SOCIETY OF ACTUARIES

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Health Care and the Role of the Actuary in Ireland

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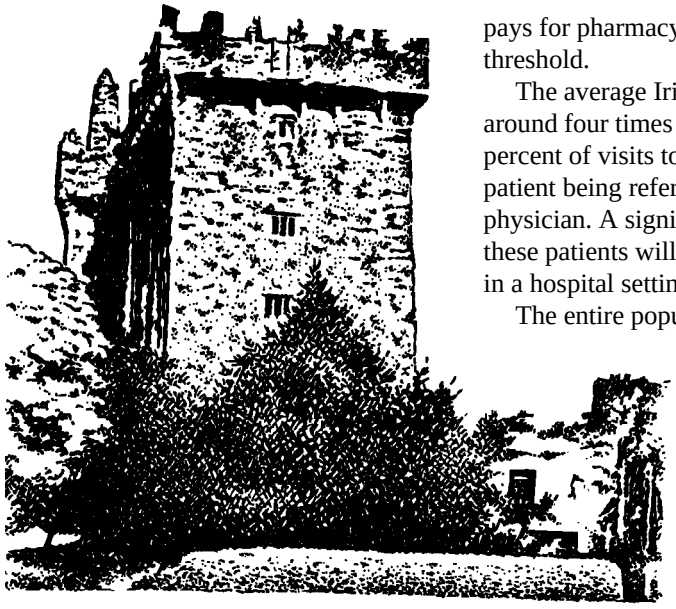

We in Ireland are fond of saying that our health care system is unique. In some respects, this is perhaps true of every country's health system, but ours does have some unusual features that may be of interest from a U.S. perspective. In addition, U.S. health care actuaries may be interested to hear a little about the progress the profession in Ireland has made in developing the role of the actuary in the health care arena.

Health care provision in Ireland

Health care in Ireland starts with the general practitioner (GP) or family physician. GPs are self-employed and the majority of GP practices are staffed by a single physician, serving an average patient population of around 1,600. The State pays for GP care, including prescription drugs, for the percentage of the population considered "low-income" (approximately 30%). The rest of the population pay for GP visits entirely on an "out-of-pocket" basis and must also pay "out-of-pocket" for prescription drugs up to IR£42 (approximately $54 U.S.) per family per month. The State pays for pharmacy costs above this threshold.

The average Irish person visits his GP around four times per year. About four percent of visits to a GP result in the patient being referred to a specialist physician. A significant proportion of these patients will go on to receive care in a hospital setting.

The entire population is entitled to specialist and hospital treatment almost free of charge within the State's public health system. The portion of the population that is not considered "low-income" pay a modest statutory charge of IR£25 (approximately $32 U.S.) per day, subject to an annual maximum of IR£250 (approximately $320 U.S.). However, a public patient may wait months for an appointment with a specialist physician, may then have to wait again for diagnostics, and then wait further months, or in some cases years, for surgery.

Private health insurance

As a result of the possibility of lengthy waits, over 40% of the population choose to buy private health insurance. This insurance covers the cost of being treated in a private hospital or as a private patient in a public hospital, and therefore, helps beat the long queues for treatment in the public system. The freedom to choose one's health care provider and a higher standard of facility accommodations are additional factors in the decision to purchase private insurance.

Private insurance mainly covers only the cost of inpatient treatment and "day care" (within ambulatory care, a distinction is made between "day care," where the patient is "admitted" to a hospital bed for the purposes of a therapeutic or diagnostic procedure, and "outpatient" services). Fees for GP consultations and for outpatient specialist consultations and diagnostics are paid by the patient on an out-of-pocket basis and only partly reimbursed by the insurer, if total annual expenses in this category exceed a substantial deductible.

The government actively encourages the purchase of private health insurance, as it is seen as reducing the cost of the public health system, which is financed by gen-eral taxation. Private health insurance premiums are therefore, tax deductible.

Most people pay their own health insurance premiums. Increasingly, however, health insurance benefits are provided by employers (multi-national employers in particular). By American standards, premiums are low. The annual premium for a typical plan amounts to around $1,000 for a family of two adults and two children!

