FEBRUARY 2017

Spotlight

# Impact of Changing the Age Rating Limit for Health Insurance Premiums

Jane Sung and Olivia Dean
*AARP Public Policy Institute*

Current law limits the practice of age rating of health insurance premiums for individuals and small businesses to a 3:1 ratio.[1] This means that insurance companies are prohibited from charging older adults more than three times the amount they charge younger adults for the same coverage. This important consumer protection ensures that older adults who are not yet eligible for Medicare have access to affordable health insurance coverage.

Some recent proposals would change the 3:1 limit on age rating to 5:1, or allow even wider ratios at state discretion.[2] This Spotlight presents findings from an AARP Public Policy Institute research report conducted by Milliman that estimates the impact a change to a 5:1 age rating limit would have on premiums and enrollment in the individual health insurance market.[3] Milliman estimated that such a change would significantly increase unsubsidized premiums for older adults[4] but have little impact on improving overall enrollment. In addition, Milliman projected that federal subsidies would increase by $6.7 billion and an estimated 18,000 older adults ages 50–64 would lose coverage.

## Summary of Findings

**Significant Premium Increases for Older Adults**

Milliman modeled the impact of a change to a 5:1 age rating limit on health insurance premiums for 2018. Their study, which took into account projected enrollment changes,[5] found that premiums would increase for adults ages 49 and older, especially among older age groups (see Appendix).[6] Older adults who do not qualify for tax credit subsidies would feel the full impact of these premium increases. Those eligible for premium tax credits, however, may face smaller or no premium increases, depending on the level of their subsidies.

As a result of a policy change to a 5:1 age rating limit:

- Premiums for adults ages 60 and older would increase by an average of **$3,192** per year, from about $14,724 to $17,916.[7] This represents a **22 percent** increase.
- Premiums for adults ages 50–59 would increase by an average of **$1,524** per year, from about $11,316 to $12,840. This represents a **13 percent** increase.

For more information on this article, please visit **www.aarp.org/ppi**.

AARP Real Possibilities
Public Policy Institute

While premiums for younger adults would decrease, this reduction would be significantly smaller than the corresponding rise in premiums for older adults. These estimates take into account anticipated changes in enrollee enrollment decisions due to the change in premiums and eligibility for subsidies.[8]

- Younger adults ages 20–29 would see an average **$696** per year reduction in their premiums, from about $4,704 to $4,008. This represents a **15 percent** reduction.

Average premium increases for adults ages 60 and older would be over **four and a half times** the size of the premium reduction for adults ages 20–29. Among adults ages 50–59, the average premium increase would be **more than double** the size of the reduction for adults ages 20–29.

### Modest Impact on Health Insurance Enrollment

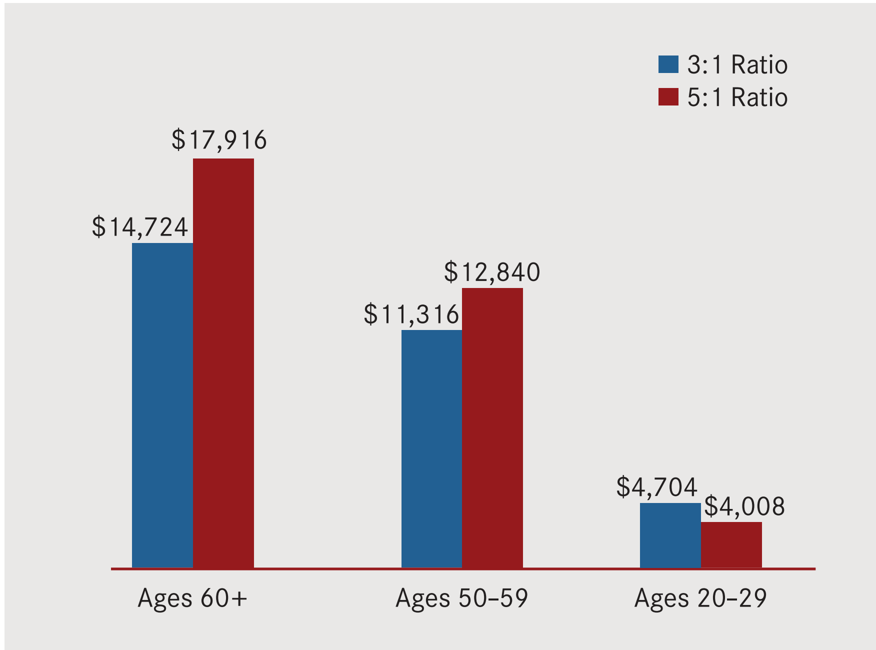
The intended goal of changing the age rating limit from 3:1 to 5:1 is to increase enrollment of younger and healthier adults in the individual health insurance market. However, Milliman's analysis estimated that changing the age rating limit to 5:1 would have only a **modest overall impact** on enrollment (see Appendix).

