

Stormy Waters: Private Medical Cover in the Republic of Ireland

Kieran Kelly and Stephen Lalor



Kieran Kelly is Managing Director of the Employee Benefits & Investments division of Coyle Hamilton Willis. He has over 30 years' experience in employee benefits in the UK and the Republic of Ireland. He is a Fellow of both The Chartered Insurance Institute and of the Irish Institute of Pensions Managers; he is also a former President of the Irish Brokers Association.

Stephen Lalor is an employee benefits consultant at Coyle Hamilton Willis in Dublin with over 20 years' experience, having worked for a number of participation is through plans associated with employment.



individuals to contribute more for a higher level of cover or to include family members.

Employees and their families are covered partially or totally at the employer's expense.

There are numerous permutations on these basic formulas. In many companies, different levels of support may apply at different job grades. For example, it would not be unusual to find a situation where hourly paid workers receive a deduction facility only, with no company contribution, while senior management might have personal/family cover paid by the company; employees in intermediate grades would be offered something in between.

Ireland is host to a large number of big-name multinationals, way out of proportion to its relatively small size. There are over 1,000 multinationals operating there, almost half of which have US headquarters. Total employment is over 125,000, with US companies representing over 90,000 employees. Private medical insurance is a standard employee benefit among the leading multinationals.

EMPLOYER SUPPORT

Private medical insurance is seen as a valuable employee benefit and is the hallmark of a good employer; this is not to say that all employers offer their workforce universal and free health insurance. There is a wide range of options and practices. Variations can include the following:

The employer does not pay any part of the cost but simply offers a payroll deduction facility whereby employees can subscribe at their own expense.

The employer pays all or part of the cost for a specified level of cover for employees, allowing

CHOICE OF PROVIDER

There are currently three private health insurance providers in the Irish market:

- Vhi Healthcare,
- BUPA Ireland, and
- VIVAS Health.

The providers compete on cost and on the specific benefits they offer. Some target the needs of particular groups, such as young families. While trying to match each other's products, they also seek to provide extras and innovations in order to differentiate their own products.

It is not our intention in this article to conduct a detailed comparison or evaluation of the plans on offer – an exercise that needs to be carried out by each employer, taking account of the needs and preferences of the workforce and the cost/benefit matrix of the particular employee population. At the time of writing, Vhi has close to 80% of the market, or 1.5 million members. BUPA has some 450,000 members. VIVAS, the newcomer, is developing market share quite rapidly from a standing start.

CHOICE OF PLANS

Each of the providers offers a range of plans and, accordingly, a wide variety of premiums. This is, in effect, a hierarchy of plans from the relatively cheap and basic to some very expensive plans. One important fact is that, in all cases, the premium for any particular plan is the same for everyone, regardless of age, sex or medical history, i.e. community rating is employed, about which more will be said later in this article. All the plans cover the cost of a broad range of medical and surgical treatments, including consultants' fees, and support for the cost of medicines.

The most evident distinction between the basic plans and the more expensive options is the level of hospital accommodation they provide. This varies from semi-private (two to five people in a room) in public hospitals to individual rooms in private hospitals at the top end of the range. In between are private accommodation in public hospitals or semi-private in private hospitals.

Vhi has plans designated A (the lower end) to E (the higher), with some optional add-ons at all levels. BUPA offers plans from Essential through Essential Plus to Health Manager Gold at the top end. VIVAS offers levels 1 to 5 in respect of hospital accommodation and A or B choice for day-to-day health cover.

Where private medical insurance is provided to employees as a benefit, the most common level is Vhi B or BUPA Essential Plus. However, there is a broad range of practices and it is not unusual for an employer to pay for Plan B/Essential Plus for the general employee population and for a higher level (Vhi C, D or E or BUPA Gold) for managers.

COSTS

As would be expected with such a wide range of products, there is a broad spectrum of costs. Linking cost with value is a complex operation and inevitably needs to take account of individual requirements and/or population profile.

