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A Bad Deal Gets Worse

Obamacare is already damaging the individual insurance market

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Hostility to the individual health insurance market and its less pleasant features, including medical underwriting, permeated President Obama's crusade for health care reform. Although Obama-care ultimately will outlaw underwriting based on health history, it will increase the number of people responsible for obtaining their own coverage. As costs continue to rise and new taxes go into effect leading up to 2014, the year the individual mandate kicks in, many individual health insurance consumers who previously were winners in the health care marketplace will find themselves on the losing side.

Take Obamacare's provision that premium price differentials based on age under the new state exchanges may not exceed a 3 to 1 ratio. Devon M. Herrick, a health economist at the Dallas-based National Center for Policy Analysis, calls this a "large cross-subsidy": The young and healthy will subsidize older people and those with more health problems.

"If you are an early retiree, you might love the idea," Herrick notes. "If you are a 22-year-old college graduate trying to freelance, you might not."

Herrick and other experts estimate the current differential in actual health care costs between those approaching Medicare eligibility and younger adults at closer to 5:1 or 6:1.

"At a time when younger individuals are being required to purchase health insurance, they are going to be seeing major increases in premiums because of this provision," says Robert Zirkelbach, a spokesman for the industry group America's Health Insurance Plans. "It will increase premiums percentagewise for younger workers much more than it will decrease premiums for older people."

Zirkelbach figures the 3 to 1 provision alone will cause premiums for consumers under 30 on the state exchanges to rise between 50 percent and 60 percent. Roy Ramthun, president of HSA Consulting Services and a visiting fellow at the Council for Affordable Health Insurance, suggests the figure could reach 70 percent.

It's important to pay attention to underlying premiums without the subsidies that will be provided for those earning less than 400 percent of the federal poverty level. First, although the law allows those younger than

30 to purchase relatively inexpensive catastrophic plans, everyone will age out of that provision. Also, some eligible for subsidies may earn their way out of them.

Using an online calculator from the Kaiser Family Foundation, I compared what two young Texas families might pay under Obamacare with what they pay today for their individual policies. Neither family expects to qualify for a subsidy in 2014, and Texas has fewer mandates than many other states and no "guaranteed issue" (that is, an insurance company can refuse to cover a given customer). So an individual market still functions.

The first family, a couple in their mid-30s with two children, owns a CPA firm, which has no employees. They now pay $245 per month for a no-frills Blue Cross Blue Shield plan with a $5,000 deductible. They also contribute monthly to a health savings account. According to the Kaiser calculator, in 2009 dollars this family could pay $720 per month on an Obamacare state exchange, a 194 percent increase.

Similarly, a couple in their late 20s who own a small remodeling business report paying $334 per month for a Blue Cross Blue Shield plan with a $1,500 deductible and no health savings account. Like most affordable individual plans, their policy does not provide maternity coverage, but they just wrote a check to the hospital for delivering baby number one and plan to do the same for baby number two, which is on the way. The Kaiser calculator estimates that this family could pay $617 per month in today's dollars to buy health insurance on a state exchange, an 85 percent increase. Of course, with the increased premium would come a more comprehensive list of mandated benefits, including maternity coverage.

Zirkelbach warns that the pain of astronomical premiums likely will be more intense in states that were less regulated before Obamacare than in states like Massachusetts, where the average family premium for an individually purchased policy was already $13,288 in 2009.

Most of the 6 percent of Americans with nongroup health insurance would probably agree with the Obama administration that such coverage has its unattractive aspects. On the individual market, potential customers face medical underwriting—a process unknown to those who have always enjoyed employer-sponsored insurance. Depending on the company, honest consumers must track down up to 10 years of their medical history. In states without guaranteed issue, every revelation of past need for health care carries the potential to trigger a higher rate or outright denial of coverage. Premiums and deductibles can be high, and benefits are less comprehensive than on the group market. Most premiums are not guaranteed even for a year and can escalate wildly as a result of global costs and other factors unrelated to one's personal health.

For example, in January I requested a change in my existing two-person policy at Assurant Health. After the underwriting process, the change, which included addition of a health savings account, was approved with a $334 monthly premium. But close to annual renewal time, in early April, I was notified that the premium would jump to $487, a 46 percent increase in one quarter. I appealed the rate hike, which coincided suspiciously with the passage of Obamacare, and two months later the increase was overturned on a technicality.

In the near term, new taxes and mandates that take effect prior to 2014, like allowing

children to remain on their parents' policies until they're 26, as well as any cuts in Medicare reimbursements and any uncertainty insurers feel about the individual market itself, will stress this market further.

Eventually, 2014 will come, and with it the requirement that individuals who are not part of a group purchase health insurance or pay a fine. Although the fine will vary from $695 for an individual in 2016 up to 2.5 percent of a wealthier person's income, it will amount to less than what many individual consumers already pay. An industry survey pegged the national average family premium on the individual market at $6,328 in 2009. Inevitably, then, some people will prefer the fine.

With guaranteed issue going nationwide in 2014, James P. Gelfand, senior manager for health policy at the U.S. Chamber of Commerce, notes that such people will wait till they're "in the ambulance" to buy insurance. "Because companies know people will do this, they will set funds aside" through higher premiums to pick up the slack.

Experts agree that it will most likely be younger, healthier workers who choose to pay the fine, leaving the state exchange pools sicker and thus more expensive, including for healthy people who follow the rules. Yet another consequence of Obamacare is that those who attempt to navigate the individual policy seas may have to do so with less expert help than they get now. With the law's requirement that insurance companies spend 80 percent of individual and small group premiums on care, companies may be forced to reduce the commissions they pay to agents and brokers, rendering these policies unappealing to those who normally guide individual buyers through the complexities of the health insurance market.

Surely, people will be able to get advice from the state exchanges, won't they? Maybe. But Roy Ramthun wonders: "Will it be like trying to ask the driver's license office what kind of car to buy?"