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subject: **Interim Deliverable — Draft Report**

Individual and Small Group Coverage in California Under the ACA: What to Look for in 2014 and Beyond

CHCF has engaged PricewaterhouseCoopers (PwC) to assist in developing a brief report on current common benefit designs and premium rates in California, with a view toward documenting changes that occur in 2014 and later years as a result of the provisions of the Affordable Care Act (ACA). This memo provides a high-level overview of the factors consumers are likely to identify in the reformed health insurance system.

Background

A number of key changes have been made in the availability and range of options, as well as the pricing for individual and small group health insurance in California and throughout the country. These changes go fully into effect with insurance products that begin January 1, 2014, and later. The provisions of the ACA meant that key changes in offerings were required, and those changes are likely to result in differences in average insurance premiums. Due largely to technical problems with the federally-run health benefit exchanges and the ACA-driven cancellation of noncompliant but lower-cost policies, President Obama has proposed that insurers be given the option of renewing noncompliant benefit packages for one year; as of December 17, 2013, the State of California has not decided whether to permit these policy extensions, but Covered California has determined that it will enforce a contract provision prohibiting its contracting plans from extending benefit packages that do not comply with the new standards. This paper is focused on policies that are fully ACA compliant.

Among the most significant changes are:

1. All products must be sold on a guaranteed issue and guaranteed renewal basis; no medical underwriting is permitted.
2. Premiums may not vary based on an insured's health status, other than for tobacco use, and in the small group market, participation in wellness programs.
3. All premiums are age rated, with the premium increasing each year according to a schedule established by the federal government.

4. Age-based premium rates may vary by a ratio no greater than 3:1; in other words, premiums for the oldest enrollees may be no more than three times higher than premiums for the youngest adult enrollees.
5. Family policies are rated based on the age of each covered adult and the three oldest children.
6. All policies sold must cover 10 essential benefits, including maternity coverage and child dental and vision benefits, which were typically excluded from policies for individuals in the past.
7. Policies may not include annual or lifetime benefit maximums.
8. All policies sold must fit into one of four "metal level" coverage types, ranging from bronze to platinum, or a catastrophic plan for young adults and certain older people who are offered coverage that is "unaffordable."
9. Premiums must be rated based on defined geographic regions; California passed legislation defining 19 regions for both the individual and small group markets.

Documenting Changes in Coverage and Price

Individuals and small groups seeking coverage in 2014 will observe:

- A change in covered benefits
- Changes in how benefit options are presented
- Potentially a change in price

To understand the new policies and how they compare to their old policies, consumers will need to know how their benefits have changed and how the various pricing rules have affected their premiums.

The most important changes in covered benefits between 2013 and 2014 plans is the required coverage of the 10 "essential health benefits," particularly in the individual market. The same essential health benefits apply in the small group and employer markets, but the vast majority of the required benefits have typically been included in small group policies, so the effect of the change on them is less dramatic. Among the most substantive new essential health benefits are coverage of maternity services and prescription drugs, coverage of mental health and substance abuse services in a manner that ensures parity with physical health services, and coverage of dental, vision, and habilitative services for children.

The ACA mandates that all benefit plans offered in 2014 and beyond in the individual and small group insurance markets must fit into one of four coverage tiers, or be defined as a catastrophic plan available to individuals under 30 and certain others who are offered premiums that are deemed "unaffordable." The coverage tiers are as follows:

Catastrophic	Bronze	Silver	Gold	Platinum
• High deductible, limited outpatient coverage. • Provides same maximum out-of-pocket expense protection as the metal tiers. • Available only to people under 30 or who qualify for a hardship exemption.	• 60% AV.	• 70% AV. • Every insurer on an exchange must offer a silver plan in 2014. • Subsidies in 2014 are based on the second-lowest-cost silver plan in each area.	• 80% AV. • Every insurer on an exchange must offer a gold plan in 2014.	• 90% AV.

In 2014, benefit plans meeting the ACA requirements will be available to individuals and small employers through a number of venues — public health care exchanges as authorized by the ACA, private health care exchanges, and directly from insurers. Premium subsidies under the ACA are available only through the public health care exchanges for individuals in families with incomes under 400% of the federal poverty level (FPL), though the benefit plans are limited to the standardized plans adopted by Covered California. Premium subsidies are tied to the second-lowest-cost silver plan available in each rating area. Cost-sharing subsidies, which lower the cost-sharing requirements for individuals in families with incomes under 250% of FPL, are also tied to the purchase of a silver plan, so it is expected that the vast majority of individuals purchasing coverage in the future will obtain coverage at either the bronze or silver level.