To provide some context for typical costs, the current costs for selected plans with Vhi* are:

- Entry level (Plan A): €529[†] p.a.
- Typical level (Plan B): €756 p.a.
- Top of the range (Plan E with Options): €2,296 p.a.

There is a 10% discount for group schemes.

Where an employer pays the full cost of Vhi Plan B for the employee alone, the annual cost to the company should work out at €680. If the company were to provide Plan E with Options for a senior executive,

his/her spouse and two children, the annual cost would be €5,797.

Vhi prices are given simply because, as the 80% market presence, they represent the benchmark for the competition. Both VIVAS and BUPA offer plans that are pitched at similar levels to the Vhi plans and their premium costs are currently lower than those shown above. We will not go into direct price comparisons here because of the differentiation factors mentioned earlier. Needless to say, many companies are actively exploring the alternatives in order to achieve reductions in cost without compromising the level of cover for employees.

TAXATION

Medical insurance provided by an employer is a taxable benefit in kind and, since January 2004, must be accounted for under the income tax and social security systems (PAYE[‡] and PRSI[§]). However, medical insurance premiums, whether paid for by the individual or the company, attract income tax relief at the standard rate of 20%.

This tax relief is factored in to the price charged by the provider. For this reason, the over-the-counter cost to the customer is 20% less than the illustrative figures shown above. The Government pays the insurers the 20% to compensate for the discount in the price charged to the consumer. Where an employer provides medical insurance for an employee, it pays the net cost to the provider and the 20% to the Government.

An employee who has medical cover as an employer-paid benefit will be assessed on the gross value and taxed accordingly, but will receive a tax credit for 20% of the gross amount. This sounds more complicated than it is in practice. There are two income tax rates: 20% and 42%, depending on level of taxable income. For example, for a 20% taxpayer the credit equals his/her assessment to benefits in kind and the effect is therefore neutral; for those taxed at 42%, the net effect is that he/she pays 22% of the gross premium paid on his/her behalf.

STRATEGIC CONSIDERATIONS

It is fairly commonly acknowledged that private medical insurance is seen both by employers and by employees as a valuable employee benefit. Certainly, an employer needs to consider including medical as a key element in a benefits programme. There is, however, no single formula that is appropriate for every employer in Ireland. Like all benefits, it is bound to be influenced by factors such as benefits philosophy, affordability, competitive positioning, industry/regional norms and employee perception. Happily, there is a wealth of information such as benchmarking assistance to help employers to devise a plan that should best fit their circumstances.

So is all well and straightforward in the world of private medical insurance in Ireland? Actually, no. The market is

* prices are rates for adults *before* tax relief
[†] £1 = €1.46; US\$1 = €0.84 as at 10 February 2006
[‡] pay as you earn
[§] Pay-Related Social Insurance

facing an immediate and serious crisis that could affect the shape, the cost and the very availability of private health provision in the future.

A BRIEF HISTORY LESSON

Before going further into the issues now facing the whole health insurance market in Ireland, it may be worth looking at how matters developed.

In the beginning – that is since 1957 – there was the Voluntary Health Insurance Board (Vhi) which was and is government owned and operated in a monopoly environment. It offered private medical insurance with the principles of:

- universal access (anybody can join), and
- community rating (the same premium is charged regardless of age, sex or medical history).

In 1994, the Health Insurance Act was passed allowing other providers access to the market on a competitive basis. There was provision for a system of risk equalisation to be introduced if the Minister for Health considered it necessary in order to protect the principle of community rating.

According to the Health Insurance Authority (a body set up by the Government in 2001), risk equalisation is a process that aims to equitably neutralise differences in insurers' costs due to variations in the health status of their members. Risk equalisation results in cash transfers from insurers with lower-risk members to insurers with higher-risk members. Risk equalisation would require one provider, with a younger age profile among its customers/members, to make payments to a competitor with an older profile, so as to compensate for the differences in the attendant risk factor.

