

Blue Perspective



**BlueCross BlueShield
Association**

An Association of Independent
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BCBSA Position on Legislative and Regulatory Issues

Age Discounts “A Must” To Encourage Young Adults to Purchase Insurance Congress Should Include a 5:1 Age Rating Provision

Issue: The Senate’s Patient Protection and Affordable Care Act would limit age discounts to 3:1 and the House-passed Affordable Health Care for America Act would limit age discounts for young people to 2:1. In contrast, the Senate Finance Committee’s original Chairman’s Mark would have allowed insurers to offer more appropriate 5:1 age discounts to encourage young people to purchase coverage and ensure affordable premiums for everyone.

Position: The Blue Cross and Blue Shield Association (BCBSA) supports the 5:1 age bands that were included in the original Senate Finance Committee proposal. Five-to-one age bands are critical to ensuring that young, healthy individuals – who provide cross-subsides that keep premiums affordable for everyone – purchase coverage. The much narrower bands included in the current Congressional bills would cause:

- Huge premium increases for younger people;
- A significant increase in the number of uninsured younger people (even with a mandate); and
- Less affordable coverage for older, sicker individuals.

Today, most states allow insurers to vary premiums based on age by a rate of 5:1 or more for insurance policies sold to individuals and small employers. This encourages young people to purchase coverage and ensure more affordable premiums for everyone.

Healthcare reform legislation proposed by the Senate would limit age adjustments to health insurance premiums to a narrow band of 3:1. The House-passed bill would limit age adjustments to an even narrower 2:1 band. This means that a 64 year old’s premium could never be more than twice the cost of an 18 year old’s premium – even though the average 64 year old may have claims that are five times those of the average 18 year old.

BCBSA believes reform legislation should include the 5:1 age bands included in the original Finance Committee Chairman’s Mark. The narrow age bands proposed in the House and Senate bills would cause:

1. Huge Premium Increases for Younger People

Limiting the variation in premium rates based on age to 3:1 or 2:1 would lead to a substantial premium increases for younger adults. The following simplified example shows how age bands can affect the cost of coverage.

	Premiums with 5:1 Age Adjustment	Premiums with 3:1 Age Adjustment	Premiums with 2:1 Age Adjustment
18 year old	\$100	\$150	\$200
64 year old	\$500	\$450	\$400

Looking at actual claims data and using assumptions drawn from economic literature, the actuarial firm Oliver Wyman estimates that in states that permit age rating today, premiums for the youngest 1/3 of the population would increase by 35% under a 3:1 age band relative to a 5:1 age band during the first year of reform. A 2:1 age band would have an even more dramatic effect – a 69% premium increase. It is important to recognize that the proposed, very narrow age rating bands would come on top of other key changes that add to the cost of coverage under the reform bills.

2. A Significant Increase in the Number of Uninsured Younger People

Studies show younger individuals are much more sensitive to the costs of health insurance compared to older individuals. If premiums are too high, young and healthy individuals simply will not purchase insurance and their needed cross-subsidies for older, sicker people will be lost. Although congressional proposals include a requirement that everyone buy insurance, many young people still may be unlikely to comply – particularly since the noncompliance penalty is estimated to be 16% of the average premium. **After taking into account a mandate, Oliver Wyman estimates that after five years of reform, 500,000 younger, healthier individuals would leave the individual market under 3:1 rating, and 1 million would leave the individual market under 2:1 rating.**

Today, over 40 percent of the uninsured are between the ages of 18 and 34. Thirty-five percent of men and 29 percent of women between the ages of 21 and 24 are uninsured, compared to only 12 percent of both men and women between the ages of 55 and 64. Premium discounts for younger individuals are critical to getting them to buy insurance, even though they may not believe they have an immediate need for insurance.

Some have proposed extending the age for dependent coverage and allowing young adults to buy catastrophic policies. BCBSA supports options for young people, but the need for such additional proposals is an acknowledgement that the 3:1 age band is insufficient. The combination of the narrow rating bands and a “young, invincible” policy would simply mean young people pay more for less coverage, providing lower cross-subsidies for other people. Furthermore, allowing young adults to stay on their parents’ policies until age 26 does not change the underlying 3:1 age bands used to determine their portion of their families’ premiums.

3. Less Affordable Coverage for Older, Sicker Individuals

It is important to strike the right balance between ensuring affordable premiums for young people while ensuring young, healthy enrollees subsidize care for older individuals. Narrow age adjustments can cause higher premiums for older individuals – because there are few young adults to cross-subsidize their rates. **Without enough young people, premiums rates spiral upwards for everyone and fewer people buy coverage.** Older individuals needing assistance with premiums under 5:1 age bands should be provided adequate income-based subsidies.

The Blue Cross and Blue Shield Association is a national federation of 39 independent, community-based and locally operated Blue Cross and Blue Shield companies that collectively provide healthcare coverage for more than 100 million individuals – nearly one-in-three of all Americans. For more information on the Blue Cross and Blue Shield Association and its member companies, please visit www.BCBS.com.