Products sold in California in 2013 did not have to comply with these coverage tiers or essential health benefits requirements. Note that the actuarial value of coverage means the average percentage of covered benefit costs that are paid by the insurance company. The portion of costs covered by the individual would be paid through cost sharing (copayments, deductibles, and co-insurance) at the time service is received. So, a bronze plan that has a 60% actuarial value covers an average of 60% of the cost of services included in the policy, and on average the individual pays the remaining 40% of the costs. The actual percentage paid by the insurance company will vary for each individual, and will generally be a lower percentage for people with low claims costs and a higher percentage for people with high claims costs. The actuarial value of a plan is calculated using a tool developed by the US Department of Health and Human Services. The tool has significant limitations, and plan designs that are not “compatible” with the model require the judgment of certified actuaries to develop and sign off on adjustments to the tool inputs or outputs. Actuarial value measures relative benefit richness, but does not consider differences in provider network size or quality, out-of-network benefits, plan premium rates, or health plan customer support.

Table 1 show the characteristics of five of the most popular products for each of three large health plans in the individual market in California in 2013, including their approximate actuarial value measured against the new essential health benefits requirement. The most popular individual products had actuarial values estimated to range from 55% to 85%, with the majority of plans having an estimated actuarial value below 65%. The low actuarial values are generally achieved through high deductibles or

benefit exclusions such as maternity, mental health, and prescription drugs, which are considered essential health benefits beginning in 2014. More than half of the low actuarial value plans are health savings account (HSA) paired with qualified high-deductible health plans (HDHPs).

Additional details on benefits coverage and limitations of these plans are included in the Appendices.

Table 1. Range of Benefit Designs for 15 Top-Selling Individual Plans in 2013

Estimated Actuarial Value / Plan Type	Over 80%	70%-80%	55%-65% Non-HDHP	55%-65% HDHP
Number of Plans	1	3	5	6
Deductible	$-	$400-$3,000	$1,000-$8,500	$2,700-$5,200 integrated medical/drug
Drug Deductible	$-	$250 or less	$500-$7,500	Integrated with medical
Out-of-Pocket Maximum	$2,500	$3,000-$6,000	$3,500-$8,500	$4,000-$6,000
Major Exclusions		Low-deductible plan excludes maternity, DME, MH, brand drugs.	Most plans exclude maternity, drugs, and/or MH.	Most plans exclude maternity or drugs.
Cost-Sharing Requirement				
Primary Care Physician	$25	$30-$40	$30-$40	$30-$40 after deductible
Generic Drugs	$10	$10	$10-$15	$10 after deductible
Brand Drugs	$35	$35	$35-$40	$35 after deductible
Inpatient Services	$200/day	$500/day-40%	20%-40%	30%

Table 2 shows the characteristics of five of the most popular products in the small group market for each of three large plans in California in 2013. The most popular small group products had actuarial values estimated to range from 65% to 85%, with the majority of plans having an estimated actuarial value above 75%. Relatively few plans had significant benefit exclusions. Additional details on benefits coverage and limitations are included in the appendices.

Table 2. Range of Benefit Designs for 15 Top-Selling Small Group Plans in 2013

Estimated Actuarial Value / Plan Type	Over 80%	70%-80%	65%-70% Non-HDHP	65%- 70% HDHP
Number of Plans	5	7	2	1
Deductible	$0-$1,500	$500-$3,000	$1,500-$5,000	$3,500
Drug Deductible	$250 or less	$250 or less	$0	Integrated with medical
Out-of-Pocket Maximum	$2,500-$3,500	$4,000-$6,000	$5,000-$8,000	$4,500
Major Exclusions		Some plans exclude nonpreferred drugs or all brand/ specialty drugs.	The lower deductible plan excludes all brand/ specialty drugs.	
Cost-Sharing Requirement				
Primary Care Physician	$20-$30, one plan at $50	$30-$40	$45 or 50%	20% after deductible
Generic Drugs	$10	$10-$15	$10	$10 after deductible
Brand Drugs	$30-$35	$30-$35	$45	$30 after deductible
Inpatient Services	$300-$500/day	30%-40%	30%-45%	20%

Premium Rates

Both the average premium rate and the range of rates are expected to change in 2014. An analysis of premium changes is expected to show differences at all age levels and geographic regions. After adjusting for differences in benefits and new taxes/fees, the change in premiums will largely be attributed to new pricing rules, whereby restrictions are placed on the level of variation in premium due to age, and the definition of specific geographic regions. Additional change in premium will be attributed to the change in the risk mix of the population. The ACA makes an important change in eligibility to purchase health insurance, through the guaranteed issue provision. This provision means that people who were previously excluded from access to health insurance coverage due to their health status now must be covered. The presence of an individual mandate and financial penalties for non-purchase means that some or all individuals who previously chose to forego health insurance coverage due to personal preference or price will join the insurance pool, though the relatively small penalties may limit the mandate's effectiveness. A limited annual open enrollment period, initially October 1, 2013, through March 31, 2014, is intended to encourage individuals to enroll before health care services are needed. Broad participation of younger and lower-risk individuals is needed to keep premiums down. Additional sources of premium changes may come from additional competition and reduced risk margins due to the

temporary and permanent ACA risk mitigation programs (the three Rs of reinsurance, risk corridors, and risk adjustment) for the individual and small group markets effective beginning 2014.