Managed competition

Until 1994, a statutory body (the Voluntary Health Insurance Board or VHI) had a monopoly on private health insurance in Ireland. Following European Union legislation that required all insurance markets be opened to competition, the Irish government introduced a form of "managed competition" for private health insurance. The principal features of the regulatory structure include:

"community rating" -

A health insurer must charge the same premium to every insured person regardless of age, sex or health status. Those insured under group contracts can be given a maximum discount of 10% on the basic premium rate, regardless of the size of the group or whether premiums are paid by individuals or by their employers.

Premium rates for children under 18 may be charged at about one-third of the adult rate.

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"open enrollment" -
A health insurer must accept all applications for coverage, regardless of the age, sex, or health status of the applicant.

"lifetime coverage" -
Once a person is covered by health insurance, he is entitled to renew his coverage annually throughout his lifetime, regardless of his state of health.

"minimum benefit" -
There is a statutory minimum level of benefit which must be provided under every health insurance contract.

Risk adjustment

In addition, there is a provision in the regulatory structure for a risk adjustment mechanism. This mechanism is intended to ensure that, under a community-rated system with open enrollment, no insurer will incur disproportionately heavy claims because of preferred risk selection by other insurers in the market. Under the risk adjustment mechanism, health insurers with a better-than-average membership risk profile (that is, with members who are younger and healthier than the market average) will contribute to a central fund. The fund would be used to compensate health insurers with a poorer-than-average membership risk profile.

White paper on private health insurance

To date, only one insurer has entered the market to compete with VHI and the government remains keen to encourage further competition.

There has been significant controversy in relation to the risk adjustment mechanism. While the necessity for such a system has been endorsed by the Society of Actuaries in Ireland, it is perceived by some insurers as a significant barrier to competition.

The original risk adjustment mechanism was withdrawn a year ago. The government has recently published a White Paper on Private Health Insurance that sets out details of a new methodology based on diagnosis-related groups (DRGs) as well as age and sex. The White Paper also indicates that new insurers will not be required to participate in the risk adjustment process until they have been in operation in the Irish market for an initial period of perhaps two to three years.

The White Paper sets out a number of other changes that will be made to the regulatory framework. These include:

- an amendment to the community rating rules to allow insurers to apply a "late entry" premium loading to any person who is over age 35 when they purchase private health insurance for the first time.

- an amendment to the effect that insurance for non-hospital based services will not have to be community-rated. This amendment is expected to encourage the development of new products to cover GP, outpatient, and dental services.

- a provision for privatization of VHI.

More wide-reaching reforms a possibility?

The present government is committed to maintaining the current public/private mix of health care financing. The benefit of this system is that it reduces the tax burden related to public spending on health care. On the other hand, the system's major flaw is the two-tier structure, with those who cannot afford private health insurance often having to wait far too long for treatment.

Historically, there has been relatively little public debate in relation to potential alternative approaches to paying for health care. Recently, however, health care has begun to receive some political attention, particularly in the context of the extraordinary economic boom Ireland is currently enjoying. The Labour Party (which is not part of the current government) published a policy document in April 2000 which calls for the introduction of universal health insurance and has launched a national series of debates on this proposal. The results of the next general election could therefore give rise to significant health care reforms.

Role of the health care actuary

Just ten years ago, there were no actuaries working in the health care field in Ireland. Actuarial involvement began from an employee benefits perspective and increased when the government appointed an actuarial firm to advise on the development of a regulatory framework for managed competition.

Subsequently, an actuary was employed by VHI for the first time in its existence. There are now eight actuaries involved in Irish health care on a part-time or full-time basis (this amounts to two health care actuaries per million population).

The Society of Actuaries in Ireland founded its Health Care Committee in 1994 and has subsequently developed an active public profile on health issues. The Society has hosted national conferences on the future of health care financing in Ireland (December 1997) and health care metrics (April 2000). The Society has also made a number of policy proposal submissions to the Minister for Health and has called for a fundamental review of the system of health care funding.

Like other actuarial associations around the world, the Society's aim is to continue to expand the role of the health care actuary through the application of actuarial skills to enhance the management of the provision and the funding of health care in both the public and private sectors.

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