

Premium adjustments in private health insurance

Reasons

The main reason for premium adjustments in private health insurance is the significant increase in healthcare costs. Several factors contribute to this development, including:

- continuous advances in medical technology and improved treatment methods,
- more frequent use of medical services,
- rising costs in hospitals,
- and the increasing life expectancy of the population.

Premium calculation

Premiums are calculated based on the type and scope of your insurance coverage, as well as your age. The premium calculation is based on all benefits that the insurer is expected to pay out to the insured community within a tariff during the entire term of the insurance.

The build-up of aging reserves takes into account the fact that the utilization of insurance benefits and thus the risk of medical expenses increases with age.

The premium is set as an equivalent value for the expected total benefits. Provided that the cost level in the healthcare system, as taken into account in the original calculation, remains constant, the premium will also remain constant for the entire duration of the insurance, even though costs increase with age. Aging alone does not lead to a premium adjustment. This is guaranteed in the model terms and conditions in Section 8a (2).

The premium calculation is based on the cost levels known to the insurer at the time of calculation. If, in the following period, higher insurance benefits need to be paid — for example due to rising healthcare costs — than originally estimated, the premium is no longer sufficient and must be adjusted to reflect the increased cost level.

Since private health insurance companies waive the ordinary right of termination as part of their social responsibility, premium

adjustments are the only way to ensure a lasting balance between insurance benefits and premiums.

Premium adjustments

When a premium adjustment takes place, the premiums are adapted to reflect the increased cost level.

This means: In order to cover the additional benefits expected in the future due to higher healthcare costs, an additional premium must be charged.

A premium adjustment can therefore be seen as an additional agreement to insure these extra benefits.

What happens to the aging reserves?

If rising healthcare costs lead to the need for new premium rates, the aging reserves must also be recalculated. In doing so, the principle of equivalence must be observed.

Even at the time of a premium increase, there must be a balance between the expected future benefits and the sum of expected future premium payments and aging reserves.

This means that the aging reserves accumulated so far — based on previously lower premiums — are no longer sufficient to cover the promised future benefits. The aging reserves must therefore be increased to the required level based on the new calculation assumptions.

The original entry age continues to apply to the originally insured benefits, while the current age is used for the additional benefits.

Why do adjustments have a greater percentage impact on customers who have been insured for many years?

Policyholders who have been insured for a longer period pay lower premiums than new customers of the same age, as their prior insurance duration is credited.

Premium adjustments result in the same absolute additional premium (in €) for all insured persons. However, the percentage impact is greater for long-term policyholders, as the adjustment is based on a lower original premium.

The statutory 10% surcharge

The statutory surcharge must be paid from age 21 until the insured person reaches the age of 60. It is used to offset premium adjustments starting at age 65. The surcharge is calculated as a percentage of the current gross premium. If the premium increases, the surcharge is recalculated accordingly.

Legal basis for premium adjustments

Section 203 (2) of the German Insurance Contract Act (Versicherungsvertragsgesetz – VVG), in conjunction with

- MB/KK 2009 § 8b) I
- MB/KT 2009 § 8b) I
- MB/PV 2009 § 8b) I
- MB/EPV 2017 § 8b) I
- AVB/LR 2017 § 7b)
- AVB/ZV 2016 § 9 (1)

The above-mentioned Sections also state that fixed-amount deductibles and agreed premium surcharges may be adjusted as part of a premium adjustment.

Risk surcharge

The risk surcharge is calculated based on the premium and is adjusted accordingly.

Premium adjustments in deductible-based tariffs

Premium adjustments in deductible-based tariffs are usually proportionally higher than in the corresponding 100% coverage level, as rising healthcare costs have a relatively greater impact on the benefits covered by deductible-based tariffs. The disproportionate increase in costs is due to the fact that, as healthcare costs rise, the deductible becomes increasingly "devalued", meaning that a growing share of treatment costs shifts into the range covered by the tariff.

To preserve the intrinsic value of the insurance coverage, the deductible may be increased at regular intervals in connection with premium adjustments.

Limitations

Hallesche will continue to reduce or avoid necessary premium adjustments in the future through what is known as "premium limitation." Sometimes, premium adjustments result in premium increases that may be difficult for policyholders to reasonably bear. To take the interests of insured persons into account as much as possible, a procedure was developed to limit necessary premium increases.

The basic idea behind this procedure is not to charge the insured person the premium that would actually be required to maintain the full benefit promise, but instead a reduced premium that includes a defined discount.

Limitations are financed from the funds of the premium refund reserves.

With premium limitation, a procedure is available to limit the extent of necessary premium adjustments for insured persons.

Where do the funds for limitations come from?

Premium limitations are financed through premium refund reserves. These reserves are funded by various surplus sources. The main sources of surplus are the safety margin and interest income.

Premium adjustments in statutory health insurance

The Statutory Health Insurance (GKV) has two types of premium increases:

1. Direct premium increases

- Implementation or increase of the supplementary contribution;
- Increase of the contribution assessment ceiling at the beginning of the year.

2. Indirect premium increases

- Any salary or wage increase leads to higher premiums if the insured person earns below the contribution assessment ceiling;
- Benefit cuts can also be seen as hidden premium increases.