Premium Rate Impact under the Affordable Care Act

There have been numerous articles about "rate shock," a term that refers to the possibility of increased premiums for certain people because of the full implementation of the Affordable Care Act (ACA). Below, we outline some tools for assessing these reports and talking about how the ACA increases benefits, as well as messaging to mitigate the concern about these premium increases.

What is "Rate Shock?"

- "Rate shock" refers to increased health insurance costs for certain people due to changes to insurance rules. In the context of the ACA, it is used to describe potential premium increases particularly for the young and healthy in the non-group market.
- Lately, a number of studies and news articles have preemptively focused on the projected data that suggests that some people, especially young and healthy people, will face dramatic increases in premiums. However, it is important to understand the full scope of benefits and costs in the ACA.

How Can Advocates Spot Problems in Reports on Premium Changes?

Recently, the media has highlighted a number of insurance industry-sponsored studies that may overstate the problem of rate changes. Below are some potential issues to watch out for in these studies.

- By failing to mention that **the actual number of people who will see premium increases is very small,** the scope of this problem is being ignored by these subjective studies.
- Young people who are not eligible for subsidies are likely to enroll in the **low-cost catastrophic plans** with similar cost and coverage to plans many young people are enrolled in currently. Many studies use more expensive plans in their analyses that are **not representative of the plans young people will actually purchase.**
- These studies fail to account for consumers **eligible for subsidies** and/or **Medicaid** to offset premium increases.
- Premiums for the young and healthy are **already very low**, therefore all percentage increases reported are relative to a fairly low baseline premium.
- These studies do not address the number of young people who will **be covered through a parent's insurance plan** under the ACA extension of parental coverage through age 26.
- These studies include **upward medical cost trends** as premium changes attributable to the ACA. Rising medical costs are an independent contributing factor to premium increases and **the ACA actually works to bring these costs down.**[1]

Who will be affected?

The group affected by premium changes is small, mostly impacting men with incomes above 400% of the federal poverty level, ages 19-30, who do not receive employer sponsored insurance.

- In 2010, over 60% of employed 19-44 year olds were offered coverage through their employers. Of those offered employee-sponsored insurance, 46.6% of 19-25 year-olds and nearly 73% of 26-44 year-olds enrolled.[2]

- Of the young people who do not have employer-sponsored coverage and must purchase insurance on the non-group market:
    - Two-thirds of individuals ages 21-27 will be eligible for Medicaid, CHIP, or subsidies.
    - Two-thirds of the remaining 21-27 year-olds will be protected by parental coverage through age 26.[3]
- These changes *do* mean premiums will rise for certain populations, but it is important to understand the relative impact of these increases and the size of the population affected. In the non-group market:
    - For those not eligible for subsidies, premiums will increase on average 10-13% compared to current non-group rates.[4] However, **these individuals will receive better benefit packages and limits on out-of-pocket costs**.

How Does the ACA Reduce Costs and Increase Value?

- **More Americans Covered.** As the ACA takes full effect in January 2014, people will be able to access insurance plans that place new limitations on insurers' abilities to charge different premium rates based on age, gender, and pre-existing health conditions. People who previously could not receive coverage due to pre-existing conditions will now gain access to coverage. **More individuals will be covered, resulting in the redistribution of premiums across both healthy and sick.**

- **Better Plans.** On average, unsubsidized premiums for non-group coverage will rise, but this is because the health plan benefits are more protective.
    - New plans will include the Essential Health Benefits package with maternity, mental health care and prescription drug coverage.
    - Patient out-of-pocket expenses will be capped at$5,950/individual and $11,500/family for those ineligible for subsidies.

- **Subsidies.** Young people have lower incomes and are less likely to have coverage.[5] Therefore, **92% of 21-27 year olds purchasing single plans through the Exchange will be eligible for premium subsidies or Medicaid.**[6]

- **Medicaid.** Americans with incomes below 138% of the federal poverty level will qualify for Medicaid under the ACA, meaning over 16 million people, 52.1% of which are under the age of 34, will be newly eligible for Medicaid insurance coverage.

- **Medical Loss Ratio Restrictions.** Insurance companies are required to spend 80% of income on medical services and only 20% on overhead costs and profit, ensuring value for plans in the non-group market.

- **Rate Review.** The ACA creates tools to help states strengthen their review of premium increases charged by insurance companies, including grants to improve insurance department capacity and a joint federal-state process for review and approval of premium increases.

- **Increased Options.** People under 30 have the option of enrolling in a **catastrophic coverage plan** that has lower premiums than traditional plans. Since most people over 30 are ineligible to enroll in catastrophic coverage, this option is reserved for the young and healthy.

- **Coverage through age 26.** Under the ACA, young adults can stay on a parent's insurance through age 26. Between September 2010 and December 2011, this provision helped 3 million young people gain coverage, and that number is still rising.[7]

- **Ending Gender Rating.** Currently, insurers are allowed to **charge women more than men**. This practice of gender rating costs women in the individual health insurance market approximately $1 billion per year. The ACA prevents this discriminatory practice; therefore young women will not be as vulnerable to rate changes.[8]

- **Fairer Prices for Older Adults.** Most states currently allow insurers to charge significantly higher rates based on age. The ACA limits this difference to a 3:1 ratio, meaning older people can be charged only up to 3 times more than young people. This change reflects a more accurate approximation of the actual health cost differences between young and old, correcting a practice of **overcharging older adults for their health care utilization**.[9]

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[1] Kaiser. ACA and Cost Containment. http://www.kaiseredu.org/issue-modules/us-health-care-costs/background-brief.aspx#footnote10
[2] US Census Bureau (February 2013). Employment Based Health Insurance 2013. http://www.census.gov/prod/2013pubs/p70-134.pdf
[3] Urban Institute (March 2013). Implications of Limited Age Rating Bands Under the Affordable Care Act. *www.rwjf.org/content/dam/farm/reports/issue_briefs/.../rwjf404637_1*
[4] Congressional Budget Office (November 2009). An analysis of Health Insurance Premiums Under the Patient Protection and Affordable Care Act. http://www.cbo.gov/publication/41792
[5] Young Invincibles. http://younginvincibles.org/2013/02/the-truth-about-health-coverage-affordability-and-age-rating-under-obamacare/
[6] Urban Institute (March 2013).
[7] Sommers, B.D.(2012). *Number of young adults gaining insurance due to the Affordable Care Act now tops 3 million.* Washington (DC): Department of Health and Human Services.
[8] National Women's Law Center (March 2012). Turning to Fairness. http://www.nwlc.org/sites/default/files/pdfs/nwlc_2012_turningtofairness_report.pdf
[9] Urban Institute (March 2013).