Drivers of 2016 Health Insurance Premium Changes

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

Alliance for Health Reform
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Premium Components

• Who is covered – the composition of the risk pool
• Projected medical costs
• Other premium components—administrative costs, taxes, profit
• Laws and regulations
**2016 Premium Rate Development**

### Approximate Internal Insurer Deadlines*

<table>
<thead>
<tr>
<th>Activity</th>
<th>Deadline</th>
</tr>
</thead>
<tbody>
<tr>
<td>Plan design development and actuarial value testing</td>
<td>By end of February 2015</td>
</tr>
<tr>
<td>Examine prior experience and make necessary adjustments</td>
<td>By mid March 2015</td>
</tr>
<tr>
<td>Finalize provider negotiations</td>
<td>By mid to late March 2015</td>
</tr>
<tr>
<td>Project data based on expected medical and prescription drug trend</td>
<td>By end of March 2015</td>
</tr>
</tbody>
</table>

### External Deadlines

<table>
<thead>
<tr>
<th>Activity</th>
<th>Deadline</th>
</tr>
</thead>
<tbody>
<tr>
<td>File rates</td>
<td>April 15, 2015*</td>
</tr>
<tr>
<td>Rates finalized</td>
<td>August 25, 2015 (QHPs)</td>
</tr>
<tr>
<td></td>
<td>October 9, 2015 (non-QHPs)</td>
</tr>
<tr>
<td>Open enrollment begins</td>
<td>November 1, 2015</td>
</tr>
</tbody>
</table>

* Several states extended the rate filing date to May 15. Insurer intermediate deadlines would be changed accordingly.

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**Major Drivers of 2016 Premium Changes**

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

- Underlying growth in medical spending
- Recently, medical spending growth has been low relative to historical levels.
- Prescription drug spending has been increasing more rapidly with the increase in specialty drugs.

Major Driver: Reduction of Reinsurance Program Funds

- By law, the reinsurance program funds are reduced from $10b in 2014 to $6b in 2015 to $4b in 2016
- The reinsurance program offsets claims, thereby lowering premiums
- A reduction in reinsurance payments $\rightarrow$ lower offset to 2016 claims
- A lower offset $\rightarrow$ upward pressure on 2016 premiums
Major Driver: Reduction of Reinsurance Program Funds (cont.)

Reinsurance Program Parameters

<table>
<thead>
<tr>
<th></th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Program Funds</td>
<td>$10 billion</td>
<td>$6 billion</td>
<td>$4 billion</td>
</tr>
<tr>
<td>Attachment Point</td>
<td>$60,000</td>
<td>$70,000</td>
<td>$90,000</td>
</tr>
<tr>
<td></td>
<td>(subsequently lowered to $45,000)</td>
<td>(subsequently lowered to $45,000)</td>
<td></td>
</tr>
<tr>
<td>Reinsurance Cap</td>
<td>$250,000</td>
<td>$250,000</td>
<td>$250,000</td>
</tr>
<tr>
<td>Coinsurance Rate</td>
<td>80% (subsequently raised to 100%)</td>
<td>50%*</td>
<td>50%*</td>
</tr>
</tbody>
</table>

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

Major Driver: Changes in Expectations Regarding the Risk Pool Profile

- How do expectations regarding the 2016 enrollee risk pool differ from those for 2015?
- Insurers have information regarding their 2014 enrollee demographics, health status, and claims
  - Some info available for 2015
  - Limited information available regarding risk profile of overall market at time 2016 rates were filed
- 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.)

- Increase in mandate penalty—could increase enrollment and improve risk profile
- State-by-state variations
  - Transitional policy for non-ACA compliant plans
  - 2014 claims experience will provide information on the impact of the policy on claims; assumptions updated as appropriate
  - Overall impact on premiums likely greatest in states that had large heavily-underwritten markets prior to 2014

Premium Changes for any Particular Consumer Will Vary From an Insurer’s Average Change

- Premium changes for a particular consumer will reflect:
  - Particular plan
  - Increase in age
  - Any changes in tobacco status, geographic location, family status
  - Changes in subsidy eligibility
Related Academy Publications

- Drivers of 2016 Premium Changes (August 2015 issue brief) [link]
- Drivers of 2015 Premium Changes (June 2014 issue brief) [link]
- How Will Premiums Change Under the ACA? (May 2013 issue brief) [link]