

QUESTIONS AND ANSWERS CONCERNING REMUNERATION LIABILITIES FOR PATIENT INSURANCE

1. How is the remuneration liability level defined?

In the remuneration liability level the compensation for injuries that has already occurred that is still due to be paid in the future is evaluated, along with the costs resulting from paying this compensation. Injuries are evaluated individually, and the rest by statistical methods supported by observed remuneration data. The more patient injuries there are and the more severe they are, the more money has to be reserved for compensating the injured parties.

2. Why does the level vary so much year by year?

Remuneration is paid for persons with severe disabilities for the rest of their lives. Thus, the payment of remuneration takes place over longer periods of time, when even small amendments to observed remuneration (e.g. changes in legislation, increased costs, inflation, number of injury claims) can give rise to major changes in the forecasts.

3. What is the reason for such a significant increase in the remuneration liability? Why could it not be anticipated?

It is mainly because the municipalities levy charges from the patient insurance system caused by assisted living housing and personal assistance for patients who have suffered a severe disability (the "right of recourse"). Such recourse has increased, especially, during the years since the amendment of the Disability Services Act 2009. This type of insurance has only recently been launched so that, for instance, persons who were left severely disabled during birth are now becoming adults and have left home to live in assisted living housing and require more extensive personal assistance. Thus, it has not previously been possible to have clearer information to support the calculation of the remuneration liability. Such a precise overall evaluation would not have been possible on the basis of earlier individual cases. Most of the upward pressure on the remuneration liability is due to this – the costs are estimated to be about €120 million. Last autumn, risks of more significant upward pressure than anticipated were also observed in regard to other remuneration liability, whereupon PVK started to more broadly clarify the adequacy level of the remuneration liability.

4. For how many claims has a right of recourse according to the Disability Services Act already been presented? How many corresponding claims will be presented in the future?

So far, there have been 24 concrete cases. It is estimated that a right of recourse will be presented in around 100 cases regarding persons with the most severe disabilities. Every notice of injury has been reviewed individually, and the severity of the injuries and the need for assistance of the persons in question has been assessed on the basis of medical criteria and experience.

5. What was the significance of the Towers Watson report in the assessment of the remuneration liability?

Last autumn, more significant risks than anticipated of pressures to increase the remuneration liability were observed, whereupon both PVK's actuary division and the government considered it appropriate to obtain the view of an outside expert. The conclusions of the report completed in summer by Towers Watson, one of the world's leading consultancy companies in actuarial matters, support the preliminary assessments of the actuary division regarding the remuneration liability. It is also customary for insurance companies to seek the view of an outside consultant from time to time in order to gain a new perspective. Page 2 (2)

6. When will you know how the increase in the remuneration liability is going to affect different hospital districts in practice?

The calculations prepared so far include the private sector, i.e. not all of the increase goes to the hospital districts. Of the total amount (€180 million) about 85 per cent is directed to the hospital districts. The advance figures will be clear by the end of October.

7. When will the final decisions concerning the remuneration level be made? Who makes the final decisions?

PVK's board must make a decision about the matter during autumn 2014.

8. When will the increases in the remuneration liability materialize in practice? Is it possible to amortise them?

According to the legislation, the actual underwriting reserves must be recorded on the balance sheet by insurance companies. The insurance company must have a secure calculation basis for determining the underwriting reserves (Insurance Companies Act, Chapter 9, section 1). The underwriting reserves must always be sufficient so that it can be reasonably assessed that the insurance company is able to meet its obligations resulting from its insurance contracts. Thus, the amendment of the underwriting reserves must always be recorded in full once the amount of the amendment has been clarified.

The increase in the remuneration liability related to financial statements for 2014 will materialise at the turn of the year, whereupon the final amount of the remuneration liability will be confirmed. The remuneration liability must be increased in one go; it is not possible to defer the increase. According to the legislation, the best view of future remuneration to be paid in full must be recorded in the remuneration liability.

9. Are more increases in the remuneration liability expected in the future?

In this respect as well, patient insurance is a very challenging and different type of insurance. In practice, it is not possible to predict what will happen in the future, because it is always a question of the best assessment of the situation at any given moment. Internal development work has made it possible to continuously improve the assessment model for remuneration.

10. What can be done to minimize fluctuations in the remuneration liability?

The most effective way to influence this is by amending legislation. Among others, it has been possible to balance fluctuations in remuneration liability in motor vehicle insurance liability and accident insurance by means of the pay-as-you-go system, because it is not necessary to reserve the remuneration distributed according to the pay-as-you-go system (that is, the costs are divided jointly in a new way). Giving up the right of recourse according to the Disability Services Act would also balance, for its part, fluctuations of the remuneration liability.

ADDITIONAL INFORMATION

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