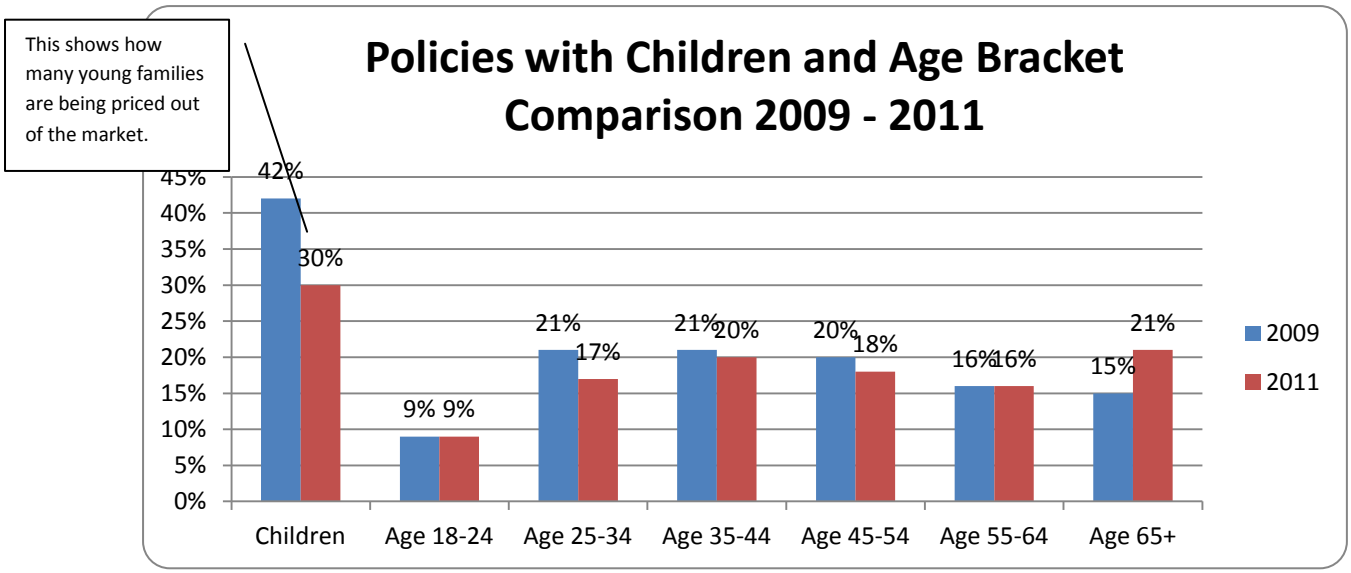

Figure 1: Policies with Children and Age Bracket Comparison 2009-2011 indicating a decline younger participation in Health Insurance Market and an increase in older age group participation[15]

There is a correlation between the decreasing numbers of insured persons and the increasing cost of insurance for those who retain their coverage. Essentially a 'vicious circle' occurs with several stages: a levy is imposed on insurance companies to cover the tax credits paid to older customers; their prices subsequently increase; younger people choose to cancel their insurance; the cost of insurance for remaining customers increases; the tax credits paid to older customers have to increase; the levy to cover these payments increases; and so on.

The vicious circle of tax credits and levies

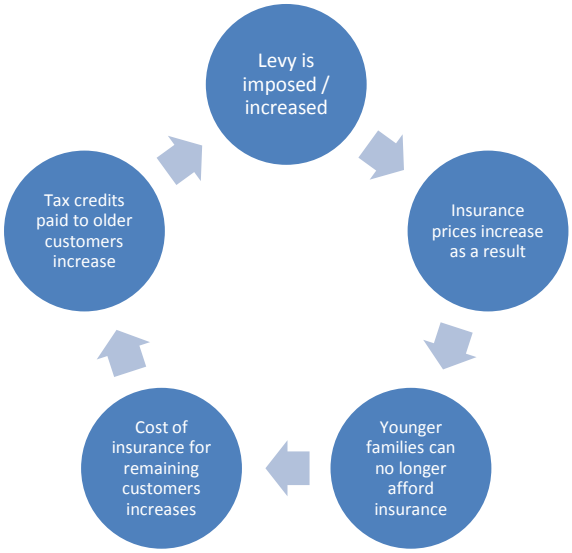

Figure 2[16] illustrates the increase in the levy paid by insurance companies. This results in increased premiums for all insured persons and is a main cause of people choosing to cancel their insurance.

