Impact of the Patient Protection and Affordable Care Act on Premium Costs

Overview of analyses conducted by Oliver Wyman and the Congressional Budget Office on the Senate's Patient Protection and Affordable Care Act as proposed on November 18, 2009

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Several Elements of the Senate Bill as Passed (December 24th) will Affect Insurance Premiums

Coverage expansions

- ***Individual mandate****:* Individuals are required to have insurance by 2014 unless premium costs exceed 8% of income. The penalties for noncompliance are the greater of $95 in 2014, $495 in 2015, $750 in 2016 and indexed thereafter; or 0.5% of household income in 2014, 1.0% in 2015, and 2.0% in 2016 and beyond. The penalty is also capped at the cost of the Bronze plan premium.
- ***Employer requirements****:* Imposes a penalty of $750 on employers with 50 or more full-time employees that do not offer coverage and have at least one employee receiving a tax credit.

Insurance regulations

- ***Guaranteed issue:*** Requires all plans to issue coverage to those seeking it regardless of pre-existing conditions.
- ***Minimum benefit requirements:*** Plans must cover a specified set of services of at least 60% actuarial value; prohibits annual limits (after 2014) and lifetime maximum limits.
- ***Rating changes:*** Requires modified community rating allowing insurers only vary premiums based on age (3:1), geography, family composition, and tobacco use (1.5:1).

Connecticut's Rating Rules

Individual Market:
- *No guaranteed issue*
- *Medical underwriting permitted*
- *No age bands*
- *Lifetime and annual maximum limits allowed*

Small Group:
- *Guaranteed issue but no rating restrictions for age, geography or family composition*
- *$1 million lifetime maximum*

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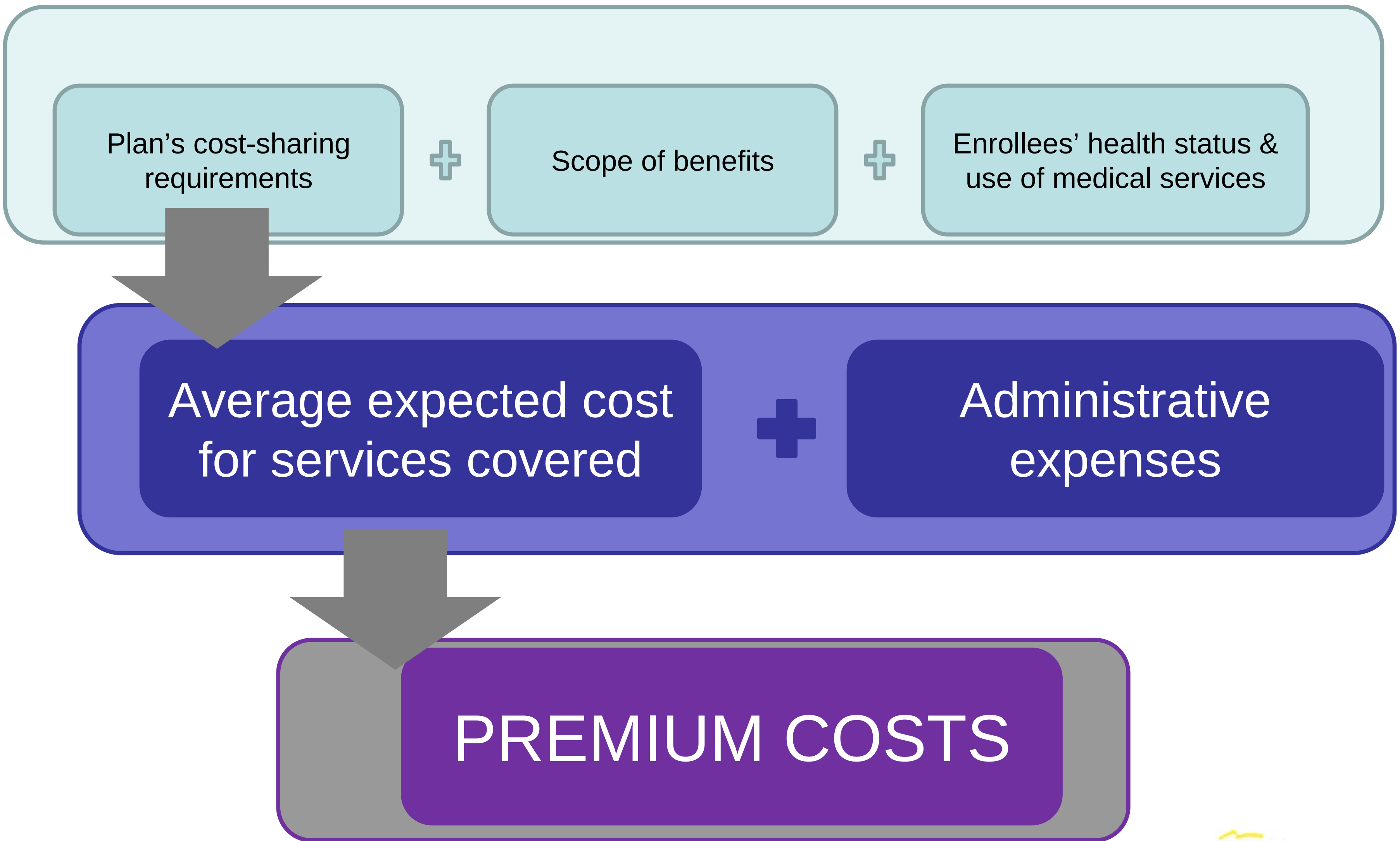
Premium Costs Vary Based on the Combination of Expected Costs and Benefits Covered



