

AMERICAN ACTION FORUM

Individual and Small Group Insurance Premiums and the Affordable Care Act: Analytic Results

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Executive Summary

A central issue regarding the Patient Protection and Affordable Care Act (ACA) is its likely impact on insurance premiums. There is now a widespread agreement that the ACA did not materially alter the trajectory of health care costs. In addition, many insurance provisions – guaranteed issue, limited ability to use age as a rating factor, etc. – can be expected to raise insurance premiums. At the same time, expanded pooling would include lower health risks, reducing pressure on premiums.

This note analyzes the ACA through the use of a large-scale microsimulation model of insurance markets. We find a rich array of impacts across a variety of insurance products.

As shown in the table below, on balance the ACA will raise the costs of exchange-based insurance products (and, accordingly, raise the cost of government subsidies). In particular, consumers may be expected to suffer sharp “sticker shock” upon full implementation of the ACA in 2014 as premiums will at best remain unchanged, and for others may rise as much 13 percent.

Average Premium Impacts Due to ACA									
	2014	2015	2016	2017	2018	2019	2020	2021	
<i>Exchange Plans</i>									
Family	9%	6%	5%	5%	5%	6%	6%	6%	
Single	13%	5%	2%	3%	4%	4%	5%	6%	

Introduction

A central issue regarding the Patient Protection and Affordable Care Act (ACA) is its likely impact on insurance premiums. There is now a widespread agreement that the ACA did not materially alter the trajectory of health care costs. In addition, many insurance provisions – guaranteed issue, limited ability to use age as a rating factor, etc. – can be expected to raise insurance premiums. Given the ACA’s mandate that all Americans purchase insurance, the impact of these features on the individual and small group insurance markets is especially important.

This note analyzes the ACA through the use of a large-scale microsimulation model of insurance markets. We find a rich array of impacts across a variety of insurance products.

As shown in the table below, on balance the ACA will raise the costs of exchange-based insurance products, which will concomitantly raise the cost of government subsidies. In particular, consumers may be expected to suffer sharp “sticker shock” upon full implementation of the ACA in 2014 as premiums will at best remain unchanged, and for others may rise as much 13 percent.

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Methods

We analyze the impacts of the ACA using an economic simulation model that analyzes data from the Medical Expenditure Panel Survey (MEPS) and nationwide private employers to simulate individual and employer insurance choices based on healthcare policy and market conditions. The model was first constructed in 2003 and has been steadily updated to enable it to estimate enrollment in private health insurance plans, Medicaid, and the uninsured. It also has the capacity to produce budgetary impact analysis for states and the federal government as well as premium estimates by insurance plan type. The latter capability is at the heart of this analysis.ⁱ

Results

The results are presented in Table 1. Each entry represents the percentage increase in the out of pocket premium due to the imposition of the requirements of the ACA. Thus, for example, the cost of platinum individual policy on the exchanges will be 14 percent higher than it would have been in the absence of the ACA requirements. Similarly, a platinum family policy would be 9 percent more expensive.

The striking aspect of the results in Table 1 is the 2014 sticker shock that awaits participants in the exchange-based individual and small group markets. At best, our estimates will rise just a bit under 10 percent; a worst they will rise by nearly 15 percent. In either event, participants will face a far less hospitable insurance environment than they might have expected.

In addition to the results in Table 1, an interesting feature of an analysis of employer sponsored market is that the ACA will raise the cost of plans across the board, except those that rely heavily on consumer-driven designs – HSAs, HRAs, and narrow provider panel PPOs. As the individual and employer mandates drive individuals to insurance products, insurers in combination with large self-insured employers have clear incentives to price those products attractively to avoid any penalties for not complying with the ACA

		2014	2015	2016	2017	2018	2019	2020	2021
Platinum	Family	9%	7%	6%	6%	6%	7%	7%	7%
	Single	14%	8%	5%	6%	7%	8%	8%	9%
Gold	Family	9%	6%	5%	5%	6%	6%	6%	7%
	Single	13%	6%	3%	4%	5%	6%	7%	8%
Silver	Family	8%	5%	4%	5%	5%	5%	6%	6%
	Single	12%	4%	1%	2%	3%	4%	5%	6%
Bronze	Family	9%	5%	4%	4%	4%	4%	4%	5%
	Single	12%	3%	-1%	-1%	-1%	0%	0%	0%

Entries are percentage increase in respective plans due to features of the Affordable Care Act

ⁱ For more detail, see, for example, Parente, S., Feldman, R., Abraham, J.M., and Xu, Wendy. "Consumer Response to a National Marketplace for Individual Insurance". Journal of Risk and Insurance, Volume 78, Issue 2, pages 389–411, June 2011.