

## Tightening Age Rating Bands Will Increase Premiums for Younger Individuals and Families and Destabilize Health Insurance Risk Pools

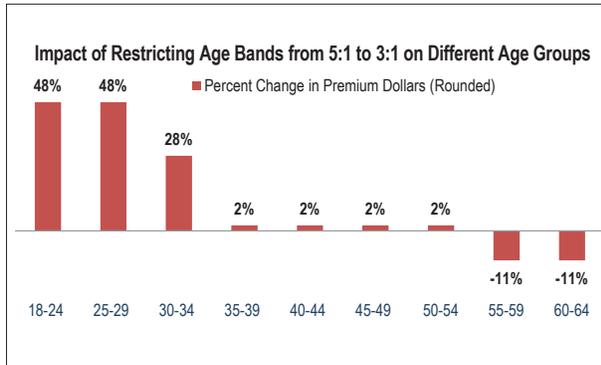
Prior to the Affordable Care Act (ACA), 42 states allowed health insurance rates to vary by age by a ratio of 5 to 1 or more (5:1). These ratios are based on the broadly accepted premise that utilization of health care services is correlated with age and that health insurance only works if younger and healthier consumers are part of the risk pool. Age rating ratios of 5:1 or 6:1 strike a careful balance: they provide protection to older consumers without making it impractical for younger consumers to purchase insurance.

Starting on January 1, 2014, the new law restricts the age band to a ratio no greater than 3:1. Further instruction in the law directs the Secretary of the Department of Health and Human Services (HHS) in conjunction with the NAIC to establish standard age bands.

### Impact of 3:1 Age Bands on Consumers

States have adopted rating rules in the small group market (and to a lesser extent the individual market) to promote greater stability, facilitate pooling across the marketplace, and assure more stable and affordable premiums. State rating rules attempt to strike a balance between promoting market stability and sound risk pools, while at the same time retaining incentives to assure that younger, healthier individuals participate in the coverage marketplace. States recognize this balance by allowing health insurance rates to vary based on the age of the enrollee and, in this way, encourage younger individuals to purchase coverage with more affordable rates. For example, in a state with a 5:1 age band, the ratio limits the amount an older individual will pay to no more than five times more what a younger individual pays in premium dollars. This level of rate variation is intended to balance the need for adequate risk-pooling and affordability, recognizing that strict limits on premium variation based on age (e.g., 3:1 or 2:1) has the effect of driving up premiums for younger individuals. The ACA will require modified community rating in the small group and individual markets and will limit premium variation based on age to 3:1. This represents a dramatic and likely destabilizing change in how rates are regulated in state insurance marketplaces.





If one of the goals of health reform is to make coverage more affordable, requiring 42 states overnight to change their age rating bands from to 3:1 will significantly increase costs for individuals aged 18-34. According to an actuarial analysis by Oliver & Wyman, moving to a 3:1 age-band will increase premiums for young adults by 48% in states that currently operate under a 5:1 age band. By comparison, individuals aged 45-49 are estimated to experience premium increases of approximately 2% as states transition to a 3:1 band.<sup>1</sup>

## The Effect of Rate Shock on the Market

Individuals 18-34 years of age make up over 30% of the individual market and also comprise the fastest growing segment of the uninsured. Individuals in their twenties are more than three times as likely to forego coverage as consumers aged 55-64.<sup>2</sup> These individuals are often uninsured because their employers do not offer coverage, they do not immediately need (or foresee the need) for medical services, and/or the cost of coverage is prohibitive. Younger individuals and families that are subject to rate shock (a consequence of collapsing age bands overnight) are even more likely to forego obtaining coverage or may even drop existing health coverage. As younger, healthier individuals drop from or fail to enter the risk pool, a market spiral goes into effect in which costs rise for those who keep coverage, thereby serving to further discourage younger, healthier individuals from keeping or obtaining coverage

## Recommendation:

► **To prevent rate shock in the individual market the age rating requirement should return to the original federally proposed limit of 5:1. Returning the limit to a 5:1 ratio will:**

- **Prevent rate shock for younger individuals and families,**
- **Encourage enrollment by consumers aged 18-34, and**
- **Maintain cost stability for consumers of all ages.**

1 Geisa, Kurt and Grau, Jason. *Impact of the Patient Protection and Affordable Care Act on Costs in the Individual and Small-Employer Health Insurance Markets*. Oliver Wyman, December 1, 2009.

2 *Impact of Changing Age Rating Bands in "America's healthy Future Act of 2009."* Oliver Wyman, September 28, 2009.



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