The Affordable Care Act (ACA) greatly changed how health insurers set premiums in the individual market starting in 2014. In spite of the uncertainty introduced by these changes, premiums for this year generally emerged better than expected, and CBO and JCT have lowered their estimate of average 2014 premiums in the exchanges by about 15 percent.¹ Time will tell whether these premiums end up being too low, too high, or right on the mark for the population enrolled.

While early enrollment snags in many exchanges fueled concerns about adverse selection and a possible spike in premiums for 2015, the late enrollment surge seems to have mitigated some of this concern.²

Well before the full 2014 experience is known, however, insurers must set their prices for 2015. Initial rate filings are already underway, and negotiations with regulators and exchange managers over the summer will determine final rates. In this essay, I describe the myriad factors that will be on the minds of health plan actuaries as they develop premiums, highlighting factors that will be more – or less – predictable and assessing their likely influence on future rates. This assessment is from a national perspective; individual state experiences will differ significantly based on whether they allowed insurers to extend non-ACA compliant policies beyond 2013 and their overall success in enrolling a large and balanced risk pool in exchange plans. Pricing updates also will vary across markets within a state and even within markets, depending on the characteristics of the local market and the insurers offering products.

**REMEMBER THE SINGLE RISK POOL**
Under ACA rules an insurer must price for the individual market using a single risk pool that includes all of its enrollees in ACA-compliant policies, whether purchased on or off the exchange. Enrollees in catastrophic plans are excluded, as are those remaining in pre-2014 non-compliant products via grandfathering, early renewal or the extension of these products first permitted in November 2013. It is the exclusion of this latter group, largely expected to be better risks, that leads to concerns about worsening risk pools in states allowing such transitions. However, many off-exchange enrollees will be healthier people who were previously underwritten and “retained” by their insurer, offsetting some of the pressure for higher premiums based on exchange enrollment alone.

**KNOWABLE FACTORS**
Some factors affecting insurers’ 2015 premiums can be projected with a fair amount of certainty. As always, actuaries will begin by using prior-period adjudicated claims to compute “trend” – that is, the rates at which cost per service, service use per enrollee, and intensity of service use have been changing for all of their privately insured enrollees. This factor will point to increasing premiums. They must then project this trend forward to the 2015 rating period by assessing whether utilization patterns of the 2014 enrollees differ from those underlying the trend (such as due to the new, very expensive drug for Hepatitis C) and developing expectations about whether the 2015 enrollees will look like the 2014 pool.

Insurers now assessing their 2014 enrollees will face data shortcomings but will not be completely in the dark. Many carriers will have claims for their pre-ACA enrollees who stayed with them in 2014 by moving into ACA-compliant products on or off the exchange. Actuaries at several insurers have told me they expect these enrollees to comprise up to three-quarters of their single risk pool – providing very significant insights for future pricing as well as a large share of enrollees expected to be healthier, on average. Similarly, insurers will know the risk profile of any enrollees continuing in their non-compliant plans and can estimate the impact of excluding them from the pricing pool.

Enrollees who are new to the insurer in 2014 pose more of a projection challenge. Insurers will know their age and gender but will have very limited data from medical claims in time for rate filing, even for people who signed up early enough to start using services in January 2014. Projecting forward from a short period with limited data can be misleading particularly if early enrollees quickly generate claims due to higher-than-average health needs while later enrollees are healthier and not represented in...
the claims. To gather additional information, many insurers are administering Health Risk Assessments to new enrollees. They are also poring over prescription drug claims, which are available in near real time, to help fill in the risk profile for all of their enrollees. Insights gleaned from these sources may impact rates in either direction, depending on the risk profile that emerges.

Insurers must also consider the “pent-up demand” that is expected as previously uninsured enrollees take advantage of their new coverage. Most actuaries priced for this higher utilization when they set 2014 premiums, but they are likely to project a smaller impact from this factor for 2015. Consumers with these high initial needs would have obtained services early in 2014 and there should be disproportionately fewer enrollees with unmet health needs in 2015, assuming those with the most pressing needs enrolled in 2014.

Finally, actuaries can easily account for new parameters in the transitional reinsurance program that will cause fewer claims to qualify for protective payments next year. As this protection is eased, there will be upward pressure on premiums.

