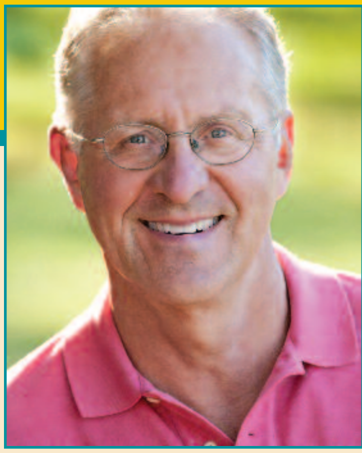
Understanding Health Care Reform



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One of the nation's leading experts on health insurance reveals what the new health care plan could mean to you.

The Affordable Care Act and higher premiums.

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If you thought that the Affordable Care Act (ACA) would make insurance premiums more affordable, think again. According to two very reputable organizations—Milliman and The Society of Actuaries—the premiums for people who will buy their own individual health insurance in 2014 will rise in the range of 30 to 60%.

Covered California, the new California insurance exchange, retained Milliman, a large international actuarial and consulting firm, to evaluate the potential changes in insurance premiums due to the Affordable Care Act. Milliman estimated premiums would rise 30.9% in 2014. The Society of Actuaries had a different opinion and estimated that the cost for insurance in California would go up around 61.6% in 2014.

MILLIMAN RESULTS:

- Affordable Care Act Market Changes: 14%

One of the main features of the Affordable Care Act is that everyone will be required to have health insurance (Individual Mandate) and that no one can be declined for coverage based upon pre-existing medical conditions (Guaranteed Issue). This means there will be a large influx of newly insured people; part of that group will be people who have expensive medical conditions and have been declined for coverage in the past, or who have been in major risk programs. To gain insight on the importance of guaranteed issue, The Society of Actuaries Study compared average premiums in New York (which already has guaranteed issue) to California (where insurance companies can decline to offer coverage to people with medical conditions). Individual coverage in New York averages $619/month compared with $260/month in California. That significant difference in premiums would lead one to suspect that California premiums might rise substantially in 2014. The hope is that the individual mandate will bring lots of healthy individuals into the insurance pool and keep those premium increases more moderate.

- Buying more coverage: 16.9%

Individuals who currently buy their own health insurance shop for the best value, which often leads them to high deductible, bare-bones plans that are affordable. For example, one person might buy a plan with a $3300 deductible, two office visits for a copay, and generic only drug coverage. Another person might opt for an HSA-based plan with a $6000 deductible. Premiums on these plans are affordable compared to plans with low deductibles and unlimited copays for doctor visits and prescription drugs.

The Affordable Care Act specifies that the new policies in 2014 will cover the ten essential health benefits. For example, the new ACA-health plans must cover both generic and brand name drugs. This means that a bare-bone plan that covers generic drugs only will be required to add brand name coverage as well. Milliman estimates meeting the requirement to cover the essential health benefits will add estimated 4.8% to the cost of insurance.

Also new health insurance plans will be required to meet new "metal" standards. There will be four metal tiers: Platinum (90%), Gold (80%), Silver (70%) and Bronze (60%). The percentage represents the actuarial value of a plan. For example, a 60% actuarial value for a bronze plan means that for a population of people, the plan will pay roughly 60%

of the medical costs. A 90% platinum plan will cover 90% of health care costs. Current health plans will need to be upgraded to meet these actuarial tiers, and that will add 11.5% to the premium costs.

Subsidies and Grandfathered Status

People with lower or moderate household income levels will be eligible for federal subsidies—or "advanced premium tax credits"—that will substantially lower their portion of the premiums. If individuals or families have household income less than 400% of the Federal Poverty Level (FPL), they will be eligible for these premium subsidies.

400% FPL for individuals: $45,960
400% FPL for family of four: $94,200

When President Obama stated, "If you like your health insurance, you can keep it. No one is going to take that away from you," he inadvertently created a class of plans called "grandfathered plans." People who got their current health plan prior to the passing of healthcare reform (3-23-2010) have this grandfathered status. These plans are not subject to the mandated changes and coverages required by the ACA. They may have actuarial values that are below the 60% bronze plans, not cover all of the ten essential health benefits, and thus be less expensive. In general people who have grandfathered plans should work with their agent to compare their current plan with new plans including potential subsidies before making a change in plans. Once you lose the grandfathered status, you cannot get it back.

Premiums Not as High as Predicted

On May 23rd Covered California introduced the insurance companies that will participate in the "individual" insurance exchange in Santa Barbara (Anthem Blue Cross and Blue Shield) and provided some sample premiums that were lower than predicted by actuaries. However, there is a caveat. Insurance companies have created "narrow networks," a new term you will need to understand and may not like. In order to get premiums low, insurance companies negotiated substantially lower contracts with doctors. Many physicians didn't like these very low reimbursements, chose not to participate, and thus the networks are dramatically smaller. For example, Blue Shield's narrow network will be 24,000, compared to 66,000 for their full California network. That's nearly a two thirds reduction! Anthem Blue Cross will also have narrow networks. The end result: Premiums may be less than expected, but the health plan offers significantly less physician choice as well.

Another worrisome possibility is that the insurance companies offered their lowest possible premiums in order to be competitive on the exchange. If they underestimate the magnitude of claims, and/or over-estimate the number of healthy people getting insurance, they may need to have a substantial rate increase in mid-2014 or 2015. Historically this has happened when insurance companies introduce totally new plans.

More information is required about specific health plan coverages and premiums before we will know the real magnitude of premium increases due to the Affordable Care Act.

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