

7 Ways the Affordable Care Act will Impact Individual Health Insurance



You will be buying a different policy



Your health plan will pay for a greater percentage of costs



Your insurance will provide more comprehensive benefits



You can't be denied coverage for preexisting conditions, and you can't be charged higher premiums for poor health status



Younger beneficiaries lose some of their advantage



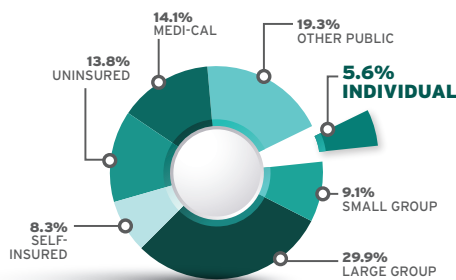
Higher anticipated enrollment among older individuals means higher health care costs



Many people will be eligible for subsidies

Beginning in 2014, the Affordable Care Act (ACA) will fundamentally change the state's insurance market, providing more comprehensive benefits and expanding and subsidizing coverage for some individuals and small businesses. It will enable 6.7 million¹ Californians – who previously could not obtain or could not afford health insurance – to get coverage through marketplace reforms, an expansion of Medi-Cal and federal subsidies to help individuals, families and small businesses

Sources of Health Insurance in California



Source: California Health Benefits Review Program, 2012

purchase coverage through the state's new health benefit exchange, **Covered California**. Individuals purchasing insurance through Covered California will get more comprehensive coverage and smaller out-of-pocket expenses for deductibles and co-pays.

These factors – higher enrollment, more comprehensive benefits and cost-sharing limitations – and many others will affect health care costs and, in turn, health insurance premiums in different ways. **The biggest impacts will be seen in the individual health insurance market.** With three out of four Californians receiving their coverage through their employers or the government, only a very small segment of the state's population will purchase their insurance through Covered California. While many of these individuals will pay less for coverage, some Californians will see premiums rise.

Here are some of the cost pressures that will impact health coverage in the individual market beginning in 2014.

1 You will be buying a different policy.

Individual coverage in California will dramatically change in 2014. Many people buying coverage for themselves and their families will be able to choose from an entirely new selection of policies with more comprehensive benefits and services. Consumers in the individual market will be purchasing coverage that more closely resembles employer-sponsored insurance. It is expected that this coverage will cost more than the pared down policies many people in the individual market have today.



80% OF YOUR PREMIUMS GO DIRECTLY TO MEDICAL EXPENSES.

The ACA requires health plans to spend 80 cents of every \$1 in premiums on medical goods and services. If they don't, they must issue rebates. Only 20 cents or less can go to non-medical expenses, such as administrative costs and profits.

Nearly all of California's commercial health plans spent at least 80% of premiums on medical care in the individual market last year, the first year this provision was in effect.

¹UCLA Center for Health Policy Research/UC Berkeley Labor Center. Medi-Cal Expansion under the Affordable Care Act: Significant Increase in Coverage with Minimal Cost to the State. January 2013. http://laborcenter.berkeley.edu/healthcare/medi-cal_expansion13.pdf & Covered California. Covered California Fact Sheet. Accessed March 19, 2013. http://laborcenter.berkeley.edu/healthcare/medi-cal_expansion13.pdf

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PREMIUMS
OUT-OF-POCKET
EXPENSES

Your health plan will pay for a greater percentage of costs.

The ACA requires health plans to cover a greater percentage of average costs.

This means that your premiums will cover more benefits and services and that your out-of-pocket expenses (co-pays, deductibles and co-insurance) will be capped.

Most individual insurance policies today only pay for about 55%-60% of the total average costs for benefits covered by the plan. The consumer is responsible for the remaining 35%-40% of average costs. Under the ACA, however, health plans must cover a **minimum** of 60% of average costs under a so-called "bronze plan." Consumers can also choose between plans where the insurer pays 70% (silver plans), 80% (gold plans) or 90% (platinum plans) of average costs. With these plans, the premiums will be higher but out-of-pocket costs will be lower.

