SCHOLARS
STRATEGY NETWORK

Do Affordable Care Health Plans Cost Too Much?

Aaron Pervin, Medicaid and CHIP Payment and Access Commission (MACPAC)

The Affordable Care Act of 2010 seeks to expand health insurance coverage to the formerly uninsured through two pathways: by enlarging state-run Medicaid programs to include additional low-income people, and by providing tax credits to low- and middle-income Americans to help them purchase private insurance on "exchange" marketplaces where they can compare plans. Since the opening of the state and federal insurance exchanges, critics have complained that many plans offered on them have too high a price tag for monthly premiums. So-called "rate shock" has been widely discussed in the media as a reason why many consumers may be reluctant to purchase plans, especially young people or individuals who previously had purchased bare-bones plans. Rate shock is not an issue in every state – premiums are now cheaper in New York, for example – but media reports have speculated about rate shock in many states, including California and Kentucky where purchases are strong.

Is it true that insurance plans offered through Affordable Care exchanges cost too much? For most Americans who shop on the exchanges, federal tax credits make good health insurance very affordable – often for the first time in their lives. For a minority, sticker prices may seem high. But for them along with all others, health plans are more generous and much more dependable.

It is important to explain why minimum prices for private insurance are sometimes higher. The Affordable Care law sets new rules for insurance companies. It requires companies to cover a minimum of essential benefits and prevents them from denying coverage to people with pre-exiting health problems. The law also requires what is called "modified community rating," meaning that insurance companies cannot charge extra for women and can only charge modestly more to insure older people. In many states, these rules lead to slightly higher prices for certain plans offered on the exchanges – while also ensuring that everyone gets good coverage that cannot be taken away when expensive accidents or illnesses strike.

The Need for Assured Benefits

Historically, insurance companies have marketed a wide array of plans, including bare-bones or partial insurance urged upon consumers with confusing advertisements. Partial insurance refers to plans where the company will pay only for selected procedures and diseases. In the past, if a consumer with a pre-existing health problem – such as diabetes – applied to purchase insurance, the company could offer that person a plan that would pay expenses for everything *except* the cost of treatment for diabetes. Or in some circumstances, insurers could drop coverage or deny payments for treatments for a newly discovered illness on the grounds that there might have been evidence of the problem when the consumer originally bought insurance.

To avoid insurance gaps like this – which can leave people with huge expenses – the Affordable Care Act includes rules that compel all insurance companies to offer a minimum standard of benefits to all subscribers.

Under the law, the Secretary of Health and Human Services has ruled that all insurance plans must pay ten kinds of coverage: for walk-in patient services; emergency services; hospital stays; laboratory tests; maternity and newborn infant care; pediatric care, including oral and vision care; mental health and substance abuse services; prescription drugs; rehabilitation services and devices; preventive health services and chronic disease management.

Including these ten minimum essential health benefits naturally raises costs for insurance companies and prompts them to set somewhat higher monthly premiums or offer plans with modest premiums that charge deductibles for certain services. Overall, however, consumers get better coverage. And it is important to note that certain routine services are now free – including services that help all young adults such as immunizations, contraception, and tests for sexually transmitted diseases.

Why Similar Rates for All Consumers Make Sense

In health insurance, "community rating" means that all carriers operating in a geographic market offer policies at the same price to all individuals. Community rating policies go hand in hand with guaranteed issue regulations, in which anyone who applies for an insurance plan is automatically approved for a standard array of benefits. Guaranteed issue laws – including the Affordable Care Act – increase the cost of insurance plans, because carriers are no longer allowed to cherry pick healthy customers and avoid those with health problems. Yet Affordable Care also includes two additional measures to keep premiums as low as possible: the federal government gives low- and middle-income people tax credits to help them purchase insurance, and the individual mandate requires all Americans who can afford coverage to buy it. Currently healthy people will enter the insurance pool, as well as those with health problems, keeping premiums down for everyone. In addition, the law requires insurance companies to spend most of the premiums they collect on actual health care, not bureaucracy or executive bonuses.

Health reform also allows the fifty states to make some decisions that affect premiums. Most states will now operate under what is called an "adjusted community-rating" format – in which insurance companies can charge somewhat higher premiums to smokers and older subscribers. However, there are strict limits. Insurance companies are no longer allowed to charge older enrollees more than three times what they charge the youngest subscribers.

Taking away traditional forms of price discrimination practiced by insurance companies means that monthly premiums for older people should drop, while sticker prices for younger individuals will often increase compared to what they were before Affordable Care went into effect in 2014. Higher sticker prices will not matter for many younger people, however, because they earn less than their elders on average and will be able to claim federal tax credits to lower the out of pocket cost of buying a good insurance plan.

Good Health Insurance for All

Almost all younger as well as older Americans stand to benefit from the Affordable Care Act. Gone are the days where insurance companies could market lousy plans to consumers who might not understand that they were paying for very little coverage. Insurance plans are now simpler and more standardized to ensure that people no longer need to worry about medical bankruptcy. Accidents and serious illness can strike at any point in life, and family members of all ages care for one another – so everyone has a stake in affordable, decent, health coverage.