

Health Insurance Premiums Double but Affordable Care Act to Reverse Trend

This is New Directions in Healthcare, the Commonwealth Fund's podcast, and today we're looking at a new study on state trends for insurance premiums and deductibles from 2003 to 2010. While the recession is responsible for many Americans' financial troubles, rising health insurance costs are a major contributor to the extra strain on family budgets:

What we saw in this report across states was an average increase of premiums of 50 percent over that seven year period, and the employee share of premiums went up even faster, because employer shares dropped, so employee share went up 68 percent for a single person plan and 63 percent for a family plan. Total premiums compared to middle incomes now equal or exceed 20 percent of those incomes.

That's Cathy Schoen, a senior vice president at The Commonwealth Fund and the lead author of a study tracking the annual cost of premiums over time. She says deductibles were also rising, and some people opted for less coverage or no coverage at all as prices for food, fuel, and education rose:

We estimate that there are 81 million adults under 65 who are either uninsured or underinsured, and that's nearly half of all adults, compared to 61 million in 2003, so this has been a steep erosion in both having insurance and the quality of insurance that people have.

What's more, the rising cost of coverage takes away from other important needs:

It means less for retirement. It means less for other necessities, so for families that are really tightly squeezed, when they get sick, it's a trade off—either go without care or miss a mortgage payment.

In fact, when the U.S. Census Bureau took health expenditures into account, another 10 million Americans fell below the poverty line. If current trends continue, Schoen says, the average family of four will pay nearly \$24,000 for health insurance in 2020, but she and others are hopeful that the Affordable Care Act will begin to drive costs down.

Administrative costs are one of the fastest growing items in our health care cost budget as a country. We spend much more on the cost of administration and insurance plans and also in the overall healthcare delivery system than any other industrialized country.

Sara Collins is vice president of the Affordable Health Insurance Program at The Commonwealth Fund. She says that under the Affordable Care Act, the U.S. Department of Health and Human Services is limiting insurers' administrative costs and profits to 20% of premiums for individual and small group policies:

If they spend less than 80 percent of their premiums on medical costs—so these are claims—they have to pay a rebate to their enrollees. For health plans that are operating in the large group market, if their medical costs are below 85 percent of the premiums, then they have to pay rebates to their enrollees. HHS estimates that this will affect about 74.8 million people, and in 2012 they expect that up to 9 million people might receive rebates worth about \$1.4 billion as a result of this new provision.

What's more, the Affordable Care Act is forcing companies to explain big increases in charges:

If they have more than a 10 percent increase in their premiums, they actually have to justify those premiums to the states that they operate in and the Department of Health and Human Services, and if HHS or their state determines those premiums are not justified, then the health plan has to go back and reassess the premium increase.

Sandy Praeger says sharing this kind of information with the public will change the way the insurance industry does business. She's the insurance commissioner for the state of Kansas:

Having more transparency in how the premium dollar is allocated I think is going to help the consumer understand where the expense is and really keep the companies' feet to the fire to make sure they are appropriately spending that premium dollar on health and quality improvement services.

2014 will see another dramatic improvement, as government-run insurance exchanges offer individuals and small businesses new options. Cathy Schoen says as many as 24 million Americans could benefit:

You will be able, if you are buying coverage on your own or if you are working for a small employer to go to an insurance exchange that will give you a choice of plans, and the exchanges—which will be run at the state level—will be authorized to police those plans. It will be more like what we do when we buy an airline ticket. If you go online, you'll be able to call it up and compare—what are the benefits, what are the premiums?

Insurance exchanges will also give consumers a guarantee:

For the first time there will be a floor under what it means to be insured. When you buy an insurance policy you'll have a guarantee that includes essential benefits, includes protection so that you won't just have open-ended out-of-pocket costs—they'll be capped. We've never had this in this country before.

For families earning less than \$89,400, Sara Collins says those who buy through an exchange will spend no more than 9.5 percent of their income on premiums—and some will spend as little as 2 percent. The federal government will make up the difference with tax credits.

So someone earning 150 percent of the poverty level, that's about \$35,000 for a family of four, would face a full premium of \$12,000, but with the premium tax credit, their premium would be reduced by \$10,700, so they would pay out of pocket for their premium, only \$1,400 a year.

Kansas Insurance Commissioner Sandy Praeger says new rules such as the essential benefits package and guaranteed coverage for people with preexisting conditions are not likely to drive the insurance industry out of business. Right now, its reserves are high, and companies are on the verge of gaining millions more customers:

The big provision in 2014, should the courts leave it, is the fact that everyone has to buy coverage, and to go with that then, we're getting rid of the preexisting condition exclusion, which does occur now, so it really frees up that individual market. I wonder how many young entrepreneurs are out there, or a person in their early 50s who wants to take an early retirement and perhaps do a start-up company or maybe just take an early retirement, but they're locked in until Medicare kicks in for them at the age of 65 because of preexisting conditions, which means they can't go out and buy individual coverage, so after 2014, individuals will be able to buy coverage and not have their health status be a factor.

The poor will also be covered in much greater numbers by Medicaid, so Schoen says fewer will arrive at hospitals with serious medical problems, which should drive down health care costs:

In most states it's been extremely difficult or just simply you can't get on it if you're an adult without a child, no matter how poor you are, unless you're totally disabled. For the first time, single adults, married adults who don't have any children will finally be eligible just because they're poor.

The Affordable Care Act may also lower health insurance costs by changing the way medicine is practiced – making doctors and hospitals more efficient. Today, says Cathy Schoen, they're paid more for providing more care – even if it's not needed, and they're rewarded with additional payments if the patient doesn't recover quickly. On the other hand, some activities that could keep patients from getting sick in the first place or speed recovery are not covered by insurance:

A physician who wants to spend time with a patient, including time on the phone, has no way of getting paid for that. A physician who wants to add a nurse who can work with you if you've got diabetes or multiple illnesses and is there to talk to you at night if you need to + they don't have any way of covering the cost of that person. So the Act enables both the Medicare program and the Medicaid program but also encourages all the private insurers to pay primary care doctors differently, so they can work more in teams, and we expect that will be able to avoid visits to the emergency room, it'll be able to prevent complications from chronic disease showing up as a hospital admission, so we can shift some costs out of the more expensive sites of care back into areas where we need to invest.

What's more, health care reform will mean coverage for preventive services, which—in the long run—keep people from getting sick or from developing serious complications that cost more to treat.

Commonwealth Fund Vice President Sara Collins says those reforms are key to driving overall healthcare costs down and putting the brakes on higher premiums and deductibles:

Karen Davis, David Cutler, and Kristof Stremikis estimate that the combination of delivery system reforms in the law could lower health care costs nationally by about \$400 billion over the next ten years, so these are very significant reforms—very important that these are fully implemented along with the coverage provisions in order to keep premium costs low.

But to make this happen, she and other experts agree, leaders in government and medicine must work together to make care available, affordable and more effective. You've been listening to New Directions in Healthcare, The Commonwealth Fund's podcast. I'm Sandy Hausman.