RPC HEALTH CARE FACTS

Premiums Will Go Up

The number one concern voters want addressed by health care reform is cost. Americans want reforms that will bring their premiums down while protecting their quality of care. Instead, study after study shows that the reform plans under consideration will drive premiums and overall health care spending up. These studies, by the Congressional Budget Office (CBO), the Joint Committee on Taxation (JCT), the Chief Actuary at the Department of Health and Human Services (HHS), and independent actuaries show that the Democrats' legislation will drive premiums and overall health care spending up faster than in the absence of reforms. That is exactly the wrong direction for health care reform.

JCT[i] and CBO[ii] reinforce what six other studies[iii] have shown: The Democrats' health care plan will make premiums go up. These independent analyses show that premiums will go up as taxes are passed on to consumers. The studies also show that because so many people remain uninsured under the proposals, market reforms will act to drive up the cost of health insurance as healthier and younger workers are forced to subsidize the costs of sicker workers.[iv]

- Individuals and families buying their own insurance could see premiums increase as much as 73 percent.[v]
- Small businesses will see premium increases of almost 20 percent.[vi]
- Young and healthy individuals would see the biggest increase.[vii]

In 2010, everyone who is insured will immediately see their premiums and cost of care go up: While the taxes under the Democrats' plan go into effect immediately, the major reforms won't take place until July 2013.[viii] The JCT and CBO both testified that the excise taxes on health insurance companies and new fees on devices and pharmaceuticals will be passed on to consumers, increasing the price of health care coverage.[ix]

As a result of the Democrats' plan, health care spending will actually increase by three-quarters of a trillion dollars—this is above and beyond already out-of-control health care spending: The United States already spends a far greater percentage of its GDP on health care than any other country, but that amount will increase by $750 billion (2.1 percent over current projections) because of the changes in the House bill.[x] As a result, health care spending as a percent of GDP is projected to be 21.3 percent in 2019—more than one out of every five dollars spent. This is bending the cost-curve up, not down.

Even if subsidies are included, they will be available to less than eight percent of Americans—and not to people who receive health care from their employer: The Democrats' main response to actuarial studies showing increasing premiums has been to claim that the studies don't take account of subsidies made available under the legislation.[xi] However, according to data from CBO, only 18 million of 282 million non-elderly Americans in 2019 will be eligible for subsidies.[xii] Importantly, if you receive health care through your employer—as the vast majority of Americans do—you aren't eligible for a subsidy under the Democrats' plan. But you will pay the higher taxes that will drive up your premiums.

[i] JCT Memorandum on the high cost plans excise tax, September 29, 2009 ("The imposition of the excise tax on insurers can be expected to lead health insurance providers and consumers to take measures to minimize their burden from the tax. As insurers pass along the cost to the consumer by increasing price, the cost of employer provided insurance will increase.")

[ii] CBO Director Elmendorf testified to the Finance Committee that insurance fees "would raise insurance premiums by roughly the amount of the money collected." Finance Committee, U.S. Senate, Hearing on September 22, 2009. Additionally, CBO wrote that because of increased regulations, "premiums in the new insurance exchanges would tend to be higher than the average premiums in the current-law individual market..." CBO letter to Senator Max Baucus, September 22, 2009, available at: http://cbo.gov/ftpdocs/106xx/doc10618/09-22-Analysis_of_Premiums.pdf

[iii] CMS Office of the Actuary Memorandum, October 21, 2009; Oliver Wyman Analysis, October 14, 2009 (Oliver Wyman also released a separate age rating analysis on September 28, 2009); PriceWaterhouseCoopers Report, October 2009; HayGroup Analysis, October 5, 2009; Milliman Analysis, July 13, 2009; WellPoint Analysis of 14 States, October 22, 2009.

[iv] "We note that that piece of the legislation would raise premiums for—on average… Those who are healthier than average would experience an increase in premiums, from bringing these sicker people in to the pool and covering their medical expenses." Statement by CBO Director Doug Elmendorf in the Finance Committee, U.S. Senate, Hearing on September 22, 2009.

[v] "Assuming 89 percent of the total population has health insurance, Oliver Wyman expects: Claims in the individual market could be 50 percent higher than they are today; claims are expected to be even higher in some states, ranging between 60-73 percent higher than today. This translates into premium increases of roughly $1,500 a year for single coverage and premium increases of roughly $3,300 a year for family coverage." Oliver-Wyman analysis, October 14, 2009. Available at: http://www.bcbs.com/issues/uninsured/background/Oliver-Wyman-Report-Showing-Impact-of-Healthcare-Reform-on-Premiums-pdf.pdf.

[vi] "Oliver Wyman, Inc. finds that small employers purchasing new policies in the reformed market, with an ineffective mandate, will experience premiums that are up to 19 percent higher in Year 5 of reform." Oliver-Wyman analysis, October 14, 2009.

[vii] "Even with the Senate Finance Committee provision of a 4:1 age band, premiums will increase for younger purchasers, reducing the likelihood that some will purchase coverage." Oliver-Wyman analysis, October 14, 2009.

[viii] Committee Report of the America's Healthy Futures Act, October 19, 2009.

[ix] "Those projected premium amounts include the effect of the fees that would be imposed under the proposal on manufacturers and importers of brand name drugs and medical devices, on health insurance providers, and on clinical laboratories. Those fees would increase costs for the affected firms, which would be passed on to purchasers and ultimately would raise insurance fees by a corresponding amount." Doug Elmendorf, CBO's Analysis of Premiums under the Chairman's Mark of the America's Healthy Future Act, CBO Blog, September 23, 2009.

[x] CMS Office of the Actuary Memorandum, October 21, 2009 ("In aggregate, we estimate that for calendar years 2010 through 2019 national health expenditures would increase by $750 billion, or 2.1 percent, over the updated baseline projection that was released on June 29, 2009. As a result, the NHE share of GDP is projected to be 21.3 percent in 2019, compared to 20.8 percent under current law."). Available at: http://republicans.waysandmeans.house.gov/UploadedFiles/OACT_Memorandum_on_Financial_Impact_of_H_R__3200_.pdf.

[xi] In response to the studies from the independent actuaries, the Democrats cited one report from MIT economist Jon Gruber, who said that the reports failed to take into account the subsidies. Gruber also said that premiums would decline on average for individuals purchasing insurance. However, Gruber acknowledged that his report did not take into account employer-sponsored plans or group plans. (*See New York Times*, Prescriptions, "MIT Economist Rebuts Insurance Industry Report," October 13, 2009). Gruber's model predicts that overhead would "fall enormously" once insurance policies are sold through the exchange. Notably, Gruber had similar predictions for the exchange in the Massachusetts health care plan, although premiums there are predicted to rise by ten percent a year. *Wall Street Journal*, "Mandated Health Insurance Squeezes Those in the Middle," September 16, 2009.

[xii] Preliminary Analysis of the Chairman's Mark for the America's Healthy Future Act, As Amended, Congressional Budget Office, October 7, 2009, available at: http://cbo.gov/ftpdocs/106xx/doc10642/10-7-Baucus_letter.pdf; note that while there will be 282 million non-elderly Americans in 2019, 185 million of them will be insured through their employer or non-exchange non-group insurance and therefore ineligible to receive the subsidy. CBO says that 5 million of the 23 million individuals eligible for the exchange will be "unsubsidized." That leaves 18 million people eligible for subsidies through the exchange. CBO Letter to Senator Baucus, October 7, 2009. Elderly Americans are excluded from this analysis since they receive health coverage through Medicare.