

CRITICAL ISSUES IN HEALTH REFORM

State-Level Impacts

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AMERICAN ACADEMY of ACTUARIES



Major health reform legislation before Congress would impose an individual mandate, prohibit insurers from denying coverage, limit the extent to which premiums could vary by certain risk characteristics, set minimum standards for benefit coverage, and provide premium subsidies for low-income individuals. The impact of such provisions on health insurance premiums would greatly depend on how the new rules governing health insurance differ from those currently in place. Currently, health insurance regulation varies widely across states. As a result, federal health reforms would be expected to have different impacts on premiums by state.

To illustrate the potential premium impact by state, the American Academy of Actuaries' Health Practice Council has examined and combined certain state-level information for the 50 states and the District of Columbia on their health insurance market rules as well as other information that can impact premiums, such as the characteristics of the uninsured.

Caveat: *The discussion that follows focuses primarily on assessing the impact on premiums by certain state characteristics, holding all else equal. That is, it does not attempt to determine the overall impact of all reform provisions. Although it may be relatively straightforward to estimate the directional impact of any one particular reform provision on premiums, incorporating the interaction of all of the various provisions is more complex and beyond the scope of this analysis.*

Small Group Market Rules

The impact of market reforms on health insurance premiums will depend on the extent to which the new rules differ from a particular state's pre-federal reform rules. In the small group market, guaranteed issue

is required in all states and the majority of states allow premiums to vary to reflect group characteristics such as age, gender, location, group size, health status, family composition, and industry. Variations are typically allowed within limits (e.g., rating bands) and the most common limit for health status is +/- 25 percent. There is substantial variation across the states, however, and 13 states currently require adjusted community rating or pure community rating. The following points outline the general impact of health care reform on premiums in the small-group market based on current state characteristics:

- In states with no or loose rating restrictions, imposing tighter limits would have varying impacts on premiums for certain groups. Groups with a lower-risk work force could face an increase in premiums, while higher-risk groups could see premium reductions. Currently, because they are lower-risk, more small groups enjoy discounts from the midpoint of the allowable premium range than have to pay premiums higher than the midpoint. Consequently, tightening the rating restrictions would result in more groups experiencing premium increases than groups experiencing premium decreases. The average premium increase due to tighter rating restrictions among the small groups incurring an increase would be lower than the average premium reduction among the small groups incurring a premium reduction.
- In states that already have adjusted community rating or pure community rating rules, premiums may exhibit less change.
- Grandfathering provisions that allow small groups to keep their current plans under the old rating rules would help mitigate

ADDITIONAL RESOURCES

Comment letter to the U.S. House of Representatives on the Affordable Health Care for America Act (H.R. 3962): http://www.actuary.org/pdf/health/ahcaa_nov09.pdf

Comment letter to the U.S. Senate on the Patient Protection and Affordable Care Act



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rate shock for groups with coverage.

- Most states define small groups as those with 2 to 50 employees. However, several states define small groups to include those with one employee, effectively giving self-employed individuals the choice of purchasing in either the individual or small group market. In states that allow underwriting in the individual market, allowing the self-employed to purchase small group coverage can increase average premiums in the small group market. This occurs because high-risk self-employed individuals can take advantage of the guaranteed issue requirements in the small group market. In contrast, low-risk self-employed individuals may face lower premiums in the underwritten individual market. Requiring the individual and small group markets to operate under the same issue and rating rules would reduce the advantages that a self-employed individual would have by choosing to purchase in the small group market over the individual market, or vice versa.

Individual Market Rules

In the individual market, underwriting is allowed in most states, although a few states require guaranteed issue. Most states also allow premiums to vary by age, gender, and health status, although some use rating bands to limit premium variations. A few states require adjusted community rating or pure community rating. The following points outline the general impact of health care reform on premiums in the non-group market based on current state characteristics:

- In states that allow underwriting and premium variation by health status in the

individual market, the uninsured population may be less healthy, on average, than the insured population. Moving to guaranteed issue and more restrictive rating rules would likely increase participation rates by high-risk individuals, putting upward pressure on premiums.

- In states that already require guaranteed issue and adjusted community rating, the uninsured population may be healthier, on average. An individual mandate could increase participation rates by lower-risk individuals, putting downward pressure on premiums.
- An individual mandate will bring low-risk individuals into the pool only to the extent that it is effective and enforceable. To be effective, the penalties for not complying with the mandate must be meaningful compared to the premium faced. Otherwise, low-risk individuals will be more likely to pay the penalty and forgo coverage or drop the coverage they have, thus putting upward pressure on premiums.
- In states with no or loose restrictions on rating rules, imposing tighter limits would have varying impacts on premiums for certain individuals. Premiums for lower-risk individuals could increase, while premiums for higher-risk individuals could decrease. In states with adjusted or pure community rating, premiums could exhibit less change.
- As the allowable variation in premiums by age narrows (e.g., from 4:1 to 3:1 to 2:1), the effect on premiums would increase in magnitude. The more narrow the allowed variation, the greater the premium increases for younger individuals and the greater

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the premium reductions for older individuals. As a result, the more narrow the allowed premium variation, the stronger the individual mandate needs to be in order to ensure that low-risk individuals obtain and keep coverage.

- The elimination of gender rating would generally reduce premiums for women under age 50 and men over age 50, and increase premiums for women over age 50 and men under age 50.
- Grandfathering provisions that allow individuals currently covered in the individual market to keep their plans under the old rating rules would help mitigate rate shock for those with coverage. Average premiums in grandfathered plans could go down if higher-risk individuals disproportionately choose to drop their coverage in favor of new coverage operating under the new rules.

Characteristics of the Uninsured

AGE

A key to ensuring a viable health insurance system is to enroll lower-risk individuals over which the cost of higher-risk individuals can be spread. Generally, younger people have lower health spending than those who are older. In states with a younger uninsured population, bringing these individuals into the insurance market could help exert downward pressure on average premiums. Conversely, states with an older uninsured population may experience upward pressure on average premiums.

The extent to which younger uninsured individuals become newly insured will in turn depend on the interaction between premium rates, premium subsidies, and penalties imposed for forgoing coverage.

INCOME

The availability of premium subsidies for plans in the health insurance exchange will help increase health insurance affordability for lower-income individuals and families. As a result, such subsidies could facilitate the enrollment of a broad cross section of

risks, rather than enrollment among only a high-risk population. This could help moderate premiums in states with a lower-income uninsured population.

Other Factors Impacting Premiums

Many other health reform provisions could affect health insurance premiums, and the degree to which these impacts would vary by state. For instance, requiring health insurance benefits to meet a minimum actuarial value will increase premiums to the extent that current plans do not meet these minimums. Some limited reports on the actuarial value of current health insurance plans suggest that average values vary by state, and that the actuarial value of plans in the individual market fall below those in the small group market. However, complete state-level information regarding the average actuarial value of plans currently in force were not available for this report.

Premiums would also be impacted by any taxes or assessments that are levied on providers or health insurers which would be passed on to consumers through higher premiums. Administrative costs could be reduced somewhat with the implementation of a health insurance exchange, although most administrative functions would continue to be incurred.

State-by-State Chart

The Academy's Health Practice Council has developed a chart that outlines the rating rules and average annual premium for the small-group and individual markets, as well as the characteristics of the uninsured, by state. This chart is included as an attachment to this statement. Given that the effect of health care reform on premiums will vary by state, use of this chart in conjunction with the general observations provided in this statement is intended to provide policymakers with an understanding of the relative impact of reform on any given state.