

2012 SGEI Framework - Department of Health Report June 2014

Private Health Insurance Risk Equalisation Scheme

(a) Description of the application of the principles set out in the 2012 SGEI Framework to the services falling within its scope, including in-house activities

In its decision of the 20 February 2013, the Commission noted that the State compensations granted through the Risk Equalisation Scheme for the provision of private health insurance in Ireland for the period 2013-2015 constitute State aid that is compatible with the internal market under the 2012 SGEI Framework. The principles set out in the Framework and their application to the Risk Equalisation Scheme are outlined below.

- **Genuine SGEI (2.2)**

Previous Commission decisions, as well as the BUPA case-law, accepted that the private health insurance services were SGEIs and that the private health insurance obligations were SGEI obligations. The current Risk Equalisation Scheme does not alter the nature of either private health insurance services or private health insurance obligations.

- **Need for an entrustment act specifying the public service obligations and the methods of calculating compensation (2.3)**

The Risk Equalisation Scheme is provided for by the Health Insurance Act 1994 (as amended), and the Stamp Duties Consolidation Act 1999 (as amended), and specifies the public service obligations of all undertakings wishing to provide their services on the health insurance market in Ireland. The compensation mechanism and the parameters for calculating, monitoring and reviewing the compensation are described in the Health Insurance Act 1994 (as amended). The text of the 2012 SGEI Framework is included in an annex to the legislation.

- **Duration of the period of entrustment (2.4)**

The SGEI Framework requires that the duration of the period of entrustment is "justified by reference to objective criteria". However, the Commission is of the view that, given the peculiarities of the Risk Equalisation Scheme, the unspecified duration does not raise particular concerns. Under the Risk Equalisation Scheme all insurers are entrusted with the SGEI and all are potential beneficiaries of the scheme. Ireland notified the Risk Equalisation Scheme for an initial period of 3 years (2013-2015). While Ireland may in time notify prolongations / modifications of the measure, the Risk Equalisation Scheme will thus be periodically reviewed, thereby ensuring a check on the correct functioning of the Irish private health insurance market.

- **Compliance with the Directive 2006/111/EC on the transparency of financial relations between Member States and public undertakings as well as on financial transparency within certain undertakings (2.5)**

A guide to the operation of the Risk Equalisation Scheme was published by the Health Insurance Authority in May 2013¹. This guide explains in detail the method of calculation of the payments made under the Risk Equalisation Scheme, thereby contributing to the predictability and the transparency of the measure. A period of notice is provided to insurers before any changes to the rates of payments and levies. Financial data relating only to private health insurance are taken into account for the calculation of payments, i.e. numbers relating to travel insurance and other activities are not taken into account. The Commission considers that the separation of the costs and revenues relating to the SGEI business of the net beneficiary is properly carried out for the purposes of the overcompensation test, in line with the requirements of the Transparency Directive.

- **Compliance with Union public procurement rules (2.6)**

Since any operator wishing to provide its services on the private health insurance market is entrusted with the SGEI and may potentially benefit from the Risk Equalisation Scheme, it is not necessary to use the public procurement rules in order to ensure compliance with the 2012 SGEI Framework in this case.

- **Absence of discrimination (2.7)**

The Risk Equalisation Scheme operates in an identical manner in respect of all insurers on the Irish private health insurance market. It is based on objective criteria: the credits and stamp duties are determined based on the number of insured individuals falling within clearly defined categories (depending on age, gender and level of coverage as well as hospital bed utilisation). The Health Insurance Authority is an independent authority and follows an objective procedure for recommending the proposed levels of credits and stamp duties. The Minister for Health, having consulted with the Minister for Finance sets the Risk Equalisation rates. He also makes his recommendation to the Minister for Finance on the stamp duty levies required to fund those credits. The Minister for Finance sets the stamp duty levels.

- **Amount of compensation (2.8)**

The method for compensation depends on objective and easily verifiable parameters, namely the number of persons insured by each insurer in each of the clear and transparent categories – i.e. depending on age, gender, and defined level of cover, as well as with reference to hospital bed utilisation. The Risk Equalisation Scheme only compensates for deviations in risk in relation to the average of the insured Irish population. It does not achieve full risk compensation and would therefore not normally lead to overcompensation.

Under the Scheme, the Health Insurance Authority carries out an overcompensation test in accordance with the 2012 SGEI Framework in order to verify that no company is over-compensated. The Health Insurance (Amendment) Act 2013 specifies a rate of 12% return on equity as the ceiling above which overcompensation is deemed to have occurred.

