OLIVER WYMAN

# STABILIZING THE NON-GROUP MARKET

## THE NATIONAL INSTITUTE OF HEALTH CARE MANAGEMENT FOUNDATION

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MARSH & McLENNAN COMPANIES

# Contents

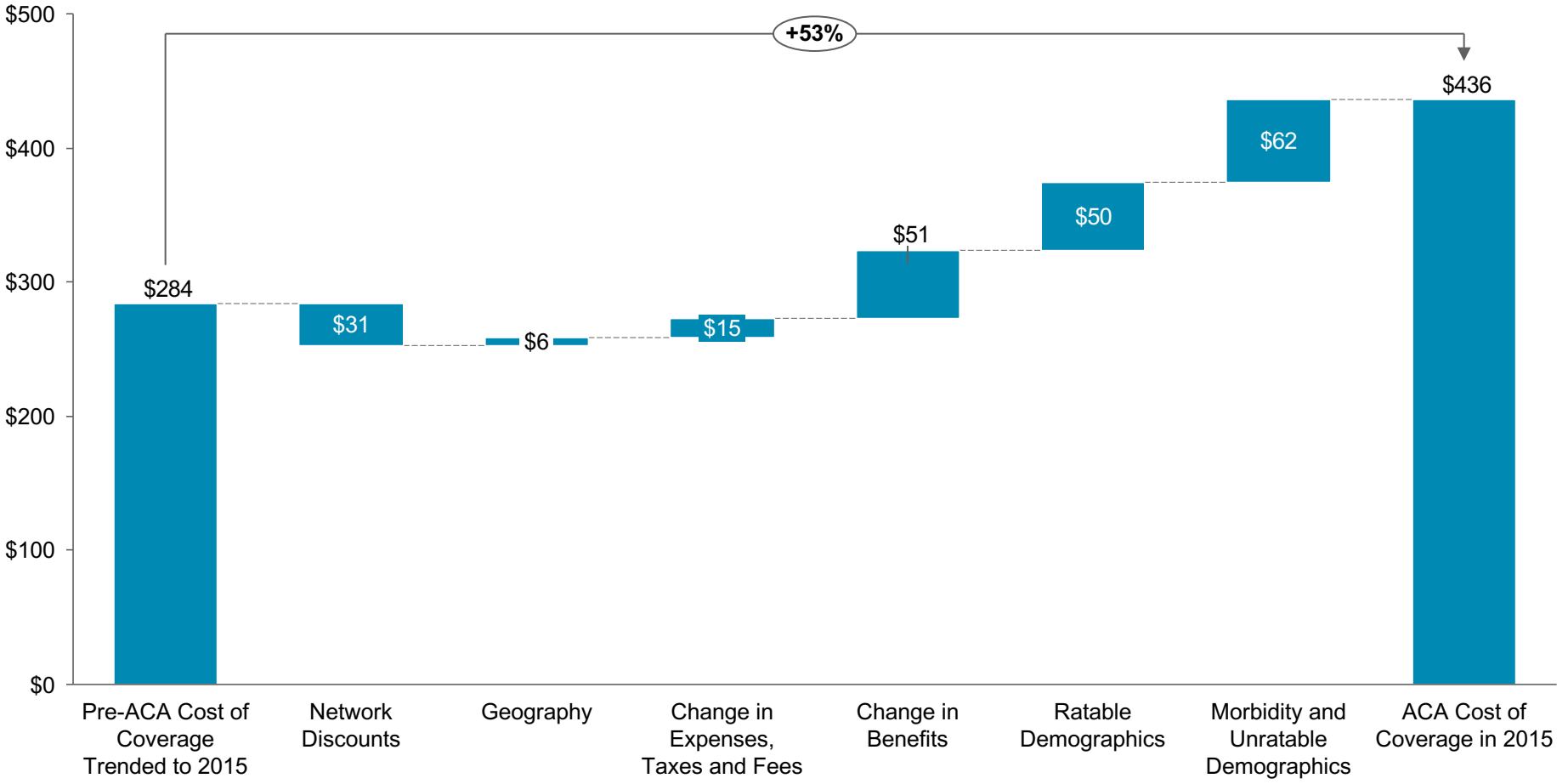
- 2018 premium rate increases
- The cost of guarantee issue and community rating in the non-group market
- Implications of the current income-based premium subsidy structure

# The 2018 premium increases were the result of a combination of factors, but several were avoidable

| Factor | Low | High |
|---|---|---|
| Underpricing in 2016 | 9% | 9% |
| Medical trend 2016 to 2018 | 16% | 16% |
| End of Transitional Reinsurance Program in 2016 | 5% | 5% |
| Improved enforcement of SEP and relaxed AV | -3% | -3% |
| Messaging around mandate enforcement | 3% | 10% |
| Unfunded CSRs | 0% | 20% |
| Regulatory risk | 3% | 8% |
| Needed increase 2016 to 2018 | 33% | 65% |
| Effect of actual rate increase 2016 to 2017 | -22% | -22% |
| **Remaining needed increase 2017 to 2018** | **11%** | **43%** |

