

## **Health Care Reform Premium Impact in Colorado—DECEMBER 2009 ADDENDUM**

*This paper updates WellPoint's October 2009 analysis of how health care reform proposals would impact premiums in Colorado 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**

	<b>Younger/ Healthy</b>	<b>Average Age/ Average Health</b>	<b>Older/ Less Healthy</b>
<b>Individual</b>	123%	41%	-28% (decrease)
<b>Small Employer</b>	34%	7%	-10% (decrease)

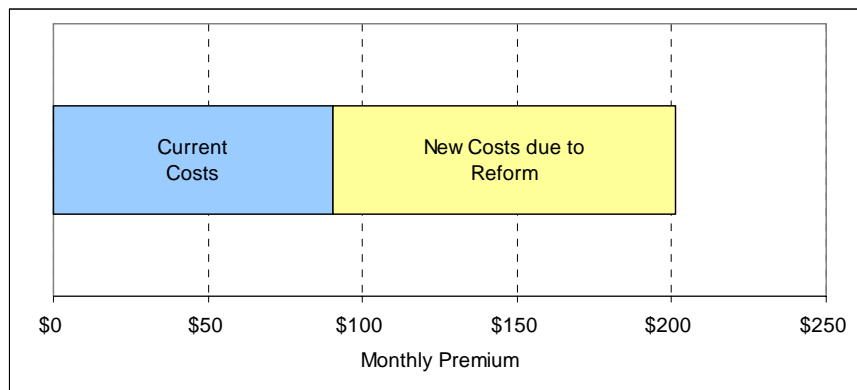
**Note:** *Percent increase shown before any adjustment for the increase in medical costs over time or the application of any subsidies.*

## Individual Market Case #1: Younger/Healthier 25-Year Old Male in Denver, CO

Product: Contract Type, Gender and Subscriber Age: Underwriting Class:	<b>SmartSense 2,500 Comprehensive Rx Single Male Age 25 Preferred (Best)</b>	
	<b>Single Monthly Premium</b>	<b>% Increase</b>
Current premium	<b>\$90</b>	
Impact of guaranteed issue and no effective individual mandate, resulting in many waiting to purchase until services are needed	\$135	50%
Limiting age discount to 3:1; eliminating gender rating	\$172	27%
Eliminating health status discount	\$186	8%
Requiring higher benefit level (60% actuarial value and required new benefits)	\$193	4%
Health insurer \$6.7B annual tax	\$199	3%
Pharmaceutical tax and medical device tax	<b>\$201</b>	1%
<b>Total Impact</b>	<b>\$90 to \$201</b>	<b>123%</b>

### 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	\$20	-78%
150% - 200%: 74% subsidy	\$52	-42%
200% - 250%: 54% subsidy	\$92	2%
250% - 300%: 26% subsidy	\$149	65%
300% - 350%: 2% subsidy	\$197	118%
350% - 400%: 0% subsidy	\$201	123%
400%+: 0% subsidy	\$201	123%

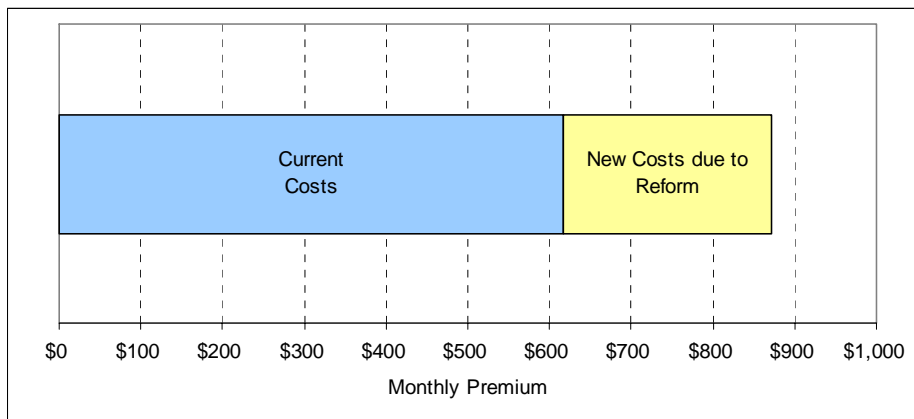
The Senate amendment also includes reinsurance that would subsidize a portion of the costs for high-risk individuals purchasing coverage. However, this proposal will phase-out after three years and the total amount available amounts to \$20 billion, which is less than 10% of the expected premium cost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

