

The Price of Obamacare's Broken Promises

Young Adults and Middle Class Families Set to Endure Higher Premiums and Unaffordable Coverage



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INTRODUCTION

Supporters of the Patient Protection and Affordable Care Act (PPACA), otherwise known as Obamacare, have long asserted that the law would lower health care costs for individuals and families. President Obama's promise that premiums would decrease by \$2,500 has been broken. Since 2008, the average family premium has instead grown by over \$3,000.ⁱ Even more shocking is that these increases occurred before Obamacare's most costly requirements go into effect in 2014.

So what can the average American still reeling from a weak economic recovery, expect once the president's signature accomplishment is fully implemented? Studies and analyses from the Congressional Budget Officeⁱⁱ, independent actuaries, state insurance commissioners, health plans, benefit consultants, and others have reached the same conclusion: Obamacare will significantly increase premiums. Both opponents and supporters of the law have come to this conclusion. By how much will remain unknown until plan rates are submitted. However, we do have projections on what to expect in 2014. Some estimates show some Americans facing startling premium increases of 203 percent because of the lawⁱⁱⁱ. A study by actuarial firm Oliver Wyman suggests premiums in the individual market will increase an average of 40 percent.^{iv} The Society of Actuaries similarly estimates an average premium increase of 32 percent in the individual market.^v

“Large rate increases in the individual insurance market are likely...”

**- Gov. Jerry Brown (D-CA)
2013-14 Budget Summary**

At a time of negative economic growth and sluggish job creation, middle class families are struggling to make ends meet. Higher health care premiums are the last thing single young adults and working families can afford. Yet contrary to what the president promised, that is exactly what Obamacare is projected to do.

This report compiles data from over 30 studies and analyses that examine the effect of Obamacare provisions on health care premiums in the individual and small group market.^{vi} Experts point to a handful of Obamacare's requirements as the largest drivers of higher costs. These provisions include guaranteed issue, community rating, essential health benefit requirements, and new taxes and fees on insurance plans, drugs, and medical devices.

“Most people under the age of 50 will see their rates increase significantly.”
- Oliver Wyman consultants

When the law passed, it was no secret that similar reforms to health insurance markets at the state level lead to death spirals in risk pools, rate spikes that made insurance unaffordable, and issuers all together exiting insurance markets.

This report outlines the increase in premiums that Americans are projected to face because of Obamacare, describes the provisions of the law driving the premium spike, and provides historical examples of how state laws similar to Obamacare's key provisions made health coverage unaffordable.

OBAMACARE PROJECTIONS SHOW MASSIVE PREMIUM INCREASES

Studies issued or commissioned by governors, insurance commissioners, plans, and independent actuaries have provided a glimpse into the shocking price increases individuals, families, and employers will face in 2014 as a result of the president's health care law.

Despite the availability of \$1 trillion in subsidies, Americans across the country will still pay a higher premium in 2014 as a result of Obamacare. In fact, households earning as little as \$46,000 will receive no premium assistance, yet they will be forced to accept unaffordable premium increases as a result of Obamacare's mandates and regulations nonetheless. Even after receiving subsidies, Americans earning as little as \$25,000 will still pay more.^{vii}

The tables below provide estimates of how the law is projected to increase unsubsidized premiums in all 50 states. In some instances, a range is provided to reflect differing estimates found in multiple studies or a range provided in one study. Citations to full reports are included to provide full contextual analysis and assumptions related to methodology, modeling, and medical inflation.^{viii} It is important to note that some populations will likely face premium increases in the individual market substantially higher than shown on this table.

