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Interpreting Obamacare's Premium Estimates for 2014

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In recent weeks, several organizations have released studies projecting premiums in Obamacare's new exchanges next year. However, many of these studies suffer from the same flaw: They ignore or minimize the fact that, due to Obamacare, individuals will be forced to buy levels of health insurance that they may not need or want. As a result, average insurance premiums on the individual health insurance market will rise significantly in most states.

Apples and Oranges. In its recent issue brief estimating exchange premiums for 2014, the Kaiser Family Foundation noted many new changes in insurance regulation taking effect next year due to Obamacare. For instance, new requirements regarding "essential health benefits" will expand the breadth of insurance offerings—requiring plans to cover additional categories of treatments, such as habilitative services—while new requirements regarding actuarial value will expand insurance plans' depth—that is, the percentage of expected health expenses covered by health insurance. The Kaiser brief argued:

> These [and other] changes make direct comparisons of exchange premiums and existing individual market premiums complicated.... Therefore, we do not attempt to compare the exchange premiums to existing market rates in this report.[1]

As a result, rather than comparing next year's premium projections with existing rates, the Kaiser brief focused on the point that early premium projections in some states may be below prior Congressional Budget Office (CBO) estimates.[2]

However, such statements ignore a key element that then-Senator Barack Obama used during his presidential campaign to sell people on his health care plan:

> For those who have insurance now, nothing will change under the Obama plan—except that you will pay less. Obama's plan will save a typical family up to $2,500 on premiums by bringing the health care system into the 21st century.[3]

Candidate Obama did not promise that "you will pay more for insurance, but you will get a better health plan in return." He explicitly promised that "you will pay less." And by refusing to compare existing premiums to the higher rates individuals will face on exchanges next year, the Kaiser study avoids facing this clear broken promise.

Mandates Raising Premiums. A report by the Rand Corporation, requested and funded by the Department of Health and Human Services, estimated "a 22 percent increase in average premiums" due to Obamacare next year, "with several states experiencing an increase of 30 percent or more."[4]

However, the report went on to argue that "average premium increases can be very misleading because they do not adjust for changes in benefit

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generosity (measured by actuarial value)" and other factors. After adjusting for those factors, Rand concluded that "there could be a decline in total premiums for the United States"[5]—and it was this conclusion that drew the greatest amount of press attention.[6]

However, the Rand study's conclusion that, after adjusting for actuarial value, premiums will not increase under Obamacare next year misses the point. Premiums will increase next year precisely *because* Obamacare *requires* an increase in actuarial value.

A study in *Health Affairs* from May 2012 found that most insurance plans purchased by individuals did not meet Obamacare's actuarial value requirements.[7] The article's title makes the point clear: "More Than Half of Individual Health Plans Offer Coverage That Falls Short of What Can Be Sold Through Exchanges as of 2014." Because Obamacare requires most exchange plans to carry an actuarial value—that is, the percentage of expected health expenses covered by insurance—of at least 60 percent, those individuals currently in plans that do not meet the requirement will have to purchase richer coverage beginning next year, thus raising their premiums.

When analyzing Obamacare premiums in 2009, the CBO agreed that the law's mandated benefits would raise health insurance premiums:

> Average premiums [under Obamacare] would be 27 percent to 30 percent higher because a greater amount of coverage would be obtained. In particular, the average insurance policy in this market would cover a substantially larger share of enrollees' costs for health care (on average) and a slightly wider range of benefits. Those expansions would reflect both the minimum level of coverage (and related requirements) specified in the proposal and people's decisions to purchase more extensive coverage in response to the structure of subsidies.[8]

The CBO notes that the "minimum level of coverage" prescribed in the law will result in insurance covering "a substantially larger share of enrollees' costs for health care"—exactly the changes in actuarial value that the Rand study ignores.

The Rand study contains other methodological flaws. It assumes, for instance, that "all smokers" will face surcharges for tobacco usage,[9] even though a recent "computer glitch" means insurers will not be

1. Cynthia Cox et al., "An Early Look at Premiums and Insurer Participation in Health Insurance Marketplaces, 2014," Kaiser Family Foundation, September 5, 2013, p. 1, http://kaiserfamilyfoundation.files.wordpress.com/2013/09/early-look-at-premiums-and-participation-in-marketplaces.pdf (accessed September 13, 2013).
2. Ibid., p. 8. The Kaiser brief claims that the latest CBO projections "imply that the premium for a 40-year-old in the second lowest cost silver plan would average $320 per month nationally" and that projected premium rates in most of the states examined fall below this figure. However, neither in the issue brief nor in its interactive subsidy calculator (http://kff.org/interactive/subsidy-calculator/) does Kaiser fully explain the methodology used to derive the $320 per month figure.
3. Obama for America, "Background Questions and Answers on Health Care Plan," 2008 campaign document, http://www.scribd.com/doc/191306/barack-obama-08-healthcare-faq (accessed September 13, 2013).
4. Christine Eibner et al., "The Affordable Care Act and Health Insurance Markets: Simulating the Effects of Regulation," Rand Corporation, September 2013, p. 22, http://www.rand.org/content/dam/rand/pubs/research_reports/RR100/RR189/RAND_RR189.pdf (accessed September 13, 2013).
5. Ibid., p. 23.
6. See, for instance, Elise Viebeck, "No Widespread Premium Increases Coming Under Obamacare, Study Says," *The Hill*, August 29, 2013, http://thehill.com/blogs/healthwatch/health-reform-implementation/319381-no-widespread-premium-increases-coming-under-obamacare-study-says (accessed September 13, 2013).
7. Jon Gabel et al., "More Than Half of Individual Health Plans Offer Coverage That Falls Short of What Can Be Sold Through Exchanges as of 2014," *Health Affairs* (May 2012), http://content.healthaffairs.org/content/early/2012/05/22/hlthaff.2011.1082 (accessed September 13, 2013).
8. Congressional Budget Office, letter to Senator Evan Bayh (D–IN) regarding premium effects of the Patient Protection and Affordable Care Act, November 30, 2009, p. 6, http://cbo.gov/sites/default/files/cbofiles/ftpdocs/107xx/doc10781/11-30-premiums.pdf (accessed September 13, 2013).
9. Eibner et al., p. 9.

able to impose the full tobacco surcharge for "at least a year."[10] And the Rand model also does "not allow for the possibility that firms might reduce worker hours or change size in response to" Obamacare[11]—even though many firms have been doing just that.[12] However, the study's biggest shortcoming is its lack of discussion of the mandates in Obamacare, particularly the actuarial value requirements, that will raise premiums for many Americans.

Stop Obamacare. Even before all state exchanges release their premium data, the evidence is clear: Overall, Obamacare's benefit mandates will raise premiums, not lower them—and candidate Obama's promise to lower rates by $2,500 per family amounts to a massive broken promise. For these reasons and more, Congress should use its "power of the purse" to stop Obamacare before these new costly mandates take effect on January 1.

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10. Ricardo Alonso-Zaldivar, "Another Obamacare Glitch: Computer Problem Temporarily Limits Penalties for Smokers," Associated Press, July 9, 2013, http://www.foxnews.com/politics/2013/07/09/another-obamacara-glitch-computer-problem-temporarily-limits-penalties-for/ (accessed September 13, 2013).
11. Eibner et al., p. 8.
12. Jed Graham, "Obamacare: 258 Employers Cut Work Hours, Jobs in New IBD Scorecard," *Investor's Business Daily*, September 4, 2013, http://news.investors.com/politics-obamacare/090413-669682-obamacare-employer-mandate-spurs-work-hours-job-cuts.htm (accessed September 13, 2013).