¹ Available online:

http://www.hia.ie/assets/files/publications/Risk_Equalisation/10880cr%20Guide%20to%20the%202013%20RE%20System%2018%20July%202013.pdf

All insurers are required to maintain and furnish to the Health Insurance Authority, in respect of each year, statements of profit and loss as well as certified balance sheets in respect of its health insurance business, as well as to furnish to the Health Insurance Authority such other information relating to the year as may be prescribed. In its over-compensation test, the Health Insurance Authority determines reasonable profit with reference to both internal benchmarks (the insurer's own cost of equity) and external benchmarks (profitability measures for comparable European insurers) for the health insurer that is expected to be the net beneficiary of the Risk Equalisation Scheme (VHI). If it is determined that a net beneficiary of the scheme has made a profit which is in excess of the reasonable profit the insurer will be obliged to repay to the Risk Equalisation Fund the amount by which it has been overcompensated.

- **Additional requirements which may be necessary to ensure that the development of trade is not affected (2.9)**

Not applicable.

- **Transparency (2.10)**

An extensive public consultation in relation to the development of a long term Risk Equalisation Scheme was carried out in 2010 and the results of this public consultation are available on the Health Insurance Authority's website (www.hia.ie). The legislation governing the Risk Equalisation Scheme is available online. Reports published yearly by Health Insurance Authority including advice to the Minister for Health on risk equalisation credits are also available on its website and the Department of Health's website (www.health.gov.ie).

(b) the total amount of aid granted to undertakings falling within the scope of this Communication with a breakdown by the economic sector of the beneficiaries

The risk equalisation scheme is self-funding. The level of stamp duty is determined with the objective of having the total amount raised in stamp duties equal the total amount paid out in credits.

The Health Insurance Act 1994 (Risk Equalisation Scheme) Regulations 2013 were introduced in February 2013. These Regulations set out the structures for submitting risk equalisation credit claims and returns by registered undertakings to the Health Insurance Authority and the validation of these claims by the Authority. The regulations are available online:
<http://www.irishstatutebook.ie/2013/en/si/0070.html>.

The Risk Equalisation Fund, through which all risk equalisation payments are administered, was established in 2013. The audited accounts of the Risk Equalisation Fund are included in the Health Insurance Authority's annual report and will be published on its website (accounts attached in appendix A). The accounts for 2013 show a deficit of €23m which relates to timing issues, as a significant amount of income and expenditure on health insurance contracts renewed or commenced in 2013 will be recognised in 2014. By the end of April 2014, it is estimated that the deficit in respect of these contracts has declined from €23m to 12m and it is currently expected that, by the end of 2014, the Fund will be close to breakeven in respect of contracts that commenced or renewed in 2013.

The net beneficiary, VHI, received a net benefit of €65.7m (risk equalisation credits less stamp duty) in respect of policies commencing in 2013.

The rates applying for contracts commencing/renewing since 1 January 2013 are set out in the following tables:

Rates applying for Contracts Commencing/Renewing from 1 January 2013 to 30 March 2013	
Tax Credits	
60-64	€600
65-69	€975
70-74	€1,400
75-79	€2,025
80-84	€2,400
80+	€2,700
Levies	
Adult	€285
Child	€95

Rates applying for Contracts Commencing/Renewing from 31 March 2013 to 28 February 2014				
Risk Equalisation Credits	Male Non-Advanced Cover	Female Non-Advanced Cover	Male – Advanced Cover	Female – Advanced Cover
60-64	€375	€250	€425	€275
65-69	€900	€650	€1,050	€775
70-74	€1,450	€975	€1,700	€1,150
75-79	€2,050	€1,550	€2,425	€1,800
80+	€2,850	€1,925	€3,375	€2,275
Levies				
Adult	€290	€290	€350	€350
Child	€100	€100	€120	€120
HBUC	€75 per overnight stay in private hospital accommodation			

Rates applying for Contracts Commencing/Renewing from 1 March 2014				
Credits	Male Non-Advanced Cover	Female Non-Advanced Cover	Male – Advanced Cover	Female – Advanced Cover
60-64	€250	€200	€450	€325
65-69	€575	€400	€1,150	€775
70-74	€925	€625	€1,850	€1,200
75-79	€1,200	€950	€2,500	€1,925
80-84	€1,575	€1,150	€3,200	€2,250
85+	€1,975	€1,325	€4,000	€2,725
Levies				
Adult	€290	€290	€399	€399
Child	€100	€100	€135	€135
HBUC	€60 per overnight stay in private hospital accommodation			

(c) an indication of whether, for a particular type of service, the application of the principles set out in this Communication has given rise to difficulties or complaints by third parties

No complaints by third parties in relation to the application of the principles set out in the Framework have been communicated to the Department of Health.

