

Impact of Changing Age Rating Bands in “America’s Healthy Future Act of 2009” Updated September 28, 2009

The health care reform legislation under consideration in the Senate Finance Committee (the “America Healthy Future Act of 2009” Chairman’s Mark) includes health insurance reforms that would discontinue rating on health status, eliminate the use of gender and several other rating factors, and set limits on age rating. In the original Chairman’s Mark, age bands were limited to a 5:1 age band (i.e., the rates for the oldest person in the pool would be no more than five times higher than for the youngest person), but the Mark was revised to include a 4:1 age band.

The primary benefits of allowing flexibility to rate based on age are that it is equitable (on average, the young cost less to insure) and premiums are kept affordable for younger individuals. This encourages broad participation in the insurance market among younger, healthier people and helps to maintain more affordable premiums for the entire market. A sustainable insurance market requires broad participation.

The proposed limits on age-based rating in the Senate Finance Committee Chairman’s Mark are more restrictive than current practices in most parts of the country. Forty-two states permit health plans to vary premiums based on age by 5:1 or more, with most of these allowing rates to be based on actuarial justification. Thus, the revised Chairman’s Mark imposes an age band that is more restrictive than all but 8 states today. Only New York, Massachusetts, and Vermont have age bands that are 2:1 or less in the individual market.

Some legislators have proposed amendments to compress premium rate bands even further, to a ratio of 2:1 or 3:1. Further compressing age bands will significantly increase premiums for younger and healthier people. This will create significant risk that they will opt not to buy insurance—even with an individual mandate. By encouraging younger and healthier people to opt out of insurance, these rate compression proposals would result in higher average prices and more uninsured over time.

Key Findings

- If the age bands were compressed to 2:1, premiums for the youngest-healthiest third of individuals would increase by 69% in Year 1 compared to reform with 5:1 age bands.
- Over five years, we estimate that an additional 1 million younger, healthier members would exit the market in a 2:1 rating environment versus a 5:1 rating environment.
- If the age band is compressed to 3:1, premiums for the youngest-healthiest third of individuals would be 35% higher in Year 1 compared to reform with 5:1 rating bands.
- Over a 5 year period, premiums would increase above and beyond medical inflation as younger members exit, and more than 500,000 people would drop coverage and become uninsured under a 3:1 age band.

Background

Oliver Wyman has developed an actuarial model to study the impact of different reform proposals on the individual and small employer health insurance market.

The model is based on a database of actual claims, premium and underwriting information representing over 375,000 small groups and 1.24 million individual policies. These data are representative of states which today permit different levels of rating flexibility, allowing the model to provide insight into the impact of reform in states with different rating laws today.

Actuarial analysis is used to determine the impact of changes in rating regulations and the differential impact depending on current regulation. The model estimates premium changes and migration among coverage categories over a five year period. Age Rating

Age rating is widely used by insurers in setting premiums today to encourage young individuals to purchase insurance. A substantial number of young individuals do not purchase coverage even at premiums that are often under \$100 per month in states that permit flexibility in age rating. Over 40% of all the uninsured are ages 18-34. Young people ages 21-24 have uninsured rates more than triple those of people aged 55-64. Too often young people think they are healthy and invincible and do not need insurance.

The Chairman's Mark would limit age rating to a 4:1 band. Implementation of these rating changes would be more restrictive than the bands in most areas of the country today. These limitations will increase costs for younger individuals significantly, increase costs slightly for those in middle age bands, and reduce costs for older purchasers.

Under a 4:1 rating rule, individuals age 18 to 24 would see their premiums increase by 18% relative to a 5:1 rating rule (see chart below). Under a 2:1 rating rule, these same individuals would see their premiums increase by 90%. The majority of the population—anyone below the age of 50—would see their rates increase under 3:1 or 2:1 age bands.

The table below summarizes the effect of compressing age bands tighter than 5:1 on premiums for the individual market. Compressing age bands beyond 5:1 would increase premiums for all members younger than 50. Individuals 18 to 34—which account for 31% of the market today—would experience the most significant premium increases. These premium increases reflect only the impact of tighter age bands and do not include the impact of other factors, such as guaranteed issue and minimum benefit requirements, that will further add to premium increases.

Impact of Rating Rules on Premiums by Age

Age	Premium Change Moving From 5:1	
	3:1	2:1
18-24	45%	90%
25-29	35%	69%
30-34	26%	49%
35-39	18%	33%
40-44	10%	16%
45-49	2%	2%
50-54	-5%	-10%
55-59	-12%	-22%
60+	-13%	-24%

Impact of 2:1 Age Bands

If the age rating band is compressed to 2:1, younger-healthier members would experience very high premium increases. In states that permit age rating today, premiums for the youngest-healthiest third of individuals would increase by 69% in year 1 of reform relative to 5:1 age bands.

We estimate that the level of premium increases for the young and healthy will cause more of them to opt out of the insurance market. While the bills before Congress include various subsidies, we estimate that about one-half of the current individual insurance market may not be eligible for subsidized coverage. Moreover, the penalties for not maintaining health insurance in the health reform bills under consideration in Congress represent less than one-third of premium costs today, which is not likely to provide an adequate incentive to assure that young, healthy individuals participate in the market if premiums are not perceived to be affordable.

The effect of tighter age bands on premiums compounds over time, and it becomes increasingly difficult to attract younger members into the insurance market. Our analysis shows that (all else equal) premiums will increase at a faster rate and fewer people will be insured in the individual market if 2:1 age bands are applied instead of 5:1.

Over a five year period, we estimate that an additional 1 Million younger, healthier members would exit the market in a 2:1 rating environment versus a 5:1 rating environment.

Imposition of 3:1 Age Bands

We understand that some in Congress have proposed compressing age-based rates to a ratio of 3:1. If the age rating band is compressed to 3:1, the younger-healthier 30% of members would experience premiums that would be 35% higher (relative to 5:1 age bands) in Year 1 in the vast majority of states that permit age rating today. Similar to 2:1 age bands, we expect that 3:1 bands would lead to higher average premiums over time and fewer people with health insurance coverage.

Over a five year period, we estimate that more than 500,000 younger, healthier members would exit the market in a 3:1 rating environment versus a 5:1 rating environment.

Conclusion

As Congress considers approaches to maximize health insurance coverage in the United States, it is important to consider the impact of premium rate compression on current purchasers and the uninsured. Providing affordable premiums to young people is critical to encourage their participation and ensure the long-term sustainability of the insurance pool in the years following health insurance reform.

Requiring a young person to pay multiples of their expected medical expenses for health insurance is likely to cause these individuals to decline to purchase coverage. Maintaining adequate flexibility in rating will minimize the rate shock that many could see in the marketplace and encourage higher levels of coverage over time. Moreover, the elimination of health status as a rating factor will already provide significant benefit to older individuals, who are more likely to suffer from chronic health conditions.

In conclusion, our modeling demonstrates that the 5:1 age band, as originally included in the Senate Finance Committee's Chairman's Mark, will reduce disruption compared to tight age bands. Maintaining 5:1 age bands will encourage more young people to participate in the insurance market, thereby keeping average rates more affordable. This, in turn, will result in higher overall levels of participation in the insurance market and fewer uninsured.