Insight

Age Bands and the Affordable Care Act

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Since the implementation of the Affordable Care Act (ACA), there has been substantial uncertainty surrounding the sustainability of the health insurance exchanges created by the law. While the exchanges are mid-way through their third year of existence, there are many warning signs that their long-term survival may be in jeopardy as premiums continue to rise, competition continues to decline, and enrollment growth has stagnated.

Current Marketplace Population

The sustainability of the ACA's state-based health insurance exchanges is dependent upon the participation of young adults, or 18 to 35 year olds, to create a balanced risk pool that would relieve upward pressure on premiums. The ACA relies on a variety of mechanisms—the individual mandate, premium tax credits, etc.—to incentivize young adults to purchase insurance through the exchanges. Currently, 28 percent of those insured through the individual market exchanges are classified as young adults; however, the uninsured rate for these individuals remains 2.4 percent higher than the average for the total under-65 population, and it was originally anticipated that about 40 percent of individual market enrollees would need to be young adults.[1],[2]

As a result of this unbalanced risk pool, among other factors, transacting in the exchanges has not been kind to insurers or consumers. Many counties in the U.S. are expected to have a single insurer in the 2017 exchanges as insurers find it increasingly difficult to make a profit. Risk corridors set up by the ACA, intended to assist health plans sustaining losses, have failed to provide relief. Over half of the ACA's co-ops, meant to increase competition and lower premiums, have already closed.

Community Rating

The ACA employs a number of provisions to limit premium variation among individuals. One of those provisions is community rating which limits charging higher risk, older enrollees premiums to three times as much as a low risk, young adult, or a 3:1 ratio. However, health care expenses for the elderly are greater than that of young adults by a factor of 4.8.[3] Because this 3:1 community rating does not reflect the actual cost disparity in health care spending between the young and the elderly, it artificially inflates premiums for younger and healthier beneficiaries to help subsidize the care of the elderly. This deters young adults from purchasing insurance.

Changing the current age ratio restrictions to reflect the actual cost of health care would allow premiums to decline for the younger population, thus creating more incentives for these "young invincibles" to buy health insurance.

Findings on Community Rating

We estimated the effects of repealing the community rating restrictions imposed by the ACA.[4] Prior to the ACA, the average ratio of age variations was about 5:1. We find that simply repealing the age rating restrictions of the ACA would result in a decrease in average premiums of 4 to 10 percent—depending on the actuarial value of the plan—by the year 2018 in the individual market.

Average Premiums in the Individual Market

	Metal Level	2018	2019	2020
Single Coverage	Platinum	-6%	-5%	-7%
	Gold	-5%	-7%	-6%
	Silver	-6%	-7%	-7%
	Bronze	-4%	-7%	-7%
Family Coverage[1]	Platinum	-10%	-10%	-10%
	Gold	-10%	-10%	-10%
	Silver	-10%	-9%	-10%
	Bronze	-10%	-9%	-9%

[1] Family coverage estimates are based on a family size of four persons.

As a result of the decrease in premiums, we estimate that 4 million more people would be insured through the individual market in 2018.

While some of the increase in enrollment is due to a shift of beneficiaries from employer sponsored insurance, the overall number of insured is expected to increase by 3 million. Notice that changing the rating band from 3:1 to 5:1 is likely of raise the premiums of the older and more expensive exchange participants, but the influx of younger and cheaper risks will offset this impact – at least in part.

A recent study released by The Commonwealth Fund had similar findings—predicting that average premiums in the individual market would decrease by about 9.5 percent in 2017 if 5:1 age bands were implemented.[5] These studies also estimated an enrollment increase of about 3 million in the individual market.

Conclusions

Given the current evidence, repealing the ACA's age band restrictions and replacing them with a ratio that is less restrictive would help alleviate upward pressure on premiums. Such a change would help insurers better adjust for the risk that each consumer brings to a plan, and consumers would likely see fair premium prices. While changing this one provision of the ACA is unlikely to fix the many problems facing the individual insurance exchanges, it is a simple step in the right direction.

PDF VERSION

[1] "Health Insurance Marketplaces 2016 Open Enrollment Period: Final Enrollment Report." Office of the Assistant Secretary for Planning and Evaluation, 11 Mar. 2016. Web. 8 June 2016. <https://aspe.hhs.gov/sites/default/files/pdf/187866/Finalenrollment2016.pdf>.

[2] Levitt, Larry, Gary Claxton, and Anthony Damico. "The Numbers Behind "Young Invincibles" and the Affordable Care Act." The Kaiser Family Foundation, Dec. 2013. <http://kff.org/health-reform/perspective/the-numbers-behind-young-invincibles-and-the-affordable-care-act/>

[3] Burns, Alice, and Philip Ellis. "Private Health Insurance Premiums and Federal Policy." Congressional Budget Office, Feb. 2016. <https://www.cbo.gov/sites/default/files/114th-congress-2015-2016/reports/51130-Health_Insurance_Premiums.pdf>

[4] Estimates footnote: All American Action Forum budgetary cost, insurance coverage, and premium estimates in this testimony were performed using a health insurance

microsimulation model originally published by Stephen Parente: Parente, S.T., Feldman, R. “Micro-simulation of Private Health Insurance and Medicaid Take-up Following the U.S. Supreme Court Decision Upholding the Affordable Care Act.” Health Services Research. 2013 Apr; 48(2 Pt 2):826-49.

[5] Saltzman, Evan and Christine Eibner. “Technical Appendix: Rate Banding Analysis.” The Commonwealth Fund, Sep. 2015. <http://www.commonwealthfund.org/~/media/files/publications/blog/2015/eibner_rate_banding_tech_append_090215_clean_pf.pdf?la=en>