[15] Statistics adapted from Health Insurance Authority (2012) Report on the Health Insurance Market: By Millward Brown to the Health Insurance Authority. p.4

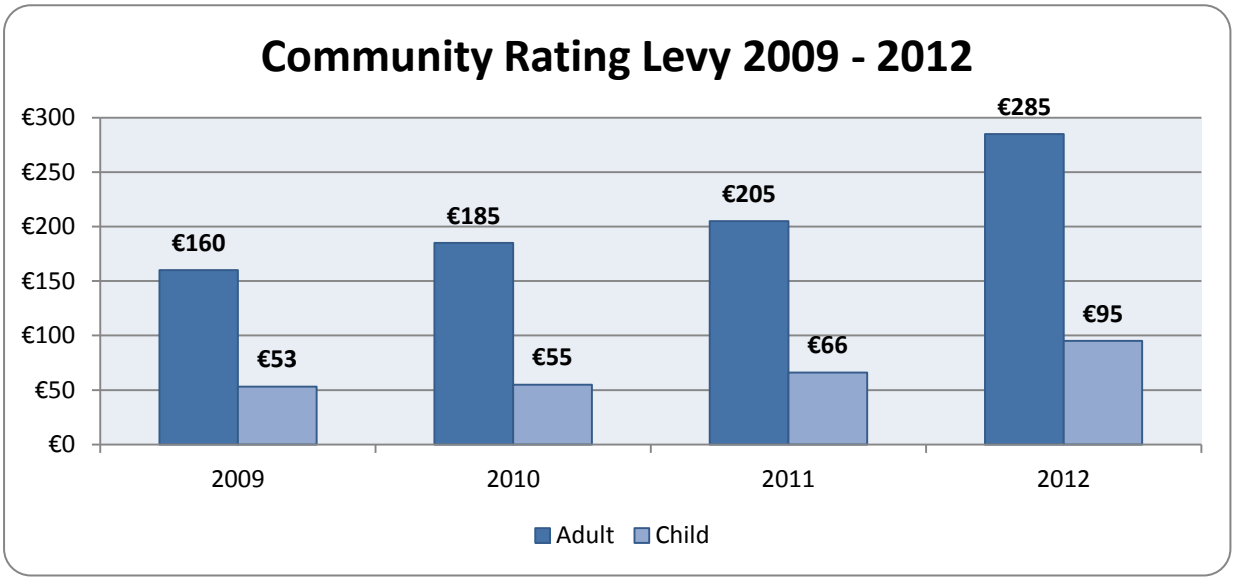

Figure 2: Community Rating Levy 2009 - 2012

While the Minister for Health has attributed the rises in costs to segmentation in the market as certain insurers increasingly "tailor their insurance plans towards younger, healthier customers",[17] the insurance companies contend that in a fully open market all companies would accept their fair share of older members. Fair prices would result from the competition between providers for their business.

Reforms to private health insurance can also be seen as a first step towards achieving greater reforms in the health service: reforms that could produce considerable savings and close the gap between what we spend as a country and what we currently take in revenue.

[16] Figures produced by the Health Insurance Authority. Available via: http://www.hia.ie/regulation/risk-equalisation/

[17] Quoted in Pope, C. 2012. Health Insurance Costs May Rise. Irish Times. 4th January 2012

Current System Efficiency

The inefficiencies in the Irish health service are all too evident. In 2012 alone, there was an over-spend of €370 million. Indeed, in October 2012, providers of private health insurance agreed to make a voluntary advance payment of €125 million to improve cash flow and provide funds for hospitals.

Enormous gains can be made by spending health funds more efficiently.[18] Ireland has witnessed high growth rates in health spending by OECD standards but human and physical resources devoted to health care remain low. Furthermore, Ireland has relatively low health outcomes. There is considerable scope for efficiency gains in the Irish Health System with particular focus on primary care, hospitals and pharmaceuticals.[19]

While the public sector continues to be the main source of health funding in all OECD countries, research shows that there is no one type of health system that results in greater efficiencies.[20] There are examples of heavily regulated public systems and those relying on market mechanisms that show high and low levels of efficiency. However, of the countries with heavily regulated systems, Ireland is one of the poorest performing. Something must be done to improve the efficiency of the system.