Changing the age rating limit to 5:1 would:

- Lead to an estimated net enrollment increase of only **367,000**, or **2 percent**. This is significantly lower than earlier estimates.[9]

FIGURE 1

**Comparing 2018 Average Annual Composite Premiums with a 3:1 vs. 5:1 Age Rating**




- The estimated 2 percent net enrollment increase includes enrollment gains among younger age groups and disenrollment among older age groups.

### Higher Federal Spending

Milliman estimated that a change to a 5:1 age rating limit would increase federal spending, due in large part to greater numbers of older adults becoming eligible for larger federal premium tax credits or becoming newly eligible for premium tax credits.[10]

- Federal subsidies would increase by **$6.7 billion** overall.
- Federal spending on premium tax credits would be reduced by **12 percent** for 20- to 29-year-olds and by **7 percent** for 30- to 39-year-olds. However, federal spending for premium tax credits would increase by **34 percent** for people ages 60 and older, and by **25 percent** for 50–59-year-olds.

## Discussion

The Milliman study shows that changing the 3:1 limit on age rating to 5:1 would significantly raise premiums for some older adults relative to younger adults even after accounting for changes in enrollment decisions and plan choice, minimally impact overall enrollment, and increase federal outlays for premium tax credit subsidies.

## Appendix

TABLE 1
**2018 Average Annual Individual Health Insurance Premium**

| Age Band | Under 3:1 | Under 5:1 | % Difference |
|---|---|---|---|
| <20 | $3,540 | $3,300 | -7% |
| 20–29 | $4,704 | $4,008 | -15% |
| 30–39 | $6,084 | $5,328 | -13% |
| 40–49 | $7,464 | $7,236 | -3% |
| 50–59 | $11,316 | $12,840 | 13% |
| 60+ | $14,724 | $17,916 | 22% |

*Source: Joanne Fontana, Thomas Murawski, Sean Hilton, Milliman Research Report, "Impact of Changing ACA Age Rating Structure: An Analysis of Premiums and Enrollment by Age Band", January 31, 2017. See Table 2 of the research report. Available at www.milliman.com/aarp.*

*Note: Estimates are for all metal levels combined, after enrollment decisions and plan choice.*

TABLE 2
**2018 Total Individual Market Enrollment Under 3:1 vs. 5:1 Limit** *(rounded to nearest 1,000)*

| Age Band | Enrollment Under 3:1 | Enrollment Under 5:1 | Difference in Enrollment |
|---|---|---|---|
| <20 | 3,213,000 | 3,302,000 | + 89,000 |
| 20–29 | 3,665,000 | 3,797,000 | + 133,000 |
| 30–39 | 2,588,000 | 2,696,000 | + 107,000 |
| 40–49 | 2,516,000 | 2,573,000 | + 57,000 |
| 50–59 | 2,762,000 | 2,747,000 | - 15,000 |
| 60+ | 1,285,000 | 1,281,000 | - 3,000 |
| Combined | 16,028,000 | 16,395,000 | 367,000 |

