AMERICAN ACTION FORUM

Insurance Premiums in 2014 and the Affordable Care Act: Survey Evidence

Douglas Holtz-Eakin | January 2013

Executive Summary

A central issue underlying the impetus and implementation of the Patient Protection and Affordable Care (ACA) has been the upward trajectory of health insurance costs in the United States. Premiums are driven by the underlying growth in health care spending, as well as the rules that govern insurance rates and the extent to which prices can vary between each individual and each small employer. There is a consensus that the ACA did little to alter the former while having a dramatic impact on the latter.

The ACA includes a number of changes that will go into effect in 2014 and have thus not been felt yet by consumers but will be in coming months. The ACA mandates purchase of insurance; mandates benefits; guarantees issuance regardless of health status; limits premium variation on the basis of age, gender, health status or group size; levies new taxes and fees; and otherwise imposes new rules on insurance products. As a matter of actuarial science, one would expect that new benefit mandates, guaranteed issue (particularly with a weak individual mandate) and the other new rules limiting premium variation would tend to raise insurance premiums, especially for the young and healthy individuals and small employers. However, the actual scale of these impacts is not yet clear. As a step to providing insight into the magnitude of the likely impacts in 2014, the American Action Forum (AAF) undertook a survey of major insurers representing the vast majority of covered individuals in the U.S., asking the likely impact of the ACA on premiums in the individual and small group markets.

In sum, the ACA promises massive sticker shock to the relatively young and healthy (see Summary Table, below). Across all markets, the ACA will dramatically increase the cost of insurance for the young and healthy individuals and small employers – precisely the group most likely to be affected by the mandate. In contrast, older and sicker individuals and small employers will be subsidized, leading to an average decline of just under 25 percent.

Summary Table: Average Premium Impacts for Individual and Small Group in 2014

	Younger and Healthier Individuals and Small Employers					
	Chicago, IL	Phoenix, AZ	Atlanta, GA	Austin, TX	Milwaukee, WI	All Cities Average
Average Percentage Change	173%	157%	164%	162%	190%	169%
	Older and Less Healthy Individuals and Small Employers					
	Chicago, IL	Phoenix, AZ	Atlanta, GA	Austin, TX	Milwaukee, WI	All Cities Average
Average Percentage Change	-21%	-22%	-21%	-32%	-15%	-22%

Note: *Changes due to insurance market reforms alone and do not include annual medical trend increases. It also does not include the fact that some individuals and small employers experiencing these changes will be eligible for taxpayer subsidies through insurance exchanges.*

Introduction

The trajectory of health insurance costs is an ongoing policy issue. Premiums are driven by the underlying growth in health care spending, as well as the rules that govern insurance design. The Patient Protection and Affordable Care Act (ACA) did little to alter the former while having a dramatic impact on the latter.

The ACA makes a number of changes in 2014 that have yet to be felt by consumers, including the fact that it mandates purchase of insurance; mandates benefits; guarantees issuance regardless of health status; limits variation on the basis of age, gender, health status or group size; levies new taxes and fees; and otherwise imposes new rules on insurance products. As a matter of actuarial science, one would expect that new benefit mandates, guaranteed issue and the other new rule would tend to raise insurance premiums, especially for the young and healthy. However, the actual magnitudes of these impacts are not yet clear.

In this short paper, we provide insight into the likely impact of the ACA on premiums in the individual and small group markets in 2014 through a survey of major insurers representing the vast majority of covered individuals in the U.S.

The next section outlines the survey method, followed by a section describing the key results. The ACA promises dramatic sticker shock – increases well in excess of 100 percent – for young and healthy purchasers in the individual and small group markets. In part, these increases are needed to subsidize older and sicker employees who will see declines of just under 25 percent on average.

Survey Method

At the outset it is important to emphasize that there was no attempt to undertake a comprehensive, representative survey of either the firms in the health insurance industry or the U.S. population. Instead, the focus was on large health insurers that cover the majority of individuals in the United States, and were willing to participate in the survey.

Those who participated completed the survey instrument (see Appendix) which generated information on specific insurance risks in the individual and small group markets for specified markets across the U.S.. Unlike other studies that typically look at "averages" that mask the real cases that occur across a spectrum, AAF wanted to look at real cases that would represent the spectrum of rate changes across any given geographic area. Like most things in life, massive changes in law create winners and losers, which is indeed exemplified by the results of this survey.

Because the premium impacts will differ depending on the existing state-specific regulatory regimes that exist in the market before transitioning to the new 2014 rules, the goal was to pick a variety of cities including those with strict regulations on age-rating and guaranteed issue (and other factors) as well as those that currently allow insurers flexibility.

