

Health Care Reform Premium Impact in California—DECEMBER 2009 ADDENDUM

This paper updates WellPoint's October 2009 analysis of how health care reform proposals would impact premiums in California to reflect changes in the Patient Protection and Affordable Care Act (S. Amdt. 2786 to H.R. 3590) that have been made as the legislation moves through Congress, including:

- 1. Revised product requirements, including an "actuarial value floor" of 60% in S. Amdt. 2786 to H.R. 2590 (previously 65% in the Senate Finance Committee bill).*
- 2. Revised thresholds for the high-cost health insurance tax, set at \$8,500 per year for single coverage and \$23,000 for family coverage (previously \$8,000 and \$21,000, respectively).*

The other components of the analysis are unchanged, as there have been no substantial changes to those provisions of the legislation.

Summary of Premium Cost Impact Analysis for Market Reforms—Percent Increase

	Younger/ Healthy	Average Age/ Average Health	Older/ Less Healthy
Individual	106%	42%	-41% (decrease)
Small Employer	31%	18%	0%

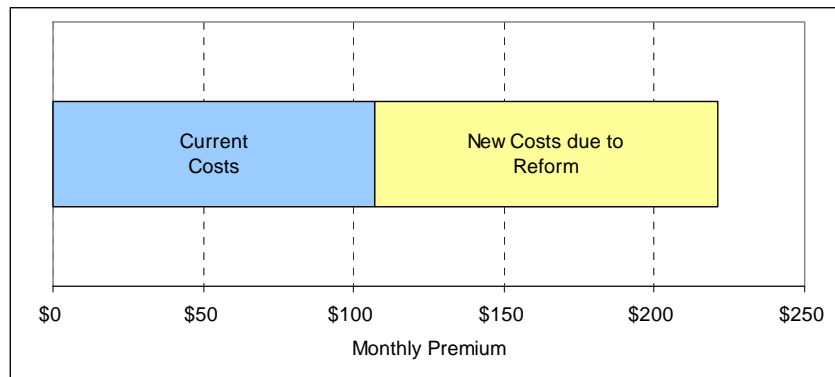
Note: Percent increase shown before any adjustment for the increase in medical costs over time or the application of any subsidies.

Individual Market Case #1: Younger/Healthier 25-Year Old Male in Los Angeles, CA

Product: Contract Type, Gender and Subscriber Age: Underwriting Class:	SmartSense 2,500 Comprehensive Rx Single Male Age 25 Preferred (Best)	
	Single Monthly Premium	% Increase
Current premium	\$107	
Impact of guaranteed issue and no effective individual mandate, resulting in many waiting to purchase until services are needed	\$161	50%
Limiting age discount to 3:1; eliminating gender rating	\$194	21%
Eliminating health status discount	\$204	5%
Requiring higher benefit level (60% actuarial value and required new benefits)	\$212	4%
Health insurer \$6.7B annual tax	\$219	3%
Pharmaceutical tax and medical device tax	\$221	1%
Total Impact	\$107 to \$221	106%

Notes:

- Methodology for each element presented in the Appendix of original analysis.
- Impact for guaranteed issue with no effective mandate expected to be in the range of 20% to 80%; the midpoint of 50% is shown.
- Display reflects costs for new sales; to the extent that pre-reform benefits and rating rules are grandfathered, existing members will initially experience minimal impacts post-reform. However, new purchasers will face these pricing changes.
- In S.Amdt.2786 to H.R. 3590, those under 30 or exempted from the mandate for financial hardship are eligible to purchase a product with more modest benefits.



Taxpayer Subsidy Offset

The table above shows the underlying cost of the premium, which is representative of the cost charged to the insurance exchange. The following table shows the extent to which this individual may be eligible for premium assistance in the exchange (which is available for individuals up to 400% of the federal poverty level).

