

Why the ACA's Limits on Age-Rating Will Not Cause "Rate Shock": Distributional Implications of Limited Age Rating Bands in Nongroup Health Insurance

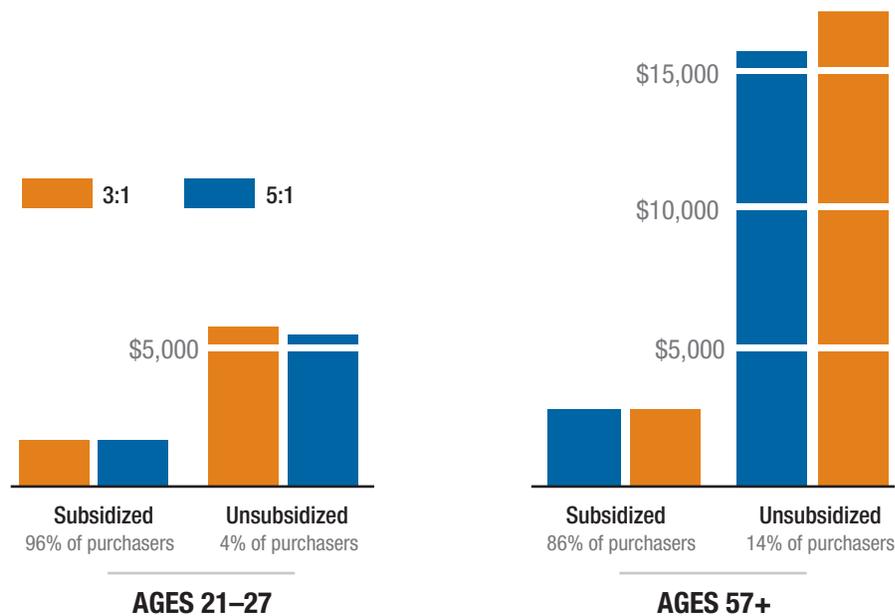
Quick Takes from the Urban Institute's Health Policy Center

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The potential impact on young adults of the Affordable Care Act's new age rating rules has engendered intense reactions from insurers. Concerns focus on whether limiting the premium for a 64 year old to no more than three times the premium for a 21 year old buying the same coverage will substantially increase health insurance premiums paid by young adults, pushing them out of the nongroup insurance market and leaving them uninsured. This brief shows that "loosening" the law's maximum age bands would have very little effect on out-of-pocket spending by young nongroup purchasers, once subsidies are taken into account.

- Given the age-rating gradient HHS has adopted in regulations, premiums for people age 28 to 56 would be very similar regardless of the age rating limits chosen; premium variation across the rating scenarios is concentrated in the age groups of 21-27 and 57 and above.
- Although the average premiums insurers will charge for 21-27 year-olds are lower under 5:1 than under 3:1 rating, subsidies these purchasers receive will leave average out-of-pocket premiums almost identical under the two methods. Over 90 percent of young adults age 21-27 purchasing single nongroup coverage in the exchanges receive significant subsidies that limit their costs as a share of their income.

Average Health Expenditures (Premium & Out-of-Pocket) for Younger and Older Adults Purchasing Single Policies Through the ACA's Nongroup Exchanges



Source: The Urban Institute's Health Insurance Policy Simulation Model (HIPSM).

Simulated as in 2017. Young adult catastrophic plans not modeled as an option. "Subsidized" refers here to those with incomes at or below 400% of the federal poverty level who are income-eligible for subsidies. However, a small number of these are individuals with access to an affordable offer of employer coverage which makes them ineligible for the tax subsidies.