

American Chamber of Commerce Ireland

Submission on the future of Private Health Insurance to the Department of Health

7th October 2014



Executive summary

- In excess of 10% of the private health insurance market in Ireland is accounted for by the multinational sector. This equated to €224m in 2012
- Ireland's cost base is out of line with many of our competitors and this is increasingly a focus for our members. Between 2003 and 2013 the price of health insurance increased by 218%. Continued cost increases make it increasingly difficult for our members to maintain their competitiveness
- The American Chamber surveyed companies representing in excess of 60,000 employees ensuring that this survey captures the views of companies representing close to 50% of the employees directly employed by US companies in Ireland in early 2014
- In the last five years 81% of companies have switched suppliers and/or plans, 17% introduced fixed monetary contribution, while others have changed eligibility all in an attempt to control costs
- The average spend of our member companies on health insurance is 3.5% of labour cost
- The tipping point for significant change is fast approaching: 28% of companies predict this at 4% of total labour cost, another 20% at 6%. The tipping point will drive a significant reduction in both who is covered and how they are covered. 68% of companies are predicting fixed monetary amounts will be in place by 2019
- 80% of respondent organisations cover the full cost of health insurance for their employees, which is a considerable expenditure, with close to two thirds covering the cost for dependants of their staff. However, with further premium increases anticipated this looks set to drop to 57% by 2019. While just 21% of respondents cover a fixed amount of the cost in 2014, our results indicate that this is likely to rise significantly to 69% by 2019
- 80% believe without full funded health insurance their company will be less attractive to work for; 44% believe alternative benefits would be required to offset the reduction. With an allowance based system there is a high likelihood that many employees will not use the allowance for health insurance, especially the younger population
- **In the short term we recommend:**
 - No further Government imposed cost increases on the private health insurance market
 - Government to establish certainty on the future direction of healthcare policy, ensure cost control measures are in place supported by employer impact statements
 - Enable multi-year contracts to be put in place for companies providing private health insurance



Introduction

The American Chamber of Commerce Ireland represents over 700 US businesses in Ireland. **Since 2010, Ireland has seen the greatest surge of US investment in over a decade.** In 2013 over 160 new projects and close to 13,000 jobs were announced by the IDA, and nearly three quarters of those came from the United States. Ireland is the third largest European recipient of US FDI, and investment flows from the US to Ireland since 2000 have been 6 times larger than those to China. Today, circa 130,000 people are directly employed in over 700 US firms in Ireland accounting for over 70% of all IDA supported employment. Collectively US companies have US \$240b in foreign direct investment in Ireland, representing almost 10% of all US investment in the EU.

Investment by US firms in Ireland remains instrumental in helping to create and develop a world class labour force; critical in dispersing technology and innovative capabilities across the economy; and key in expanding the global reach of indigenous firms. **Ireland remains a unique gateway for US investment into Europe.** US business in Ireland is essential to our on-going economic recovery and will be vital to our future prosperity.

Despite these strengths we must all be conscious of factors that act as a drag on our economic performance. **It is well established that Ireland's cost base is out of line with many of our competitors and this is increasingly a focus for our members¹.** In a number of areas prices have remained stubbornly high or are beginning to increase again after a period of reduction or more often stability. As global corporations set their annual budgets centrally, and with a keen eye to cost control and certainty, unexpected and uncompetitive cost increases stand out.

Among the most volatile price increases of recent years have occurred in the health insurance market. **Between 2003 and 2013 the price of health insurance increased by 218%.** This is proving to be a major concern for our member companies as they grapple with the need not alone to be globally competitive in the marketplace, but also to remain a competitive player within their global operation. Having to explain unplanned for price increases to headquarters clearly puts Irish operations at a disadvantage when global firms are seeking renewed certainty as economic recovery slowly progresses. This naturally raises concerns at a corporate level in the US.

Conscious of these challenges the American Chamber established a policy group to explore the drivers of cost in health insurance, examine how our members are seeking to keep costs down and explore how they believe continued cost rises will affect their ability to provide healthcare benefits in the coming years. The group distributed a survey among Chamber members seeking their views on these and related issues. The results are explored in the next section. Companies representing in excess of 60,000 employees responded ensuring that this survey captures the views of companies representing close to half of the 130,000 employed directly by US foreign direct investment in Ireland in 2014.

¹ See: National Competitiveness Council (2014) *Costs of Doing Business in Ireland 2014*; Forfás (2013) *Ireland's Competitiveness Performance 2013*

Survey results and analysis

Profile of respondents

92 member companies participated in the survey. This represented all major FDI sectors including ICT, financial services, medical technologies, online/digital media, pharmaceuticals and other services. A large number identified as other business types, such as biotechnology, manufacturing, internet security and so on. Figure 1.1 shows the breakdown of respondents by sector.