Federal Poverty Level: Premium Subsidy	Reform Premium after Subsidy	Total Impact after Subsidy
100% - 150%: 90% subsidy	\$22	-79%
150% - 200%: 74% subsidy	\$57	-46%
200% - 250%: 54% subsidy	\$102	-5%
250% - 300%: 26% subsidy	\$163	53%
300% - 350%: 2% subsidy	\$217	102%
350% - 400%: 0% subsidy	\$221	106%
400%+: 0% subsidy	\$221	106%

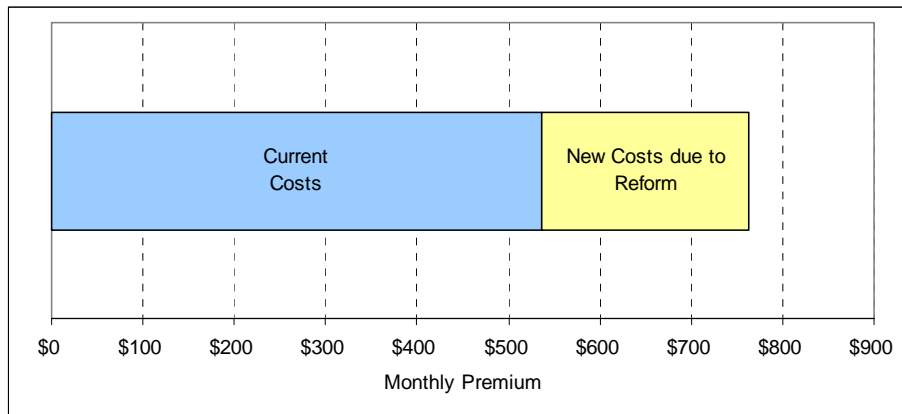
The Senate amendment also includes reinsurance that would subsidize a portion of the costs for high-risk individuals purchasing coverage. However, this proposal will phase-out after three years and the total amount available amounts to \$20 billion, which is less than 10% of the expected premium cost over this period.

Individual Market Case #2: 40-Year Old Family with 2 Children, Average Health Status in Los Angeles, CA

Product: Contract Type, Gender and Subscriber Age: Underwriting Class:	SmartSense 2,500 Comprehensive Rx Family with 2 Children Age 40 Standard	
	Family Monthly Premium	% Increase
Current premium	\$536	
Impact of guaranteed issue and no effective individual mandate, resulting in many waiting to purchase until services are needed	\$804	50%
Limiting age discount to 3:1; eliminating gender rating	\$850	6%
Eliminating health status discount	\$705	-17%
Requiring higher benefit level (60% actuarial value and required new benefits)	\$733	4%
Health insurer \$6.7B annual tax	\$755	3%
Pharmaceutical tax and medical device tax	\$763	1%
Total Impact	\$536 to \$763	42%

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Federal Poverty Level: Premium Subsidy	Reform Premium after Subsidy	Total Impact after Subsidy
100% - 150%: 93% subsidy	\$53	-90%
150% - 200%: 82% subsidy	\$137	-74%
200% - 250%: 67% subsidy	\$252	-53%
250% - 300%: 48% subsidy	\$397	-26%
300% - 350%: 32% subsidy	\$519	-3%
350% - 400%: 22% subsidy	\$595	11%
400%+: 0% subsidy	\$763	42%

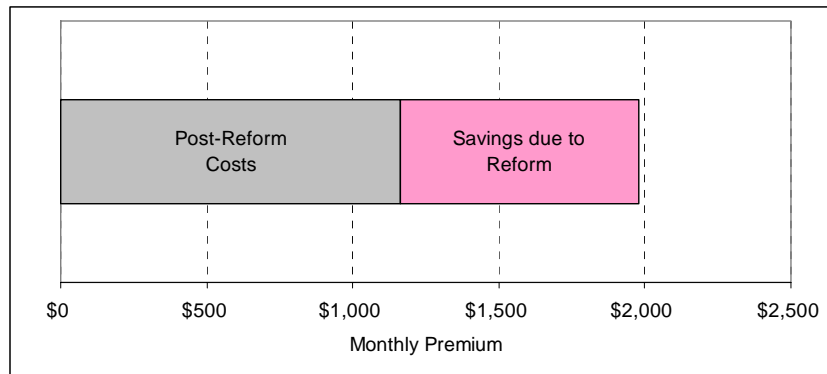
The Senate amendment also includes reinsurance that would subsidize a portion of the costs for high-risk individuals purchasing coverage. However, this proposal will phase-out after three years and the total amount available amounts to \$20 billion, which is less than 10% of the expected premium cost over this period.

