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THE DEVELOPMENT OF VOLUNTARY HEALTH INSURANCE IN SLOVENIA AND ITS ROLE IN FUNDING HEALTH CARE

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Purpose of the paper

In 2005, new legislation regulating voluntary health insurance for the full coverage of co-payments (VHIC) was adopted in Slovenia. The newly adopted legislation attempts to resolve the problem of health insurers' accumulating losses by implementing **risk equalisation** and maintains solidarity by introducing the principle of '**intergenerational mutuality**' (community-rating) to VHIC.

This paper looks at the effects of the selected premium-setting model and risk equalisation from the perspective of:

1. resolving **the problem of losses** in Slovenia's health insurance system
2. dilemma between **capital-funded** and **PAYG** VHI
3. **competition** and **market structure** of VHI in Slovenia
4. effects of **risk equalisation**

Health insurance system in Slovenia up to 2005 (1 of 2)

Compulsory health insurance

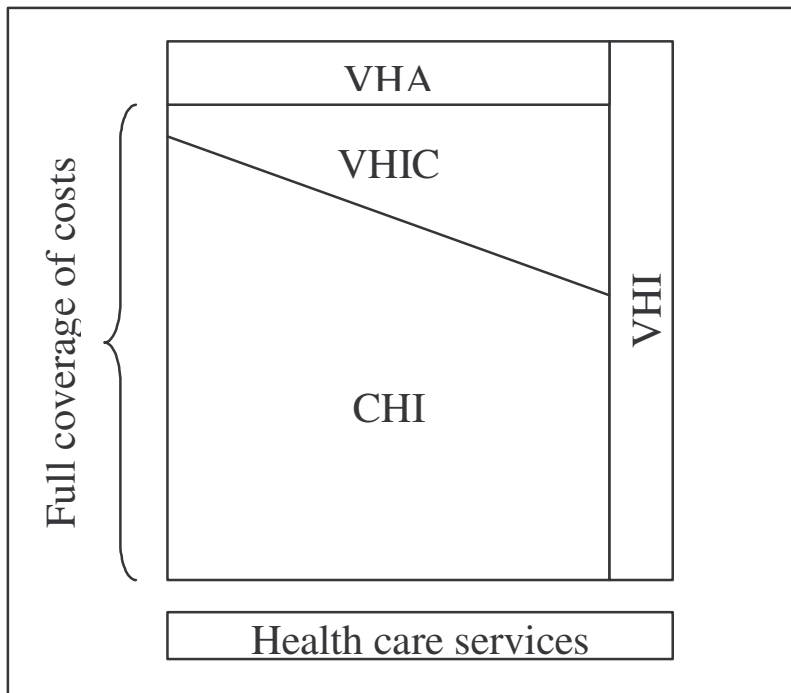
- one compulsory health insurance fund (the Health Insurance Institute of Slovenia)
- near-universal coverage, however, only a certain percentage of the costs is covered
- pay-as-you-go system of health care funding
- income-related contributions of both employees and employers
- growing losses in the past few years - *also a reason for the introduction of VHIC in 1992*

Voluntary health insurance

- three private insurance companies
- insurance for the full coverage of co-payments - *94% of those included in the compulsory insurance scheme also take out this type of insurance*
- capital-funded insurance
- premiums not income-related
- used to alleviate the public burden - *voluntary health insurance expenditures grew from 3% of all health care expenditures in the early 1990s to the current 15%*
- recently began experiencing losses

Health insurance system in Slovenia up to 2005 (2 of 2)

Relationship between CHI and VHI



VHI in Slovenia enabled cutbacks in public health care expenditures through **decreases in the percentages of the values of health care services and pharmaceuticals covered by CHI.**

→ **VHIC** as **universal VHI** in the context of the gradual and regulated reduction of public financing in this area

→ **the role of VHIC** is largely **determined by the features of CHI**

Notes:

CHI – compulsory health insurance

VHIC – voluntary health insurance for the full coverage of co-payments

VHA – voluntary health insurance for additional coverage (e.g. for above-standard living conditions in hospitals and health spas, for covering the costs of more elaborate medical and technical aids, for prescription medicines that are not listed on positive and intermediate lists etc.)