No More
Annual/Lifetime
Limits

Examples of Consumer Out-of-Pocket Costs for Various Individual/Family Plans

Benefit	Bronze (60%)	Silver (70%)	Gold (80%)	Platinum (90%)
Maximum annual out-of-pocket	\$6400			
Deductible, medical	\$5,000	\$2,000	\$0	\$0
Primary care visit	\$60	\$45	\$30	\$20
Hospital stay	30%	20%	\$600/day	\$250/day
ER visit (waived if admitted to hospital)	\$300	\$250	\$250	\$150
Generic drugs/preferred brand name drugs	\$25/\$50	\$25/\$50	\$25/\$50	\$5/\$15
Certain preventive services	No cost-sharing			

*This chart provides a few examples of the benefit designs that will be available for "co-pay" plans. Health plans will also offer "co-insurance" options, catastrophic coverage and high-deductible plans with health savings accounts as well as other plan designs not shown here, giving consumers a wide range of choices to meet the ACA's coverage requirement. Most plans will be available both inside and outside Covered California.

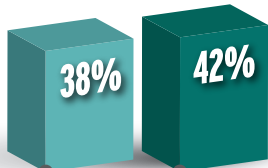
FREE
CURRENT
IMPACT

MANY PREVENTIVE SERVICES ARE COVERED FREE OF CHARGE.

Health plans are required to cover a wide range of preventive services with no cost-sharing (no co-pays, deductibles or co-insurance). These include well-baby and well-woman checkups, childhood immunizations, screenings for obesity, cholesterol, blood pressure and certain cancers and certain mental health screenings and education/counseling services. Although you no longer have to pay out-of-pocket for these services, the costs may be rolled into the price of your premium.

3

Your insurance will provide more comprehensive benefits.



GROWTH IN PREMIUMS VS. GROWTH IN BENEFITS
% Growth 2003-2011

Source: CMS, National Health Expenditures

People buying health insurance in the individual market will no longer be able to purchase "bare-bones" coverage. The ACA requires all plans offered through Covered California to cover a wide range of benefits and services that may or may not have been included in many health plans prior to 2014, such as prescription drugs and pediatric dental and vision care. For example, many policies in the individual market today do not offer prescription drug coverage or they only cover generic drugs. Prior to 2014, consumers may have had to pay out-of-pocket or buy supplemental coverage for these benefits.

Covering these new benefits will increase total health care costs, which will in turn raise premiums. Growth in health insurance premiums is **directly** tied to growth in benefits: 97% of the increase in premiums from 2006-2010 was due to increased insurer spending on medical services.

BENEFITS

²National Institute for Health Care Management. Data Brief: Spending for Private Health Insurance in the United States. January 2013.
<http://www.nihcm.org/pdf/Spending%20for%20Private%20Health%20Insurance.pdf>

For more information, please go to www.calhealthplans.org

California
Association of
Health Plans

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4 You can't be denied coverage for preexisting conditions and you can't be charged higher premiums for poor health status.



Health plans will be required to issue coverage to anyone who applies for it and will be prohibited from charging higher prices based on health status. This means that people who previously were denied coverage will be able to get it. But paying for these individuals' costly medical conditions will increase the total health care costs of everyone in the insurance pool on average.

5



Younger beneficiaries lose some of their advantage.

The ACA limits the amount by which health plans can vary premiums based on age. Currently, health plans can charge younger people up to five times less than they charge older people. Beginning in 2014, they can only charge younger people three times less than they charge older people.

35
30
25
20
15
10
5
0
-5
-10
-15

Percent Change in Premiums

For people age 30-61, premiums will likely only vary by plus or minus 5%, on average. And while people in their 60s may see their premiums decrease by up to 10%, on average, people in their 20s could see their premiums go up by 33% on average.³

MEMBER AGE

21-29

30-61

62-64

CURRENT IMPACT

YOU CAN STAY ON YOUR PARENTS' INSURANCE TO AGE 26.