(d) any other information concerning the application of the principles set out in this Communication required by the Commission and to be specified in due time before the report is to be submitted.

Not applicable.

The Risk Equalisation Fund (“the Fund”) Report and Financial Statements

for the year 1 January 2013 to 31 December 2013

To the Minister for Health

In accordance with the terms of the Health Insurance Act 1994 (as amended), The Health Insurance Authority presents the Financial Statements of the Risk Equalisation Fund for the twelve-month period ended 31 December 2013.

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Report of the Comptroller and Auditor General

Risk Equalisation Fund

I have audited the financial statements of the Risk Equalisation Fund for the year ended 31 December 2013 under the Health Insurance Act 1994 (as amended). The financial statements, which have been prepared under the accounting policies set out therein, comprise the statement of accounting policies, the income and expenditure account, the balance sheet, the cash flow statement and the related notes. The financial statements have been prepared in the form prescribed under Section 11D(8) of the Act, and in accordance with generally accepted accounting practice in Ireland.

Responsibilities of the Health Insurance Authority

The Health Insurance Authority is responsible for the preparation of the financial statements, for ensuring that they give a true and fair view of the transactions of the Fund and of the state of its affairs and for ensuring the regularity of transactions.

Responsibilities of the Comptroller and Auditor General

My responsibility is to audit the financial statements and report on them in accordance with applicable law.

My audit is conducted by reference to the special considerations which attach to State bodies in relation to their management and operation.

My audit is carried out in accordance with the International Standards on Auditing (UK and Ireland) and in compliance with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of Audit of the Financial Statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements, sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of

- ▶ whether the accounting policies are appropriate and have been consistently applied and adequately disclosed
- ▶ the reasonableness of significant accounting estimates made in the preparation of the financial statements, and
- ▶ the overall presentation of the financial statements.

I also seek to obtain evidence about the regularity of financial transactions in the course of audit.

In addition, I read the Health Insurance Authority's annual report to identify material inconsistencies with the audited financial statements. If I become aware of any apparent material misstatements or inconsistencies, I consider the implications for my report.

Opinion on the Financial Statements

In my opinion, the financial statements, which have been properly prepared in accordance with generally accepted accounting practice in Ireland, give a true and fair view of the transactions of the Fund for the year ended 31 December 2013 and the state of its affairs at that date.

In my opinion, proper books of account have been kept by the Health Insurance Authority. The financial statements are in agreement with the books of account.

Matters on which I Report by Exception

I report by exception if

- ▶ I have not received all the information and explanations I required for my audit, or
- ▶ my audit noted any material instance where money has not been applied for the purposes intended or where the transactions did not conform to the authorities governing them, or
- ▶ the information given in the Health Insurance Authority's annual report is not consistent with the related financial statements, or
- ▶ I find there are other material matters relating to the manner in which public business has been conducted.

I have nothing to report in regard to those matters upon which reporting is by exception.

Comptroller and Auditor General

30 June 2014

The Risk Equalisation Fund

Statement of Responsibilities

Section 11D(8) of the Health Insurance Act of 1994 (as amended) (the 'Act') requires the Health Insurance Authority (the 'Authority') to prepare financial statements. In preparing those financial statements, the Authority is required to:

- ▶ Select suitable accounting policies and then apply them consistently;
- ▶ Make judgements and estimates that are reasonable and prudent;
- ▶ State whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- ▶ Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Fund will continue in operation.

The Authority is responsible for keeping proper books of account, which disclose in a true and fair manner at any time the financial position of the Fund and which enable it to ensure that the financial statements comply with Section 11D(8) of the Act. The Authority is also responsible for safeguarding the assets of the Fund and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Chairman

Member

30 June 2014

The Risk Equalisation Fund

Statement of Accounting Policies

The significant accounting policies adopted in these financial statements are as follows:

Basis of Accounting

The financial statements have been prepared on an accruals basis, under the historical cost convention and in accordance with generally accepted accounting practice in Ireland. Financial reporting standards of the Financial Reporting Council are adopted as they become applicable.