Surveys were completed and returned to a third-party law firm under a non-disclosure agreement in order to protect firm-specific, proprietary information. The firm, in turn, aggregated the responses and computed average responses for each survey datum. If there were fewer than four respondents for any survey item it was dropped.

The firm provided these averages to the American Action Forum, which form the basis of this study.

Survey Results

The pricing of health insurance is a complicated actuarial science. Today, in most states, premiums in the individual and small group markets can vary substantially by age, health status, gender, industry, and other factors. For better or worse, this means that in today's market, one individual/small employer might pay $50

per month while another individual/small employer pays $800 per month for the same health insurance product. By eliminating or constraining these "rating factors" that result in the variation in today's market, the ACA in 2014 increases the premium for the young and healthier and lowers the premium for the older and sicker. The same would be true if there were a law reforming automobile insurance. If the "good driver discount" rating factor were eliminated, those who have the discount would see their rates rise while those with the "good driver" penalty would see lower rates.

The results for the small group market are contained in Tables 1 and 2, while those for the individual market are in Tables 3 and 4. Consider Table 1, which shows the impact on a small firm of young, health workers as exemplified by healthy, non-smoking 27-year-olds in a relatively inexpensive (bronze) policy. (See the Appendix for details.)

As shown in the top row, the current average premium ranges from $1,740 (in Phoenix) to $2,450 (in Atlanta) and averages $2,047 (with this monthly premium representing the total sum for all employees in the group). The next row shows the average (across respondents) impact on that premium of restricting age rating to a range of 3 to 1. On average, this would raise the premium of 36 percent, with a minimum of 27 percent and a maximum of 40 percent. Similarly, the following row indicates that removing health status as a rating factor raises premiums by 20 percent on average.

Stepping back, what is the moral of Table 1? Clearly the age rating, health status, and gender rating restrictions will have dramatic impacts on the cost of health insurance, and that the impact will vary significantly on an employer-by-employer basis depending on their starting point. The other impacts are more modest, with the requirement of 60 percent actuarial value falling in the middle.

More important and compelling is the bottom line: on average the ACA regulations lead to a 149 percent average increase in the cost of insurance for this population.

Contrast this with the message of Table 2, which shows the results for a small firm of older workers as exemplified by unhealthy 55-year olds who smoke and are in a relatively generous (gold) policy. Both before and after the imposition of the ACA regulations, the cost of covering this employee is much greater. But the imposition of the ACA on average lowers insurance costs by 26 percent.

Looking at the row-by-row detail, the most important impact stems from the elimination of the health rating factor and "other" rating factors, both of which tend to lower the premium. The age bands and gender rating have relatively small impacts, while the tobacco use rating increases premiums by just over 10 percent on average.

Tables 3 and 4 tell a similar – but not identical – tale for the individual market. In the individual market, many will be surprised to learn that premiums can be as low as $50 per month for a young and healthy individual, meaning any increase can be a very large change from the perspective of a percentage. As in the small group market, Table 3 shows that age bands, health status, gender, and actuarial value regulations raise premiums by double-digit percentage point amounts. However the striking result is the average 46 percent increase stemming from the guaranteed issue requirements. Still, the bottom line is that overall premiums are expected to rise by an average of 189 percent – sticker shock indeed for the young and healthy.

Table 4 mirrors the bottom line for the small group market as well, as the average premium decline is just under 20 percent for the older and less healthy individual. Here, however, the age rating restrictions are more important than in the small group market and the actuarial value requirements have no impact on this particular product.

Summary and Conclusions

Not surprisingly, the ACA promises to have enormous impact on the structure and pricing in insurance markets. The results surveyed above indicate that there will be massive sticker shock to the relatively young and healthy in both the small group and individual markets. In contrast, older and sicker individuals in these markets will be subsidized by the ACA, leading to average declines in the vicinity of 20 percent.