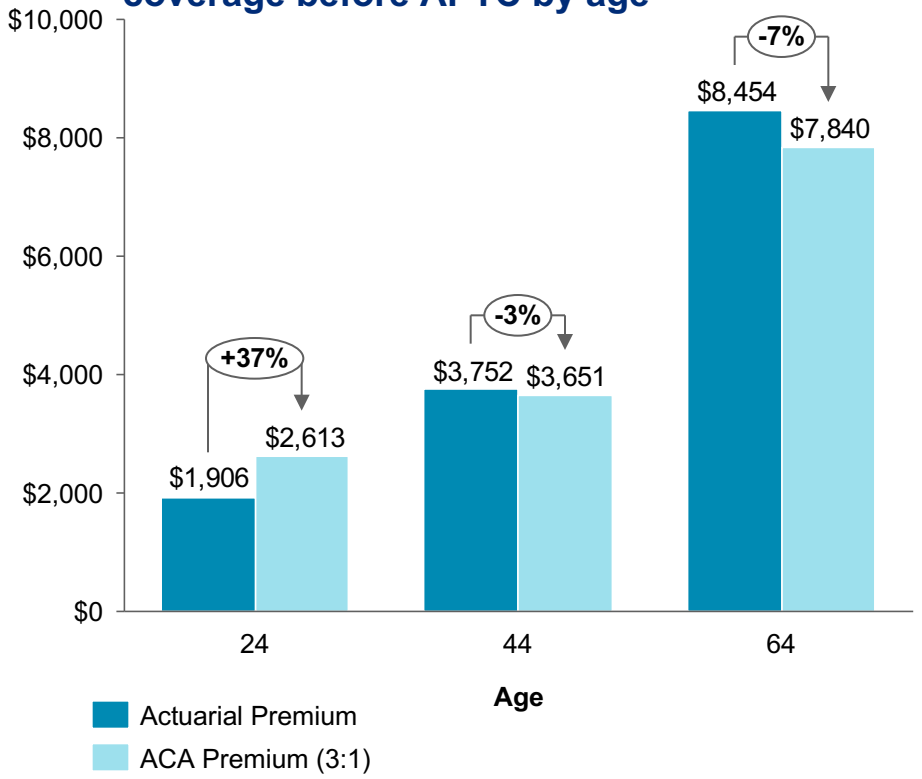
- Issuers had to recover from 2016 underpricing and had to recognize medical trend
- Structural change such as the end of TRP and better enforcement of SEPs netted to about 2% to premiums
- Political and regulatory risk added 6% to 40% to issuers' rate increases
- Issuers recaptured roughly 22% of the needed increase in 2017
- That left a balance of 11% to 43% in 2018
- 6% to 38% of the increase could have been avoided

# There are several forces behind the increased cost of coverage under the ACA relative to pre-ACA, but the largest is the change in morbidity (the cost of guaranteed issue and modified community rating)