The Fund was established under Section 11D of the Act. The Fund was established by and is administered and maintained by the Health Insurance Authority. The Act provided that all stamp duty paid by virtue of the Section 125A of the Stamp Duties Consolidation Act 1999 in respect of health insurance contracts commencing on or after 1 January 2013 be paid into the Fund.

Payments out of the Fund include:

- ▶ Risk equalisation premium credit – Registered undertakings (health insurers) receive higher premiums in respect of certain higher risk groups on the basis of age and gender, but the additional amounts charged are paid by the Fund to the registered undertakings on behalf of insured persons so that the net payment made by the insured person is not affected by age or gender.
- ▶ Hospital bed utilisation credit – a payment to registered undertakings on behalf of insured persons by the Fund of part of each health insurance claim involving payments in respect of qualifying overnight stays in private hospital accommodation.

The current Risk Equalisation Scheme is provided for in the Act. This replaced the Interim Risk Equalisation Scheme of age related tax credits and community rating levy which had operated since 2009 and was administered by the Revenue Commissioners.

Accounting Period

The financial statements are for the twelve month period from 1 January 2013 to 31 December 2013. This is the first accounting period of the Fund.

Income

Stamp Duty income is recognised in the financial statements over the term of the relevant insurance contract, assumed to be twelve months in all cases. Stamp duty on policies commencing on or after 1 January 2013 is paid by registered undertakings to the Revenue Commissioners on a quarterly basis. The stamp duty is then paid into the Fund. The receipts of the Fund in the financial year are adjusted to take account of:

- ▶ Accrued stamp duty which represents outstanding stamp duty due to the Fund at the year end and represent amounts payable by registered undertakings in relation to the last quarter of the financial year. This amount due is recorded as a debtor to the Fund.
- ▶ Un-earned stamp duty represents the estimated proportion of stamp duty paid into the Fund during the financial year and accrued at year end which relates to the unexpired term of the relevant insurance contracts at the balance sheet date. This amount is recorded as a provision at the balance sheet date (See Note 1).

Expenditure Recognition

Expenditure is recognised in the financial statements on an accruals basis as it is incurred.

Risk Equalisation Premium Credit

Risk equalisation premium credit is accounted for on an accruals basis. Insurers claim risk equalisation premium credit from the Fund on a monthly basis. In determining the amount to be recognised as an expense in the financial year, the payments made from the Fund are adjusted to take account of:

- ▶ Amounts claimed and payable to registered undertakings which have not been paid at the balance sheet date.
- ▶ Un-expensed risk equalisation premium credit – a majority of individuals pay insurance policies either by monthly instalments or annually in advance. Credits claimed in relation to monthly instalments are expensed in the month to which the claim relates. Credits claimed for policies paid annually in advance are expensed uniformly over the twelve months of the contract. At the balance sheet date any amounts paid to insurers which have not been expensed are recognised as a debtor (See Note 2).

Hospital Bed Utilisation Credit

The hospital bed utilisation credit is accounted for on an accruals basis. In determining the amount to be recognised as an expense in the financial year, the payments made from the Fund are adjusted to take account of:

- ▶ Amounts claimed by and payable to registered undertakings which have not been paid at the balance sheet date.
- ▶ A provision for hospital bed utilisation credit arising in respect of hospital episodes which had occurred in the financial year but had not been claimed by registered undertakings at year end. The provision assumes that the number of nights in private hospital accommodation is uniform across contracts commencing on different dates and that hospitalisation occurs uniformly throughout the policy period.

The Risk Equalisation Fund
Income and Expenditure Account
for the year ended 31 December 2013

	Notes	12 months ended 31 December 2013 €000
Income		
Stamp Duty	1	316,938
Expenditure		
Risk equalisation premium credit	2	319,151
Hospital bed utilisation credit	3	20,952
Staff and other costs	4	193
Total Expenditure		340,296
Excess of expenditure over income		(23,358)
Investment income		54
Deficit for the year		(23,304)

There are no recognised gains or losses, other than those dealt with in the Income and Expenditure Account.

Chairman

Member

30 June 2014

The Statement of Accounting Policies and notes 1 to 10 form part of these Financial Statements.

The Risk Equalisation Fund

Balance Sheet

at 31 December 2013

	<i>Notes</i>	2013 €
Current assets		
Short term deposits		113,504
Bank		50
Prepayments and other debtors	5	159,822
		273,376
Creditors (amounts falling due within one year)		
Creditors and accruals	6	(76,933)
Provisions	7	(219,747)
		(296,680)
Net liabilities		(23,304)
Representing		
Accumulated excess expenditure over income		(23,304)

Chairman

Member

30 June 2014

The Statement of Accounting Policies and notes 1 to 10 form part of these Financial Statements.