Changing the Individual and Small Group Markets Influences Premium Costs

Differences in the types of people who obtain coverage in each insurance market

Differences in benefit packages and levels of cost sharing

Premium Costs

Overview of Oliver Wyman Model (December 3, 2009)

- Model built over eight months, but based on the Patient Protection and Affordable Care Act, as released on November 18, 2009.
- Elements of the Senate bill included in the analysis are: guaranteed issue; modified community rating; age band rating; minimum benefit requirements with 60% actuarial value; grandfathering; subsidies; reinsurance; individual mandate; employer coverage incentives; and the catastrophic plan.
  - The impact of the exchange and other financing provisions such as the Cadillac tax were not included.
- Based on a database of claims, premium and underwriting information from insurance policies.
- Sample size approximately 1/8th of total individual and small group markets (6 million policies) and includes information from 12 states.
- Actuarial analysis was used to estimate the impact of new rating regulations on premiums.
- The model estimates the cost of coverage under reform. Elasticities of demand for employers, employees, and consumers calculated and used by the CBO and other researchers were then applied to assess market reaction.
- This information was then used to estimate how many individuals would be insured and their expected medical costs for various reform scenarios.

Overview of CBO Model (November 30, 2009)

- Model based on the Patient Protection and Affordable Care Act, as released on November 18, 2009.
- The analysis examines the effects of the Senate bill on premiums for the individual, small group, and large group markets.
- The CBO analysis examines the average total health insurance premium per person and per policy.
- The analysis focuses on the impact reform will have once it is fully implemented. As a result, it only includes the impact of premium costs for 2016.
- Unlike the Oliver Wyman model, CBO accounts for efficiencies gained through the exchange, elimination of underwriting, and product standardization.
- The analysis does not include any potential effect of growth in health care costs due to increased demand or changes in technology.

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Analysis has Found that the Senate Bill Will Increase Premium Costs in the Individual Market

	Change in the Individual Market
Congressional Budget Office Estimates	
Total difference in average premiums in 2016 relative to what the premiums would cost under current law	10 to13%
Oliver Wyman Estimates	
Average increase in medical costs, not including impact of medical inflation Average increase in states with modified community rating (i.e., CT)	54% 39%

Key Findings by Oliver Wyman

- In the individual market, average premiums 5 years after reform would be approximately $4,561 for individuals and $9,669 for families in today's dollars (before subsidies).
- Premiums for the youngest third of the population would increase by 35% in the individual market due solely to new age bands.

The Uninsured Have Higher Medical Costs than those Currently Insured Which Could Contribute to Higher Costs

- Oliver Wyman found that the medical claims costs for providing care to the uninsured would be 20% higher than those currently in the individual market.
  - ➢ The impact of increasing medical costs would vary depending on current state mandates.

- CBO found that covering the uninsured would increase demand for medical care by 25-60%*.