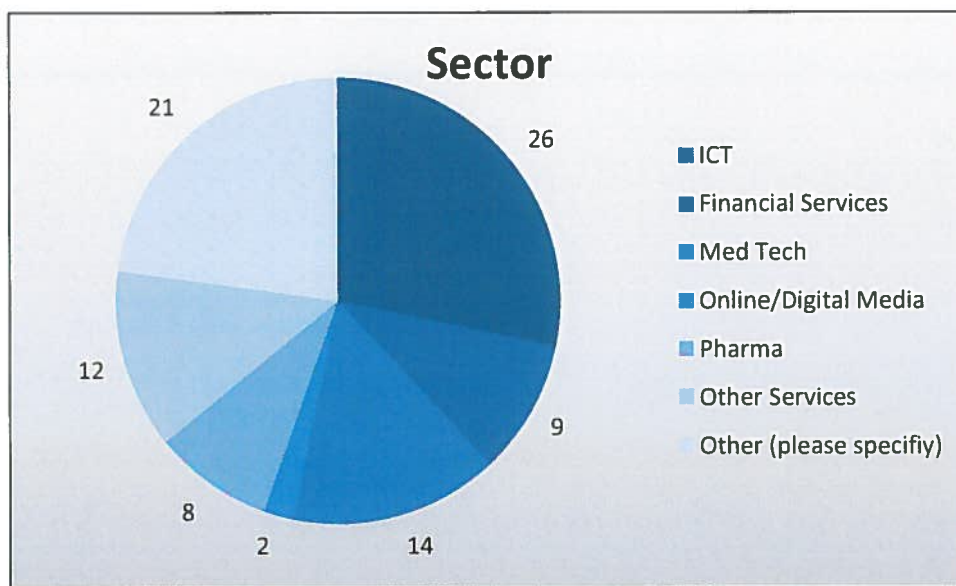


Figure 1.1 Respondents by sector.

The largest concentration is in ICT, followed by a miscellaneous group, largely located in high tech sectors. Medical technologies, financial services and pharmaceuticals are also well represented in the sample. A broad cross section is found in the size of the workforce in each organisation. Figure 1.2 sets out the number of employees by respondent and what percentage of respondents they represent.



Fig 1.2 Number of employees per respondent organisation

The largest concentration is in organisations with between 251 and 1,000 employees, followed by those with less than 100 employees and those with between 101 and 250 employees. Overall the spread of employee numbers reflects the broad profile of the American Chamber of Commerce Ireland membership.

Covering the cost of health insurance

In excess of 10% of the private health insurance market in Ireland is accounted for by the multinational sector. This equated to €224m in 2012²; a figure that will no doubt have increased in the subsequent two years. As 80% of respondent companies cover the full cost of health insurance for their employees this is a considerable expenditure. With close to two thirds covering the cost for dependants of their staff, the impact of this spend is broader than the raw numbers might suggest.

The American Chamber asked survey participants what they currently provide and what they intend to provide in five years. As respondents are conscious of the increases they have seen to date in the cost of premiums, and are keenly aware of the likelihood of further increases, it came as no surprise that a considerable number of our members anticipate changing their approach. **In interpreting this data it is important to be aware that the percentages apply to the number of respondents who answer particular questions and not to the overall number of survey respondents.**

American Chamber members are supportive of their employees in many ways, from supporting skills acquisition to flexible working arrangements to health policies. They are acutely conscious that a healthy workforce is also a productive workforce. However in anticipation of continued price increases this is set to fall to 57% by 2019. While 33% currently cover a percentage of the cost of the health insurance premium this is set to rise to 53% by 2019.

² Health Insurance Authority (2013) *Annual Report and Accounts 2012*

While just 21% of respondents cover a fixed amount of the cost in 2014, our results indicate that this will rise to 69% by 2019. If such a change in the approach of US multinationals in Ireland were to transpire it would have major implications for employees and health insurance providers.

Our survey also asked respondents if their organisation covers the cost of insurance for the dependents of staff. Currently 68% of respondents provide such cover, however by 2019 this is anticipated to fall to 38%. Clearly the expectation of spiralling costs is having a negative impact on the ability of firms to provide a crucial benefit to their staff.

The survey also asked companies what approach they are taking to manage their costs: 46% stated they had changed provider to avail of a discount, 35% stated that they had reduced the benefits provided under the policy, 17% had introduced a fixed monetary contribution, while 6% had amended the eligibility for coverage.

