CRITICAL ISSUES IN HEALTH REFORM

Gender Considerations in a Voluntary Individual Health Insurance Market

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Setting premiums commensurate with the relative risk is a fundamental principle of any viable private, voluntary individual health insurance system. Incorporating risk characteristics, such as age, gender, and geographical location, has long been an integral part of calculating premiums for individual health insurance.

Risk classification is fundamental to voluntary health insurance.

Risk classification is the process of grouping together individual applicants for health insurance who have similar risk characteristics and share a similar level of expected medical costs. Risk classification is a fundamental principle of any viable private, voluntary insurance system. Basically, each individual is charged a premium commensurate with the relative value that he or she may expect to receive from the insurance coverage provided.

Risk classification can help reduce adverse selection in a voluntary market.

In a voluntary market, individuals at greater risk of high health care spending are more likely to purchase coverage, while low-risk individuals are more likely to forgo coverage. This systematic bias in purchasing patterns, typically referred to as "adverse selection," increases the average insured risk and results in higher average premiums. As premiums increase, the cumulative adverse selection can cause premiums to spiral upward. By tying premiums to the relative risk involved, the process of risk classification can help reduce adverse selection and increase the number of individuals choosing to purchase coverage.

Incorporating risk characteristics, such as age, gender, and geographical location, has long been an integral part of calculating premium rates. Actuaries develop insurance premium rates based on insurance claims experience data, which are analyzed according to common characteristics of those covered. Historically, the claims experience of men and women have differed for health insurance, auto insurance, life insurance, and other forms of insurance across the entire United States. As a result, insurers will often charge different premium rates for men and women so that premiums directly reflect the value of the policy and the benefits received by the purchaser.

Medical spending differs by gender.

Prior to about age 50, women generally incur higher medical spending than men, even excluding the costs of normal maternity care. This difference in spending translates to higher health insurance premiums on average for women. Insured health spending differences by gender typically peak during their 30s, then narrow, and eventually, men incur higher average health spending than women. As a result, premium differences by gender typically narrow at older ages, and at some point, premiums for men exceed those for women.[1]

Gender differences can vary across insurers and plans.

Insurers rely on their own databases to set premiums and the factors that are used to vary premiums by gender within age. As a result, gender premium differences will vary across different plans and insurers. Similarly, insurers often incorporate into their calculations factors that are unique to them, such

[1] Other health-related products, such as disability insurance and long-term care insurance, each have their own patterns of cost by age and gender.

FOR MORE INFORMATION ON RISK CLASSIFICATION

Risk Classification in the Voluntary Individual Health Insurance Market (March 2009)
http://www.actuary.org/pdf/health/risk_mar09.pdf

OTHER STATEMENTS ON CRITICAL ISSUES IN HEALTH REFORM

Individual Mandate
http://www.actuary.org/pdf/health/individual_mandate_may09.pdf

Market Reform Principles
http://www.actuary.org/pdf/health/market_reform_may09.pdf

Actuarial Equivalence
http://www.actuary.org/pdf/health/equivalence_may09.pdf

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as factors related to their target markets and distribution mechanisms, administrative and other costs, underwriting approach, and benefit design features. These differences can also increase the variation in premiums, as well as the variation in premiums by gender, across the market as a whole.

Potential unintended consequences of unisex premium rating in a voluntary market.

In a voluntary market, if policymakers were to decide to prohibit health insurance premium variations based on gender, premium rates would increase on average for men and, at least initially, decrease for women. In a voluntary system, this could result in adverse selection. In particular, a decline in the perceived value of the coverage among men may cause them to be more likely to forgo coverage, unless other incentives were introduced for them to purchase coverage. In contrast, an increase in the perceived value of coverage among women may cause them to be more likely to purchase coverage. As this adverse selection occurs, the system could experience an overall increase in premium rates, to reflect the higher costs of those purchasing coverage. This in turn may lead to more people, especially those with lower expected medical costs, to forgo coverage.

The impact of mandating unisex premiums will vary by how maternity benefits are currently covered.

Some states currently require that maternity coverage be included as part of the base benefit package. That means that the gender differences in premiums reflect not just differences in non-maternity spending, but also maternity spending. As a result, moving to unisex rates would shift a share of the maternity costs to men.

Other states make maternity coverage optional; maternity coverage is purchased as a coverage rider only by women who want it. In these states, gender differences in premiums for the base plan reflect non-maternity spending differences. Rather than spreading the costs of maternity care over all women (to varying degrees based on age, etc.), the premium costs of maternity care accrue only to those with coverage. Moving to unisex premiums wouldn't shift maternity costs to men. Instead, the premium for the maternity-coverage rider would continue to be charged only to those women selecting it. However, if maternity coverage were to be mandated in these states, moving to unisex premiums would shift some of the maternity costs to men and some to women who wouldn't otherwise purchase maternity riders.

Achieving universal health insurance coverage could reduce the need to charge different premiums by gender.

Achieving universal coverage through coverage mandates or other means would eliminate adverse selection in the health insurance system as a whole by gender and other characteristics that are associated with higher health spending. As a result, it would be less necessary, from a plan solvency standpoint, to vary premiums by gender. The question of how to distribute the costs across the population becomes an issue of balancing individual financial equity and social equity.

Actuaries are experts in risk classification.

Actuaries are uniquely qualified by education, training, and experience to quantify the financial effects of the risks to which insurers are exposed. Actuaries use historical statistical data and professional judgment to determine premium rates and how the rates vary by risk characteristics. Actuaries performing professional services relative to the design, review, or changing of a risk classification system are subject to Actuarial Standard of Practice No. 12: Risk Classification, which provides professional guidance to actuaries working in these areas.

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