



VHI showdown with hospitals

The health insurer's stance on fees could oblige its members to make co-payments to hospitals

Susan Mitchell

This week could see the state's leading health insurer, VHI Healthcare, carry out its threat to publish a list of private hospitals no longer fully participating in its schemes.

This weekend, the only hospital known to have signed an agreement with VHI is St Vincent's private hospital in Dublin. *The Sunday Business Post* understands that the Mater Private, the Blackrock Clinic, the Beacon, the Hermitage, Galway Clinic and Bon Secours Group have so far refused to accept the terms of the deal. VHI has also refused to cover its members at the Cork Clinic, which officially opened last October.

The move leaves VHI customers in the unenviable position of having to make sizeable co-payments in virtually every private hospital in Ireland – a scenario which is unprecedented since VHI was set up (although VHI has pulled cover from individual hospitals in the past, see panel).

One private hospital developer said that, while talks were "always difficult", the current stand-off was unparalleled, not least because the independent hospital sector is refusing

to accept VHI demands.

"In the past, you would always have a few hospitals who broke rank and signed agreements. This year's terms are so stringent that nobody can afford to do so. My own gut feeling is that VHI will relax the cap somewhat, as otherwise it faces the prospect of its members fleeing to rival insurers," said the developer.

However, others interviewed by this newspaper said VHI had given little indication it would soften its negotiating stance in coming days.

"I just do not understand it," said the head of a Dublin-based private hospital.

"I don't know whether [VHI chief executive, Jimmy Toolan] has just called it wrong, or what is going on. You have all these corporate accounts which are due to decide what to do about their policies in early January while, at the same time, VHI is taking out ads to say its members are not going to be covered pretty much anywhere. The VHI timing is not exactly great. I think it will lose a lot of customers."

Colm Harmon, professor of economics at **UCD**, said VHI was proposing a "lousy deal" to private hospitals, and that the move could result in an exodus of its members. He said there was every chance VHI was readying itself for a major shake-up of the health insurance market ahead of the likely introduction of universal

health insurance.

"That seems to be the one key policy agreement between Labour and Fine Gael. If universal health insurance is introduced, the losers tend to be the private hospitals, so perhaps VHI believes there is little point in continuing to engage with them. It may well be the opening salvo," he said.

If hospitals and VHI fail to resolve the major stand-off, and hospitals become 'non-participating', patients with VHI cover will have to fund about 25 per cent of the cost of care in facilities themselves.

The dispute presents Aviva and Quinn with an obvious opportunity to poach VHI customers. A spokesman for Aviva said it had already agreed terms with hospitals for 2011. Today, Aviva is running ads in a number of newspapers highlighting the fact that it has "contracts in place with all private hospitals".

"All 300,000 Aviva health insurance members will continue to have cover for more hospitals, treatment and scan centres. If you are a concerned VHI customer, please contact us," it reads.

The private hospitals' dispute with VHI centres on the insurer's plans to cut payments by 3 per cent and impose an annual – and possibly monthly – cap on reimbursement for hospitals from January. VHI has also stipulated that hospitals which sign agreements (and are what is termed "fully participating" with the insurer) cannot "balance-bill" VHI customers. Balance billing is where the hospital bills the patient for the shortfall that is not covered by the patient's private health insurer.

VHI cut prices for procedures in private hospitals by 3 per cent last year. It also cut fees it pays hospital consultants by 15 per cent over the past two years. The proposal to cap payments is of particular concern to newly-opened hospitals such as the Beacon, Hermitage and the Sports Surgery Clinic (SSC), as they say it will impede their growth.

The Beacon, the only private hospital to speak on the record, said a cap on monthly payments would force hospitals to cut capacity and result in waiting lists for VHI subscribers.

Many others in the independent hospital sector echoed this claim, saying it could result in some patients having treatment deferred or having to attend a public hospital if their condition required urgent treatment. It could also disrupt continuity of care to patients once a hospital met its monthly quota, they warned.

Competition law prevents hospitals from collaborating on price, and it remains to be seen whether some hospitals will buckle under the pressure. They typically derive between 65 and 70 per cent of their income from VHI, which is the biggest player in the market and also has an older membership base that is more prone to illness.

Some hospital chief executives who spoke to this newspaper said they were somewhat sympathetic to the VHI's plight. Although it has a 62 per cent share of the market, the insurer said it funds 80 per cent of private health insurance costs, as it has a higher percentage of older customers. It ended 2009 almost €42 million in the red and lost 120,000 customers last year. Some simply shed their private health insurance altogether, due to deteriorating economic circumstances, while others switched to rival insurers.

In 2009, VHI earned €1.314 billion in premium income, compared with just over €1 billion the previous year; but the cost of claims grew to €1.34 billion from €972 million the previous year. "In 2009, we paid out €564.4 million to private hospitals to treat our customers, and in 2010, we paid out €606.7 million," said a VHI spokeswoman.

VHI said that its "average healthcare costs, which currently exceed our competitors' average healthcare costs by over €450 per customer, would continue to widen over the next ten years".

The future looks bleak. Last week, it was reported that the Department of Health would increase the amount it charged insurers for private beds in public hospitals by 25 per cent. That will increase pressure on VHI. The health insurance market in Ireland is also on uncertain ground. When the state's first efforts at introducing risk equalisation (*see panel*) were thrown out by the Supreme Court in 2008, the government's short-term solution was to introduce an age-related tax relief and health insurance levy, which is legislated to continue until the end of 2011. This year, the levy was increased to €185 for each adult, and €55 for each child.

Community rating has undoubtedly presented VHI with significant challenges due to the older age profile of its members. This has been exacerbated by the fact that healthcare costs in Ireland are too high, according to a private hospital developer.

"Our lengths of stay are among the shortest in Europe, but our costs are way out of kilter. Nurses starting out in Portugal are paid €10,000. Here, they are paid €34,000. Hospital consultants in Finland and Holland make about €80,000 or so a year (compared with €200,000 in Ireland). Wages make up about 65 per cent of healthcare costs, so if they don't fall, it is hard to find savings elsewhere," he said.

VHI said talks with the hospitals were continuing this weekend. "We expect a successful outcome with the majority of the hospitals. However, one or two of the hospitals have very unrealistic expectations," a VHI spokeswoman said.

"Last year, the number of people who had procedures carried out in private hospital increased by 14 per cent. This is caused by an ageing customer profile, improvements in medical technologies, the availability of new treatments, increasing customer expectations and a significant number of new private facilities," she said.

"The private hospitals alone are looking for an additional 90 million for 2011, and this is simply not sustainable."

Publication: Sunday Business Post

Date: Sunday, December 5, 2010

Page: 15

Extract: 3 of 3

Circulation: 52,271

Author: Susan Mitchell

Headline: VHI showdown with hospitals



Jimmy Toolin, VHI chief executive. Top, from left: Blackrock Clinic, Mater Private and Galway Clinic