Individual Market Case #3: 60-Year Old, Less-Healthy Couple in Los Angeles, CA

Product: Contract Type, Gender and Subscriber Age: Underwriting Class:	SmartSense 2,500 Comprehensive Rx Couple Age 60 Worst (Highest UW Class)	
	Couple Monthly Premium	% Increase
Current premium	\$1,979	
Impact of guaranteed issue and no effective individual mandate, resulting in many waiting to purchase until services are needed	\$2,968	50%
Limiting age discount to 3:1; eliminating gender rating	\$2,038	-31%
Eliminating health status discount	\$1,077	-47%
Requiring higher benefit level (60% actuarial value and required new benefits)	\$1,120	4%
Health insurer \$6.7B annual tax	\$1,153	3%
Pharmaceutical tax and medical device tax	\$1,165	1%
Total Impact	\$1979 to \$1165	-41%

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Taxpayer Subsidy Offset

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Federal Poverty Level: Premium Subsidy	Reform Premium after Subsidy	Total Impact after Subsidy
100% - 150%: 90% subsidy	\$116	-94%
150% - 200%: 74% subsidy	\$303	-85%
200% - 250%: 54% subsidy	\$536	-73%
250% - 300%: 26% subsidy	\$862	-56%
300% - 350%: 2% subsidy	\$1,142	-42%
350% - 400%: 0% subsidy	\$1,165	-41%
400%+: 0% subsidy	\$1,165	-41%

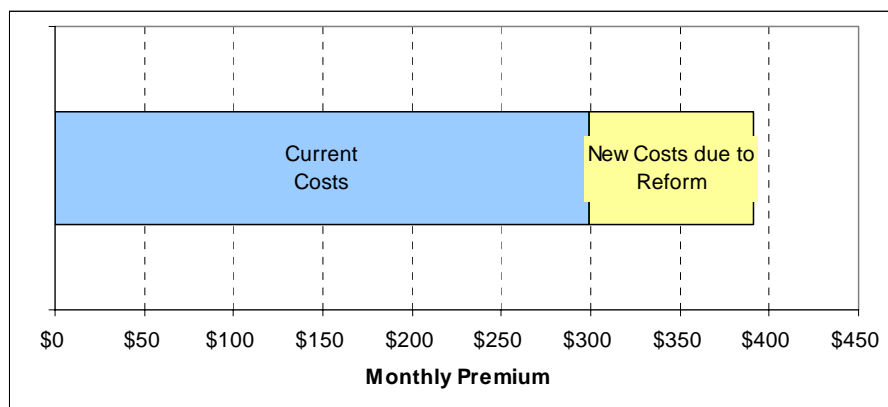
The Senate amendment also includes reinsurance that would subsidize a portion of the costs for high-risk individuals purchasing coverage. However, this proposal will phase-out after three years and the total amount available amounts to \$20 billion, which is less than 10% of the expected premium cost over this period.

Small Group Case #1: Younger/Healthier Small Employer with Eight Employees in Los Angeles, CA

Small Employer Market Health Reform Impact State: California		
Product:	PPO \$500 ded, 70% Coins	
Underwriting Class:	Preferred	
	Single Monthly Premium	% Increase
Current premium	\$299	
Impact of insurance market reform changes without an effective mandate	\$317	6%
Limiting age discount to 3:1; eliminating gender rating	\$322	2%
Eliminating health status discount	\$361	12%
Elimination of other current, actuarially-justified rating variables	\$361	0%
Requiring higher benefit level (60% actuarial value and required new benefits)		
a. Specific to chosen group	\$361	0%
b. Average for Small Group pool	\$376	4%
Health insurer \$6.7B annual tax	\$386	3%
High-cost health insurer tax		
a. Attributable to this group	\$386	0%
b. Allocated across insured pool	\$389	1%
Pharmaceutical tax and medical device tax	\$391	1%
Total Impact	\$299 to \$391	31%

Notes:

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- Higher costs for 60% actuarial value assume that a 60% actuarial value can be achieved with the other product constraints outlined in the bills, such as a deductible limit of \$2,000. It is possible that the deductible and out-of-pocket limit will not allow a 60% actuarial value.