VHI – voluntary health insurance for services that are not a constituent part of compulsory insurance

Resolving the problem of health insurers' accumulating losses and maintaining solidarity

The approach proposed in 2003: MERGING THE TWO SYSTEMS

- considering that VHIC at that time was creating significant profits, it was believed that the proposal would **do away with the negative financial results of the Health Insurance Institute of Slovenia**
- additional CHI contributions would depend on the insured's income thereby augmenting the solidarity between the social classes (**equal access to health care**)

The approach adopted in 2005: IMPLEMENTING RISK-EQUALISATION

- In 2004, Vzajemna, the largest voluntary insurance company providing VHIC in Slovenia, began exhibiting negative financial results and announced plans to increase premiums by 13.5% for 383,000 insured individuals over the age of 60.
 - **unified premiums for all insured individuals** regardless of their age, sex and health status for individual insurance companies
 - transformation of VHIC from the capital-funded system to **a pay-as-you-go arrangement**

The role and effects of risk equalisation - *problem of losses in Slovenia's health insurance system*

Analysis of VHCI using accounting data for 2004 in Slovenia shows that **this sector as a whole cannot break even** with an increase in the number of insured individuals **at the current average premium** charged for VHIC:

- the average premium = SIT 48,152
- the average incurred claims' costs = SIT 42,367
- the average premium for VHIC should increase by 3.2 percent

Despite the fact that Vzajemna is to receive funds from the risk-equalisation fund, **this additional inflow of funds will not remedy its negative business performance**:

- the estimated amount of risk-equalisation funds to be paid by Adriatic = SIT 1.8 billion (2004)
- the profits of Adriatic = SIT 0.5 billion (2004)
- the losses of Vzajemna = SIT 2.7 billion (2004)

The role and effects of risk equalisation – *incompatibility with capital-funded insurance*

Risk equalisation is **incompatible with** VHIC operating as **capital-funded insurance**:

- + VHIC will become **more compatible with CHI** that also functions according to the pay-as-you-go principle
- health insurance companies will be **unable to participate in the processes of privatising and restructuring** health care providers
- the requirement for insurance companies to return the created reserves to insured individuals will also bring about **the loss of a significant share of insurance companies' financial revenues** - additional pressure on the VHIC premiums

The role and effects of risk equalisation – *market structure effects (1 of 3)*

The new legislation introduced unified premiums for all insured individuals regardless of their age, sex and health status for individual insurance companies. However, premiums can differ between different insurance companies.

→ increased **competition between insurers** that could result in reduced premiums

Market structure of VHCI market is a typical monopoly that:

1. allows Vzajemna to operate with lower average fixed costs,
2. it reduces its incentives to monitor the claims' costs.

The role and effects of risk equalisation – *market structure effects (2 of 3)*

Vzajemna's lower AFC:

- actual AFC of Vzajemna = SIT 2,234 (2004)
- AFC of Vzajemna if in 2004 Vzajemna had been the same size as Adriatic (273,317 insurees) = SIT 9,291
- Vzajemna can operate at AFCs that are SIT 7,057 lower than the AFCs of Adriatic due to its market monopoly and economies of scale.

Vzajemna's reduced incentives to monitor its claims:

- Adriatic can to some extent reduce this difference in AFC by monitoring its claims more closely than Vzajemna. Namely, Vzajemna's average claims' costs exceeded those of Adriatic by SIT 16,550 in 2004.
- Vzajemna's less favourable age and gender structure of insurees?
- Vzajemna's average claims' costs exceeded those of Adriatic for all age groups!

The role and effects of risk equalisation – *market structure effects (3 of 3)*

Conditions in which uniform premiums are set for individual insurance companies and where premiums can differ between different insurers could result in the increased concentration of Slovenia's voluntary health insurance market.

Aftermath of the risk-equalisation settlement:

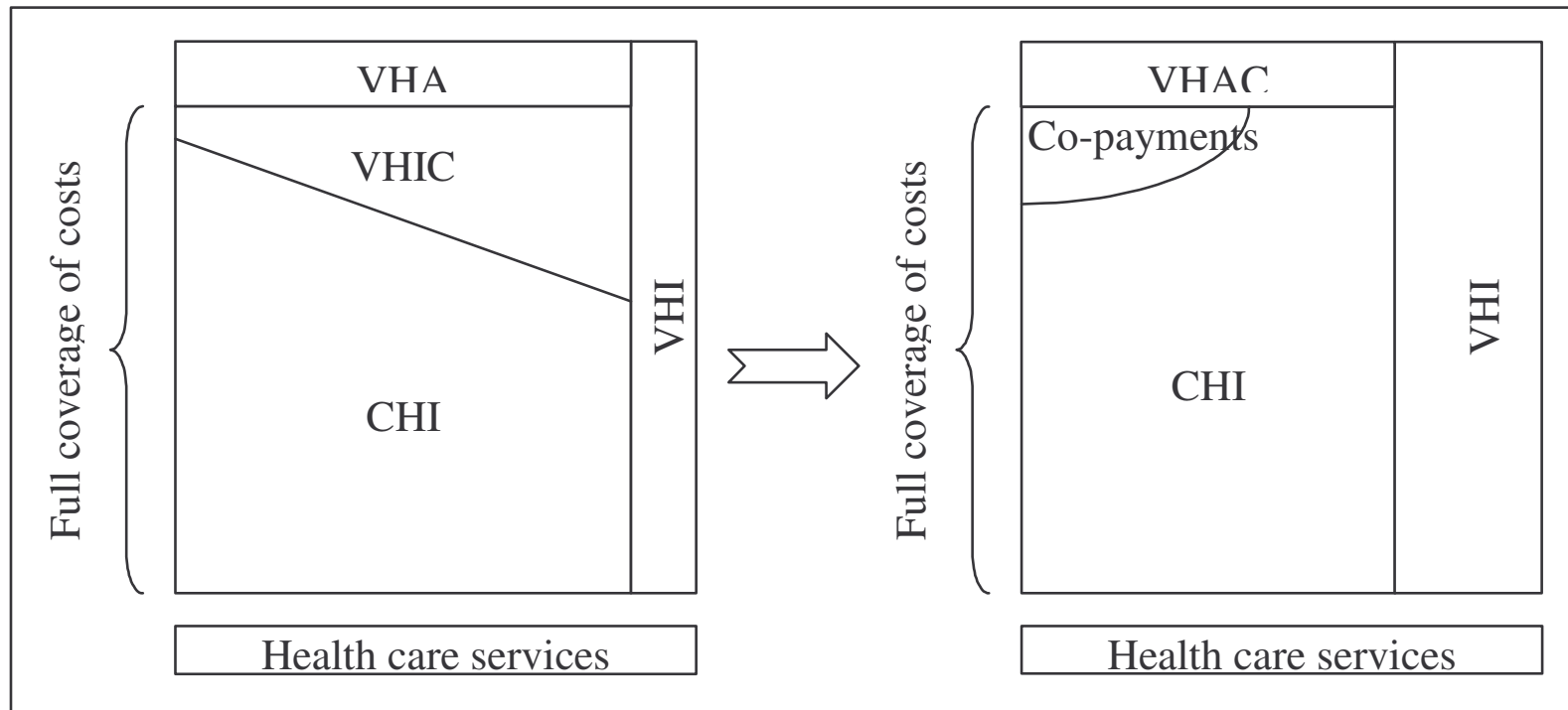
- an increase in Adriatic's break-even premium → further premium increases
 - estimated drop in the number of Adriatic's insurees = 16,573 (elasticity that measures the change in Adriatic's market share relative to Vzajemna's market share due to a change in the relative premiums of both insurance companies = -14.4)
- Contributors to risk-equalisation schemes (e.g. Adriatic) would gradually lose their market share while the recipients of the risk-equalisation funds (Vzajemna) would expand theirs.

Perverse effects of the risk-equalisation scheme

The amount to be paid into/received from the risk-equalisation fund equals 0, if the contributing/eligible insurance company has the same average claims' costs in both age groups.

Age group	Insurer A			Insurer B			Both insurers		
	Claims' costs - C	No. of insurees - I	C/I	Claims' costs - C	No. of insurees - I	C/I	Claims' costs - C	No. of insurees - I	C/I
Younger	500	50	10	142	14	10	642	64	10
Older	480	32	15	57	4	15	536	36	15
Total	980	82		199	18		1179	100	
Age group				Standardised costs for insurer A			Standardised costs for insurer B		
Younger				526.768			115.632		
Older				439.848			96.552		
Total				966.616			212.184		
Calculated risk-equalisation flows				+13.284			-13.284		
Actual risk-equalisation flows				+13.284			-13.284		

Conclusion



The future reform will have to focus on:

- redefining the compulsory insurance benefits package,
- introducing uninsurable co-payments,
- implementing VHI as capital-funded health insurance.