**Individual Market Case #2: 40-Year Old Family with 2 Children, Average Health Status in Denver, CO**

Product: Contract Type, Gender and Subscriber Age: Underwriting Class:	<b>SmartSense 2,500 Comprehensive Rx Family with 2 Children Age 40 Standard</b>	
	<b>Family Monthly Premium</b>	<b>% Increase</b>
Current premium	<b>\$617</b>	
Impact of guaranteed issue and no effective individual mandate, resulting in many waiting to purchase until services are needed	\$925	50%
Limiting age discount to 3:1; eliminating gender rating	\$951	3%
Eliminating health status discount	\$806	-15%
Requiring higher benefit level (60% actuarial value and required new benefits)	\$838	4%
Health insurer \$6.7B annual tax	\$863	3%
Pharmaceutical tax and medical device tax	<b>\$872</b>	1%
<b>Total Impact</b>	<b>\$617 to \$872</b>	<b>41%</b>

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**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%: 93% subsidy	\$61	-90%
150% - 200%: 82% subsidy	\$157	-75%
200% - 250%: 67% subsidy	\$288	-53%
250% - 300%: 48% subsidy	\$453	-26%
300% - 350%: 32% subsidy	\$593	-4%
350% - 400%: 22% subsidy	\$680	10%
400%+: 0% subsidy	\$872	41%

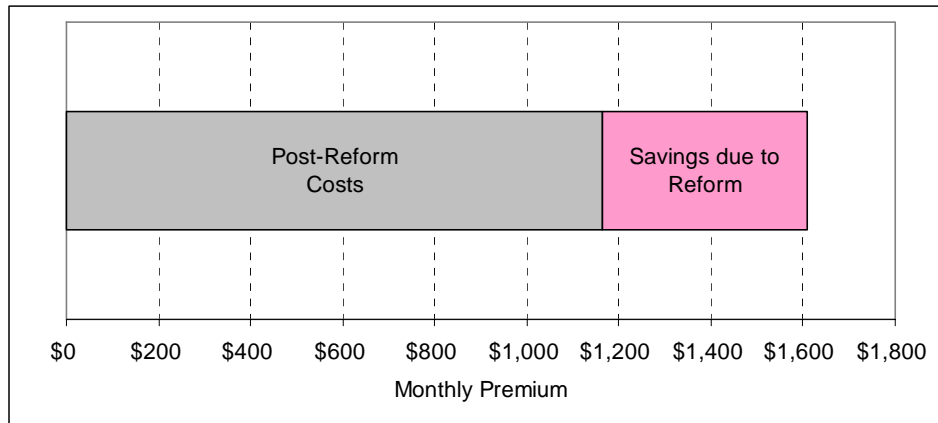
The Senate amendment also includes reinsurance that would subsidize a portion of the costs for high-risk individuals purchasing coverage. However, this proposal will phase-out after three years and the total amount available amounts to \$20 billion, which is less than 10% of the expected premium cost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

**Individual Market Case #3: 60-Year Old, Less-Healthy Couple in Denver, CO**

Product: Contract Type, Gender and Subscriber Age: Underwriting Class:	<b>SmartSense 2,500 Comprehensive Rx Couple Age 60 Worst (Highest UW Class)</b>	
	<b>Couple Monthly Premium</b>	<b>% Increase</b>
Current premium	<b>\$1,610</b>	
Impact of guaranteed issue and no effective individual mandate, resulting in many waiting to purchase until services are needed	\$2,415	50%
Limiting age discount to 3:1; eliminating gender rating	\$1,923	-20%
Eliminating health status discount	\$1,076	-44%
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	<b>\$1,165</b>	1%
<b>Total Impact</b>	<b>\$1610 to \$1165</b>	<b>-28%</b>

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**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).