Ireland has a relatively inefficient primary care sector. While there is an average number of General Practitioners (GPs) (3.1 per 1000 of the population), there is a low number of doctor consultations. Very simply, more needs to be done with fewer resources.

Efficiencies can also be gained in the hospital sector. While reforms have been introduced to change the payment mechanism for stays in hospitals, Ireland still has relatively long lengths of stay compared to other OECD countries. Previously, under the National Treatment Purchase Fund, hospitals had a perverse incentive to keep waiting lists artificially long. While the Department of Health has moved to end this practice, it is emblematic of the inefficiencies that exist in the hospital sector.

Furthermore, the mix of public and private hospitals in Ireland illustrates inefficiencies in the system. Figures from the Department of Health[21] show that public health costs in public hospitals have increased by 48% since 2008, while the same costs have actually decreased in private hospitals. This is a consequence of the ability of insurers to negotiate directly with private hospitals on price, quality of outcomes and length of stay, while it is in the gift of the Minister for Health to set the rates for public hospitals each year.

Fragmentation is also an issue in Ireland. Consolidation of services resulting in economies of scale can produce efficiencies. Furthermore, there is a correlation between "volume of services and

[18] Borowitz, M. Moran, V. And Pearson, M. 2011 The Performance of the Irish Health System in an international context: IN Callan, T. 2011. ESRI Budget Perspectives 2012
[19] Ibid. p. 24
[20] Ibid. p.30
[21] http://www.dohc.ie/press/releases/2011/20111205.html

outcome."[22] Specialist surgeries performing greater numbers of procedures tend to produce better health outcomes, including lower mortality rates.

Evidence from the Netherlands shows the benefit of competition between hospitals to attract patients from insurance companies for elective procedures. This has led to specialist services and better health outcomes.

Furthermore, everything must be done to get the maximum value out of existing assets within the health sector. The HSE has a considerable asset base; however, sophisticated asset management techniques should be used to ensure equipment is used more efficiently. This may involve better management of existing equipment or the movement of the use of 'equipment libraries'[23] which would allow different hospitals to access high-end equipment when necessary. Management should be held to account for the decisions taken in this area.

While it is essential that the Government remains committed to, and pushes an efficiency agenda in, the health care system, market forces can improve efficiencies and give all players in the Irish health system an incentive to take quality and cost into account when decisions are made about the purchase and delivery of health services. However, it would appear that recent changes to notification periods (discussed further on p. 13)[24] introduced to coincide with the introduction of the new Risk Equalisation Scheme run counter to this agenda as the negotiating power of private insurers is severely diminished.

The Dutch system provides an interesting model where competition has been introduced on the demand and supply side of the health system. Open enrolment among health insurers allows citizens to choose their insurer on an annual basis, ensuring insurers compete for customers, while competition between health care providers allows insurers to seek the best quality and prices.[25]

Current System Sustainability

Brick and Nolan[26] note how public health expenditure in Ireland has doubled in real terms between 2000 and 2009. The total amount spent in 2009 was €15 billion, accounting for 11.9% of national income, up from 6.3% in 2000: it must be asked whether this is sustainable.

The World Health Organisation (WHO) defines sustainability as the "ability to meet the needs of the present without compromising the ability to meet future needs." Nolan and Brick go on to distinguish between economic and fiscal sustainability.[27] Economic sustainability refers to the growth in public and private health expenditure as a proportion of national income, while fiscal sustainability relates to the growth in public health expenditure as a proportion of total public expenditure. Both individuals and the State are paying increasing amounts for the provisions of

[22] Ibid. p.45
[23] For Example, the sharing of ultrasounds between Barts and Royal London in the UK.
[24] Correspondence from the Deputy Secretary General, Department of Health, to insurance companies
[25] Op. Cit. p.58
[26] Brick, A. And Nolan, A (2010) The Sustainability of Irish Health Expenditure: IN Callan, T (ed) ESRI Budget Perspectives 2011. p.83
[27] Ibid. p.85

public health. Given the current state of the economy these costs cannot be allowed to rise at their current rate.