***** CBO also found that any increase in cost would likely be offset by a diversified risk pool.

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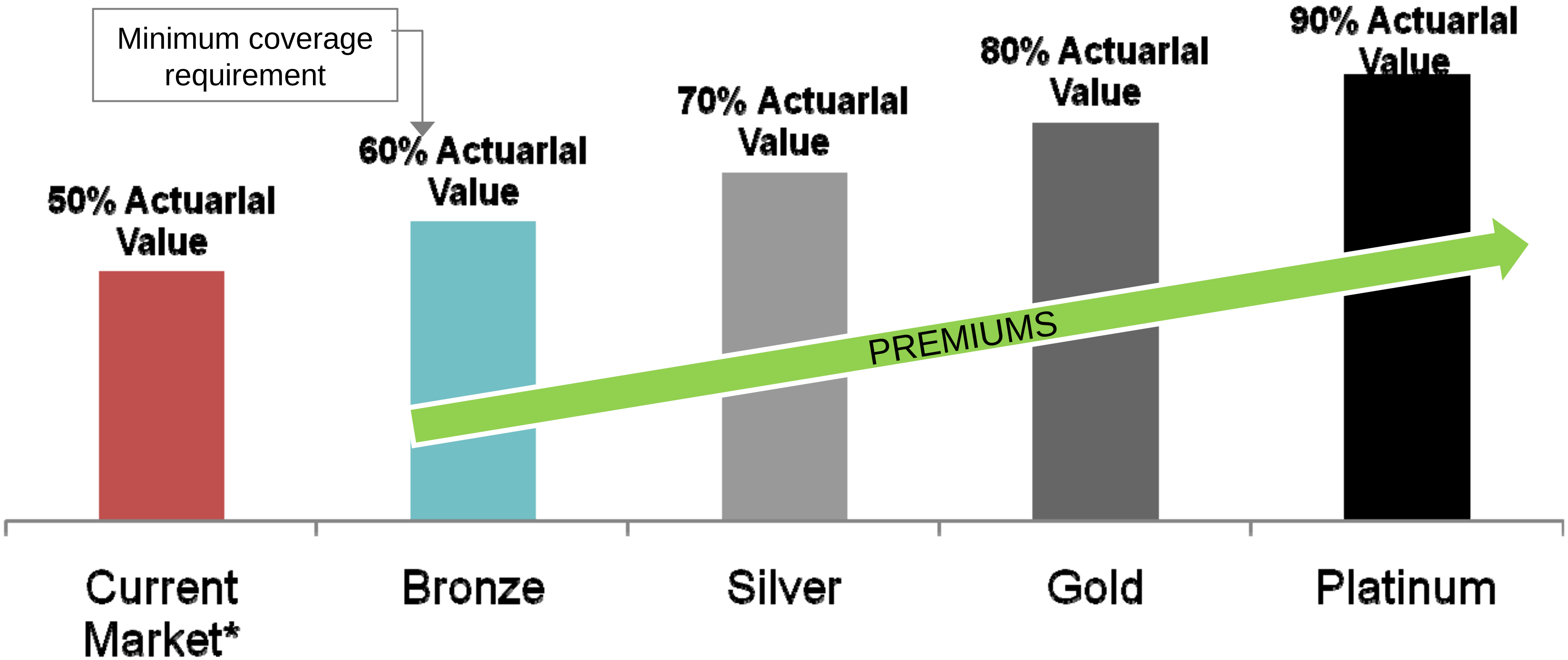
Minimum Benefit Requirements will Increase Premium Costs



Premium Levels for Individual Market

- **Oliver Wyman** estimates that the new benefit requirements would increase premiums by 14% in the individual market and by 4.0% in the small group market.
- Similarly, the **CBO** found that premiums would increase under the Senate bill because individual policies would have a higher actuarial value than what is currently purchased in the individual and small group markets.

*Based on most popular Aetna plan sold in Connecticut's individual market.

