

Drivers of 2015 Health Insurance Premium Changes

Cori E. Uccello, MAAA, FSA, MPP
Senior Health Fellow
American Academy of Actuaries

Alliance for Health Reform
Washington, DC
June 27, 2014



Premium Components

- Who is covered – the composition of the risk pool
- Projected medical costs
- Other premium components—administrative costs, taxes, profit
- Laws and regulations



Major Drivers of 2015 Premium Changes

- Composition of the risk pool and how it compares to what was projected
- Reduction of reinsurance program funds
- Underlying growth in health care costs



Major Driver: Changes in Expectations Regarding the Risk Pool Profile

- How do expectations regarding 2015 enrollee risk pool differ from those for 2014?
- Information available regarding enrollee demographics
- Limited information available regarding enrollee health status
 - Prescription drug claims available
 - Medical claims process more slowly
- Adjustments to 2014 claims data may be needed to reflect:
 - Enrollment timing
 - Pent-up demand



Major Driver: Changes in Expectations Regarding the Risk Pool Profile (cont.)

- Single risk pool requirement
 - Enrollment and claims experience inside and outside of the marketplaces must be combined
- Transitional policy for non-ACA compliant plans
 - Implemented after 2014 premiums finalized
 - For most states, policy for 2015 is known in advance
 - Impact on premiums likely greatest in states that had large heavily-underwritten markets prior to 2014
- State-by-state variations



Major Driver: Reduction of Reinsurance Program Funds

Reinsurance Program Parameters*

	2014	2015	2016
Program Funds	\$10 billion	\$6 billion	\$4 billion
Attachment Point	\$60,000 (subsequently lowered to \$45,000)	\$70,000 (HHS intends to lower to \$45,000)	TBD
Reinsurance Cap	\$250,000	\$250,000	TBD
Coinsurance Rate	80%**	50%**	TBD

* Individual market plans inside and outside the exchange are eligible for reinsurance payments.

** Coinsurance rates may be changed retroactively depending on actual claims relative to program funding



Major Driver: Reduction of Reinsurance Program Funds (cont.)

- The reinsurance program offsets claims, thereby lowering premiums
- A reduction in reinsurance payments → lower offset to 2015 claims
- A lower offset → upward pressure on 2015 premiums



Major Driver: Reduction of Reinsurance Program Funds (cont.)

Example

\$100,000 claim

Reinsurance payment

2014: $(\$100,000 - \$45,000) * 80\% = \$44,000$

2015: $(\$100,000 - \$45,000) * 50\% = \$27,500$

Net claim

2014: $\$100,000 - \$44,000 = \$56,000$

2015: $\$100,000 - \$27,500 = \$72,500$



Major Driver: Medical Trend

- Underlying growth in medical spending
- Will recent slowdown continue?



Other Drivers of 2015 Premium Changes

- Changes in:
 - provider networks
 - provider reimbursement structures
 - benefit packages
 - risk margins
 - administrative costs
 - geographic region definitions
- Market competition
- Increase in the health insurance fee



Related Academy Publications

- Drivers of 2015 Premium Changes (June 2014 issue brief) http://www.actuary.org/files/2015_Premium_Drivers_Updated_060414.pdf
- How Will Premiums Change Under the ACA? (May 2013 issue brief)
http://www.actuary.org/files/Premium_Change_ACA_IB_FINAL_050813.pdf

