Center for American Progress

1333 H Street, NW, 10th Floor
Washington, DC 20005
Tel: 202 682.1611 • Fax: 202 682.1867

www.americanprogress.org

June 18, 2013

The Honorable Tim Murphy
Chairman
Subcommittee on Oversight and Investigations
Committee on Energy and Commerce
2125 Rayburn House Office Building
Washington, DC 20515-6115

Dear Chairman Murphy:

Thank you for inviting me to testify at the hearing entitled "Health Insurance Premiums Under the Patient Protection and Affordable Care Act." After the hearing, Members of the Subcommittee submitted additional questions for the record; my responses to these questions are attached.

Please do not hesitate to contact me should you or other Members have additional questions on this topic or other health care topics.

Sincerely,

Topher Spiro
Vice President for Health Policy

Attachment

<u>The Honorable Marsha Blackburn</u>

1. **I am told that a recently published ACA market reform rule will significantly impact the ability of a farmer cooperative program to remain in its own separate risk pool, and will require these farmers to be included as part of a statewide individual or small group pool. Today, over 40,000 farmers, their family members, and employees across 37 states are able to purchase coverage through a farmer-owner program that pools the risks of just its own members. Premium costs for coverage within this farmer cooperative program have been very stable over the past several years and are commonly below the cost of coverage for similar or lesser coverages available in local individual or small group markets. This insurance program is farmer owned and driven to provide for their special health insurance needs. My concern is that if these farmers are no longer able to maintain their own separate risk pool, isn't it very possible that their premiums will increase due to the possibility that the statewide risk pool could prove less stable, and more risky, than their well established, present-day farmer coop pool?**

The farmer cooperative program is likely an "association health plan." If this coverage is self-insured, the ACA market reform rule would not apply. If however this coverage is sold by an issuer, the ACA market reform rule could apply. In most cases, the size of the individual employers (farmers in this case) would determine whether the coverage is offered in the small or large group markets. In rare cases, the association of employers could sponsor a group health plan subject to ERISA, the association itself would be considered the employer, and its size would determine whether the coverage is offered in the small or large group markets. If the farmer cooperative program is one of these rare cases, the coverage would be offered in the large group market, and the ACA market reform rule would not apply. To determine whether this is the case, you should contact the Department of Labor's Employee Benefits Security Administration. Finally, if the coverage is grandfathered, the program could maintain its own separate risk pool.

Note that in general, there is a good reason for applying the ACA market reform rule to association coverage. If the rule did not apply, these plans could continue to "cherry pick" healthy people, driving up premium rates for everyone else enrolled in non-association coverage.

<u>The Honorable G.K. Butterfield</u>

1. **Will consumers in eastern North Carolina get better value from their insurance premiums under the Affordable Care Act?**

Yes. In the current dysfunctional market, many insurance products do not provide real insurance; they are riddled with loopholes and significant coverage gaps. The Affordable Care Act ensures coverage of essential health benefits, guarantees access to coverage, and prevents rate shock when people age or get sick—security that provides real value to everyone. In addition, the "medical loss ratio" ensures more value for your premium dollar by requiring insurers to use at least 80% of your premium for actual health care, not administrative costs.

Finally, the Exchanges will allow consumers to more easily shop for and compare plans, which will have to compete based on value rather than their ability to screen out unhealthy people.

2. Can you describe how tax credits can help a young and healthy male from Warrenton, North Carolina reduce the amount he pays for health insurance?

Suppose that the young and healthy male from Warrenton, NC is age 25 and earns an annual income of $25,000. Further suppose that the annual premium for a plan offered in the non-employer market is $3,030 (CBO's estimate of the national average). This individual would be eligible for a tax credit of $1,301, covering 43% of the premium for a Silver plan and 52% of the premium for a Bronze plan. Keep in mind that this individual could also be eligible for his parents' coverage or could buy a less expensive catastrophic plan. You can calculate these credit amounts for different ages and incomes by using the Kaiser Family Foundation's online subsidy calculator at http://kff.org/interactive/subsidy-calculator/.

3. Can you provide additional examples of insurers lowering premiums through increased competition in the Individual Exchanges?

In California, competition has already resulted in a choice of plans that provide top value. Thirty-three plans competed to offer coverage through the Exchange, called Covered California. As the Washington Post pointed out, "health plans know that they're competing against others for the chance to access millions of customers with tax subsidies"—which put downward pressure on their premium bids. Covered California selected thirteen plans that offered the best value, providing consumers a choice of three to six plans even in rural areas. Four of these plans are new entrants to the market. As a result of this competition, premiums will be lower than actuaries had projected.