ACA Premium Impact – Comparison with CBO Premium Estimates

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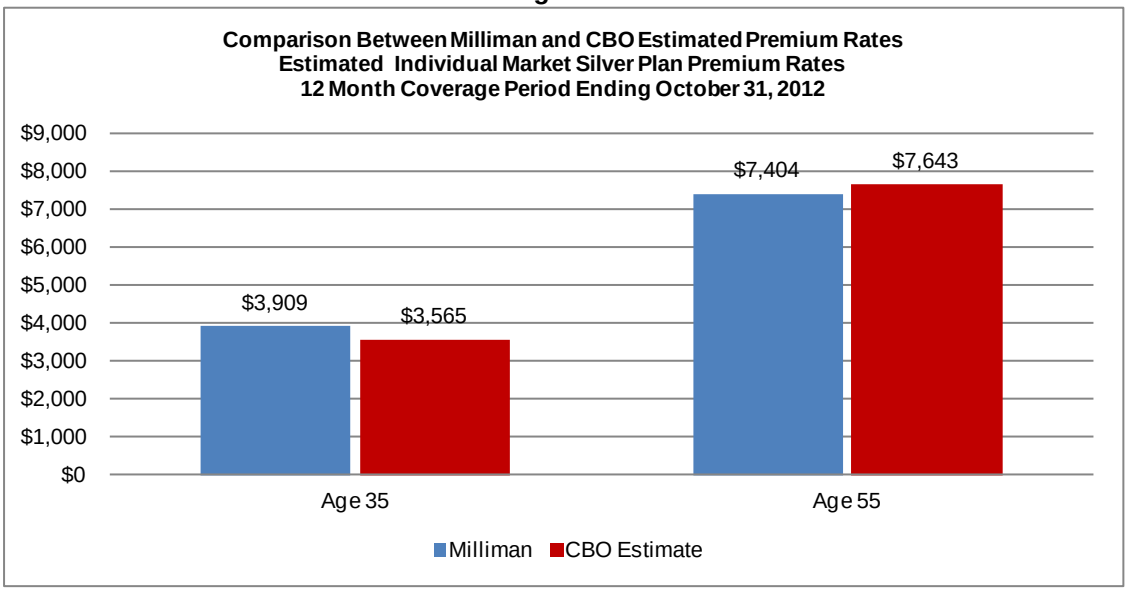
EXECUTIVE SUMMARY

In a previously released issue brief, Individual and Small Group Premium Changes under the ACA, we estimated that average market premium rates would increase 75% to 95% in the individual market prior to the application of the premium tax credit subsidy. This estimate is considerably higher than the CBO's national estimate of 10% to 13%[1].

Although not apparent from the premium percentage change estimates, **the CBO and Milliman analyses actually arrive at complementary conclusions regarding the silver plan premium rates post-ACA.** Numerous studies related to the impact of the ACA on individual market premium rates were collected and analyzed, including the CBO's November 30, 2009 premium estimate report. Milliman's ending estimates of premium rates under the ACA rating requirements compare well with the CBO work and the differences in the rate of premium change resulted from a different premium starting point for the pre-ACA market. This difference is attributable to the Indiana specific market premium rates collected for our analysis compared to a national average market premium rate used by the CBO in its estimate.

To illustrate a comparison of Milliman's premium rate estimates for Indiana and those developed by the Congressional Budget Office (CBO), the Kaiser Health Reform Subsidy calculator was used to develop age-specific premium estimates based on the CBO analysis for a medium geographic cost area. Both Milliman Indiana silver plan premium estimates and the CBO estimates have been trended to the 12 month coverage period ending October 31, 2012 to facilitate comparison with current market premiums.

Figure 1



Note: The Kaiser Health Reform Subsidy calculator may be accessed at http://healthreform.kff.org/SubsidyCalculator.aspx.