The drivers of the increased costs in health care can be grouped into four main categories:

1. demographic changes resulting in an older population;
2. the greater incidence of chronic disease, the treatment of which accounts for 80% of all health expenditure;
3. supply side factors such as technological innovation; and
4. the cost of labour.

The Minister for Health has gone on record as saying labour costs account for 70% of the health budget.[28] This is clearly an issue related to the significant public sector pay bill in Ireland; however, savings can also be achieved through greater efficiencies and increased productivity.

Brick and Nolan contend that sustainability can be achieved by increasing public revenue or by lowering expectations so they can be met through existing expenditure; however, they favour a third option that involves improving the capacity of the health system to convert resources into value.[29] They highlight a number of means to achieve this end:

1. Move care from resource-intensive hospital settings to out-patient or primary care settings.
2. Promote the use of GPs as a gatekeeper to hospital services.
3. Encourage the use of day surgery over in-patient stays.
4. Remunerate doctors on a capitation basis rather than a fee-for-service basis

However, under current regulations, insurers' ability to move care between facilities is curtailed. There ought to be incentives to use the most cost effective facilities.

While sustainability is an issue for health services in many European and OECD countries, the recent economic situation has brought it into sharper focus in Ireland.

Recent developments

- Speaking in the Dáil on the 19th June 2012, the Minister for Health reaffirmed the Government's commitment to introducing universal GP care and stated that his Department was currently preparing a White Paper on Universal Health Insurance. It is regrettable that insurers are not to be included in the process of formulating any prospective system. Any such system must take account of the needs of all citizens, providing them with adequate health care at affordable prices. The best way to achieve this is to ensure there is a fair, functioning and lightly regulated market with a number of providers in competition with each other.

- Two recent decisions at a European level support the view expressed in this document that changes must be made to the structure of the private health insurance market and how it is regulated.

[28] Statistics from the ESRI put this figure at closer to 50%
[29] Ibid. p.90

In September 2011 the European Court of Justice ruled that Ireland was in breach of its EU obligations. It recommended that Vhi must raise revenue so as to comply with the regulator's solvency requirements and should seek authorisation from the central bank.

In July of 2012 a State Aid decision resulted in the European Commission requesting that the Irish State ends the unlimited guarantee for Vhi. In particular the commission requested that Vhi should be broken up into a number of limited companies by the end of 2013.

- The Government has announced its intention to abolish the subsidy for private beds in public hospitals and to charge private users for care received in public hospitals, even in beds not designated for private care. These moves are designed to reduce costs in the health service; however, in reality they are little more than a 'double-tax' on users. Furthermore, these changes will lead to significant increases in the cost of health insurance. If the Government took a more long term view, they would recognise that an increase in the cost of private health insurance will only result in more people cancelling their insurance, leading to further pressure on the already stretched public health service.

  Savings must be made in the health service; however, these should come from greater efficiencies and productivity, as well as better management and changes to the pay and conditions of workers.

- The current system of community rating whereby tax credits are funded through a levy paid by insurance companies is having a significant impact on the cost of private health insurance. The Government maintains that this is designed to create 'intergenerational solidarity', guaranteeing that older people do not pay excessive amounts. However, these levies have unintended consequences for the entire health care system. The Millward Browne Lansdowne report notes that 45% of all people who cancelled their private health insurance did so as it had become too expensive.[30] These individuals will now rely solely of the public health service.

- The Department of Health has announced its intention to only allow changes to health insurance plans once a year. Furthermore, the Department of Health must be notified of these changes 90 days before they come into effect. This will have the unintended consequence of stifling innovation in products and benefits and could increase the cost of health insurance as providers will be unable to manage their cost base through benefit changes.

  Rather than punishing the insurance companies and their customers, the Government ought to concentrate on finding efficiencies in the existing public health system.

  Providers of private health insurance maintain that a fair and open market, wherein all insurers provide care for members of all demographic groups, would result in a more equitable system. The competition between providers would ensure that private health insurance remains affordable, easing the pressure on the public system.