The Risk Equalisation Fund

Cashflow Statement

for the year ended 31 December 2013

	<i>Notes</i>	2013 €000
Reconciliation of operating deficit to net cash inflow from operating activities		
Operating deficit for year		(23,304)
Increase in debtors	5	(159,822)
Increase in creditors	6 & 7	296,680
Net cash inflow from operating activities		113,554
Increase in cash		113,554
Net funds at 1 January		—
Net funds at 31 December		113,554
Increase in cash		113,554

Chairman

Member

30 June 2014

The Statement of Accounting Policies and notes 1 to 10 form part of these Financial Statements.

The Risk Equalisation Fund

Notes

(forming part of the financial statements)

1. Income

Stamp duty payments for policies commencing or renewing on or after 1 January 2013 are paid by registered undertakings to the Revenue Commissioners who in turn transfer the money to the Risk Equalisation Fund.

	2013
	€000
Stamp duty paid into the Fund	412,930
Accrued stamp duty receivable (note 5)	111,632
Un-earned stamp duty provision (note 7)	(207,624)
	316,938

2. Risk equalisation premium credit

	2013
	€000
Payments made to registered undertakings in 2013	294,812
Risk equalisation premium credit payable to registered undertakings (note 6)	72,519
Un-expensed risk equalisation premium credit (note 5)	(48,180)
	319,151

3. Hospital bed utilisation credit

	2013
	€000
Payments made to registered undertakings in 2013	4,608
Hospital bed utilisation credit payable to registered undertakings (note 6)	4,221
Hospital bed utilisation credit provision (note 7)	12,123
	20,952

4. Staff and other costs

	2013 €000	2013 €000
Health Insurance Authority re-charged costs:		
Salaries and staff costs	121	
Training costs	2	
Directors Fees	4	
Rent, service charge and maintenance	12	
Insurance	3	
Computer and stationery	5	
Other administration costs	6	
Depreciation	2	
		155
Costs directly charged to the Fund:		
Consultancy	23	
Audit	10	
Legal	3	
Insurance	2	38
		193

Re-charged costs are included in the expenditure side of the Health Insurance Authority accounts.

Pre-establishment costs of the Fund were not re-charged by the Health Insurance Authority.

5. Prepayments and other debtors

	2013 €000
Un-expensed risk equalisation premium credit	48,180
Accrued stamp duty receivable	111,632
Accrued investment income	10
	159,822

6. Creditors and accruals

	2013 €
Risk equalisation premium credit payable to registered undertakings (note 2)	72,519
Hospital bed utilisation credit payable to registered undertakings (note 3)	4,221
Health Insurance Authority	177
Accrued expenses	16
	76,933

7. Provisions

	2013 €
Un-earned stamp duty provision (note 1)	(207,624)
Hospital bed utilisation credit provision (note 3)	(12,123)
	(219,747)

8. Special funding requirement under Act

Section 11(D)(5) of the Act provides that the Minister for Health may, for the purpose of maintaining a sufficient amount of moneys in the current account of the Fund, having regard to the sums payable from the current account, request the Minister of Finance to advance moneys from the Central Fund to an account established for this purpose in the name of the Minister of Health (the 'Special Account'). In May 2013 the Authority requested a payment to the Fund from the Special Account in accordance with Section 11D(5)(f)(ii) of the Act arising from a shortfall in the current account of the Risk Equalisation Fund at its commencement. €78 million was paid from the Special Account to the Risk Equalisation Fund on 20 May 2013. The payment from the Special Account was used to pay the first interim claim to registered undertakings for the period 1 January 2013 to 30 March 2013. On 28 May 2013 repayment of €78 million was made to the Central Fund in accordance with Section 11D(6)(b) of the Act using the stamp duty receipts for the first quarter. There were no further requests for payment from the Special Account during the year.

9. Disclosure of Interests

The Authority has adopted procedures in accordance with the guidelines issued by the Department of Finance in relation to the disclosure of interests by Authority Members and the Authority has adhered to these procedures. There were no transactions in the year in relation to the Fund's activities in which Authority members had an interest.

10. Approval of Financial Statements

The Financial Statements were approved by the Members of the Authority on 30 June 2014.