

Individual Insurance Basics

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Factors That May Determine Individual Premiums

Personal characteristics

- Age
- Gender
- Smoking status
- History of acute/chronic conditions
- Family size (e.g., single, two adults, adult and children, family)

Product characteristics

- Delivery system (HMO vs. PPO)
- Cost sharing (e.g., deductible level)
- Networks

Geography

- Utilization and unit cost differences
- Population characteristics
- Other factors

Individual Health Insurance Rules Vary from State to State

- 43 states allow underwriting
- Most states *do not*
 - require guaranteed issue
 - restrict pre-existing condition exclusions
 - limit premium variation to a significant degree
 - 7 states have pure or adjusted community rating
 - 11 states have rate bands
 - Some have limits on premium rate-ups

Adjusted Community Rating vs. Rate Bands

Adj. Community Rating

- Rating factors include
 - Age/gender
 - Plan type
 - Geog. region
 - Smoking status/other behaviors (sometimes)
- Every person in a class has the same premium
- Limits on the allowed range of premiums

Rate Bands

Rating factors include

- Age/gender
 - Plan type
 - Geog. region
 - Health status
 - Smoking status
- Each person may have a different premium
 - Premiums can vary widely depending on allowable variation and required limits

Current Individual Rating

- Rating factors and cost differences
 - Age: Difference in cost based on age is about 6:1 for adults under 65.
 - Gender: Females more expensive than males until about age 55; males more expensive after 55.
 - Health: Health status is the source of greatest cost variation.
- Premium ranges vary
 - Community/adjusted community rates in 7 states using age and gender with narrow premium ranges
 - Some states have no limits on premiums ranges

Outcomes Where Underwriting and Premium Variation Permitted

- Sales agent/broker “field underwriting” discourages some potential applicants with health conditions from applying
- Possible results for applicants:
 - Offers with standard rates—about 70% of applicants
 - Offers with “rate-up” premiums or policies that exclude pre-existing conditions—about 10-15% of applicants
 - Denials for those with certain conditions—about 10%-15% of applicants

Proposed Rating Factors and Rate Band Widths (Senate)

SFC Options

- Tobacco use (1.5:1)
- Age (5:1)
- Family composition
 - Single (1:1)
 - Adult w/child (1.8:1)
 - Family (3:1)
 - Two adults (2:1)
- Geography
- Rate variation not to exceed 7.5:1 for a single individual

HELP Draft

- Age (2:1)
- Family Structure
- Geography
- No band width specified for other factors
- No comprehensive limit specified

Proposed Rating Factors and Rate Band Widths (House)

House Democrats

- Age (2:1)
- Family enrollment
- Geography (“premium rating area”)
- No band width specified for other factors
- No comprehensive limit specified

Current Individual Coverage Varies Widely

- Average deductible is \$1,700
- Roughly 10-20% of policies in each category:
 - Hospital copayment only
 - \$500 deductible
 - \$1,000 deductible
 - \$1,500 deductible
 - \$2,500 deductible
 - \$3,000+ deductible

Source: Draft AcademyHealth paper using AHIP Survey Data -- soon to be published.

Proposed Benefit Packages (Senate)

SFC Option

- Actuarial value levels* for coverage
 - Platinum: 90%
 - Gold: 81%
 - Silver: 73%
 - Bronze: 65%
- Out-of-pocket limits
- No lifetime limits
- No/nominal cost sharing for preventive services

HELP draft

- Actuarial value levels* for coverage
 - High: 93%
 - Medium: 84%
 - Basic: 76%
- Out-of-pocket limits
- No lifetime or annual limits
- No cost sharing for preventive services

*Actuarial value levels are the shares of the total Allowed Cost of the benefits provided that are paid by the plan. BCBS Standard Plan in FEHBP is ~83%.

Proposed Benefit Package (House)

House Democrats

- Actuarial value levels* for coverage
 - Premium Plus: Premium level of benefits + oral & vision
 - Premium: 95%
 - Enhanced: 85%
 - Basic: 70%
- Out-of-pocket limits (\$5K individual/\$10K family for essential benefits package)
- No lifetime or annual limits
- No cost sharing for preventive items and services