ACA Premium Impact – Variability of Individual Market Premium Rate Changes

Robert M. Damler, FSA, MAAA
Paul R. Houchens, FSA, MAAA

EXECUTIVE SUMMARY

The ACA's impact on out-of-pocket premium rates in the individual market will vary significantly based on an individual's income level, gender, age, and health status. Premiums in Indiana's current individual market are largely based on a rating cohort's expected future healthcare costs. Insurers are allowed to develop premium rates based on an applicant's age, gender, and health status. Because of these rating allowances, significant variability in current premium rates exists between individuals at a given age with similar insurance coverage

Beginning in 2014, the ACA allows premium rates to vary in the individual market by age (limited to a 3:1 ratio), family size, geographic location, and tobacco usage (limited to a 1.5:1 ratio). These rating rules are referred to as 'Adjusted Community Rating', as they do not allow premiums to vary by an individual's health status. **Therefore, individuals at a given age will pay identical premium rates, rather than rates that may vary significantly.** In Indiana, these requirements introduce three different subsidies into the development of individual premium rates prior to the application of the premium tax credit subsidy.

1. **Gender** – Young males, on average, currently pay significantly lower premium rates than young females because of lower expected healthcare costs. This is in large part due to maternity, family planning, and reproductive health costs, although even without these costs included, there are still cost differences by gender. **The elimination of gender rating will result in premium increases for young males, which will subsidize the premium rates for young females. Current market premiums may vary by as much as 70% between genders for adults under 40.** At older ages, this disparity between male and female claim cost is less significant.

2. **Age** – Although the ACA permits premiums to vary by age, the adjustment is limited to a 3:1 ratio. Actual unisex claim cost variation between the youngest and oldest adult individuals in the insured risk pool is approximately 4:1. **The 3:1 age rating limitation will result in the young insured population subsidizing the older population in the risk pool.**

3. **Health Status** – The ACA does not allow insurance carriers to vary premium rates by an individual's health status. Currently, Indiana insurance carriers may reject an applicant, charge a higher premium for individuals with pre-existing health conditions, or issue a policy with a pre-existing condition exclusionary waiver. Further, maternity benefits are generally excluded from individual health insurance coverage. Individuals that are not issued commercial coverage may qualify for coverage in the Indiana Comprehensive Health Insurance Association (ICHIA), which is the State's high risk pool. **The elimination of health status rating will result in premium increases for healthy individuals and premium decreases for individuals in poor health.**

The ACA also introduces a premium tax credit subsidy for qualifying households between 139% and 400% FPL that limits a household's premium contribution to a maximum percentage of household income. ***For low income households, the premium subsidy tax credit may significantly reduce out-of-pocket premium costs, particularly for older individuals who are charged higher premium rates.***

Figures 1 and 2 illustrate the estimated premium rates for individuals age 35 and 55, respectively, for a $2,500 deductible plan in the current individual health insurance market relative to the silver plan that will be offered in individual health insurance exchange for household income levels ranging from 150% to 500% FPL. We estimate that the actuarial value for both plans is approximately 70%. Current market premium rates are illustrated by age, gender, and health status to illustrate the current disparity in premium rates by gender and health status, which will end beginning in 2014. Silver plan premiums reflect the application of the premium tax credit subsidy, which will create a disparity in out-of-pocket premium rates by income level. ***The estimated ACA premium rate impact for a given person by age, gender, health status, and income level is represented by the dollar difference between the current premium rate and estimated out-of-pocket premium for the silver plan.*** For example in figure 1, 35 year old males in excellent health status will receive a premium decrease if income is below 200% FPL, but all other income levels for the 35 year old male in excellent health status will receive a premium increase.