<b>Federal Poverty Level: Premium Subsidy</b>	<b>Reform Premium after Subsidy</b>	<b>Total Impact after Subsidy</b>
100% - 150%: 90% subsidy	\$116	-93%
150% - 200%: 74% subsidy	\$303	-81%
200% - 250%: 54% subsidy	\$536	-67%
250% - 300%: 26% subsidy	\$862	-46%
300% - 350%: 2% subsidy	\$1,141	-29%
350% - 400%: 0% subsidy	\$1,165	-28%
400%+: 0% subsidy	\$1,165	-28%

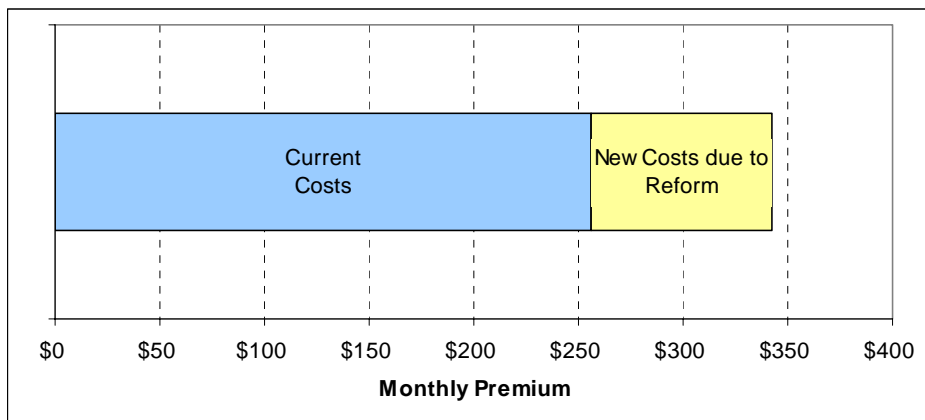
The Senate amendment also includes reinsurance that would subsidize a portion of the costs for high-risk individuals purchasing coverage. However, this proposal will phase-out after three years and the total amount available amounts to \$20 billion, which is less than 10% of the expected premium cost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

**Small Group Case #1: Younger/Healthier Small Employer with Eight Employees in Denver, CO**

Small Employer Market Health Reform Impact State: Colorado		
<b>Product:</b>	PPO \$2000 ded, 80% Coins	
<b>Underwriting Class:</b>	N/A	
	Single Monthly Premium	% Increase
Current premium	\$256	
Impact of insurance market reform changes without an effective mandate	\$261	2%
Limiting age discount to 3:1; eliminating gender rating	\$298	14%
Eliminating health status discount	\$298	0%
Elimination of other current, actuarially-justified rating variables	\$326	9%
Requiring higher benefit level (60% actuarial value and required new benefits)		
a. Specific to chosen group	\$326	0%
b. Average for Small Group pool	\$331	1%
Health insurer \$6.7B annual tax	\$339	3%
High-cost health insurer tax		
a. Attributable to this group	\$339	0%
b. Allocated across insured pool	\$341	1%
Pharmaceutical tax and medical device tax	\$342	1%
<b>Total Impact</b>	<b>\$256 to \$342</b>	<b>34%</b>

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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**

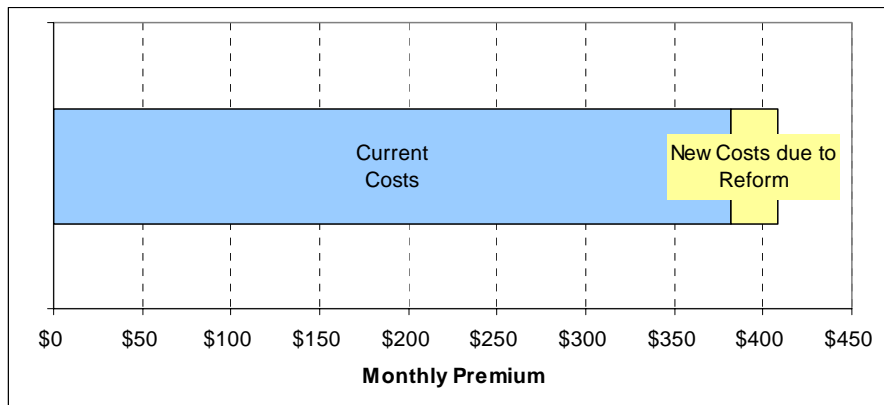
The table above shows the underlying cost of the premium, which is representative of the cost charged to the insurance exchange. However, certain businesses may be eligible for a small employer tax credit, which shifts a portion of the premium cost onto taxpayers. Eligibility for the tax credit is limited 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 Denver, CO**

