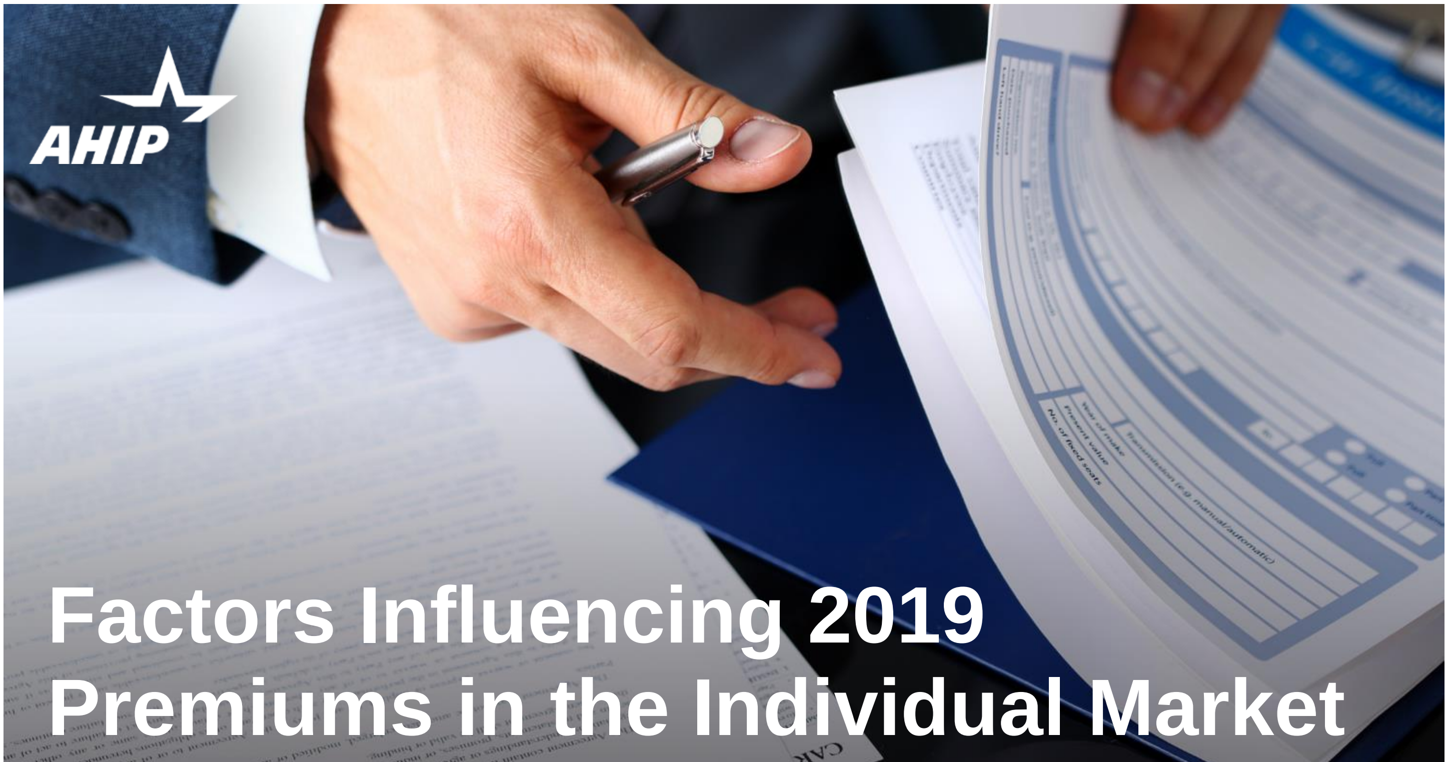

Factors Influencing 2019 Premiums in the Individual Market

ISSUE BRIEF

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KEY TAKEAWAYS

The individual market continues to face challenges and recent policy actions may exacerbate current market instability and place greater upward pressure on premiums in 2019.

Factors placing upward pressure on premiums include increases in medical trend and pharmacy costs, elimination of the individual mandate penalty, and the impact of new regulations that expand the availability of association plans and short-term plans. The one-year moratorium on the health insurance tax (HIT) can help mitigate or reduce premium increases for 2019.

AHIP will continue to work with state leaders, Congress and the Administration to ensure that every American has affordable choices for 2019 and beyond.

Background

Factors Affecting Premiums in the 2019 Individual Exchange Marketplace	Estimated Premium Impact
Increases in medical trend—including medical price inflation and prescription drug cost increases	Increase 5.7%-6.5%
Elimination of individual mandate penalty	Increase 9%-10%
Expanded association health plans	Increase 2.7%-4.0%
Expanded short-term, limited duration plans	Increase 0.7%-1.7%
Incorporate moratorium on health insurer tax for 2019 into individual market rates	Reduce 3%

The 2018 open enrollment period for the individual market has closed and planning is underway for the 2019 plan year. Health insurance providers are now making decisions about market participation, product offerings, and pricing for the 2019 plan year, with rate and product submissions beginning this month.

Based on data from the Centers for Medicare & Medicaid Services (CMS), **11.8 million consumers made a plan selection for coverage through federal and state-based exchanges—**a modest decrease in plan selections from 2017.[1] While plan selections in the federal exchange are down slightly from last year, enrollment in state-based marketplaces held steady in 2018, with 3.0 million people enrolled in state-based exchange-plan coverage.[2]

The key reason that 2018 open enrollment totals remained fairly constant is the availability of federal premium assistance. These advance premium tax credits, or APTCs, make coverage affordable for low- and moderate income individuals and families. This assistance is higher for individuals and families making less than 300 percent of the federal poverty level (FPL), but are available up to 400 percent FPL for those who lack access to affordable coverage through an employer.