[30] Op. cit. p.21

Recommendations

1. Reforms must drive productivity and efficiency

Given the current state of the public finances and the size of the budget deficit, everything that can be done to generate cost containments and savings in public expenditure must be pursued vigorously. Reform of the private health insurance market must be a spur to identify and achieve such savings. The Public Health Service in Ireland must become more productive and efficient to generate much needed savings in public expenditure.

2. Regulatory issues

We believe there is no justification for the advantages enjoyed by any player in the private health insurance market through an exemption from the requirements of the Central Bank. This results in a distortion of the market. New entrants are discouraged from entering the market and find it difficult to compete. This results in increased premiums for consumers and lower levels of investment in technology and innovation in the health system.

Furthermore, in line with decisions taken at a European level there is little justification for the State to retain ownership of a provider of private health insurance. Commercialisation must be achieved and identical regulatory obligations must be enforced before the end of 2013 as recommended by the European Commission's State Aid decision.

3. The role of risk equalisation

In its current structure, the system of Risk Equalisation has a negative impact on the affordability of health insurance. Changes should be made to reduce the cost of private health insurance and, therefore, incentivise a younger cohort in, rather than penalising them out.

A fair and open market ought to be sufficient to ensure that the cost of private health insurance for consumers is affordable and that members of all sections of the population do not pay excessive amounts for their insurance. While the principles of community rating and intergenerational solidarity are admirable, we believe that a scheme that punishes some insurance providers is unjustified. An open market, without payments from certain companies to others, would generate a culture of competition and lead to a more affordable system

Government must give further consideration to the issues of dominance and balance within the market. Structural changes to the insurance market are a credible alternative to the proposed Risk Equalisation Scheme. A number of possible alternatives were recommended in the Competition Authority's 2007 report, 'Competition in the Private Health Insurance Market'.[31]

4. Levies

The cost of private health insurance has escalated greatly in recent years and research cited earlier has shown that this is the main reason for people cancelling their premiums. Any increase in the levy imposed by Government on insurance providers would lead to further increases in the cost of private health insurance and more people choosing to leave schemes. We believe this must be avoided as it would lead to more people relying on the already stretched public health service. The

[31] Report available from: http://tca.ie/EN/Promoting-Competition/Market-Studies/Private-Health-Insurance.aspx

true impact of young people leaving private health insurance schemes will not be realised until they reach the age where they require health services. The potential pressure on the public health service is huge. This is an unknown that cannot be allowed to happen.

Furthermore, continued excessive increases in the cost of private health insurance can be a deterrent to FDI growth. Everything that can be done to limit the cost of doing business in Ireland must be pursued in order to safeguard this job creating sector of the economy.

5. Wider reforms in the health service

There is little doubt that public spending, particularly in the health system, is currently too high. As the Government attempts to close the gap between what we spend as a nation and what we raise in taxation, we believe an essential course of action is to seek cost containments in spending. Therefore, the Government must take this opportunity to identify and implement a range of policies that could reduce the cost of the health service. These measures could include better management, leading to greater efficiencies through adjustments to pay and pensions, a review of allowances and increments paid to staff.

There should also be moves to increase the levels of marketisation in the wider health service. As health care providers are encouraged to compete for patients from insurance companies, this could lead to greater investment in technology and infrastructure.

These savings in spending are much preferable to the imposition of taxes and levies on employers, who do so much to create wealth and jobs in society.

6. Universal Health Insurance

The Government remains committed to the introduction of a system of Universal Health Insurance. We recognise this is an important step in the drive to deal with market shrinkage in private health insurance. However, it must be introduced in a manner that benefits all citizens as consumers and patients. Insurance providers ought to be consulted throughout the process. Their expertise would be invaluable in finding workable solutions. The resulting system must encourage a number of providers to enter the market and offer a range of affordable products. The principles of intergenerational solidarity and community rating can be protected while those who require additional cover can have the opportunity to purchase optional extras from a range of competing providers.

It is essential that health insurance remains affordable. Indeed, this was a commitment in the coalition's Programme for Government. There is little evidence that this commitment is being met.

It is likely that in any future Universal health Insurance scheme the State could be purchasing private insurance for approximately 30% of the population; therefore, costs must be contained, efficiencies must be found and the entire system of health care in Ireland must be more sustainable.