Health Insurance Premiums under the Patient Protection and Affordable Care Act

by

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Mister Chairman and members of the subcommittee, thank you for this opportunity to testify on premiums rates under the ACA.

My testimony will focus on factors that are affecting premium rates that have been filed for 2014 and have been made available for public review. I will also discuss the professional responsibility of actuaries that are involved in preparing and certifying these rate filings.

There are three specific actuarial factors of the rate filings that I would like to address which are:

- The impact of changes in the population on morbidity or claims costs
- Changes in the value of coverage due to the requirement to provide essential health benefits, and
- The impact of the transitional reinsurance program

Recall that the CBO estimated the change in premium rates in their November 2009 letter to Senator Evan Bayh. Their projection was based on three factors. First, they estimated that the changes in the population being covered in the nongroup market would reduce premium rates by seven to ten percent. As we will see, it is unlikely that this expectation will be realized as the new enrollees are expected to have higher than average morbidity. Second, the CBO estimated that the amount of insurance would increase by 27 to 30 percent. Finally, they estimated that the price would be reduced by seven to ten percent for other factors, primarily changes in the rules governing the nongroup market. We could say that this last factor can be considered competition and efficiency, although I did not try to quantify this factor in reviewing the publically available rate filings. Overall the CBO expected premium rates to increase between 10 percent and 13 percent.

Now that actual filings are available, we can move beyond talking about what may happen with premium rates, and discuss what is happening. I reviewed the 2014 rate filings in three states, Oregon, Maryland and Vermont. In each state, I identified the top two or three health insurers and pulled from their filings the factors described above.

First, in Oregon we reviewed the filings for the top three health insurers. We found that the expected change in morbidity due to the new enrollment in the nongroup market is between 27 percent and 46 percent. Although we note that the Oregon market also includes merger with the high risk pool which constitutes a very costly population. We also found that the change in premiums due to the average value of benefits ranged from an increase of two percent to a decrease of 17 percent. Finally, the transitional reinsurance program is expected to decrease rates by 10 to 12 percent. Overall, the average premium rate in these files represents an increase of 36 to 53 percent over current premium rates.

The publication of these rate filings and the transparency of the process have had an immediate effect due to competition. One carrier has already expressed interest in a revision to their initial filings due to concern about their rates relative to their competition and has proposed reducing their rates by 15 percent.

The second state we reviewed is Maryland. We looked at the rate filings for two companies in the state and found the results to be quite divergent. One company has proposed rates that include a 25 percent increase for morbidity of the population, a two percent increase for benefits and a four percent reduction for the transitional reinsurance. Overall, they proposed a rate increase of 25 percent relative to current rates. The second company proposed an increase of 65 percent due to morbidity of the population, a 6 percent increase for benefits, and an 8 percent decrease for reinsurance. Overall, they propose rates that are 120 percent higher than the current rates in the market.

The final state we reviewed is Vermont, where there are only two health insurers that filed rates. Both carriers assumed no change in the morbidity due to the population to be covered and only small changes in benefits. Finally, they assumed a reduction in premiums of between eight percent and ten percent for the transitional reinsurance. Overall, the rates are expected to be consistent with the current premium rates in the market. However, it is worth noting that Vermont is already a community rated state with guarantee issue, thus we would not have expected an increase due to new, less healthy enrollees and in fact, some would have expected lower premiums in the state.

The factors I discussed in each of these filings do not include the impact of age rating. Therefore, for younger individuals that are affected by the age rating compression, the increases would be higher. It is important to understand that these rates are before any consideration of the premium subsidies available on the exchange. Therefore, for the individuals that are expected to be eligible to receive premium subsidies in the exchanges, the amount they actually pay may be less, and sometimes substantially less.

Finally, I would like to add a few comments about the actuaries that have developed the rates described herein. The actuarial profession has a strong reputation of professionalism and independence. While many actuaries work and consult with health insurance companies, we also work with regulators and consumer advocacy groups, and our professions high standards of professionalism always come first. This is illustrated in our code of professional conduct which, among other things, requires actuaries to act honestly, with integrity and competence, not be influenced by conflicts of interest, and only perform work where we are properly qualified.

The rates that actuaries are proposing require certification, which has components that are relevant in this discussion. The rates must be "reasonable in relation to the benefits to be provided" and must be "neither excessive nor unfairly discriminatory." These provisions, in addition to minimum loss ratio requirements, protect consumers to ensure that they are receiving fair value in benefits for the premiums that they pay.

The purpose of mentioning these issues is to help the public understand that the rate proposals that have been prepared in support of premium rates beginning in 2014 are done with the utmost of care. As actuaries, we do not take lightly the responsibility that is given us and strive to maintain a high level of integrity and professionalism.

Mister Chairman, again I thank you for the opportunity to speak and look forward to answering any questions of the committee.