Taxpayer Subsidy Offset

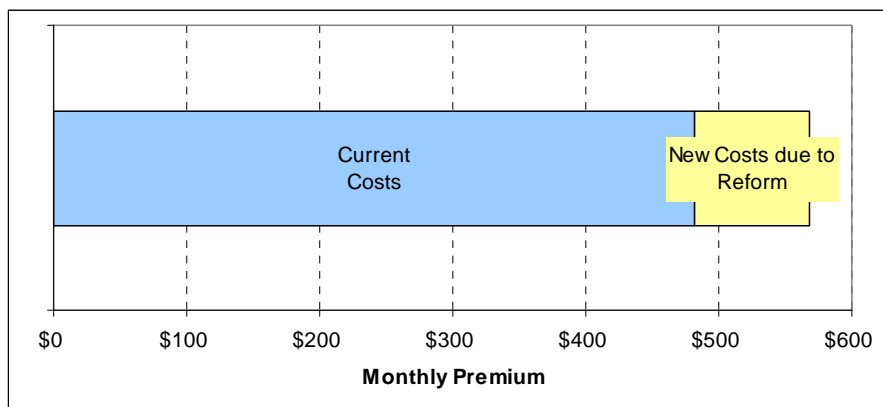
The table above shows the underlying cost of the premium, which is representative of the cost charged to the insurance exchange. However, certain businesses may be eligible for a small employer tax credit, which shifts a portion of the premium cost onto taxpayers. Eligibility for the tax credit is limited in several ways: employer size, wages of employees and only for the first two years coverage is purchased through the exchange. The Congressional Budget Office estimates that the small employer tax credit will cost about \$23 billion over 10 years, or \$2.3 billion per year. This amount reflects roughly 2% to 3% of small employer premiums across the U.S. and thus under this assumption will not likely broadly reduce premiums paid by small employers and their employees.

Small Group Case #2: Small Employer Exhibiting Average Ages and Health Status with Eight Employees in Los Angeles, CA

Small Employer Market Health Reform Impact State: California		
Product:	PPO \$500 ded, 70% Coins	
Underwriting Class:	Average	
	Single Monthly Premium	% Increase
Current premium	\$482	
Impact of insurance market reform changes without an effective mandate	\$511	6%
Limiting age discount to 3:1; eliminating gender rating	\$514	1%
Eliminating health status discount	\$524	2%
Elimination of other current, actuarially-justified rating variables	\$524	0%
Requiring higher benefit level (60% actuarial value and required new benefits)		
a. Specific to chosen group	\$524	0%
b. Average for Small Group pool	\$547	4%
Health insurer \$6.7B annual tax	\$561	3%
High-cost health insurer tax		
a. Attributable to this group	\$561	0%
b. Allocated across insured pool	\$565	1%
Pharmaceutical tax and medical device tax	\$568	1%
Total Impact	\$482 to \$568	18%

Notes:

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- Higher costs for 60% actuarial value assume that a 60% actuarial value can be achieved with the other product constraints outlined in the bills, such as a deductible limit of \$2,000. It is possible that the deductible and out-of-pocket limit will not allow a 60% actuarial value.



Taxpayer Subsidy Offset

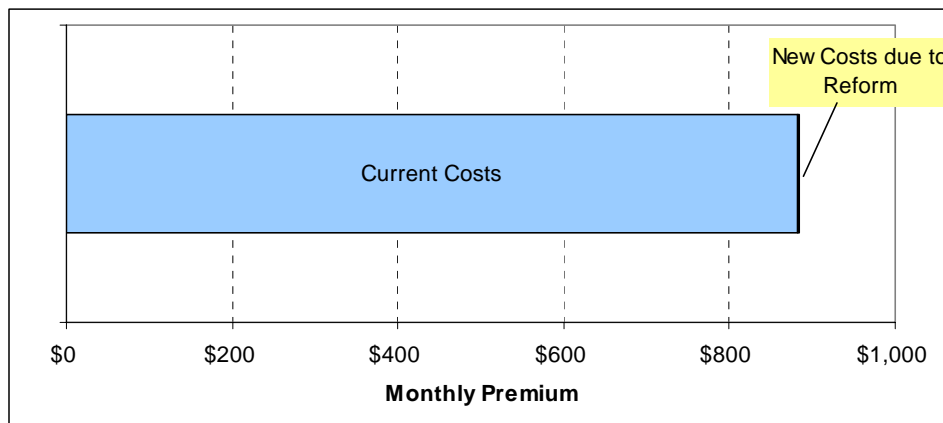
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Small Group Case #3: Older/Less Healthy Small Employer with Eight Employees in Los Angeles, CA