Small Employer Market Health Reform Impact State: Colorado		
<b>Product:</b>	PPO \$2000 ded, 80% Coins	
<b>Underwriting Class:</b>	N/A	
	Single Monthly Premium	% Increase
Current premium	\$382	
Impact of insurance market reform changes without an effective mandate	\$390	2%
Limiting age discount to 3:1; eliminating gender rating	\$396	2%
Eliminating health status discount	\$396	0%
Elimination of other current, actuarially-justified rating variables	\$389	-2%
Requiring higher benefit level (60% actuarial value and required new benefits)		
a. Specific to chosen group	\$389	0%
b. Average for Small Group pool	\$395	1%
Health insurer \$6.7B annual tax	\$404	3%
High-cost health insurer tax		
a. Attributable to this group	\$404	0%
b. Allocated across insured pool	\$407	1%
Pharmaceutical tax and medical device tax	\$409	1%
<b>Total Impact</b>	<b>\$382 to \$409</b>	<b>7%</b>

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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**

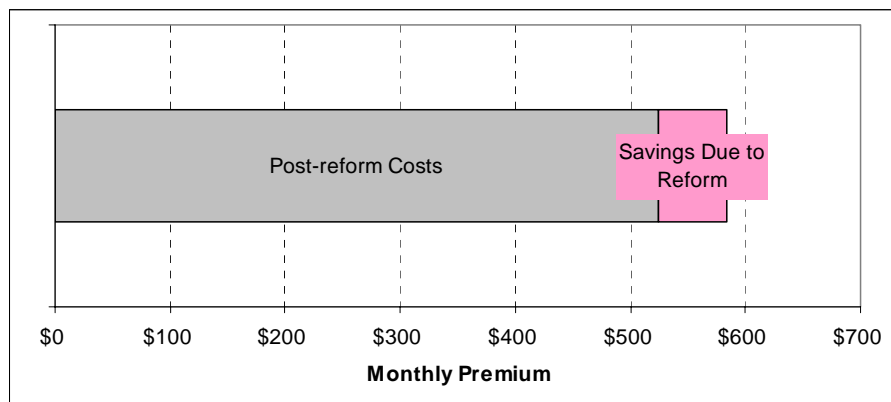
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**Small Group Case #3: Older/Less Healthy Small Employer with Eight Employees in Denver, CO**

Small Employer Market Health Reform Impact State: Colorado		
<b>Product:</b>	PPO \$2000 ded, 80% Coins	
<b>Underwriting Class:</b>	N/A	
	Single Monthly Premium	% Increase
Current premium	\$584	
Impact of insurance market reform changes without an effective mandate	\$596	2%
Limiting age discount to 3:1; eliminating gender rating	\$558	-6%
Eliminating health status discount	\$558	0%
Elimination of other current, actuarially-justified rating variables	\$499	-11%
Requiring higher benefit level (60% actuarial value and required new benefits)		
a. Specific to chosen group	\$499	0%
b. Average for Small Group pool	\$506	1%
Health insurer \$6.7B annual tax	\$519	3%
High-cost health insurer tax		
a. Attributable to this group	\$519	0%
b. Allocated across insured pool	\$521	1%
Pharmaceutical tax and medical device tax	\$524	1%
<b>Total Impact</b>	<b>\$584 to \$524</b>	<b>-10%</b>

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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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**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%
<b>WLP Total</b>	<b>9%</b>	<b>17%</b>	<b>-8%</b>	<b>16%</b>	<b>14%</b>	<b>2%</b>	<b>1.4%</b>	<b>2.4%</b>	<b>-0.9%</b>

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.