*Source: Joanne Fontana, Thomas Murawski, Sean Hilton, Milliman Research Report, "Impact of Changing ACA Age Rating Structure: An Analysis of Premiums and Enrollment by Age Band", January 31, 2017. See Table 3 of the research report. Available at www.milliman.com/aarp.*

Under the 3:1 age rating limit, insurance companies can already charge older adults up to three times more than younger adults for the same coverage. In addition to the expense of premiums, older adults also spend significantly more on out-of-pocket medical costs (such as for cost-sharing and deductibles) than younger adults, and they are not necessarily better able to afford these costs than younger people.[11] Changing the age rating limit from 3:1 to 5:1 would impose a significant financial burden and make it even more difficult for older adults to afford the health care that they need.

1 The 3:1 limit on age-rating was enacted with the Patient Protection and Affordable Care Act (ACA).

2 Discussion draft of "State Age Rating Flexibility Act of 2017", January 4, 2017, as posted on the United State House Energy & Commerce Committee website. See also House Speaker Paul Ryan, "A Better Way: Health Care", June 22, 2016. See also Senator Richard Burr et al, Patient Choice, Affordability, Responsibility and Empowerment Act, February 2015.

3 AARP Public Policy Institute funded this study by Milliman. Milliman used their Health Care Reform Financing Model (HCRFM) to estimate impact. See detailed methodology at www.milliman.com/aarp.

4 Premiums are estimated to increase for older adults who are not eligible for premium subsidies. Joanne Fontana, Thomas Murawski, Sean Hilton, Milliman Research Report, "Impact of Changing ACA Age Rating Structure: An Analysis of Premiums and Enrollment by Age Band", January 31, 2017. Available at www.milliman.com/aarp.

5 The modeled changes also project the impact of enrollment or disenrollment decisions as well as individual decisions to purchase a different metallic level of coverage compared to 2017 due to the changes in premium rates.

6 Estimated premiums are calculated prior to the application of subsidies. The Milliman report estimated composite premium changes for different age bands. While premiums are reduced for younger age groups when the age rating limit is changed to 5:1, premiums begin to increase beginning within the age 45–49 age band.

7 This is for average premiums of purchased policies for all metal levels combined, including changes in enrollment as a result of the change from a 3:1 limit on age rating to a 5:1 limit. These results assume that other provisions of the ACA remain intact and do not include tax credit subsidies.

8 Actual premium increases for older adults would be higher, though some older adults are expected to choose leaner benefit plans under a 5:1 age rating limit than with a 3:1 limit. Actual premium reductions for younger adults would also be higher, but some younger adults are expected to choose richer benefit plans under a 5:1 age rating limit than with a 3:1 limit.

9 Earlier analysis by The Commonwealth Fund estimated a 2.5 million net enrollment increase for 2014: See E. Saltzman and C. Eibner, "Technical Appendix: Rate Banding Analysis", The Commonwealth Fund, September 2015.

10 Joanne Fontana, Thomas Murawski, Sean Hilton, Milliman Research Report, "Impact of Changing ACA Age Rating Structure: An Analysis of Premiums and Enrollment by Age Band", January 31, 2017. See Table 4 of the research report. Available at www.milliman.com/aarp.

11 Jane Sung, "Protecting Affordable Health Insurance for Older Adults: The Affordable Care Act's Limit on Age Rating", AARP Public Policy Institute, Fact Sheet #339, January 2017.

Spotlight 23, February 2017


601 E Street, NW
Washington DC 20049

Follow us on Twitter @AARPpolicy
On facebook.com/AARPpolicy
www.aarp.org/ppi

For more reports from the Public Policy Institute, visit http://www.aarp.org/ppi/.

AARP®
Real Possibilities
Public Policy Institute