Although the expansion of Medi-Cal and federal subsidies will make it easier for low-income Californians to afford insurance, young adults also have the option of staying on their parents' plan to age 26.

6 Higher anticipated enrollment among older individuals means higher health care costs.



The ACA requires everyone to purchase health insurance or pay a penalty. Although many of the people coming into the insurance pool will be young and healthy, many more of them will be Baby Boomers, which will increase the average age of the insured population. Since people tend to need more health care as they age, total health care costs for everyone in the insurance pool will increase.

³Milliman. Factors Affecting Individual Premium Rates in 2014 for California.

<http://www.healthexchange.ca.gov/Documents/Factors%20Affecting%20Individual%20Premiums%20FINAL%2003-28-2013.pdf>

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7 Many people will be eligible for subsidies.*

Even though total premiums are expected to increase by up to 30% for some Californians, many individuals and families will qualify for public insurance (Medi-Cal) or federal subsidies to help them purchase coverage. Some people will qualify for subsidies to help pay their premiums, as well as their out-of-pocket expenses. The subsidies offered through Covered California will mean most moderate- to low-income Californians will pay less for coverage than they did before the ACA and they will enjoy better benefits. Those on the lowest end of the income scale could see their premiums decline by as much as 84%.

Eligibility for Subsidies	Individual Annual Income	Family of Four Annual Income
Medi-Cal	\$16k or less	\$33k or less
Premium & Cost-Sharing Subsidies	\$29k or less	\$59k or less
Premium Subsidies	\$46k or less	\$95k or less

*Subsidies only available through Covered California. Cost-sharing subsidies only available for the second lowest-cost (silver) plan through Covered California.

⁴Centers for Medicare and Medicaid Services. National Health Expenditures 2011: Highlights.

<https://www.cms.gov/Research-Statistics-Data-and-Systems/Statistics-Trends-and-Reports/NationalHealthExpendData/Downloads/highlights.pdf>

⁵California HealthCare Foundation. Health Care Costs 101: California Addendum, 2012.

<http://www.chcf.org/-/media/MEDIA%20LIBRARY%20Files/PDF/H/PDF%20HealthCareCosts12CA.pdf>

Other factors unrelated to the Affordable Care Act affect premiums, too.

Premiums fluctuate year-to-year based on many different factors that increase or decrease the cost of providing medical care to everyone in the insurance pool. Many expenses are outside of health plans' control, but have a significant impact on the cost of insurance, such as:

- **Rising cost** of hospitalization, doctors' visits, medical tests, prescription drugs and other health care services.
- **Unnecessary treatments, tests, hospitalizations and drugs**, accounting for one-third of the money spent on health care in the U.S.
- **An aging population.** By 2030 – when the last Baby Boomers turn 65–18% of the state's population will be over 65.
- **Chronic conditions.** About 40% of adult Californians live with at least one chronic condition – like obesity and diabetes – and chronic conditions account for more than 75% of all health care costs.

As the underlying costs of providing medical care continue to outpace both inflation and national economic growth – reaching \$2.7 trillion nationwide in 2011⁴ – so too will the cost of health coverage. Health spending in California alone tripled between 1991 and 2009 to more than \$230 billion a year.⁵ If no action is taken to relieve these cost pressures, premiums will continue to increase year after year.

California's health plans are committed to increasing affordability and the quality of care for all Californians. Health plans are working to reduce health care costs by providing wellness programs and free counseling for depression, quitting smoking, losing weight, eating healthier and reducing alcohol use. California's health plans remain dedicated to increasing affordability and quality of care for all. By everyone working together – hospitals, doctors, patients, insurance companies and government – California will find the right prescription for delivering health care more efficiently and affordably.

For more information, please go to www.calhealthplans.org

