AMERICAN ACADEMY *of* ACTUARIES

June 18, 2013

The Honorable Tim Murphy
Chairman, Subcommittee on Oversight and Investigations
Committee on Energy and Commerce
U.S. House of Representatives
2125 Rayburn House Office Building
Washington, DC 20515

Chairman Murphy:

I appreciate the opportunity to respond to follow-up questions from the subcommittee's May 20 hearing, *Health Insurance Premiums Under the Patient Protection and Affordable Care Act* (ACA), at which I testified on behalf of the American Academy of Actuaries.[1] My responses to the specific questions from you and Representative Butterfield are below.

<u>Chairman Tim Murphy</u>

1. Are premium estimates calculated assuming that all people will sign up for coverage or that some will not obtain coverage?[2]

Premium estimates are typically calculated assuming that not all individuals will obtain health insurance coverage. The 2014 premiums that health insurers currently are submitting for review and consideration are being calculated using assumptions regarding how extensive participation will be and the demographic and health status characteristics of those obtaining coverage. These calculations will consider participation not only from the currently uninsured population but also among those currently with coverage who may shift from one type of coverage to another or drop coverage altogether. These assumptions will reflect many factors including the anticipated effectiveness of the individual mandate and how an individual's anticipation of health care needs (plus any financial penalty for going without coverage) compares with the insurance premium charged (net of any subsidies).

For health insurance markets to be viable, they must attract a broad cross-section of risks. In other words, they must not enroll only higher-risk individuals; they must enroll people who are lower risks as well. If an insurance plan attracts only those with higher than average expected health care spending, otherwise known as adverse selection, then premiums will be higher than

[1] The American Academy of Actuaries is a 17,000-member professional association whose mission is to serve the public and the U.S. actuarial profession. The Academy assists public policymakers on all levels by providing leadership, objective expertise, and actuarial advice on risk and financial security issues. The Academy also sets qualifications, practice, and professionalism standards for actuaries in the United States.
[2] As requested by Chairman Murphy, this response elaborates on my response given during the hearing.

average to reflect this higher risk. Attracting healthier individuals ultimately will help keep premiums more affordable and stable.

To ensure that people in poor health have access to health insurance, the ACA prohibits insurers from denying coverage or charging higher premiums to those with higher expected costs due to their health status. These prohibitions generally will result in an increase in average health insurance premiums, unless a broad cross-section of people participate in the private health insurance market—the young as well as the old, and the healthy as well as the sick.

The Honorable G.K. Butterfield

1. Will consumers in eastern North Carolina get better value from their insurance premiums under the Affordable Care Act?

This response focuses on the ACA provisions that apply to non-grandfathered plans in the individual market. How the value consumers receive from their insurance premiums under the ACA will compare to that before the ACA depends on several factors, including individual characteristics (e.g., age, gender, health status) and how a state's current issue and rating rules compare to those under the ACA provisions that will commence in 2014. In general, the ACA will impose more restrictive issue and rating rules in states like North Carolina that currently allow insurers to underwrite and vary premiums by health status and other factors. The compression of premiums due to the new age rating restrictions will increase the relative premiums for younger adults and reduce them for older adults. Prohibiting different premiums by gender will shift costs between men and women, depending on age. And prohibiting health status rating will increase the relative premiums for healthy individuals and reduce them for those in poor health. Premium subsidies may lower net premiums for low- and moderate-income individuals and families.

Although young adults not eligible for premium subsidies may be most at risk for premium increases, they will have access to catastrophic plans. The premiums for these plans will be allowed to be set lower to reflect a younger enrollee population.

These new features need to be considered in conjunction with other provisions that will affect the underlying composition of the insured population, and therefore, premiums. ACA's guaranteed issue provision will prohibit insurers from denying coverage based on pre-existing conditions. This increased ability of high-cost people to purchase coverage could put upward pressure on premiums. The individual mandate and the premium subsidies will mitigate this effect by providing incentives for younger and healthier people to obtain coverage. Whether individuals shift between different types of coverage also can affect the risk pool. If employers drop coverage and workers shift to the individual market, the impact on individual market premiums will depend on the demographics and health status of those shifting. Individuals moving out of high-risk pools and into the individual market will put upward pressure on premiums. Offsetting this effect in the near term will be the temporary reinsurance program.

Premiums will reflect a plan's benefit design, with more generous plans coming with higher premiums. New essential health benefit and actuarial value requirements could mean that plans will be more generous. While this could put upward pressure on premiums, it also will lower out-of-pocket costs.

2. Can you describe some of the additional benefits insurance plans may offer to my constituents due to consumer protections under the Affordable Care Act?

Several ACA provisions offer consumer protections for non-grandfathered plans purchased in the individual and small group markets. Implementation of the ACA guaranteed issue provision means that individuals with pre-existing health conditions cannot be denied health insurance coverage. The prohibition on varying premiums by health status means that individuals with pre-existing health conditions cannot be charged higher premiums than other individuals.

The ACA essential health benefit provision requires plans to offer a comprehensive set of benefits and lists a set of 10 health care service categories that plans must cover. The ACA actuarial value provision requires that, except for catastrophic plans, plans must meet certain thresholds regarding the share of allowed health spending that is paid for by the plan, on average.

Other consumer protections include:

- Standardized information regarding plan benefits and coverage,
- Coverage of certain preventive health services with no cost sharing requirements,
- The prohibition of annual and lifetime benefit limits,[3] and
- The right to appeal health insurance plan decisions.

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If you have additional questions or would like more information regarding my responses, I would welcome the opportunity to speak with you further. Please feel free to contact me at 202.223.8196 or Uccello@actuary.org.

Sincerely,

Cori E. Uccello, MAAA, FSA, FCA, MPP
Senior Health Fellow
American Academy of Actuaries

cc: The Honorable Diana DeGette, Ranking Member
The Honorable G. K. Butterfield

[3] The prohibition on lifetime benefit limits also applies to grandfathered plans. The prohibition on annual benefit limits also applies to grandfathered plans in the small group market but not the individual market.