Estimated Increases in Individual Market Premiums Due to Obamacare, by State

State	Premium Increase	State	Premium Increase	State	Premium Increase
Alabama	61%	Louisiana	56%	Ohio	55% to 106%
Alaska	30% to 80%	Maine	40%	Oklahoma	65% to 100%
Arizona	65% to 100%	Maryland	34 % to 39%	Oregon	27% to 55%
Arkansas	61% to 100%	Massachusetts	39%	Pennsylvania	39%
California	42% to 61%	Michigan	35% to 65%	Rhode Island	8% to 39%
Colorado	19% to 41%	Minnesota	29% to 56%	South Carolina	61%
Connecticut	39% to 64%	Mississippi	61%	South Dakota	56%
Delaware	61%	Missouri	61% to 106%	Tennessee	61% to 100%
Florida	61%	Montana	61%	Texas	35% to 65%
Georgia	61% to 100%	Nebraska	61%	Utah	56% to 90%
Hawaii	56%	Nevada	50% to 56%	Vermont	***
Idaho	65% to 100%	New Hampshire	19% to 39%	Virginia	75% to 82%
Illinois	61%	New Jersey	39%	Washington	39%
Indiana	61% to 106%	New Mexico	56%	West Virginia	56%
Iowa	56% to 100%	New York	***	Wisconsin	34% to 106%
Kansas	61%	North Carolina	61%	Wyoming	61% to 100%
Kentucky	65% to 106%	North Dakota	56%		

***Since these states already hyper regulate their insurance market, their significantly higher premiums are unlikely to change.

Obamacare Impact on Young Adults in the Small Group Market

<u>City</u>	<u>Current Premium</u>	<u>Obamacare Premium</u>	<u>Percentage Increase</u>
Chicago	\$22,380	\$54,612	144%
Phoenix	\$20,880	\$48,900	134%
Atlanta	\$29,400	\$73,056	148%
Austin	\$21,672	\$52,152	141%
Milwaukee	\$28,488	\$78,744	176%
Average Annual Increase	\$24,654	\$61,488	145%

Obamacare Impact on Young Adults in the Individual Market

<u>City</u>	<u>Current Premium</u>	<u>Obamacare Premium</u>	<u>Percentage Increase</u>
Chicago	\$756	\$2,268	202%
Phoenix	\$516	\$1,428	180%
Atlanta	\$612	\$1,716	179%
Austin	\$648	\$1,836	183%
Milwaukee	\$696	\$2,100	203%
Average Annual Increase	\$648	\$1872	189%

“We estimate that almost 80 percent of those ages 21 to 29 with incomes greater than 138 percent of FPL who are enrolled in nongroup single coverage can expect to pay more out of pocket for coverage than they pay today—even after accounting for premium assistance.”

- *Oliver Wyman consultants*

RATE SHOCK FOR YOUNG AMERICANS

Obamacare failed to address the relationship between premium increases and health insurance costs in the United States. Premiums continue to be based on the growth in health care spending and government rules that govern insurance rates. Since Obamacare imposed several new regulations that make coverage unaffordable, premiums will only grow further out of control. In the case of young adults, the premium spike will be even more painful.^{ix} Oliver Wyman estimates that 80 percent of young Americans earning over \$16,000 will pay more out of pocket for coverage than they pay today.^x

As the law is fully implemented, the individuals trying to find a job in a sluggish economy will be saddled with another financial burden: unaffordable health coverage.

“We're going to see some markets go up by as much as 100%.”

-*Mark Bertolini, CEO, Aetna*

WHY AMERICANS WILL PAY MORE UNDER OBAMACARE

Upon implementation, a handful of Obamacare provisions will significantly add to the premiums that individuals and families will feel in 2014. These requirements include:

- **Guaranteed Issue and Community Rating:** These requirements mandate that all applicants receive a policy and force individuals to pay the same premiums regardless of future anticipated medical expenses. These price controls on health insurance have proved disastrous when enacted at the state level – wreaking havoc on insurance markets leading to limited consumer choice and dramatically higher premiums. An Oliver Wyman study concluded that because of these requirements, “most people under the age of 50 will see their rates increase significantly.”

- **Essential Health Benefits:** Obamacare includes several requirements that individuals purchase more expensive health insurance known as essential health benefits. This includes coverage for categories of benefits (for example, coverage for preventive and wellness services, chronic disease management, rehabilitative and

“Pricing will go up for all populations and some more so than others.”