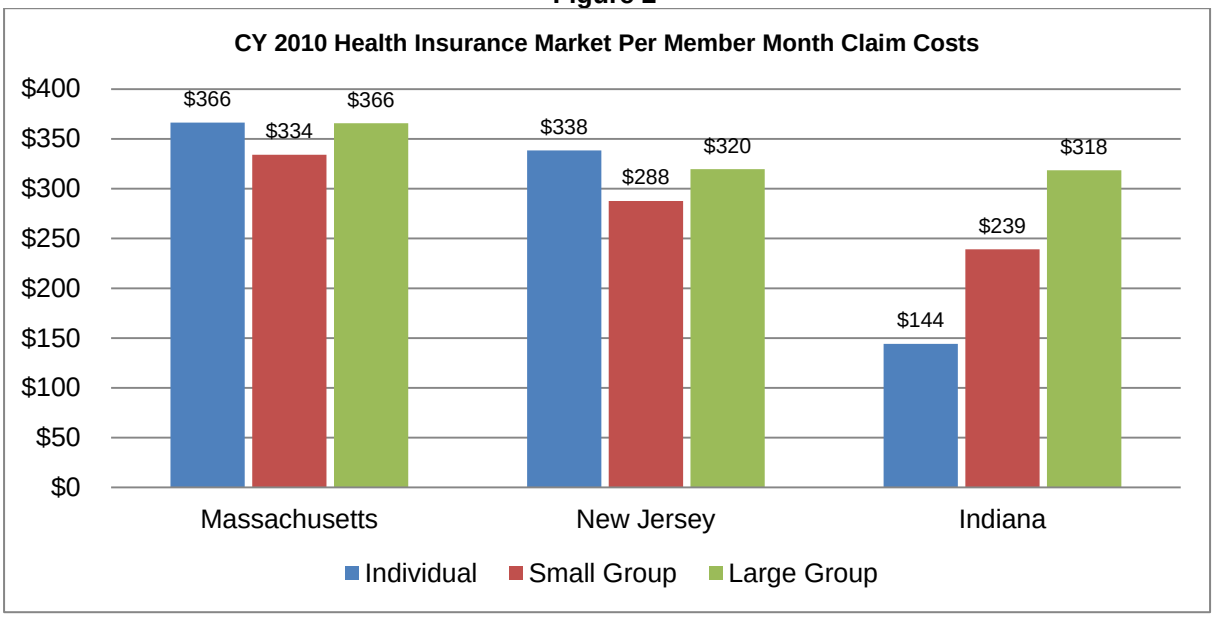
Although not directly comparable to silver plan premium rates, we have estimated an average premium rate of approximately $2,100 and $4,400 for 35 and 55 year olds, respectively, in Indiana's current individual insurance market. Actual premium rates within each age group will vary significantly by gender, health status, and level of benefit coverage. The impact of these factors on current market premium rates is discussed extensively in:
ACA Premium Impact - Variability of Individual Market Premium Rate Changes.

[1] Congressional Budget Office. "Analysis of Health Insurance Premiums under the Patient Protection and Affordable Care Act. November 30, 2009. www.cbo.gov/ftpdocs/107xx/doc10781/11-30-premiums.pdf.

On a national basis beginning in 2014, it is anticipated that the benefit disparity between the individual and group insurance markets will be significantly less, and the morbidity level of the individual market will be above or comparable to the group insurance markets as the result of the ACA requirements. Therefore, current differences between insured benefit claim cost between a state's individual health insurance and group health insurance markets can be used to approximate the magnitude of the individual market premium rate change for a state in 2014.

Figure 2 illustrates per member per month claim costs between the individual and group health insurance markets for Massachusetts, New Jersey, and Indiana. Relative to each other, each state has unique rating laws in the individual health insurance market. Massachusetts already has implemented several of the major features of the ACA, such as an individual mandate, adjusted community rating in the individual and small group markets, and premium subsidies. New Jersey also only permits adjusted community rating in its individual market, but does not have an individual mandate or offer premium subsidies to purchase insurance. In states such as New Jersey, significant adverse selection occurs as individuals in poor health are more likely to purchase health insurance versus individuals in excellent health.

Figure 2



Notes:

1. Source: December 31, 2010 Supplemental Health Exhibit filings collected during June 2011 using Insurance Analyst Pro®, Highline Data.
2. Claim cost experience has not been adjusted for age/gender/in-state geographic/income mix and actuarial value differences between markets.

Figure 2 indicates that claim cost experience in Indiana is significantly lower in the individual market than in the group markets, while the claim costs in the Massachusetts' individual health insurance market is comparable to the group health insurance markets. Per member claim costs in Massachusetts' individual market are at or above per member claim costs reported in the group insurance markets. Given the similarity of some major features of the Massachusetts' health insurance reforms to the ACA, Massachusetts insurance market experience may serve as a predictor of claim cost and premium directional changes under the ACA. For states like Indiana, where health status rating is allowed in the current individual market, it is anticipated that the health status of the new individual market will become substantially higher than that shown in Figure 2, and thus result in premium increases. However, in other states that already prohibit health status rating such as New Jersey, premium subsidies and the individual mandate may encourage a larger proportion of healthier individuals to purchase insurance and improve the health status of the individual market.