Healthy Individuals are Still Likely to Forgo Coverage if Premium Costs are High

- According to the CBO, about 14 million without access to employer sponsored insurance will be ineligible for subsides.
- Oliver Wyman estimates that 12 million will be ineligible for subsidies or will only qualify for a partial subsidy.
- Those facing high premiums may choose to pay a penalty and forgo insurance, particularly if they expect to have low health care costs.
    - The Oliver Wyman study found that the value of having insurance relative to premium costs was 2 to 7 times higher for older sicker individuals (about 30% of the population) in comparison to those who were younger and healthier.
    - Oliver Wyman also found that premiums for the youngest third of the population would increase by 35% under a 3:1 age band.

*CBO Preliminary Score of Senate Patient Protection and Affordable Care Act (H.R. 3590), as proposed November 19, 2009.
CHIP = Children's Health Insurance Program

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Weak Individual Mandates Could Increase Adverse Selection

Enrolling low-cost, healthy individuals in the pool is a key component in keeping premiums affordable

- The **Oliver Wyman** analysis found that approximately 25% of those eligible to purchase coverage through the Exchange will qualify for the individual mandate exemption based on insurance premiums exceeding 8.0% of their adjusted gross income.

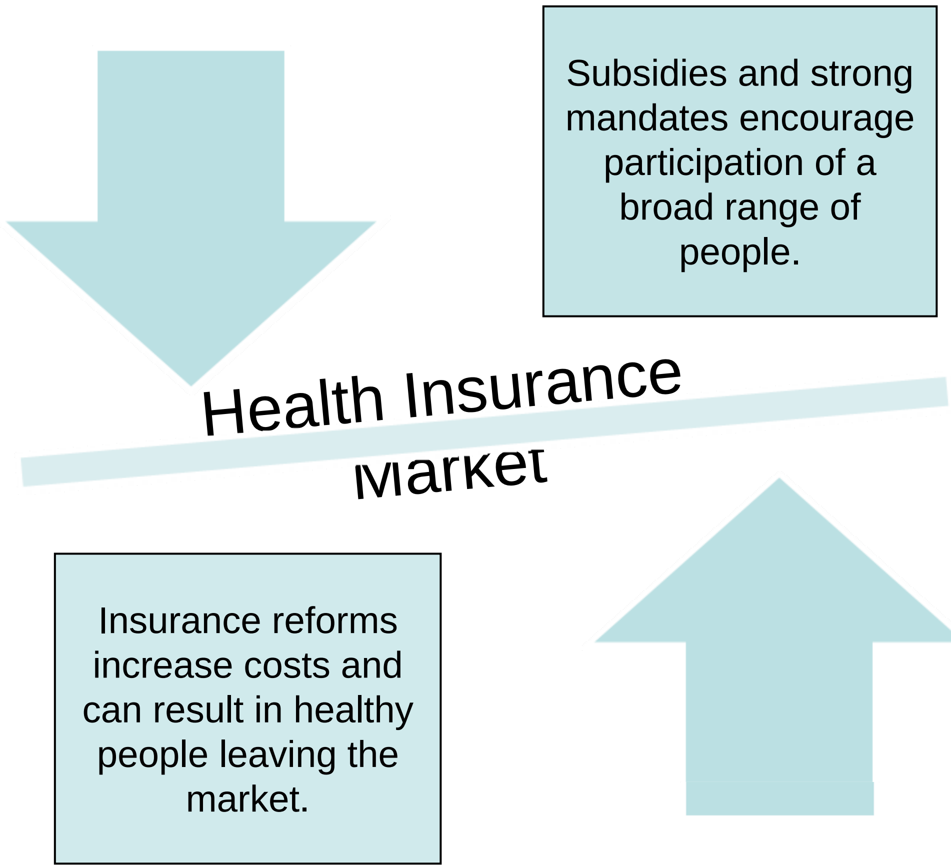
Low mandate penalties could encourage individuals with low health care costs to forgo coverage

- According to **Oliver Wyman** estimates, the maximum individual coverage penalty of $750 (2016) is only about 16% of the cost of average premiums.

The Senate bill contains provisions to minimize the effects of adverse selection, but it is unclear what the effects will be.

- The **CBO** predicts that there are enough provisions in the bill to encourage broad enrollment so that only a limited amount of adverse selection would occur. These provisions include:
  - An annual enrollment period
  - The availability of subsidies
  - An individual mandate
  - The phase in of mandate penalties

Subsidies and Strong Individual Mandates Are Key Components in Creating a Stable and Affordable Insurance Market



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