Tables

Table 1: Impact on Small Group Market - Younger and Healthier Workers						
Premium Factor	Chicago IL	Phoenix AZ	Atlanta GA	Austin TX	Milwaukee WI	All Cities Average
Average existing monthly premium	$1,865	$1,740	$2,450	$1,806	$2,374	$2,047
Elimination of group size rating factor	3%	2%	2%	1%	2%	2%
Elimination of health status rating factor	17%	15%	21%	19%	27%	20%
Elimination of gender rating factor	21%	21%	35%	21%	35%	27%
Impose 3:1 age rating constraint	40%	39%	27%	39%	33%	36%
Increase to 60% Actuary Value	10%	11%	7%	14%	11%	11%
Required new benefits (EHBs)	1%	1%	2%	1%	2%	2%
Tobacco Use Rating Factor	-3%	-3%	0%	-3%	-2%	-2%
Elimination of other allowable rating factors	6%	1%	8%	2%	2%	4%
Change in the Risk Pool	1%	5%	1%	1%	4%	3%
Miscellaneous new rules	0%	0%	0%	0%	0%	0%
New taxes & fees	3%	3%	3%	3%	3%	3%
Transitional reinsurance contributions	2%	2%	1%	2%	1%	2%
Impact of exchange on operating costs	1%	1%	1%	1%	1%	1%
Average new monthly premium	$4,551	$4,075	$6,088	$4,346	$6,562	$5,124
Average percentage increase/decrease	144%	134%	148%	141%	176%	149%
Percentage entries are impacts due to the specific factor.						

Table 2: Impact on Small Group Market - Older and Less Healthy Workers						
Premium Factor	Chicago, IL	Phoenix AZ	Atlanta GA	Austin TX	Milwaukee WI	All Cities Average
Average existing monthly premium	$13,837	$12,474	$17,742	$14,148	$14,471	$14,534
Elimination of group size rating factor	3%	2%	2%	1%	2%	2%
Elimination of health status rating factor	-30%	-39%	-29%	-30%	-35%	-33%
Elimination of gender rating factor	-1%	-1%	-1%	-2%	0%	-1%
Impose 3:1 age rating constraint	-3%	-3%	-3%	-3%	-3%	-3%
Increase to 60% Actuary Value	0%	0%	0%	0%	0%	0%
Required new benefits (EHBs)	1%	1%	2%	1%	2%	2%
Tobacco Use Rating Factor	13%	13%	5%	13%	11%	11%
Elimination of other allowable rating factors	-11%	0%	-11%	-6%	-4%	-6%
Change in the Risk Pool	1%	5%	1%	1%	4%	3%
Miscellaneous new rules	0%	0%	0%	0%	0%	0%
New taxes & fees	3%	3%	3%	3%	3%	3%
Transitional reinsurance contributions	1%	1%	1%	1%	1%	1%
Impact of exchange on operating costs	0%	0%	0%	0%	0%	0%
Average new monthly premium	$10,293	$9,247	$12,254	$10,790	$10,948	$10,706
Average percentage increase/decrease	-26%	-26%	-31%	-24%	-24%	-26%
Percentage entries are impacts due to the specific factor.						

Table 3: Impact on Individual Market - Young, Healthy Male						
Premium Factor	Chicago IL	Phoenix AZ	Atlanta GA	Austin TX	Milwaukee WI	All Cities Average
Average existing monthly premium	$63	$43	$51	$54	$58	$54
Impact of guarantee issue with individual mandate and premium subsidies	47%	46%	44%	45%	46%	46%
Elimination of health status rating factor	19%	15%	18%	14%	21%	18%
Elimination of gender rating factor	9%	11%	24%	11%	26%	16%
Impose 3:1 age rating constraint	25%	24%	21%	26%	20%	23%
Increase to 60% Actuary Value	18%	17%	11%	17%	13%	15%
Required new benefits (EHBs)	9%	9%	8%	9%	9%	9%
Tobacco Use Rating Factor	-1%	0%	0%	0%	0%	0%
Miscellaneous new rules	2%	1%	1%	1%	1%	1%
New taxes & fees	2%	2%	2%	2%	2%	2%
Transitional reinsurance contributions	-6%	-8%	-9%	-7%	-8%	-8%
Impact of exchange on operating costs	1%	2%	1%	1%	1%	1%
Average new monthly premium	$189	$119	$143	$153	$175	$156
Average percentage increase/decrease	202%	180%	179%	183%	203%	189%

Percentage entries are impacts due to the specific factor.

Table 4: Impact on Individual Market - Older, Less Healthy Female						
Premium Factor	Chicago IL	Phoenix AZ	Atlanta GA	Austin TX	Milwaukee WI	All Cities Average
Average existing monthly premium	$1,167	$922	$1,021	$978	$1,363	$1,090
Impact of guarantee Issue with individual mandate and premium subsidies	47%	46%	44%	45%	46%	46%
Elimination of health status rating factor	-50%	-49%	-44%	-47%	-45%	-47%
Elimination of gender rating factor	-2%	-1%	0%	-1%	-1%	-1%
Impose 3:1 age rating constraint	-10%	-10%	-12%	-12%	-8%	-10%
Increase to 60% Actuary Value	0%	0%	0%	0%	0%	0%
Required new benefits (EHBs)	7%	6%	6%	6%	7%	7%
Tobacco Use Rating Factor	26%	26%	25%	26%	25%	25%
Miscellaneous new rules	2%	1%	1%	1%	1%	1%
New taxes & fees	2%	2%	2%	2%	2%	2%
Transitional reinsurance contributions	-4%	-6%	-7%	-6%	-6%	-5%
Impact of exchange on operating costs	0%	0%	0%	0%	0%	0%
Average new monthly premium	$997	$769	$881	$815	$1,238	$940
Average percentage increase/decrease	-16%	-17%	-11%	-40%	-5%	-18%

