Insight

Seven Ways Your Exchange Premium Can Increase

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As the Affordable Care Act's (ACA) second open enrollment period approaches, individuals who purchased health insurance through the exchanges last time around may see their premiums subject to significant changes. Each of the following scenarios result in possible increase in premiums for health care plans offered on the federal health insurance exchange, where monthly premiums are not guaranteed. The administration is currently still dealing with issues of year one of open enrollment, while preparing for even bigger issues in the 2015 plan year.

1.Mismatched Data

Some exchange plan beneficiaries are still struggling with the details of their 2014 enrollment, ten months into the year. On September 15, the Center for Medicare and Medicaid Services (CMS) announced an update on the progress in resolving the many data errors in beneficiary applications (reported/verified income amounts, citizenship, and a few others). Depending on the information they provided to the exchange, some beneficiaries could be at risk of an increase in their monthly premium if they failed to submit additional information to CMS by September 30th.[1] The federal exchange sent notifications to individuals that have discrepancies in their income six months after the close of open enrollment; giving individuals two weeks from this final income information request to submit necessary documents only weeks before the next open enrollment period. The Department of Health and Human Services (HHS) stated that almost 300,000 households—accounting for an estimated 363,000 beneficiaries—still have discrepancies in their income information. If these beneficiaries did not respond to requests by September 30 then they could see their costs change. For example, an individual that reported a lower income than the data available to HHS could see a decrease in their subsidy, increasing the amount of their monthly premium.

2.Increase in Income

Another way to expect an increase in premiums is by getting a pay raise. Beneficiaries are required to report changes in income, family size, residence and a few other circumstances to the exchange within 60 days, and the exchange will then recalculate the amount of subsidy the individual or family is supposed to receive in light of their change in circumstance. Since the subsidies provided as part of the insurance exchanges are based partially on income, a change in a beneficiary's paycheck could result in an increase in premiums/decrease in subsidy. For example, if an exchange plan beneficiary is making just over $15,000 per year (133 percent of FPL) they can expect a premium of about $25 per month. If he or she gets a new job making about $2,000 more, then the individual can expect a new monthly premium close to $50 per month. A slight increase in pay results in doubling the amount of a premium.[2]

If an individual receives an increase in pay and does not report the change right away, then he or she could have to return some of the subsidy amount received while the exchange assumed that the beneficiary's income had not changed.[3] This so called "claw-back" occurs as a reconciliation process during the 2015 tax season. To make matters worse, next year is the first season where the new IRS forms for reporting insurance exchange subsidy information will be required – forms that the industry is still struggling to understand, and that were published in draft form just a few weeks ago.

3.Another Family Member gets a Job

Along the same lines as landing a new job that pays more money, changes to the incomes of other individuals in a family could cause an increase in premiums on an exchange plan. The ACA requires that premium and subsidy amounts be determined by *household* income, rather than individual income. If a family is receiving subsidized coverage through the exchange, and a teenage child gets a job, the household income increases, placing the family at risk of an increased premium. The premium for the household would increase if the teenager was making enough to file taxes, and that amount was enough to change the percentage of a family's federal poverty level.[4] It may be better for a family to discourage their teenager from getting an after school job if it would mean a big increase in health insurance premiums.

4.Getting Married

Two individuals that are receiving subsidies through the exchange could be at risk of losing their subsidies if they get married. Depending on their respective incomes, the couple could see their premiums increase when their household size increases from one person to two. For example, if two individuals living in Atlanta, GA are making $25,000 per year they are each eligible for a subsidy of about $600 per year. If this couple marries, their household size increases from one person to two and the household income is now $50,000 per year, making the newly married couple ineligible to receive premium assistance.[5]

5.Moving

Along with income and family size, premiums are determined based on insurance rating areas. The ACA requires states to establish rating areas for the individual and small group market insurance inside and outside of the exchange according to the cost of health care in a particular region.[6] A rating area is defined as a geographic area across which insurers can set premiums.[7] If a beneficiary moves even just a few miles, their rating area could change and insurers may charge more for coverage, increasing the beneficiary's premium. For example, a fifty year old woman crossing county lines in Virginia without changing insurance plans could see an increase in her premium of $41.50 per month, totaling almost $500 in additional spending in a year.

6.Auto-Enrollment in 2015

More problems arise with changes in premiums for the upcoming 2015 plan year. HHS released regulations in September outlining the auto-enrollment process that will be established for the second year of Federal exchange enrollment.[8] Individuals enrolled in a qualified health plan (QHP) through the federal exchange will receive notification prior to the 2015 open enrollment period informing them of their current plan's availability on the exchange in their area. If their plan is still available (the notice does not include information on competitive plan options) the exchange will simply continue their enrollment in the current plan if no action is taken on the part of the beneficiary.

However, auto-enrollment becomes problematic if premiums increase. For example, if a beneficiary's plan is still available, but the premium increases by 10 percent, then the beneficiary will be responsible for that additional 10 percent increase out of pocket.[9] The HHS regulation states that a beneficiary's subsidy and other financial assistance will stay the same.[10] An individual is not automatically re-determined for premium assistance, and must check a box allowing the administration to have access to personal tax information to verify income and financial assistance eligibility or annually submit documentation for re-determination.[11]

7.The Benchmark Plan Changes

The biggest concern with the shifting premiums from one plan year to the next is the introduction or removal of plans at the silver metal level. Depending on the scenario, an individual that chose the designated benchmark silver plan could see a drastic rise in their premium. Since the benchmark plan is defined as the second cheapest silver plan available in the exchange, the introduction of a less-expensive silver QHP or the removal of the most affordable silver QHP could alter the appointed silver benchmark plan in an exchange. Subsidies are based on the cost of the benchmark plan, and a change to which plan receives benchmark status could result in increased out-of pocket costs for those auto-enrolled in their 2014 plan choice.[12]

Conclusion

Aside from the complicated process of gaining health coverage in the first place, exchange plan beneficiaries have to concern themselves with specific lines of regulation that could place their family at risk of higher premiums than they were promised. This year, 363,000 beneficiaries could see a change in their costs for the last few months of open enrollment due to data discrepancies in the exchange. Other beneficiaries could see an increase in their premiums for moving, getting married, or increasing their income. Next year the millions of individuals enrolled in the exchanges could see an increase in the cost of their plan if they choose to keep it, without an update to their subsidy.

All of these issues could be fixed, assuming that HHS accurately determines which plans are still available or canceled in each rating area, can appropriately sort through documentation for important life events, manage the newly implemented auto-enrollment process, and find ways to receive income verification documents from the remaining 300,000 households with data discrepancies.

[1] http://www.cms.gov/Newsroom/MediaReleaseDatabase/Press-releases/2014-Press-releases-items/2014-09-15.html