Implications of Limited Age Rating Bands Under the Affordable Care Act

Timely Analysis of Immediate Health Policy Issues

March 2013

In Summary

1. Under the Affordable Care Act (ACA), age rating bands of 3:1 will prevent insurers from charging an adult age 64 or older more than three times the premium they charge a 21 year-old for the same coverage purchased in the nongroup insurance market.
2. Some believe these bands should be loosened to more closely align with today's typical 5:1 age variation. They say a 3:1 band will increase premiums on younger adults and may push them out of the insurance market, leaving them uninsured.
3. New research shows that the majority of young adults and families will be shielded from considerable premium increases, because they will be eligible for either Medicaid or tax credits through state health insurance exchanges. Research also shows that premium increases for older adults under 5:1 are approximately twice the savings experienced by younger adults. Evidence also suggests that under the 5:1 band, older adults are actually overcharged, and younger adults are undercharged, based on the costs of people expected to enroll.

Background

One of the ACA's much-discussed provisions aims to limit the variation in health care premiums charged in the nongroup insurance market to a maximum ratio of 3:1 for older adults compared to their younger counterparts. Such age rating bands would prevent insurers from charging an adult age 64 more than three times the premium of a 21 year-old for the same coverage. Considerable attention has been given to the potential for this so-called "rate shock" in the nongroup insurance market once provisions of the ACA are fully implemented in 2014. In particular, the insurance industry has warned that the 3:1 age bands included in the law will substantially increase premiums for young adults. Some believe that a 3:1 ratio effectively forces younger adults to subsidize insurance costs for older Americans. Others warn the increases would make insurance unaffordable for many young adults and families—pushing them out of the insurance market altogether and leaving them uninsured. Instead, they advocate for an alternative 5:1 variation in premium costs—which is more closely aligned with the current premium variations by age in today's nongroup insurance market.

Nongroup Premiums for Adults—Variation By Age

Using the premium gradient designed by HHS, there is very little difference between the premiums under the different age bands except for the youngest and oldest adults. Premiums are noticeably higher for those ages 21–27 under the 3:1 rating and noticeably lower for those age 57 and above, but the savings for younger adults moving to 5:1 would be about half the size of the increased costs imposed on older adults and families.

Premiums for 21 to 27 year-olds are $850 lower under the 5:1 rating than under the 3:1 rating, while premiums for adults age 57–64 are $1,770 higher under the 5:1 bands, on average. Average family premiums for those with older family members (57 and above), but without members 21–27 years old, are significantly lower under the 3:1 rating.

Net Costs to Adults and Families

Use of the 3:1 band designed by HHS results in age-based premiums that more accurately match age-related costs among likely purchasers than would a looser rate band. The now-common 5:1 age rating tends to undercharge young adults relative to their actual health care expenses and to overcharge older adults relative to theirs.

Offsetting Increased Costs for Younger Adults and Families

Most young adults and families will be largely shielded from the full effects of the narrower age rating bands thanks to the ACA's increased eligibility for Medicaid and tax credits offered through state health insurance exchanges or through access to employer-sponsored insurance. In fact, this is largely true across age groups. Eighty-five percent of policies sold through nongroup exchanges will be to those with incomes at or below 400 percent of federal poverty level (FPL), making them eligible for tax credits.

Looking specifically at young adults age 21–27 purchasing nongroup insurance today, two-thirds will be protected by Medicaid/CHIP or exchange-based subsidies under reform; two-thirds of the remainder are under age 26 and in homes where their parents have employer-based coverage for which they are eligible under the ACA's dependent coverage provisions.

Conclusion

The ACA will significantly reduce the age-related variations in premiums charged to adults and families purchasing the same coverage in the nongroup insurance market. While the ACA will increase costs for young adults and families purchasing such coverage, the out-of-pocket implications of this provision have frequently been over-stated. Analysis shows that large majorities of young adults purchasing nongroup insurance today—as well as those expected to purchase such coverage when the ACA is fully implemented in 2014—will be shielded from the increases brought about by the tighter age rating rules. Expanded Medicaid eligibility and federal subsidies for purchasing coverage through state exchanges should help prevent large numbers being pushed out of the market, as some claim will happen.

For more information, read the full report funded by the Robert Wood Johnson Foundation and prepared by researchers at the Urban Institute.

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