Weekly Checkup

What's in a Methodology

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In a pair of rules released in March and May of this year, the Department of Health and Human Services prescibed a methodology for determining the rate health insurance premium growth and the rate household income growth. Together, these two measures are important for the future of the Health Insurance Marketplace. If the premium growth rate exceeds the growth rate of household income, the percentage of income that subsidized enrollees are required to pay will increase by a combined measure called the premium adjustment percentage. This mandatory adjustment is explained in greater detail in this AAF primer.

Oddly enough, the current methodology for estimating premium growth in the Health Insurance Marketplace is to employ the National Health Expenditure Accounts (NHEA) projections on per-person employer sponsored premium growth, a rate that is almost certain to be more modest than premium growth in the individual market. This counter-intuitive choice leads to an unexpectedly low premium adjustment percentage, which has imminent consequences for the Marketplace that shift the burden of premium increases to the Federal budget. The chart below compares plausible calculations of the premium adjustment percentage, demonstrating that the current methodology describes artificially low growth—even so far as 0 percent growth during years where other methods might indicate between 1 and 4 percent.

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