Percentage entries are impacts due to the specific factor.

Appendix: ACA Insurance Survey Instrument

Please fill out this information for the following cities/states. We recognize that you may not have complete information for every market, but would appreciate your best estimates:

1. Chicago, Illinois
2. Phoenix, Arizona
3. Albany, New York
4. Atlanta, Georgia
5. Austin, Texas
6. Milwaukee, Wisconsin

In each state, please complete the attached worksheet by entering the rating factors (see example, attached) and return.

All responses will be kept confidential and anonymous. Survey results will average the line-by-line factor impacts for any given cell and will not publish specific factor impacts for any given survey respondent. Results will not be published unless there are at least 4 survey respondents for a specific state. Individual company's specific results will kept entirely confidential. This will provide an additional layer of security.

Individual Market

	Young Healthy[2] Male (Non-Smoker) in <City> in Most Popular at or below Bronze Level Product	Older Unhealthy[2] Female (Smoker) In <City> in Most Popular at or above Gold Level Product
Existing monthly premium[1]		
Impact of Guarantee Issue with Individual Mandate and Premium Subsidies[6]		
Elimination of health status rating factor		
Elimination of gender rating factor		
Impose 3:1 age rating constraint		
Increase to 60% AV (if any) [4]		
Required new benefits (EHBs) [3]		
Tobacco Use Rating Factor		
Other misc market rules		
New Taxes/Fees (Insurer Fee & CER)		
Transitional reinsurance net[7]		
Impact of Exchange to Operating Costs[5]		
New premium		

Costs are associated with an individual renewing (as opposed to a new applicant) Does not include medical trend. Consumer may see lower premiums if eligible for taxpayer subsidy.

Percent of membership getting rate increase: _____

Percent of membership getting rate decrease: _____

Small Group Market

	Young Average Healthy[2] Small Employer in <City> with 20 employees in Most Popular Bronze Level Product	Older Average /Unhealthy[2] Small Employer in <City> with 20 Employees in Most Popular Gold Level Product
Existing monthly premium[1]		
Elimination of group size rating factor		
Elimination of health status rating factor		
Elimination of gender rating factor		
Impose 3:1 age rating constraint		
Increase to 60% AV (if any) [4]		
Required new benefits (EHBs) [3]		
Tobacco Use Rating Factor		
Elimination other allowable rating factors (industry, etc.)		
Change in the Risk Pool[6]		
Other misc market rules		
New Taxes/Fees (Insurer Fee & CER)		
Transitional reinsurance contributions[7]		
Impact of Exchange to Operating Costs [5]		
New premium		

Costs are associated with a group renewing (as opposed to a new applicant) Does not include medical trend. Employer may see lower premiums if eligible for taxpayer subsidy.

Percent of membership getting rate increase: _____

Percent of membership getting rate decrease: _____

Notes:

1. Existing monthly premium equals the estimated average of 3 current premium rates from E-Health Online. Quotes taken on September 26, 2012.
2. Healthy means the lowest rate available reflecting the lowest-risk health status, gender, industry, etc. Unhealthy means the highest rate available reflecting the highest-risk health status, gender, industry, etc. Young is 27 years old and older is 55. In other words, the impact of eliminating rating factors for the low-risk individual/group is the impact of going from the lowest rate available to the community rate.
3. If the state has not selected the EHB benchmark and made those details available, please make a best guess based upon what you know about the most popular small group product (the EHB default plan). If possible, please include the cost of pediatric dental and vision.
4. As the AV calculator is not available from HHS, please use your own estimate for the cost associated with any buy-up to 60% AV.
5. If you are not comfortable estimating cost of the exchange in the state as compared to existing costs, please include a “1.0” factor (no change or unknown).
6. This row intends to capture adverse selection (the second order impact) whereas the other rows intend to capture the direct costs impact.
7. Risk Corridors and Risk Adjustment are not included in this row as the assumption is that those two programs will “net to zero”.