- *Robert Hurley,
eHealthInsurance*

habilitative services). In addition, the law requires consumers to purchase plans that cover at least 60 percent of medical costs with limited cost-sharing. These requirements restrict consumer choice in the design of their health plans and add to the premiums that individuals and families pay upfront. CBO found that these requirements increase premiums because plans “would cover a substantially larger

“Small employers purchasing new policies ...will experience premiums up to 20% higher...”

- *Oliver Wyman consultants*

share of enrollees’ costs for health care (on average) and a slightly wider range of benefits.” A study by the Council for Affordable Health Insurance (CAHI) found that in some state markets, mandated benefits increased premiums by as much as 50 percent.^{xi} One state estimates that essential health benefits will increase premiums by 33 percent for their residents.^{xii}

Taxes and Fees on Plans, Drugs, and Medical Devices: Obamacare imposes \$165 billion in new taxes and fees on health plans, drug manufacturers, and device makers. As noted by CBO in the case of plans and devices, these “fees would be largely passed through to consumers in the form of higher premiums.”^{xiii} One study has found that the law’s health insurance tax will increase premiums over \$2,636 and \$7,186 over a decade.^{xiv} The Department of Health and Human Services (HHS) recently announced that plans sold on Obamacare’s new federal exchanges would also be assessed a 3.5 percent fee on sales. This fee will inevitably be passed to consumers in the form of higher premiums. According to CBO premium projections, the annual cost of this fee alone is \$180 for individual and \$500 for families.

OBAMACARE'S PRICE CONTROLS: A FAILED IDEA FROM THE PAST

The government-centered command and control structures under Obamacare are not untested ideas. In fact, a handful of states have already imposed heavy-handed requirements on health coverage and ended up saddling families with fewer choices and higher premiums. These new mandates were touted as consumer protections, similar to the claims the administration has made regarding Obamacare. However, these “protections” led to major premium increases and fewer plan options for individuals and families seeking affordable health coverage.

In New York in 1993, premiums for some individuals increased by 170% only one month after passing Obamacare style regulations...

In the mid-1990s, eight states—Kentucky, Maine, Massachusetts, New Hampshire, New Jersey, New York, Vermont, and Washington—enacted Obamacare-like “reforms” such as guaranteed issue and community rating in their insurance markets. As a result, the residents of these eight states faced unaffordable premiums and reduced plan choices. For example:

- In 1993, a 30 year old male and female in New York paid, on average, annual premiums of \$1,200 and \$1,800, respectively. One month after passing Obamacare like reforms, premiums skyrocketed to \$3,240. For some, premiums increased by 170 percent.^{xv}
- Also in 1993, Washington enacted Obamacare like reforms and consumer choice swiftly shrunk by dramatic proportions. At the time, 19 insurance carriers wrote policies for state residents. By 1999, only two carriers were left in the state. Premium increases led to a 33 percent increase in the uninsured in the same time span^{xvi}.
- In 1994, New Jersey implemented Obamacare-like guaranteed issue and community rating requirements. Rates generally increased 50 percent or more per year for the next decade.^{xvii} After Massachusetts enacted Obamacare like price controls in 1996, 20 carriers were forced from the insurance market. The *Associated Press* reported that before enactment of the 1996 law, premiums as low as \$25 per month were available for younger residents in the state. After the law was passed, premiums for the same individual could be \$600 a month or more.^{xviii}
- In Kentucky, average premiums jumped between 36 and 165 percent after Obamacare like reforms were enacted.^{xix} Insurance providers dwindled to just one.