The object was to prevent, or at least neutralise the effect of, a newcomer to the market targeting younger populations and leaving the current incumbent with an ageing membership. Whether by accident or design, this has in fact happened and it is acknowledged that the later arrival, BUPA, has a younger demographic profile than Vhi. In the 12 months to the end of June 2005, Vhi had a premium income of €890 million and an underwriting surplus of €25 million, while BUPA had premiums of €163 million and a surplus of €22 million.

BUPA entered the market in 1997 and VIVAS in 2004. Both have built up market share, often through defections from Vhi. Both have operated community rating, as they are required to do, within their respective suites of products.

STORMY WATERS

Following a recommendation by the Health Insurance Authority, in 2005 the *Tánaiste* (Deputy Prime Minister) and Minister for Health announced her intention of implementing risk equalisation in respect of BUPA. VIVAS continues to have a moratorium until 2007.

Under the terms as implemented, it is estimated that BUPA would be obliged to pay Vhi some €30 million a year. This it is reluctant to do. Originally, BUPA sought and obtained an injunction preventing the Ministerial order, but this injunction was subsequently

lifted and risk equalisation became a matter of law this year. BUPA has challenged the constitutionality of the measure and a High Court case commenced on 7 February. In the meantime, BUPA has been given leave to appeal the earlier decision, so the case is active on two fronts. Apart from the legal challenge, BUPA has announced that, should it be obliged to pay risk equalisation contributions to Vhi, it will pull out of Ireland.

The Arguments

No doubt the legal arguments on all sides – BUPA, the Government and Vhi – will be complex, abstruse and also fascinating. For the present, a contest is on to win the hearts and minds of the public.

BUPA has taken out full-page advertisements in the national newspapers proclaiming the benefits of competition, asserting its intention to withdraw from the market if compelled to subsidize its main competitor and pointing to the fact that it employs 300 people in Ireland.

For its part, Vhi insists that the system is vital to the principle of community rating and that, without it, older people will be faced with increasing costs and eventually total loss of cover. It points out that risk equalisation has been a feature of the legislation since 1994 and that this fact is known to all who enter the market.

In opening arguments in the High Court, BUPA claimed that the total cost of risk equalisation over three years could amount to €161 million, causing it huge net losses.

The Outlook

Despite the uncertainty that hangs over the market, it is worthwhile contemplating the landscape after the resolution of the legal battle. There are four possible broad scenarios, each with different implications for the consumer.

If BUPA loses and exits the market, the following questions will arise:

Will BUPA continue to cover its 450,000 subscribers?

Will Vhi take BUPA's subscribers on?

Will VIVAS step into the breach?

Will VIVAS also exit the market?

Will another provider enter the market?

Will community rating act as a deterrent to competitors, returning us to a Vhi monopoly?

If BUPA wins, we can expect the following results:

The way will be clear for vigorous targeting of the younger population, possibly resulting in further attrition from Vhi and a consequent ageing of its customer base.

Vhi has to increase premiums, making the competition cheaper by comparison.

Vhi costs spiral out of control; the Government is obliged to abandon community rating; and private medical insurance becomes unaffordable for older people, who are then forced back on to the already struggling public health service.

It is unlikely that BUPA will lose and decide to stay if the rhetoric is to be believed. However, BUPA has built up a good business base in Ireland which is respected and its innovation is recognised as having been to the benefit of the consumer, so it could well continue to thrive even with the burden of risk equalisation.

The case could drag on. Apart from the endemic slowness of justice, there are plenty of opportunities for

the loser to appeal – to the Supreme Court or to the European Court of Justice. This could take years. Depending on events, VIVAS may well enter the fray if and when it becomes subject to risk equalisation.

What to Do in the Meantime?

None of this alters the fact that private medical insurance is and will continue to be a key component of a multinational company's employee benefits strategy in Ireland. The current uncertainty is no reason to reconsider plans already in place, nor should it deter employers from seeking out best value for money and optimal benefits for their employees. The concept of private medical insurance is well embedded in Irish social and economic consciousness, so it is likely to survive the present conflict intact. Ω