In order to understand the pressure points for our members the survey asked respondents at what percentage of total salary cost would their organisation review their current Health Insurance offering. In other words, where was the tipping point? 44% of respondents stated that their organisation would always provide Health Insurance and do not appear to be cost sensitive. However, nearly 28% stated that if the cost reached 4% of total salary cost they would review their offering. **Currently the average percentage cost of total salary for health insurance provision among respondents is 3.5%.** Furthermore, just over 20% of respondents stated that they would review their offering at 6% of total salary cost.

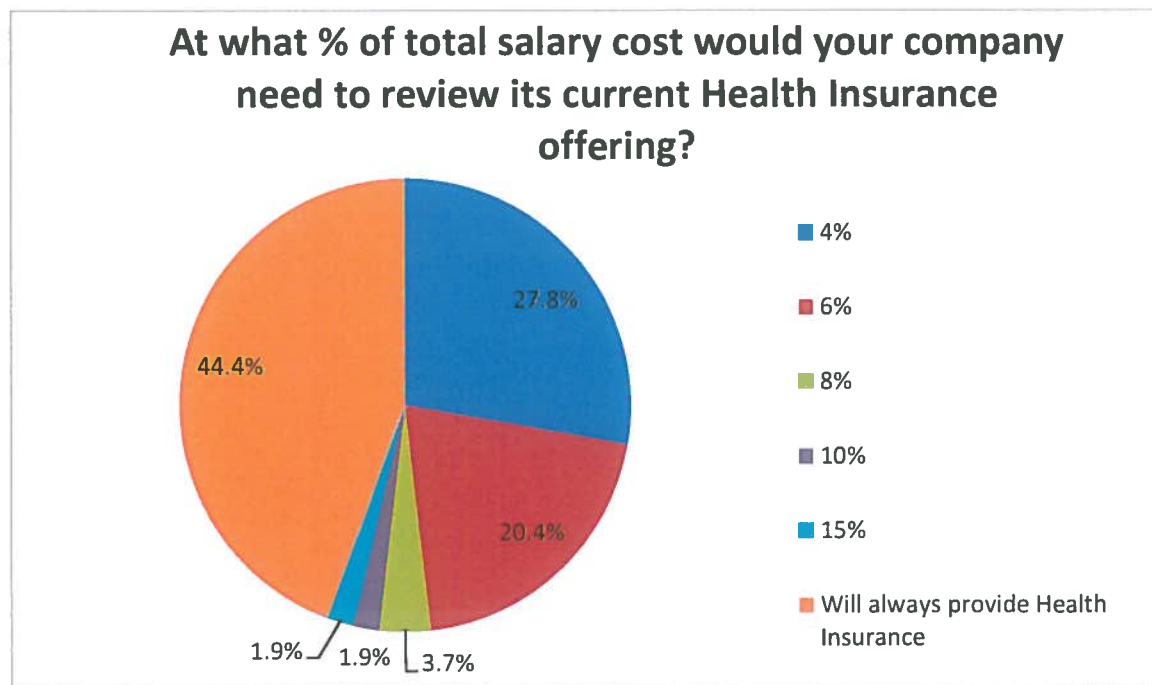


Fig 1.3 Percentage at which health insurance offering would be reviewed

Retention and Benefits

The respondent companies highly value the retention and benefits packages that they provide to their employees and are keen to retain their current level of support to staff. As the survey results attest to, however, there is increasing pressure on our members to alter those offerings due to increasing costs. A third of respondents believe that a change in the health insurance provision of their closest competitor firm would force them to re-examine their own policy, while a further third were unsure at this point how they would respond. Just over 50% of respondents stated that they believed a reduction in benefits would make them less attractive when recruiting new employees. A quarter of respondents strongly agreed with that proposition.

Our competitive position

Competitiveness is core to the American Chamber's business agenda, and boosting Ireland's global competitiveness is essential if our continued economic recovery is to persist. The National Competitiveness Council (NCC) has warned that after a period of increasing cost competitiveness we are beginning to trend in the wrong direction. According to the NCC, in 2012 Ireland was the 3rd most expensive location in the Eurozone for consumer goods and services, while our relative costs are starting to increase against other EU member states³. That report identifies health insurance as the single most important cost driver in the "miscellaneous goods and services" heading – a key contributor to cost inflation since the economic downturn began. We have already noted the fact that the cost of health insurance increased by 218% from 2003 to 2013.