Small Employer Market Health Reform Impact State: California		
Product:	PPO \$500 ded, 70% Coins	
Underwriting Class:	Substandard	
	Single Monthly Premium	% Increase
Current premium	\$882	
Impact of insurance market reform changes without an effective mandate	\$935	6%
Limiting age discount to 3:1; eliminating gender rating	\$887	-5%
Eliminating health status discount	\$816	-8%
Elimination of other current, actuarially-justified rating variables	\$816	0%
Requiring higher benefit level (60% actuarial value and required new benefits)		
a. Specific to chosen group	\$816	0%
b. Average for Small Group pool	\$851	4%
Health insurer \$6.7B annual tax	\$873	3%
High-cost health insurer tax		
a. Attributable to this group	\$974	12%
b. Allocated across insured pool	\$880	1%
Pharmaceutical tax and medical device tax	\$884	1%
Total Impact	\$882 to \$884	0%

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- Higher costs for 60% actuarial value assume that a 60% actuarial value can be achieved with the other product constraints outlined in the bills, such as a deductible limit of \$2,000. It is possible that the deductible and out-of-pocket limit will not allow a 60% actuarial value.



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Appendix—Summary of Changes from Previous Analysis for Small Group Actuarial Value Requirements

The following is a high-level summary of how the new “actuarial value floor” of 60% in the S. Amdt. 2786 to H.R. 3590 changes the analysis from the previous requirement of 65% for the small group market by state.

State	% of Members Below 60% AV	% of Members Below 65% AV	Change in % of Members Affected	Average Increase Required to Meet 60% AV	Average Increase Required to Meet 65% AV	Change in Average Increase Required	Overall Increase to Average Premium (60% AV)	Overall Increase to Average Premium (65% AV)	Change in Overall Increase to Average Premium
California	23%	35%	-13%	19%	19%	0%	4.3%	6.8%	-2.5%
Colorado	9%	17%	-8%	16%	14%	2%	1.4%	2.4%	-0.9%
Connecticut	1%	4%	-3%	7%	6%	1%	0.1%	0.3%	-0.2%
Georgia	9%	18%	-10%	11%	12%	-1%	0.9%	2.1%	-1.2%
Indiana	7%	16%	-9%	9%	10%	-1%	0.6%	1.5%	-0.9%
Kentucky	2%	6%	-4%	8%	8%	1%	0.2%	0.5%	-0.3%
Maine	0%	7%	-7%	0%	4%	-4%	0.0%	0.3%	-0.3%
Missouri	3%	9%	-5%	14%	10%	4%	0.5%	0.9%	-0.4%
Nevada	30%	57%	-27%	5%	8%	-3%	1.4%	4.6%	-3.2%
New Hampshire	1%	2%	-2%	3%	5%	-2%	0.0%	0.1%	-0.1%
New York	1%	2%	0%	17%	22%	-6%	0.2%	0.4%	-0.1%
Ohio	3%	6%	-3%	16%	13%	2%	0.4%	0.8%	-0.3%
Virginia	0%	10%	-10%	23%	6%	17%	0.0%	0.6%	-0.5%
Wisconsin	4%	11%	-7%	18%	11%	7%	0.7%	1.2%	-0.5%
WLP Total	9%	17%	-8%	16%	14%	2%	1.4%	2.4%	-0.9%

The overall increase to the average premium in the market is the percent of members below the threshold multiplied by the average increase required to meet the threshold.

One complicating factor in the legislation is that there are several constraints placed on products aside from actuarial value. For example, the S. Amdt. 2786 to H.R. 3590 not only establishes an actuarial value requirement of 60%, but it also states that deductibles in the small employer market cannot exceed \$2,000 and the out-of-pocket maximum cannot exceed what is allowed for qualifying high-deductible health plans that can be paired with HSAs. Because of these multiple constraints, it may not be possible to design a product that has a 60% actuarial value and also meets the other requirements. Thus, the costs may be higher than what is presented in this analysis.