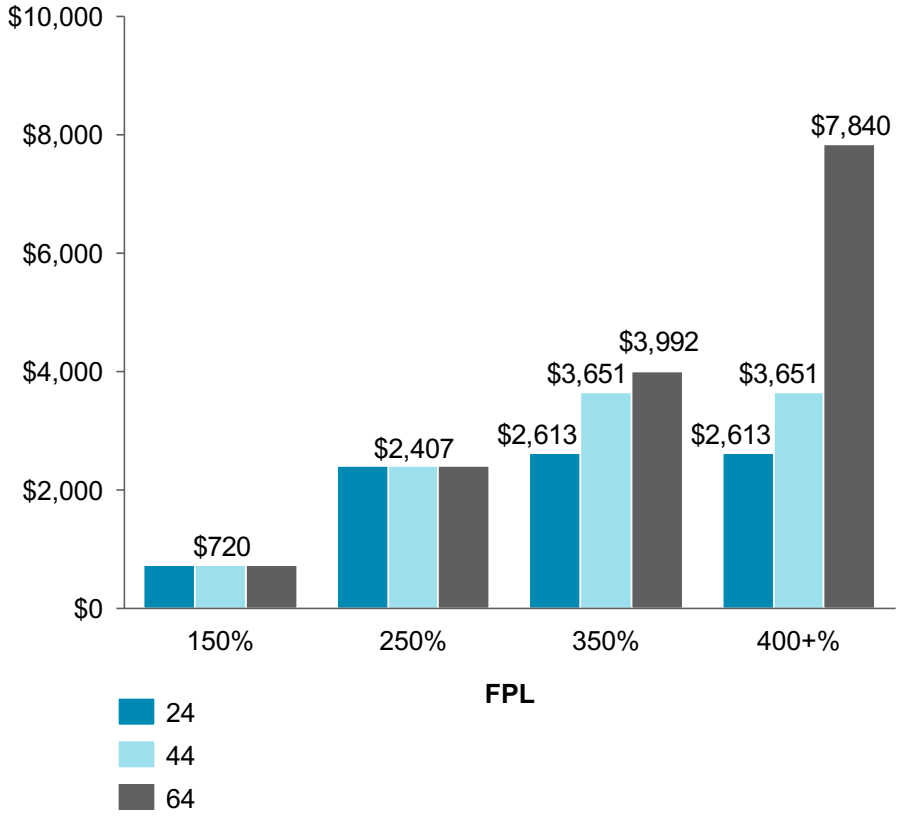


# 3:1 for age rating and the required contribution varying only by FPL result in an older risk pool

## Annual 2017 premiums for silver coverage before APTC by age



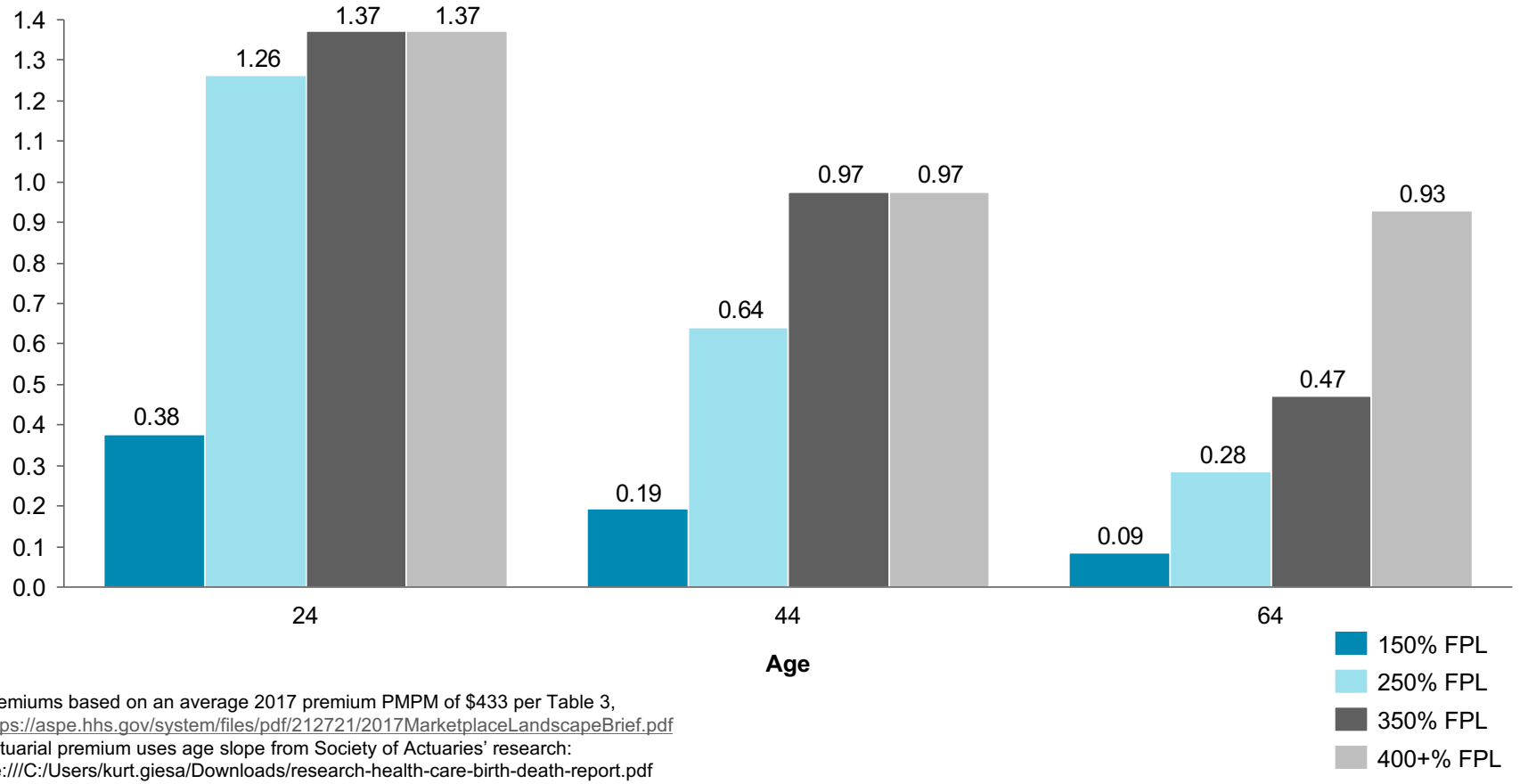

## Premium after APTC by age and FPL




- Premiums based on an average 2017 premium PMPM of $433 per Table 3, https://aspe.hhs.gov/system/files/pdf/212721/2017MarketplaceLandscapeBrief.pdf
- Actuarial premium uses age slope from Society of Actuaries' research: https://www.soa.org/research-reports/2013/research-health-care-birth-death/

# The subsidy structure could be re-designed to attract a younger demographic

## Ratio of ACA premium after APTC to actuarial premium

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- Actuarial premium uses age slope from Society of Actuaries' research: file:///C:/Users/kurt.giesa/Downloads/research-health-care-birth-death-report.pdf

# What does the non-group market need?

- **Stability and consistency from policymakers**
- **Funding to help pay for the cost of guaranteed issue**
- **A subsidy structure that encourages broad-based participation**

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