Even the left-leaning Center for American Progress (CAP) recognized the turbulence caused by these laws in statue insurance markets:

“...Massachusetts, along with several other northeastern states passed insurance market reforms similar to those in the Affordable Care Act, eliminating or restricting the ability of insurance companies to discriminate against the ill either in prices or coverage exclusions. The result in each state was very high nongroup insurance prices....”^{xx}

THE INDIVIDUAL MANDATE EXPERIMENT

These mandates at the state level create an incentive to delay purchasing health coverage until medical attention is needed – leading to higher premiums across the board. As a

proponent of the law, CAP clings to the belief that Obamacare's individual mandate requirement will address this issue of waiting until care is needed to purchase a health plan, a practice which leads to premium increases. However, most experts believe Obamacare's individual mandate will not protect against premium sticker shock. In 2014, the law's penalty is less than \$8 a month. By comparison, the average cost of individual coverage in the employer-sponsored insurance market is \$468 per month for individuals and \$1,312 per month for families. This contrast means that many Americans will pay the Obamacare penalty rather than buy coverage – potentially leading to an insurance “death spiral” and skyrocketing premiums. In fact, reports indicate that HHS may now be considering emergency options to slow the rate shock coming in 2014.^{xxi}

CONCLUSION

Taking into account empirical evidence from past state-level experiences, as well as future projections, upon implementation Obamacare will make coverage dramatically more expensive and unaffordable for individuals and families. In short, Obamacare breaks its core promise to make health care coverage affordable as Americans across the country swallow higher premiums. From young adults to middle class families, higher premiums will soon be the harsh reality of Obamacare.

ⁱ Kaiser Family Foundation. *Employer Health Benefits: 2012 Annual Survey*. September 2012

ⁱⁱ Congressional Budget Office (CBO). *An Analysis of Health Insurance Premiums Under the Patient Protection and Affordable Care Act*. November 30, 2009.

ⁱⁱⁱ American Action Forum. *Insurance Premiums in 2014 and the Affordable Care Act: Survey Evidence*. January 2013.

^{iv} Gisea, Kurt and Carlson, Chris. *My Generation*. Contingencies. January 2013.

^v Society of Actuaries. *Exposure Draft: Cost of the Future Newly Insured under the Affordable Care Act (ACA)*. December 2012.

^{vi} People who don't receive health coverage through their employer or the government sometimes buy coverage directly from insurers as individuals on the non-group market, otherwise known as the individual market. Small employers who don't self-insure also buy coverage from insurers directly through the small group market. While Obamacare imposes substantial requirements and burdens and across the health care sector and economy, the focus of this report is how the law's provisions will affect premiums in the individual market, small group market, and Obamacare's newly formed exchanges.

^{vii} *My Generation*

^{viii} Dillon, David M., and Stantz, Brian C., *Design Options for Health Insurance Exchange-Actuarial Analysis: State of Alaska, Department of Health and Social Services, Division of Health Care Services*. June 2012.

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Wellpoint, *Health Care Reform Premium Impact in Wisconsin-December 2009 Addendum*.

^{ix} *Survey Evidence*.

^x *My Generation*

^{xi} Council for Affordable Health Insurance. *Health Insurance Mandates in the States 2011*. January 2011.

^{xii} Gorman Actuarial, et al., *The Impact of the ACA on Maine's Health Insurance Markets*. May 31, 2011.

^{xiii} *Analysis of Health Insurance Premiums Under PPACA*.

^{xiv} Oliver Wyman. *Estimated Premium Impacts of Annual Fees Assessed on Health Insurance Plans*. October 31, 2011

^{xv} Council for Affordable Health Insurance. *Destroying Insurance Markets*. 2005.

^{xvi} America's Health Insurance Plans. *Washington State's 1993 Experiment*. 2012.

^{xvii} Milliman. *The Impact of Guaranteed Issue and Community Rating Reforms on States' Individual Insurance Markets*. March 2012.

^{xviii} *Destroying Insurance Markets*.

^{xix} *Ibid*.

^{xx} Center for American Progress. *Health Care Reform Without an Individual Mandate*. February 9, 2011.

^{xxi} Nather, David. *Obamacare Mandate May be Mandate Plus*.