

**“PREMIUM SHOCK” AND “PREMIUM JOY” UNDER THE
AFFORDABLE CARE ACT**

Uwe E. Reinhardt
Princeton University



ALLIANCE FOR HEALTH REFORM WEBINAR ON
Health Insurance Rates under the ACA
August 13, 2013

There are basically two ways by which a nation could help poorer and sicker members of society afford adequate private health insurance and, thus, access to needed health care.

PREMIUMS BASED ON HEALTH STATUS

It could allow competing insurers to base the individual's premium on his or her health status, but then publicly subsidize the individual so that the individual's (or family's) maximum out of pocket risk exposure is limited to a politically set percentage of income.

COMMUNITY RATED PREMIUMS

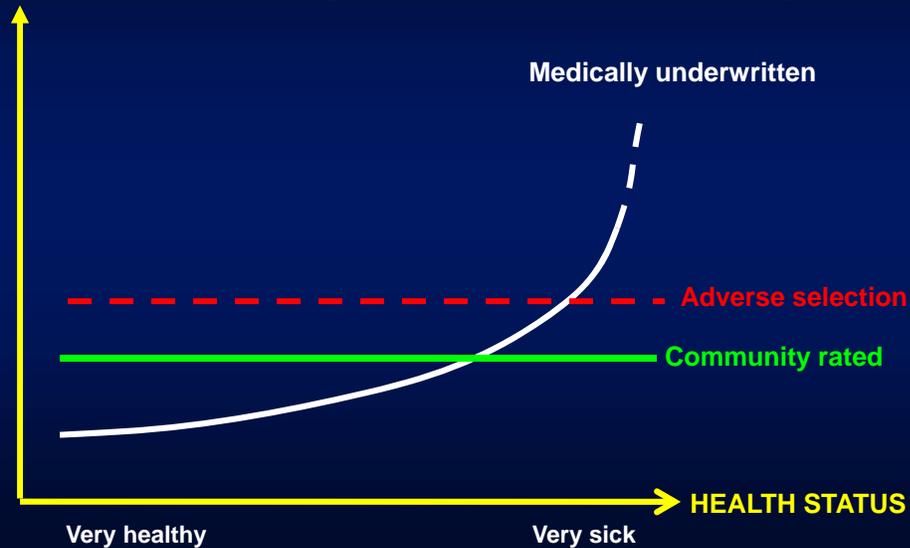
It could make healthier individuals subsidize the insurance premiums of sicker people through mandated community-rated premiums (and still use public subsidies to limit maximum risk exposure to a fraction of income).

MEDICALLY UNDERWRITTEN vs. COMMUNITY-RATED PREMIUMS

$$\text{PREMIUM} = (1+L) \cdot X_i$$

X_i = actuarial, expected medical cost of individual "i"

L = loading factor for administration, marketing, profits



CAVEAT

The second approach requires a three-legged stool:

- guaranteed issue and community rating,
- a mandate on individuals to be insured,
- adequate subsidies toward the purchase of health insurance.



You can't just have two of the three. They go together.

1. The pre-subsidy level of the community-rated premium depends crucially on how many relative healthy people buy insurance at the community rate. The more healthy people enroll, the lower the community-rated premium (the red line in the previous graph).
2. A switch from actuarially fair premiums based on the individual's health status to community-rated premiums redistributes income within the risk pool and thus create winners (sicker people who will experience premium joy) and losers (healthier people who will experience premium shock).
3. It is very difficult to predict the losers without knowing what their income is and what level of subsidy toward their premiums they will receive. Very poor healthy individuals may in fact be among the winners on a net, after-subsidy premium basis.

THANK YOU FOR LISTENING.