March 2012

Figure 1

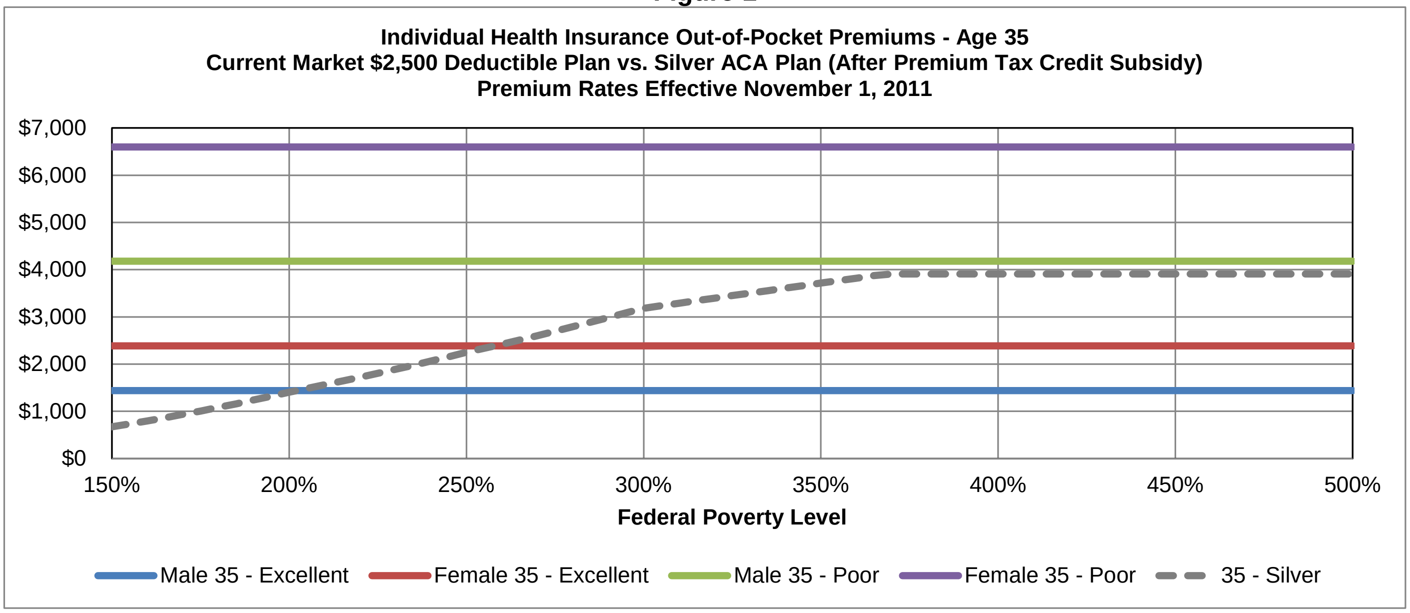
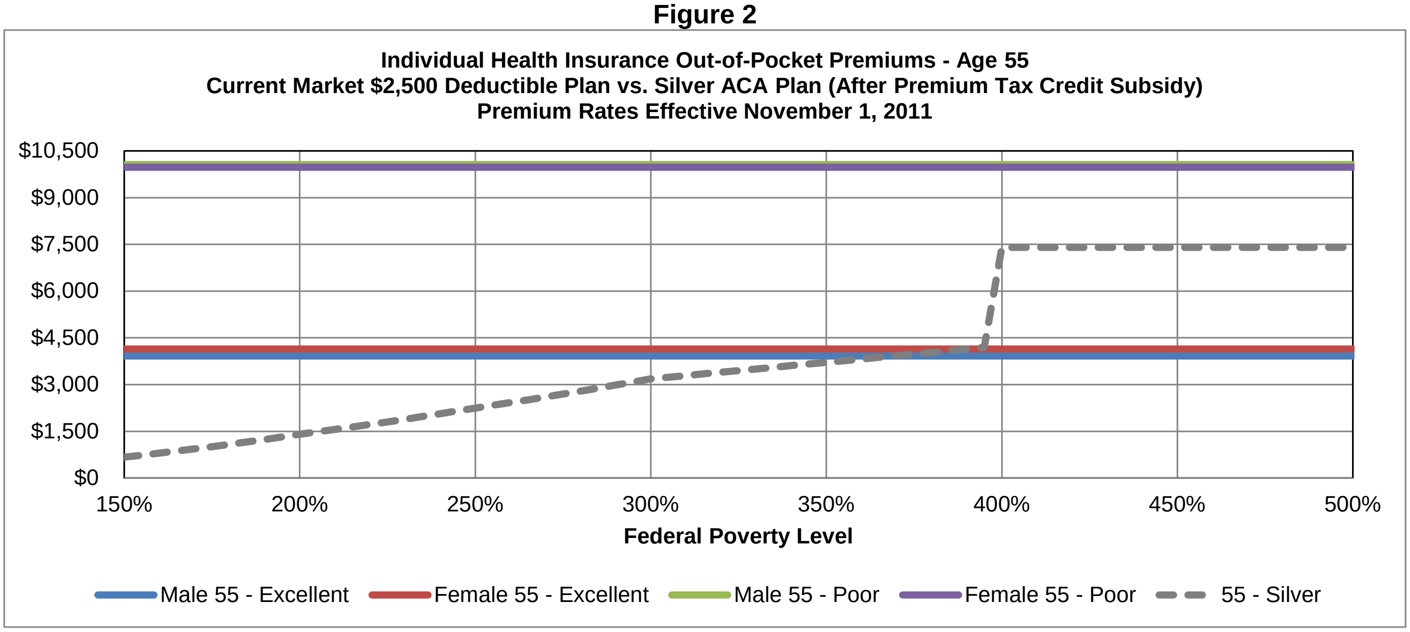


Figure 2



As illustrated in figures 1 and 2, individuals who are older and in poor health are likely to experience significant premium decreases as the result of the ACA rating requirements and premium subsidies. Many such individuals that may be uninsured today because of unaffordable premium rates may be able to afford insurance in 2014. ***However, a material portion of the current individually insured population may experience very large premium increases as the result of the rating subsidies introduced by the ACA.*** Young, healthy, males will have the largest premium increases with the implementation of the ACA rating rules, as this population is adversely financially impacted by each of the ACA subsidies. Other individuals will financially benefit from the gender or age subsidies, which will dampen their premium rate increases. **For a more detailed discussion on the variability of out-of-pocket premium rate changes under the ACA, please visit: ACA Premium Rate Impact - Variability of Individual Market Premium Rate Changes.**

March 2012