

The Top Five Cost Drivers of 2019 Individual Health Plan Premiums

Covered California, California's individual health insurance market for people who buy coverage on their own, provides comprehensive coverage to more than 3.4 million Californians administered by 11 qualified health plans. Premium costs in 2019 will be driven by several factors, but they will be most significantly influenced by uncertainty in Washington, the federal government's continued changes to the Affordable Care Act (ACA), and continued increased spending on medical care.

Here are five factors that are expected to contribute to premium increases in 2019:

1
Federal Changes
to the Affordable
Care Act

2
Increased
Spending on
Medical Care

3
Third-Party
Payment
Abuse

4
Misusing Special
Enrollment
Periods

5
Health Care Costs
Vary by Geography
and Health Plan

1 Federal Changes to the Affordable Care Act



Repeal of Individual Mandate

- The federal government's decision to eliminate the individual mandate to buy health insurance, effective in January 2019, is increasing premiums for Californians and will likely continue to increase them. According to a recent report by PricewaterhouseCoopers (PwC), without an individual mandate in place, the cost of premiums is ultimately estimated to increase by **7.3-22%** in California. The number of uninsured is also expected to rise by **500,000 to 1.2 million people**.
- Adverse selection: Eliminating the individual mandate increases the likelihood for adverse selection, which means people who are most at risk of high health care costs would be the most likely to enroll, while many healthier individuals would decide not to purchase coverage. Premiums for the remaining pool would increase as a result. A premium spiral could result, with fewer and fewer insured and higher premiums.

Elimination of Cost Sharing Reductions (CSR's)

- The elimination of CSR's has led to different strategies for building the cost into premiums, and health plans may need to make adjustments for 2019 rates.

For more information, please go to www.calhealthplans.org



2 Increased Spending on Medical Care



- Health insurance premiums directly reflect health care costs. In California, health plans spend about **87 cents of every premium dollar on medical costs**, such as doctor and hospital visits, medical tests, prescription drugs, and other medical goods and services.
 - **Medical costs are expected to increase by 5-8%**, which will impact premiums for 2019.
- **Prescription drugs account for 24% of medical costs** and are the second-largest component of spending in the Covered California marketplace.
- **35% of Covered California health care spending goes to hospital care.**

3 Third-Party Payment Abuse



- Some providers will pay commercial premiums for enrollees because they receive higher reimbursement rates than in some public programs. These “third-party payers” shift high-cost patients into coverage that, in some cases, may not be right for the enrollee in the long run, and this is all for the provider’s short-term financial gain.
- Unscrupulous providers see a financial advantage in steering people out of public programs and into commercial coverage with higher reimbursement rates for the same care.
- Since premiums are based on health care utilization and the cost of medical care, third-party payment abuse drives up the overall cost of care, which in turn raises premiums for everyone.

4 Misusing the Special Enrollment Period



- Californians are eligible to get coverage outside of the open enrollment window if they have a qualifying life event like losing employer coverage, moving, or a change in family status. There is evidence that some are using the special enrollment period to forgo coverage and then enroll later in order to get medical care. This practice drives up costs for everyone.
- Nationally, people who enroll during special enrollment have **10% higher health care costs** than those who enroll during open enrollment and their **costs are 25-40% higher** during the first three months of coverage.
- Enforcement of the special enrollment period through documentation and verification is necessary to ensure premiums remain fair and affordable for everyone.

5 Health Care Costs Vary by Geography and by Health Plan



- Premium changes for 2019 will vary based on individual circumstances such as age, family size, zip code, and income level.
- In addition, health care costs are local and can depend upon the actual prices for medical services in a given community. This means premiums can vary from community to community depending on the costs associated with local care.
- Premiums also depend on who is purchasing coverage, how many services they are using, and what provider costs are for each health plan.
- Health plans will have differing premiums as a result of all of these factors.

Benefits of California’s Marketplace

The unique way California designed its exchange benefits consumers by stabilizing the market against rapid price fluctuations.

- ✓ Thoughtful stewardship of the ACA.
- ✓ Competitive market with 11 health plans.
- ✓ Stability of CA’s exchange and lower premium growth rates than the national average.
- ✓ Lower health costs than the national average.