April 12, 2017

The Myth of the 'Senior Tax'

Why Seniors Benefit from Fixing Obamacare's Millennial Penalty

Takeaway: Obamacare's 3:1 limit on age rating hurts young people and destabilizes insurance markets for all enrollees, including seniors. Moving to the 5:1 ratio that prevailed before the ACA is more in line with age-related health expenses. As part of broader reforms, the quality and stability of insurance markets will likely improve as young consumers are no longer unduly penalized to subsidize older enrollees.

The Affordable Care Act (ACA) established a nationwide standard for age-based variations in health insurance premiums. This restriction limited the cost difference between the oldest age categories (64+ years old) and the youngest (21 years old) to a 3:1 ratio. The structure artificially lowers premiums for seniors at the expense of younger Americans who are just starting their careers. Obamacare allows states to set more—but not less—onerous restrictions on age rating. Republican plans for market-based, consumer-driven healthcare reform would set a default age ratio at 5:1—inaccurately derided by supporters of the status quo as a "senior tax"—but allow states to make adjustments in either direction. This change would reduce costs for younger Americans, drawing them into the insurance pool to stabilize the high-cost individual insurance markets that resulted from Obamacare, while respecting the right of states to make their own health policy decisions. A premium tax credit that increases with age could assist older enrollees with costs without ruining the insurance market for all enrollees, including seniors.

Before Obamacare

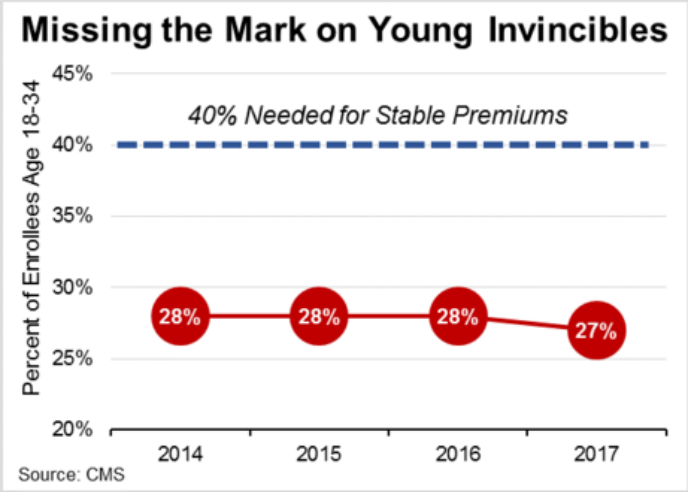
Prior to the passage of Obamacare, states were responsible for regulating premium prices in the individual market. Some states had no restrictions; in contrast, New York and Vermont required total community rating (uniform premiums in an area), with no difference in premiums on the basis of age. Speaking broadly, the prevailing age rating ratio was 5:1 pre-Obamacare. This ratio reflected actual costs considering that, according to the Congressional Budget Office, average spending on health care for 64-year-olds is 4.8 times the spending among 21-year-olds.[1] A 5:1 age rating ratio for premiums would help stabilize premiums for all enrollees without unduly subsidizing or penalizing any age group.

Impacts of 3:1 Age Rating

The result of the 3:1 age rating limit was radically higher premiums for young Americans who are needed to help reduce rates for all enrollees, including seniors. The impact of this policy on the Obamacare exchanges' risk pool is apparent for 2017; only 27 percent of Obamacare enrollees are aged 18 to 34.[2] In contrast, experts have estimated that 40 percent of enrollees need to be from this age group to keep premiums stable. Because so few young, lower-cost people joined the insurance pool, premiums have spiked, insurers are leaving the Obamacare

[1] "Private Health Insurance Premiums and Federal Policy," Congressional Budget Office, p. 22, February 2016. https://www.cbo.gov/sites/default/files/114th-congress-2015-2016/reports/51130-Health_Insurance_Premiums.pdf

[2] "Declining Obamacare Participation: Five Takeaways from the 2017 Enrollment Report," Joint Economic Committee, March 17, 2017. https://www.jec.senate.gov/public/index.cfm/republicans/analysis?ID=2FEAD2B5-B363-4FDD-BB77-114D9F7A724B



exchanges, and enrollees are left with limited access to doctors and hospitals,[3] leading one insurance executive to describe Obamacare as "in a death spiral."[4] Adjusting the age rating ratio to 5:1 would help stabilize insurance markets and slow the upward march of premiums for enrollees of all ages. The American Action Forum estimated in 2016 that repealing the ACA's 3:1 age rating mandate would lower average premiums by 4 to 10 percent in 2018.[5] A premium tax credit that increases with age and the implementation of an invisible reinsurance pool[6] could then help keep premiums affordable for older adults.

