



Insight

Insurance Premiums and the AHCA

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Health care costs proved to be the Achilles heel of Obamacare. Now, however, critics are raising similar concerns about the [American Health Care Act](#) (AHCA) under consideration by the Congress. A close examination of the facts indicates that this concern is overstated and misplaced.

First, the concern: the Congressional Budget Office (CBO) estimated that under the AHCA in 2018 and 2019 average premiums for “single policyholders” in the individual market would be 15 and 20 percent higher, respectively. (CBO did note that by 2026 it expected individual market premiums to be 10 percent lower.) The primary factor in the analysis appears to be the repeal of the individual and employer mandates. Repeal of the individual mandate is assumed to generate voluntary declines in insurance purchases (by 5 million people), especially by younger and healthier individuals. The result is a more expensive risk pool that requires higher premiums.

In contrast, when the [Center for Health and the Economy](#) (H&E) analyzed the House “A Better Way” (ABW) plan – the foundation for the AHCA legislation – it concluded that premiums for individuals would decrease by 11 to 32 percent for individuals and 9 to 36 percent for families in the year 2018 (the first year of assumed implementation). The key factors in this analysis were the repeal of the Essential Health Benefits (EHBs), the fact that catastrophic plans were eligible for tax credits, and repeal of the age-rating restrictions. Importantly, ABW was able to reduce premiums while repealing the individual mandate and replacing it with a comparable continuous coverage provision.

What explains the different bottom lines? First, AHCA does not repeal the EHBs, so it is likely that H&E would find the premium reduction in the AHCA to be a bit lower. But the biggest difference stems from the fact that [CBO’s analysis](#) is based on an out-of-date (March 2016) baseline that assumes there will be 18 million people in the state and federal exchanges, and that premiums will be rising at 5 percent annually. The reality is that there are only 10 million people purchasing insurance in the exchanges, and that the average Silver benchmark plan rose from \$2,904 to \$3,624 – fully 25 percent – between 2016 and 2017.

In short, the sharp premium increases insurers need to accommodate a deteriorating risk pool are *history*. Having re-priced the typical Obamacare exchange pool, insurers will have no need to do so again. Thus, the effects of repealing the individual mandate in the AHCA analysis are likely overstated.