For many well-documented reasons, the individual market continues to face stability challenges in its fifth year under the market reform rules of the Affordable Care Act (ACA). Moreover, recent policy actions and other proposals may exacerbate current market instability and place greater upward pressure on premiums for 2019. Amid this uncertain environment, this brief examines the key factors affecting individual market premiums in 2019 and policy solutions that could mitigate premium increases in 2019 and beyond.

Factors Influencing 2019 Premiums

Medical spending trends—including higher prescription drug prices—will push premiums higher.

Underlying health care costs continue to increase—driven in large part by medical price inflation and higher prescription drug prices. According to CMS national health expenditure projections, medical spending is expected to grow at an average rate of 5.7 percent per year[3] (2018-2019), while PwC projects 2018 medical cost trend at 6.5 percent.[4] Increases in medical trend are a **key driver** of health insurance premium increases— given that the vast majority of premium dollars goes to pay medical claims.[5]

Elimination of the individual mandate will increase premiums in 2019.

The Tax Cuts and Jobs Act of 2017 eliminated the individual mandate penalty (by reducing the penalty to $0) beginning for the 2019 plan year. According to the Congressional Budget Office (CBO) and independent actuaries, this would increase average premiums in the individual market by 9-10 percent.[6,7] Recent regulatory guidance by the Administration expanded the list of hardship exemptions to the mandate for 2018, which could inject further uncertainty in the market ahead of 2019.[8]

New federal regulations could further destabilize risk pools, which will place additional upward pressure on premiums.

The Administration's proposed rule to expand association health plans (AHPs) could pose new challenges to the individual and small-group markets. AHPs may offer lower rates to some via slimmer benefits and looser consumer protections— particularly for healthier, lower cost, lower risk groups and individuals. At the same time, they could also siphon off younger, healthier people and negatively impact the broader individual and small-group markets that must operate under the ACA's community rating and single risk pool rating requirements. A report by Avalere found that expanded association health plans—as contemplated under the Department of Labor's proposed rule—could increase premiums in the individual market by up to 4 percent, largely as a result of healthier enrollees shifting into AHPs.[9] Likewise, proposed regulations were recently released that seek to broaden the availability of short-term, limited duration insurance (STLDI) plans from the current three months to 364 days. STLDI policies, which are exempt from ACA requirements and consumer protections, would likely have a similarly negative impact on the individual market risk pool and lead to additional premium increases for 2019. An analysis by Wakely found that the proposed rule would likely increase premiums in the individual market by 1.7% in the near-term and up to 6.6% once these changes are fully implemented.[10]

Factors to Mitigate 2019 Premiums

Establishing a reinsurance or similar risk sharing program would lower premiums in 2019.

Several states are moving forward with establishing a new reinsurance program or other risk-pool funding through the section 1332 waiver process. Such programs would reduce premiums by ceding some portion of high-dollar claims to the program, placing downward pressure on premiums across the entire individual market. An Avalere analysis estimated that establishing a premium stabilization program through reinsurance could lower premiums by between 4-12 percent depending on program design and available funding levels.[11,]

Suspending taxes and fees. Congress recently enacted legislation that established a moratorium on the health insurance tax (HIT) for 2019. We recommend further suspending the HIT in 2020 and beyond to place downward pressure on premiums, as it would otherwise be incorporated into premiums to cover the cost of the tax. This legislative action will reduce premiums by about 3 percent, or by about $230 annually per member in the individual market.[12]

Other Factors

Lack of federal funding for cost-sharing reduction (CSR) benefits will continue to challenge individual market stability in 2019. The October 2017 termination of CSR payments—which help nearly 6 million low-income Americans better afford medical services by lowering deductibles and co-payments—caused exchange plan premiums in 2018 to increase by 20 percent, on average.[13] Researchers at the Kaiser Family Foundation and Oliver Wyman similarly found that eliminating cost-sharing reduction payments increased premiums for the exchange silver benchmark plan by between 7-38 percent[14] and by 11-20 percent[15], respectively.

Changes in composition of the risk pool will affect premiums. Broad-based participation and coverage is critical to an affordable and stable insurance marketplace. Incentives to promote participation—particularly among younger, healthier individuals—are crucial to create a balanced risk pool and well-functioning market. As noted above, recent legislative action on the individual mandate and other proposed regulatory actions may further deteriorate the individual market risk pool by causing healthier, younger individuals to exit from the individual market. While the magnitude of the impact of the proposed rules is difficult to estimate until finalized, directionally, it is virtually certain that individual market premiums will be pushed higher.

Effectiveness of education and outreach. While the demand for health insurance coverage remained generally stable during the 2018 open enrollment period, sign-ups in healthcare.gov states are about 5 percent below last year's total. Studies have shown that cuts in advertising and outreach make it harder for people to enroll and could destabilize the individual marketplace.[16] By contrast, effective advertising and outreach can increase enrollment, expand coverage and lower premiums—as California's comprehensive outreach and marketing program was credited with lowering premiums by 6-8 percent.[17] An effective outreach and advertising effort—by both the federal government and states—could help stabilize risk pools and lower premiums.

Conclusion

Health insurance providers are now making decisions about market participation and pricing for the 2019 plan year in a market that continues to face uncertainty and instability challenges.

While health insurance providers are committed to ensuring consumers have access to affordable coverage options, a number of factors will continue to place upward pressure on premiums for the 2019 plan year, including increases in medical trend, elimination of the individual mandate penalty and the impact of new federal regulations which could further destabilize risk pools and increase premiums. Moving forward, we will continue to work with state leaders, Congress, and the Administration to advocate for policies to ensure that every American has affordable choices for 2019 and beyond.

Endnotes

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