

## **Medical Insurance Tax Relief – FACT SHEET**

Extract from Budget Speech

*“In relation to medical insurance relief, I have decided to cap the amount of premium on which tax relief will be available to €1,000 per adult and €500 per child. This will restrict the exposure of the Exchequer in relation to premiums paid for ‘gold plated’ medical insurance policies, while not affecting the majority of individuals who avail of more standard levels of medical cover. For example, a family of two adults and four children will still receive tax relief on premiums of up to €4,000 per annum. Only the portion of any premium that exceeds the new thresholds will not qualify for tax relief.”*

### **What was announced in the Budget?**

All Medical Insurance **policies taken out or renewed** from the 16<sup>th</sup> of October will receive 20% tax relief up to the thresholds of €1000 per adult & €500 per child. This represents a change from the previous system where a tax relief of 20% was available for the full cost of the policy, including policies costing in excess of €1,000 per adult & €500 per child.

This means that for a family of 2 adults and 2 children with a gross premium for their health insurance policy of €3,000 they will continue to receive the tax relief at source of 20%, which is €600.

However, a family of 2 adults and 2 children, with a health insurance policy of €4,000 they will receive the tax relief of source of 20% on the first €3,000 or €600 in this instance. The upper €1,000 of this policy will not attract tax relief.

### **Why is this change being introduced?**

Currently, Revenue informs us that they pay tax relief to the health insurance companies in respect of approximately **1.09m policy holders**. The total cost to the exchequer estimated at €500m in 2013. This change will be estimated to save €94 million in 2014 & €127 million in a full year.

The Revenue Commissioners estimate that around 577,000 policy holders may be affected by this measure if they renew their current policy. However, many of these will only be affected marginally, depending on the cost of the policy. For example, a customer who renews a policy costing €1,020 will see a €4 increase in their premium.

Individuals can, of course, opt for less expensive policies if they wish to avoid the impact of this measure entirely, or can shop around for cheaper, but equal cover that appropriately suits their needs. **The Health Insurance Authority** <http://www.hia.ie/> is the statutory regulator of the private health insurance market in Ireland. The HIA website provides information to consumers regarding their rights and health insurance plans and benefits. The website also includes a very useful resource where customers can view and compare the benefits and prices of all private health insurance plans available on the Irish health insurance market

### **Is it a progressive measure?**

Yes, as the impact of the cap is more prevalent, the higher the level of the premium, such that those able to afford higher PHI costs will, if they wish to continue with their current policies, bear the larger proportion of the impact. The vast majority of families with standard premiums will not be

affected by this change and will continue to receive tax relief towards the cost of their private health insurance.

In addition, tax relief at a rate of 20% will continue to apply for all health expenses incurred that are not refunded by a health insurer.

This tax relief is given at source and is the 2<sup>nd</sup> most costly tax expenditure for the Exchequer (second only to mortgage interest relief).

### **Has the cost of this relief reduced as people have given up their health insurance?**

No. The cost to the Exchequer has increased significantly in recent years, from around €404m in 2011, to €448m last year and €500m this year. This is despite the fact that the numbers insured have fallen by approximately 170,000 over the same period, while at the same time, the cost of medical cover has increased on some policies.

Introducing an upper ceiling on this relief is intended to ensure continuing support, via the tax system, for those who purchase standard, but good policies, while reducing Exchequer exposure to the more expensive policies.

### **What kind of cover can be purchased for less than €1,000 for a single adult?**

The Health Insurance Authority website ([www.hia.ie](http://www.hia.ie)) includes a very useful resource where customers can view and compare the benefits and prices of all private health insurance plans available on the Irish health insurance market.

### **The Health Insurance Market – Report by MillwardBrown for the HIA**

On average, there are 2 adults per policy. Where policies are families with children, the average number of children is 2.

16% of PHI policy holders say they shop around for their policy. However, fewer than 10% actively shop around, revealing a very high level of inertia in the health insurance market. The Government would encourage people to discuss their medical insurance needs with as many providers as possible, in order to get the best possible deal.

30% of those with PHI are part of a work group scheme and just over 40% of those in these group schemes report that it is employer-subsidised to some extent – this equates to just over 12% of the total PHI holding population having some kind of employer contribution – ***therefore the impact of the new measure should be less for this sizeable cohort.***

### **The Commission on Taxation**

In 2009, the CoT acknowledged that medical insurance is expensive and that tax relief plays a role in attracting and retaining individuals within the PHI system. However, it also stated that there is sizeable deadweight in this relief, as many individuals would pay these premia in the absence of the income tax relief. On that basis, the Commission recommended that the relief should be continued, but on a more limited basis – this is what the Government has moved to do. It is ensuring that support remains in place for average, good quality medical insurance cover that appropriately addresses needs.