A Case Study: Maine

In 1993, the state of Maine passed a series of health insurance reforms. Some, such as guaranteed issue (no refusal of enrollees) and community rating of preexisting conditions, were similar to those later implemented nationwide in Obamacare. Moreover, Maine limited combined age and geographic banding to a 1.5:1 ratio.[7] From 1993 to 2011, the size of Maine's individual market crashed from 102,000 enrollees to 36,000. Premiums and deductibles both skyrocketed as adverse selection culled the healthier, younger consumers from the market.[8]

Finally, in 2011, Maine enacted a law that implemented a number of reforms.[9] One of those reforms was to phase in a 5:1 age rating ratio. Obamacare preempted state decision-making and limited the reform to the ACA's 3:1 mandate. However, even a partial loosening of age banding, combined with the implementation of an invisible reinsurance pool to subsidize costly enrollees, stabilized Maine's insurance markets and reduced premiums across the board.[10]

Conclusion

Obamacare's highly restrictive 3:1 age band ratio for premiums harms the very people it seeks to help by driving premiums up and driving insurance companies from the market, resulting in fewer insurance choices and limited access to health care for all enrollees, including seniors. Artificially high premiums for younger, healthier Americans keep these customers from buying insurance. Moving the age band to a 5:1 default and allowing states to set their own standards—while assisting older enrollees with tax credits—would likely help stabilize the rapidly increasing premiums in the individual marketplace.

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[3] "Obamacare in States 2017," Joint Economic Committee, March 2017. https://www.jec.senate.gov/public/_cache/files/7b75d5ea-fe35-48e1-931a-3fa0ddba1337/-all-states.pdf

[4] "Aetna CEO on Obamacare's 'Death Spiral'," Wall Street Journal Video, February 15, 2017. http://www.wsj.com/video/aetna-ceo-on-obamacare-death-spiral/C56C5A63-85C9-4BE2-92C2-A0587D096AF3.html

[5] Keisling, Jonathan, "Age Bands and the Affordable Care Act," American Action Forum, July 13, 2016. https://www.americanactionforum.org/insight/age-bands-affordable-care-act/#_ftn3

[6] See Also: https://www.jec.senate.gov/public/index.cfm/republicans/analysis?ID=BECF5427-B59F-4D30-AFD2-1BE1E6A8E2E4

[7] Bragdon, Tarren and Joel Allumbaugh, "Health Care Reform in Maine: Reversing 'Obamacare Lite'," Heritage Foundation, July 19, 2011. http://www.heritage.org/health-care-reform/report/health-care-reform-maine-reversing-obamacare-lite

[8] Allumbaugh, Joel et al., "Invisible High-Risk Pools: How Congress Can Lower Premiums And Deal With Pre-Existing Conditions," HealthAffairs Blog, March 2, 2017. http://healthaffairs.org/blog/2017/03/02/invisible-high-risk-pools-how-congress-can-lower-premiums-and-deal-with-pre-existing-conditions/

[9] Public Law, Chapter 90, 125th Maine Legislature, http://www.mainelegislature.org/legis/bills/bills_125th/chapters/PUBLIC90.asp

[10] Allumbaugh, Joel et al., "Invisible High-Risk Pools: How Congress Can Lower Premiums And Deal With Pre-Existing Conditions," HealthAffairs Blog, March 2, 2017. http://healthaffairs.org/blog/2017/03/02/invisible-high-risk-pools-how-congress-can-lower-premiums-and-deal-with-pre-existing-conditions/