Two considerations of competitiveness

At play here are two considerations of competitiveness. The first is the competitiveness of Ireland internationally as a trading economy. The second relates to the competitiveness of Irish operations as against subsidiaries in other locations around the world within their global organisation. Ireland punches above its weight in both types of competition but we can never afford to become complacent about our strengths. To that extent policy makers need to be conscious of how we perform in both fields. Businesses in Ireland need to be able to attract in skilled staff from other countries, as well as avail of the skilled talent already living in Ireland, to be able to compete globally. In order to do so there a large number of factors that can contribute to selling Ireland to internationally mobile talent – or dissuade them.

Responding to cost pressure

Competitive organisations are productive organisations, and crucial to that productivity is the health and well-being of employees. Attracting the best available talent is what allows companies to be productive and innovative, and to do so organisations offer attractive benefits to their employees. When asked to rank the benefits made available to their employees, health insurance came out on top. In order to continue to attract employees, and to avoid losing staff to rival organisations, our members are keen to continue to provide health

Top 5 employee benefits:

- 1. Health Insurance**
- 2. Pension**
- 3. Flexible working arrangements**
- 4. Educational supports**
- 5. Company car**

³ National Competitiveness Council (2014) *Costs of Doing Business in Ireland 2014*

insurance benefits. However, seemingly endless cost increases cannot be ignored, and this survey provides evidence to suggest that the process of responding to those cost pressures has begun.

We noted earlier the extraordinary increase in the cost of health insurance. More broadly, health inflation, as measured by the Harmonised Index of Consumer Prices (HICP), ran at 4.8% per annum between 1997 and 2012. This contrasts with the Eurozone average of 2.1% in the same period. According to Forfás HICP health inflation has been on a downward trend in recent years, however, despite this it was responsible for 15.4% of headline inflation from 2008 – 2012⁴. This is all the more remarkable when the low weighting for “health” in the HICP basket is considered.

The need for action

The survey results reveal a worrying picture of anticipated price increases, a retrenchment from current very high levels of coverage of health insurance, and a public policy picture which is regarded as poorly communicated to industry. Our survey demonstrates that a large majority of our member companies currently provide for the full cost of health insurance for their employees. This is a significant contribution to the overall PHI market. That continuing contribution will be put under threat if costs continue to rise. Our member companies often set annual budgets for approval by their headquarters and sudden, unanticipated, large increases in health insurance costs challenge firms to retain that benefit for employees within the confines of the business plan in operation.

Currently our members have to renew their health insurance contracts on an annual basis. In practice this means a large administrative headache for our members which, in recent years, has also been accompanied at various times of the year by cost increases. We believe that part of the solution for our members would be to provide cost certainty alongside contractual certainty and we explore that further in our recommendations.

⁴ Forfás (2014) Consumer Costs and Inflation

Our recommendations

The American Chamber believes that the international cost competitiveness of our members is being placed under threat by the rising cost of health insurance. Our members can see a tipping point approaching beyond which their contribution will be foreshortened. We believe that action must be taken to put the cost of this highly valued benefit on a sustainable path.

In the **short term**, over the next eighteen months, we have the following recommendations.

Cost stability

We have already called in our Pre-Budget Submission to the Department of Finance, and repeat it here, that in addition to implementing cost saving measures across the health sector there should be:

- No further Government imposed costs or levies on the PHI sector in order to ensure cost stability for budgeting purposes.

Policy certainty and cost controls

Furthermore, we believe that to assist that budgeting certainty, Government must:

- Establish certainty in respect of the future direction of healthcare policy, and ensure cost control measures are in place supported by employer impact statements.

Multi-annual contracts

As noted previously, our members find the process of annually renewing health insurance contracts to be a costly and time consuming exercise. This is compounded by the regular increases in the cost of health insurance as premiums rise and removes the ability of companies to make strategic medium term healthcare decisions. Chamber members are very keen to see cost certainty introduced into health insurance:

- We therefore recommend that multi-annual health insurance contracts be made available by health insurance companies.

In order to deliver this we believe that the Government must ensure that insurance providers have the certainty around costs that will allow them to contract on a multi-annual basis. The Chamber believes that this can be done in a way that is non-discriminatory and that complies with the principle of community rating.

In the **medium term**, over the next three years, we have the following recommendations.

Cost transparency

Upon consulting our members, beyond the terms of our survey, we established that they wish to have much greater levels of price transparency of the cost components of their health insurance contracts. Our members want to make comparisons across contracts and wish to see a tool to



provide for such transparency implemented at a regulatory level. We note that greater transparency is currently being introduced into the UK's private medical insurance market.

Wellbeing

American Chamber member companies are proud of the role they play in promoting wellbeing and healthy living among their employees. This contribution to the overall wellbeing of the population is a strong positive for health services in Ireland; however that contribution is under-recognised in policy terms. Our member companies want to see some recognition for this contribution through fiscal incentives for promoting healthy living.