Issue Brief

AHIP
America's Health Insurance Plans

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

Today, 42 states allow heath insurance rates to vary by age by a ratio of 5 to 1 (5:1) or more. 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.

But beginning on January 1, 2014, the Affordable Care Act (ACA) restricts age bands in all states to a ratio no greater than 3:1. The Secretary of the Department of Health and Human Services (HHS), in conjunction with the NAIC, recently issued proposed regulations to establish these standard age bands.

The Disproportionate Impact of the ACA on Young Adults

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 than 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) will increase 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.

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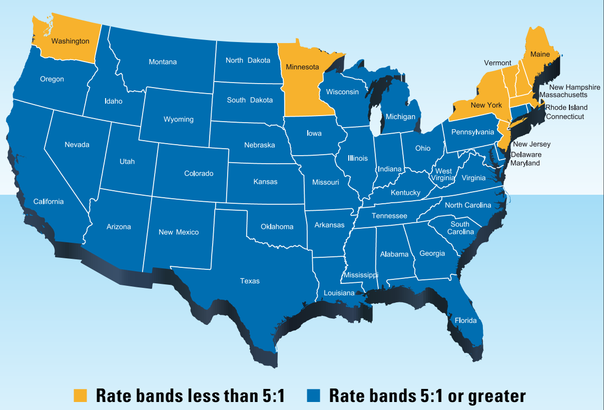
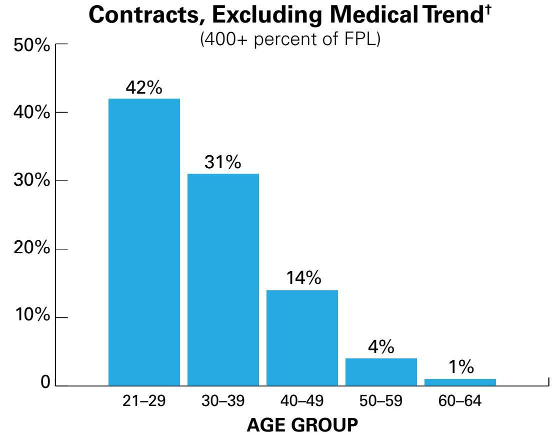
Requiring 42 states to change their age rating bands from 5:1 to 3:1 overnight will significantly increase costs for individuals aged 18-39—working against health reform's goal of making coverage more affordable.

Allowable Age Rating Bands by State



A recent actuarial analysis of U.S. Census Bureau data and Congressional Budget Office (CBO) estimates found that individuals between 21 and 29 years old who are ineligible to receive premium subsidies will face increases in premiums of up to 42%.

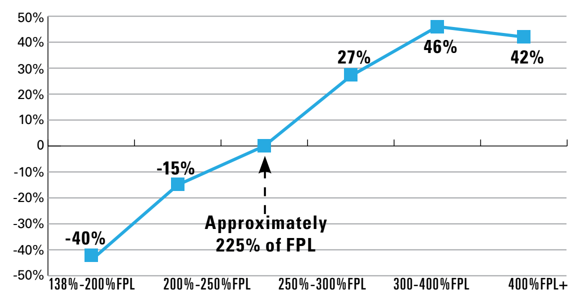
Change in Nongroup Premiums for Single Contracts, Excluding Medical Trend†
(400+ percent of FPL)



Source: Kurt Giesa and Chris Carlson. Age Band Compression Under Health Care Reform. *Contingencies.* January/February 2013.
†Change in premiums result from age band compression and other ACA changes.

The same study also estimated the impact of the ACA on young adults who are eligible for premium assistance. The authors found that "young, single adults aged 21 to 29 and with incomes beginning at about 225 percent of the FPL, or roughly $25,000, can expect to see higher premiums than would be the case absent the ACA, even after accounting for the presence of the premium assistance" (emphasis added).

Premium Rate Changes from 2013 to 2014, Ages 21–29, Single Contracts in the Nongroup Market, After Premium Assistance†



Source: Kurt Giesa and Chris Carlson. Age Band Compression Under Health Care Reform. *Contingencies.* January/February 2013. Adapted from Chart 3.
†Change in rates result from age band compression and other ACA changes.

While average nongroup market premiums are anticipated to increase by 10-20% as a result of the ACA, premiums for younger, healthier individuals stand to increase by more than 40%. Overall, nearly "4 million uninsured individuals aged 21-29—or roughly 36 percent of those currently uninsured within this age cohort… can expect to pay more out of pocket for single coverage than they otherwise would, even given the availability of premium assistance." The consequences of such a disproportionate impact of this age cohort include the threat of an unbalanced risk pool. An unbalanced risk pool would result in higher premiums for all persons seeking coverage and add to the affordability challenge facing many consumers in a post-reform marketplace.

The Effect of Rate Shock on the Market

About 40% of the uninsured in this country are persons 18-34 years of age. One out of every four individuals in this age demographic did not have health coverage in 2011. 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. Even considering the ACA's provision requiring that that adult children be allowed to remain on their parents' policy until age 26, young adults aged 21-29 years exhibit an uninsured rate that is roughly twice that of the nonelderly population as a whole. 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] Carlson, Chris. Giesa, Kurt. "Age Band Compression Under Health Care Reform." American Academy of Actuaries: Contingencies Magazine, p. 30-36. Issued January-February 2013.

[2] Ibid.

[3] DeNavas-Walt, Carmen; Bernadette D. Proctor; and Jessica C. Smith. "Income, Poverty, and Health Insurance Coverage in the United States: 2011." Current Population Reports. Issued September 2012.

[4] Carlson, Chris. Giesa, Kurt. "Age Band Compression Under Health Care Reform." American Academy of Actuaries: Contingencies Magazine, p. 30-36. Issued January-February 2013.

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