PPACA: Insurance Rating Changes

On November 20, 2012, the Department of Health and Human Services (HHS) released proposed regulations that totaled over 300 pages of reading. One of the topics that coveted over a 100 pages was insurance market rating changes.

We've all heard how PPACA will make it affordable for Americans to purchase health insurance. Well, the recently released regulations provide the following possibilities:

**Fair Health Insurance Premiums**
According to section 2701 of the Public Health Service (PHS) Act, insurance carriers may vary premium rates for the following reasons:

- Whether the plan or coverage applies to an individual or family
- Rating area (as established by each state)
- Age, as long as it does not vary more than 3:1 for adults
- Tobacco use, as long as it does not vary more than 1.5:1

Rating that is based on health status, claims experience, gender, industry, occupation, and duration of coverage, or re-underwriting (renewal increases based on incurred claims or deteriorating health) is prohibited for policy years beginning on or after January 1, 2014.

**Small Group Market Rating**
HHS is intent on each individual having his or her own calculated rate in the individual and small group market. The push for rating on a per-member basis would support the intent of PHS Act section 2701 that age and tobacco use factors are to be applied to each family member.

**Persons Included Under Family Coverage**
What is the definition of ‘family’? HHS is trying to determine if there should be defined categories of family members that will drive rates or if it should be left to insurance companies to decide.

**Rating for Geography**
PHS Act section 2701 requires that states establish one or more rating areas by state. HHS is proposing that each state be limited to establishing no more than seven rating areas to minimize consumer confusion. States would be encouraged to pick from three pre-approved standards or submit their own which would be subject to approval.

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Rating for Age
HHS is proposing a uniform age curve where premiums will vary (at the most) within a 3:1 constraint for adults. They encourage the use of uniform age bands and rating curves to help simplify identification of the second lowest cost silver plan used to determine premium tax credits.

- **Children**
  There will be a single age band covering children 0 to 20 years of age, where all the premium rates are the same.
  The theory: Research has shown that there are generally small differences in costs for children. By having one set of rates for children through age 20, consumers would be able to more easily compare and predict costs for their children.

- **Adults**
  There will be one-year age bands starting at age 21 and ending at age 63.
  The theory: The one year bands for adults between ages 21 and 63 would allow for incremental changes that would align with HHS' proposal that each member have his or her own rate in both the individual and group markets.

- **Older Adults**
  There will be a single age band covering individuals 64 years of age and older, where all premium rates will be the same.
  The theory: For adults 64 years and older, Medicare as a Secondary Payer prohibits employers with 20 or more employees from charging Medicare-eligible employees a premium that is higher than the premium charged for non-Medicare eligible employees.

Tobacco Users & Wellness Programs
Tobacco users within the group market can be charged a factor no greater than 1.5:1, but there isn’t an agreed upon process through which to collect information to process the surcharge. In general, the PHS Act allows plans and issuers to reward up to 30 percent of the cost of coverage for wellness program participation. Tobacco users who participate in tobacco cessation programs may receive up to a 50 percent discount on the cost of coverage. To learn more about the proposed wellness programs, click here.

Coverage Guaranteed
Starting in 2014, carriers must accept and renew every individual and employer in the state that applies for coverage. Exceptions to the renewability requirement include nonpayment of premiums, fraudulent activity, plan noncompliance, and living outside the service area (for network plans).

It’s Just a Proposal
Before you rush off to tell your clients about the regulations, remember that they are just proposed regulations. Comments are requested within 30 days of release.