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*****TESTIMONY IS EMBARGOED UNTIL THE START OF
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Testimony of

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Health Subcommittee**

“Challenges of the Affordable Care Act”

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Good morning Chairman Brady, Ranking Member McDermott and members of the Subcommittee. My name is Chris Carlson, and I am a Principal and Consulting Actuary at Oliver Wyman, a business unit of Marsh & McLennan Companies (MMC). I would like to thank you for affording me an opportunity to share my perspective on the Affordable Care Act (ACA).

My testimony will focus on the consequences of the difficulties encountered in implementing the ACA. The specific issues that I will address are:

- First, the enrollment issues which have led to initial enrollment in individual policies falling well below original estimates.
- Second, the extension of current individual policies that do not meet the requirements of the ACA's minimum coverage requirements.
- Third, I will discuss the premium rates that are available to individuals on the exchanges.

I. Low Enrollment

First, regarding the low initial enrollment, it is too early to make any speculations about the final enrollment numbers for 2014, but given the difficulty for individuals to enroll through the online portal, and the low enrollment numbers that we have seen, there is an expectation that the enrollment will be less than expected. For example, the initial enrollment in the federal exchange for October was about 27,000 members versus an initial goal of 500,000 enrollees for the month. In November, it has been reported that 100,000 individuals have been enrolled. However, according the

Associated Press, private insurers have complained that the enrollment data contains errors and duplications, which means any estimate needs to be considered with caution. Further, analysts at Goldman, Sachs & Company have revised down projection estimates of federal exchange enrollees from 7 million to 5 million for 2014.

Also, early indications are that the younger enrollees, who are crucial to the goal of having a balanced risk pool, may be enrolling at rates less than expected. According to an article in the Wall Street Journal, several health plans have reported that the proportion of members older than age 50 has exceeded their expectations. If younger individuals do not enroll at the expected levels, the subsidies that are built into the rates that allow for lower premium rates at the older ages will not be realized, putting a strain on the overall risk pool.

II. Extension of Current Policies

Next, I will briefly discuss the President's use of non-enforcement of existing law to allow for the extension of current policies that do not meet the minimum coverage requirements under ACA. There are a number of potential outcomes that could result from this extension. First, we have seen in studies prepared by the Society of Actuaries that those currently insured in most states have better morbidity risk on average than the new enrollees expected in 2014. Therefore, it was expected that premium rates would go up because of the increased morbidity risk. Furthermore, many current policies do not provide sufficient benefits to meet the minimum coverage requirements of the ACA. Therefore, individuals who are currently insured in less than sufficient policies would see further rate increases due to an increase in benefits. While this

generally is a tradeoff of swapping premium for additional benefits, those opting to drop current, less generous policies, are those that are likely to need that additional benefit coverage. Both of these factors lead to an expectation that the pool of members enrolling in the new ACA-qualified plans will have higher morbidity risk than if the extension of policies was not allowed. In addition, since insurers have not been given the opportunity to revise the rates on the exchanges, it is likely that these policies will be underpriced.

As a result, we have seen hesitation from some state insurance regulators to allow for the extension of these policies. For example, the state of Washington chose to decline the opportunity to allow current policyholders an extension because of the disruption that it would cause in the marketplace.

There are certain protections in the ACA that mitigate this risk, such as the reinsurance provision, which has been expanded due to the lower expected enrollment, and the risk-sharing corridors. However, even with these risk mitigating programs, the insurers stand to be at risk if the morbidity risks are higher than expected.

Unfortunately, it is too early to provide empirical data to estimate the impact of these changes on the expected costs for 2014. However, the American Academy of Actuaries has identified three primary consequences of the extension of current policies:

1. Premiums approved for 2014 may not adequately cover the cost of providing benefits for an enrollee population with higher claims than anticipated in the premium calculations.

2. Costs to the federal government could increase as higher-than-expected average medical claims are more likely to trigger risk-corridor payments.
3. Relaxing the plan cancellation requirements could increase premiums for 2015. Insurers cannot increase premiums in future years to make up for prior losses. However, assumptions regarding the composition of the risk pool would reflect plan experience in 2014.

III. Premium Rates on Exchanges

There has been much written and said about the premium rates on the exchanges. Depending on the point of view, premium rates are either much higher than expected or much lower than expected. However, I can repeat what was said in the hearing of the House Energy and Commerce Subcommittee on Oversight and Investigations by Cori Uccello of the American Academy of Actuaries: *“How premiums will change depends on many factors...the new benefit requirements that may lead to higher premiums but lower out-of-pocket costs...how each state’s current issue and rating rules compare to those beginning in 2014, and each individual’s demographic characteristics and health status.”* All of these things remain true. I will highlight a couple of these items that merit special attention. First, individuals who are seeing the greatest increase in premiums are those who had the least amount of coverage. While I have read of examples of individuals seeing 150% or more rate increases, many of these individuals had substandard coverage and at least part of the increases are due to increased benefits and lower cost-sharing. Second, any consideration of the increase in premium rates is considered prior to the availability of premium subsidies which would reduce the actual

out of pocket costs for individuals. Finally, without substantial increase in enrollment in the exchange, consistent with original expectations, consumers could expect higher premium rates than they otherwise would see in 2015 due to the composition of the risk pool.

As the Subcommittee and the Congress deliberate further on this important issue, I and my colleagues at Oliver Wyman are ready to collaborate with you to offer our experience and expertise on this key public policy matter.