SANTA BARBARA NEWS-PRESS

SECTION C
voices@newspress.com / 564-5219

SUNDAY Voices

OCTOBER 9, 2016

How to start fixing Obamacare

Robert Hopper

The author owns Hopper Insurance Services in Santa Barbara.

Recent headlines announced that three of the five largest insurance companies in America — United Healthcare, Aetna, and Humana — are dropping out of the federal and state exchanges. Why? They are losing lots of money. The companies remaining in the exchanges are asking and getting state approval for large premium increases as large as 60 percent, averaging 23 percent nationwide.

INSURANCE RISK POOL SICKER THAN EXPECTED

Think of insurance companies as a long pipe. Money — in the form of premiums — comes in one end and passes through to the other end to pay claims. Somewhere in the middle is a little pipe branching off the main pipe with money going out to pay administrative costs and a 3-4 percent profit. If claims increase from one year to the next, the insurance companies need to request higher premiums to pay those claims.

Starting in 2014, people could apply for health insurance without having to answer medical questions. Thus, the sickest people — transplant candidates, and those with cancer, heart disease, arthritis, hepatitis, diabetes, etc. — were the first to join Obamacare. The people who bought insurance over the past two years were substantially sicker than anticipated and thus insurance companies are now paying out more than they are taking in. In insurance terms, the pool of insureds — known as the risk pool — was substantially sicker than in the past.

INSURANCE RISK POOL SMALLER THAN EXPECTED

The pool of insureds in these new Obamacare plans is also much smaller than expected (11 million instead of 22 million) and begs the question: Why did 11 million uninsured people not sign up? One answer might be that health plans were too expensive, especially for younger people. In 2013, someone age 25 could get a basic insurance plan for under $100. After 2014, that comparable policy ballooned to more than $200, a 100 percent increase.

WHY ARE HEALTH PLANS SO EXPENSIVE FOR YOUNG PEOPLE?

Prior to 2014, the normal ratio between the premium of a 20-year-old and a 60-year-old was 5-to-1. That meant insurance companies could charge $500/month in premiums for someone age 64 who will probably have more medical expenses; meanwhile, they could charge a 20-year-old $100/month for someone who rarely saw a doctor or took a medication.

The Affordable Care Act arbitrarily changed the ratio to 3-to-1, despite warnings from the insurance industry that it wouldn't work. Now if the correct premium for a 64-year-old is $600/month, then the insurance company *is required to change* the younger person at least $200 to comply with the 3:1 ratio. In essence, younger people are paying about twice as much as health insurance should cost and this discourages the younger healthier population from securing overpriced insurance. So,

Please see **HOPPER** *on* **C4**

Risk pool needs the young and healthy

HOPPER

Continued from Page C1

millions of young and healthy people — often called young invincibles — don't feel the need to have health insurance and are choosing to pay a fine for not having coverage.

'10 ESSENTIAL BENEFITS' MADE PLANS MORE EXPENSIVE FOR EVERYONE

Prior to 2014, an insurance company could offer a no-frills plan with a $5,000 deductible that was very affordable: no free annual exams; no maternity coverage; no copays for office visits, prescriptions or mental health sessions — just protection from big medical bills (hospital/surgery at $30,000-plus).

After Jan. 1, 2014, health plans were required to include 10 essential benefits, including free annual exams, low copays for doctor visits, prescriptions, and mental health visits along with coverage for acupuncture. The math is simple: Adding more benefits increases the premium.

SOME EARLY SOLUTIONS

The American health insurance system needed to offer insurance to everyone and get them into the risk pool. The guaranteed issue enabled people with pre-existing conditions to enter the insurance system. Now the challenge is to get younger and healthier individuals into the insurance risk pool. Here are a few first steps to attract the young and healthy:

- Change back to 5-1 ratio to lower premiums. This one change will allow insurance companies to offer more affordable plans for younger and healthier individuals who have fewer claims. Reducing premiums for bare bones insurance will encourage lots of younger and healthier people to get health insurance. The insurance pool will become healthier.
- Make all health insurance tax-deductible. Employer-sponsored health insurance is tax-deductible, while non self-employed individuals don't get a deduction. The fairest way is to level the playing field, with everyone getting a deduction or conversely, eliminating the deduction for everyone. If individuals could get that tax deduction, it would lower the real cost of that insurance, and encourage more people to buy insurance.
- Make it more expensive for people who skip insurance. In 2016, fines for not having health insurance are $695 per adult and $347 per child under 18, with a maximum of $2,085. In countries such as Switzerland, Germany and Netherlands, virtually no one goes without insurance because fines can go as high as $12,000. While fines are not popular, there may be some room to increase fines until more healthy people enroll in a health plan.
- A paradigm shift: Encourage HSA-Qualified Health plans instead of traditional plans. The most cost-effective way for young and healthy individuals to insure their health is to get an affordable bronze HSA-qualified high-deductible health plan for large, unexpected medical bills. And then, rather than paying an additional premium to get low copays and a lower deductible, it is more cost-efficient to put that money into a tax-advantaged health savings account to pay current expenses with tax-free dollars. As a bonus, HSAs allow individuals to save for future expenses, including retirement health care costs. This works for the majority of Americans.

For a detailed analysis, read: The Case for HSAs: Why nearly everyone can benefit from owning a health savings account. Link: http://digitaleditions.sheridan.com/publication/?i=282949&p=26).

In summary, with a large influx of new premiums from younger and healthier people, there will be more money to pay claims for those with serious medical conditions. That will stabilize and maybe even lower premiums in the future for everyone.