**FACTORS THAT ARE HARDER TO ESTIMATE**

Accounting for the other two components of the ACA's premium stabilization protections – risk adjustment and risk corridors – will be more difficult in the pricing decisions now being made. For risk adjustment, the flow of funds between plans will depend on how each plan’s risk score stacks up relative to the average risk score for all plans in the market, but this latter score will not be known until early 2015. A plan whose current assessment of its own enrollees suggests that it has attracted higher risks still cannot count on compensation under risk adjustment next year if all plans in the market attracted similarly less healthy members in 2014.

Likewise, payments and collections under the risk corridors will not occur until mid-2015 for 2014 plan experience. Recent changes to the risk corridor formula provide additional protection to plans for higher-than-expected administrative costs related to the transitional policy and exchange rollout problems and are intended to avert premium spikes. However, the application of budget neutrality to the risk corridor program introduces new uncertainty that may prompt insurers to price this risk into their premiums.

Another unknown is how large the enrollment pool will be next year. Most actuaries expect higher take-up rates among the uninsured as the individual mandate penalty rises appreciably. Continuing improvement in exchange functionality and more public awareness of coverage options should also bolster enrollment. A larger pool will help to moderate premium increases by diluting the impact of high cost enrollees.

Much of the “surprise” of the lower-than-expected premiums seen in 2014 has been attributed to the use of narrower provider networks for which insurers have been able to negotiate the most favorable rates. A big question going forward is whether these narrow networks will persist. Will insurers determine that they can continue to achieve premium savings and attract enrollees using this strategy? Or will consumer and provider backlash, and perhaps more stringent regulations about network adequacy and inclusion, force a retreat? Answers to these questions will affect premiums for 2015 and beyond.

Various industry fees and taxes are expected to increase premiums on net, but the magnitude of the impact is hard to predict, particularly for any given insurer. For example, the size of any assessments imposed by states next year to support their exchanges will be determined by still-unknown 2015 exchange enrollment figures. Insurers also will not have all information needed to estimate their share of the $11.3 billion health insurer tax to be collected for 2015. Furthermore, the health insurance and medical device taxes may be passed on entirely to consumers or partially absorbed by insurers, manufacturers and providers trying to retain or increase their competitive positions.

The effects of competition and new entrants are probably the biggest unknowns for 2015 pricing, as insurers jockey for market position. While most large national insurers chose to stay mainly on the sidelines in 2014, some like UnitedHealthCare appear poised to enter additional markets next year. Might new entrants price more aggressively believing that the higher-risk 2014 enrollees will “stick” with their 2014 insurance plans? Or will they anticipate attracting their share of risky enrollees during open enrollment and temper their pricing accordingly? And what about some of the CO-OPs and other start-ups that attracted significant market share this year through low premiums: will they be able to maintain similar pricing in 2015? All carriers offering individual coverage will be sizing up the competitive environment in specific local markets and factoring this assessment into their pricing strategies.

**CONCLUSION**

The outlook for 2015 premiums is still very cloudy at this point. In all markets, important factors such as trend, lower transitional reinsurance payments and industry fees point to higher premiums. Conversely, the single risk pool and the expected influx of brand-new consumers with fewer immediate health needs should help to mitigate premium increases. For many other factors, considerable uncertainty remains about how things will play out.

Importantly, there will be significant variation across states based on the degree to which they allowed insurers to extend non-ACA compliant policies beyond 2013. My calculations and conversations with others in the industry suggest that the smaller and less healthy risk pools in states that delayed transition to ACA compliance will lead to premium increases that are at least 10 percent larger than in other states.

Predicting rates is not a simple exercise for plan actuaries and is even more difficult for outside prognosticators operating with less data. Clearly, 2015 rates will depend on much more than simply the mix of enrollees attracted to the exchanges. And wherever the 2015 rates settle after the regulatory reviews this summer, it will be yet another year (or even longer) before we know if the 2015 pricing was on the mark. By that time, plans will be pricing for 2016.

**ENDNOTES**


“The outlook for 2015 premiums is still very cloudy... there will be significant variation across states... rates will depend on much more than simply the mix of enrollees attracted to the exchanges.”