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North Dakota Legislative Management – Health Care Reform Review Committee

Testimony of
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America's Health Insurance Plans

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Good afternoon. Thank you for the opportunity to be a part of this panel regarding the insurance industry's perspective regarding issues and concerns relating to implementation of the Affordable Care Act. I am Jack McDonald, retained counsel for America's Health Insurance Plans – AHIP.

AHIP is the national trade association representing the health insurance industry. AHIP member companies – including the three companies commenting today -- provide health and supplemental benefits to more than 200 million Americans through employer-sponsored coverage, the individual insurance market, and public programs including Medicare and Medicaid. AHIP advocates for public policies that expand access to affordable health care coverage to all Americans through a competitive marketplace that fosters choice, quality, and innovation.

Regardless of your views on the Supreme Court decision regarding the Affordable Care Act, I think we can all agree that it gave us much-needed legal certainty. As a result, states can and will continue to chart their own paths.

- Exchange development will continue and could intensify;
- essential health benefit benchmark plan selection will continue and – we very much hope – pick up speed;
- states will continue to weigh their options regarding Medicaid expansion; and
- health plans will continue to do what they have done since the law passed over two years ago -- make decisions and take steps necessary to comply with the law and to operate in a significantly changed environment.

The North Dakota health plans providing written or oral comments today are examples of three such carriers who are on the front lines of ACA implementation. As such, they are in a better position to speak with authority on concerns related to ACA implementation in North Dakota. With that in mind, I will focus my comments today on one aspect of ACA that is a concern for health plans across the country.

The Affordable Care Act brought us some good news, most notably that it will expand coverage to millions of Americans, a goal that has long been supported by health plans. But ACA also brought us some not-so-good news. Unless some critical changes are made, the Affordable Care Act will not provide the affordability so many have hoped for. Individuals, families, small businesses, and state public programs will face even higher costs of coverage at a time when they can least afford it. In some cases, I would characterize what is coming as rate shock.

Three elements of the ACA create this challenge.

Number one, the Essential Health Benefits. These were intended to ensure that all Americans have quality coverage. But as with all good intentions, there are sometimes unintended consequences. That is the case with the Essential Health Benefits requirements because they compel millions of currently insured Americans to purchase more coverage than they have or probably want. This requirement to "buy up" will, by definition, result in higher costs that will, in turn, strain future state and federal budgets, give small business owners one more incentive to cancel coverage for their employees, and push young people to buy coverage only when they're sick, resulting in higher costs for the rest of us.

For these reasons, AHIP urges states to place a high priority on affordability when selecting an essential health benefits benchmark plan.

Number two, compressed age rating bands. Age-based rating bands limit how much premiums for the same or similar coverage may vary based on a person's age, because age is a good predictor of how much medical care we will need. Currently 41 states including North Dakota have age-based rating bands that are 5 to 1. This means that for the same or similar coverage, the oldest person will pay no more than five times more than the youngest person pays. This 5 to 1 ratio seems to work pretty well. As I mentioned, 41 states have adopted it.

Unfortunately, the ACA says that overnight – on December 31, 2013 -- all states must change their age rating bands to a 3 to 1 ratio. This will significantly increase costs for persons aged 18 to 34. In fact, an Oliver Wyman actuarial analysis reveals that in those 41 states with a 5 to 1 age rating band, the change will decrease premiums about 13 percent for older adults, but will increase premiums for young adults by 35 to 40 percent. Talk about rate shock. This, of course, will increase the likelihood that those younger, healthier people will choose to pay the penalty for not having insurance and wait to purchase health insurance until after they're sick, which drives up the costs for all others.

For the sake of affordability, AHIP supports a return to the 5 to 1 rating bands in the states or, as California is considering, phasing in the requirements over time.

Number three, the premium tax. Of the three factors, this is the most troublesome. Beginning in 2014, the Affordable Care Act requires health plans to pay a new sales tax on policies sold to individuals, working families, small businesses, and seniors. The tax will exceed $100 billion over the next 10 years and, according to the Congressional Budget Office, will be "largely passed through to consumers in the form of higher premiums."

Who, exactly, will be paying these higher premiums?

- Businesses, especially small businesses, that purchase insurance for their employees;
- all individuals and families who purchase coverage in the individual market or through an Exchange;
- Medicare beneficiaries who enroll in Medicare Advantage health plans; and
- the 40 states that contract with managed care organizations under Medicaid;

In short, pretty much all of us.

And how much will our premiums increase? A study by former CBO Director Douglas Holtz-Eakin indicates that the anticipated impact of the premium tax is as much as three percent – nearly $5,000 per family over a decade. An Oliver Wyman reports says that in the individual market over 10 years, single coverage is expected to increase an average of $2,150 and family coverage is expected to increase an average of $5,080. In the small group market, single coverage is expected to increase an average of $2,760 and family coverage is expected to increase an average of $6,830. Also, states concerned about their Medicaid budgets should take heed of the fact that between 2014 and 2023, the tax is estimated to increase the average costs of Medicaid managed care coverage by about $1,530 per enrollee. *And please keep in mind that these predicted increases to premiums reflect only the premium tax. They do not include the other elements of ACA that will place upward pressure on premiums.*

For the sake of affordability, AHIP strongly urges a repeal of the premium tax. We are not alone in seeking this repeal. Bills have been introduced in both the U.S. House and the Senate which call for repeal of the premium tax and co-sponsors – including our own Representative Rick Berg -- are being added regularly.

I've told you how affordability is being undermined by elements of ACA that apply upward pressure on premiums -- the essential health benefits, compressed age rating bands and the premium tax.

However, what could be considered the greatest threat to coverage affordability are the underlying costs of health care itself. To get at those costs, we must get at soaring prices for medical services, new and costly prescription drugs and medical technologies, unhealthy lifestyles, and an outdated fee-for-service system that pays for volume rather than value. If we

don't tackle these, we will never successfully bend the cost curve and affordability will forever be out of reach.

Fortunately, I can report that there is some promising work being done and I am proud to say that health plans are leading the way. For example, carriers and providers across the country are partnering actively to change payment models to reward quality and better health outcomes. Plans are also working collaboratively to promote wellness and help patients and physicians managed chronic disease which is a huge factor in the cost of care. And more than ever, health plans are providing consumers with valuable data and terrific tools to help them make informed decisions about their own health care.

Mr. Chairman, thank you for the opportunity to share this information. We look forward to working with you and the members of the committee as you address this critical issue.