To fully assess the effect of the various changes in pricing, it is necessary to perform the analysis in a stepwise manner, as follows:

1. Adjust for difference in the actuarial value of covered benefits, based on the defined essential health benefits and the coverage tier.
2. Identify premium rates for a constant age group before and after the policy changes.
3. Identify premium rates for a similar geographic coverage area before and after the policy changes.
4. Adjust the premium rates for average health care trend.
5. Calculate the remaining difference in premium rates.

To allow for future comparison of premiums, the tables below show the average 2013 premiums (rounded to the nearest $5) for the products shown in Tables 1 and 2 for three age levels and six geographic areas. Premium rates are shown separately for individual and family coverage. Note that in 2013, premium rates for family coverage did not vary based on the number of children covered (item 2 above). The average family size for those choosing family coverage is 2 adults and 2.5 children. Additional details are available in the appendices.

Table 3. Average Premiums of 15 Top-Selling Individual Plans in 2013

			Over 80%	70%-80%	55-65% Non-HDHP	55%-65% HDHP
Individual Monthly Premium	Fresno	Age 21	$305	$175	$105	$85
		Age 41	$485	$290	$165	$180
		Age 61	$705	$585	$400	$455
	Los Angeles (south)	Age 21	$280	$165	$130	$90
		Age 41	$450	$275	$195	$185
		Age 61	$645	$560	$485	$475
	Mono	Age 21	N/A	$170	$130	$95
		Age 41	N/A	$265	$195	$195
		Age 61	N/A	$745	$470	$550
	Sacramento	Age 21	$320	$180	$130	$95
		Age 41	$510	$300	$195	$190
		Age 61	$740	$605	$470	$485
	San Diego	Age 21	$280	$165	$120	$90
		Age 41	$450	$275	$185	$180
		Age 61	$645	$560	$455	$465
	San Francisco	Age 21	$320	$180	$140	$95
		Age 41	$510	$300	$210	$195
		Age 61	$740	$605	$515	$500
Family Monthly Premium	Fresno	Age 21	$1,155	$650	$400	$385
		Age 41	$1,515	$885	$495	$510
		Age 61	$1,950	$1,445	$910	$990
	Los Angeles (south)	Age 21	$1,065	$615	$490	$395
		Age 41	$1,400	$840	$600	$520
		Age 61	$1,795	$1,375	$1,110	$1,025
	Mono	Age 21	N/A	$620	$480	$435
		Age 41	N/A	$825	$585	$545
		Age 61	N/A	$1,680	$1,080	$1,140
	Sacramento	Age 21	$1,220	$675	$480	$410
		Age 41	$1,600	$920	$585	$540
		Age 61	$2,050	$1,495	$1,080	$1,055
	San Diego	Age 21	$1,065	$615	$455	$390
		Age 41	$1,400	$840	$560	$510
		Age 61	$1,795	$1,375	$1,040	$1,005
	San Francisco	Age 21	$1,220	$675	$525	$420
		Age 41	$1,600	$920	$640	$550
		Age 61	$2,050	$1,495	$1,185	$1,085

Table 4. Average Premiums of 15 Top-Selling Small Group Plans in 2013

			Over 80%	70%-80%	65%-70% Non-HDHP	65%-70% HDHP
Individual Monthly Premium	Fresno	Age 21	$305	$220	$200	$185
		Age 41	$460	$370	$365	$315
		Age 61	$960	$790	$730	$685
	Los Angeles (south)	Age 21	$270	$260	$270	$205
		Age 41	$405	$435	$475	$350
		Age 61	$845	$945	$985	$765
	Mono	Age 21	$340	$320	$335	$215
		Age 41	$575	$530	$590	$360
		Age 61	$1,235	$1,135	$1,205	$795
	Sacramento	Age 21	$305	$245	$225	$215
		Age 41	$460	$410	$400	$360
		Age 61	$955	$880	$815	$795
	San Diego	Age 21	$270	$240	$220	$210
		Age 41	$405	$400	$390	$350
		Age 61	$845	$865	$805	$775
	San Francisco	Age 21	$305	$250	$225	$225
		Age 41	$465	$420	$400	$380
		Age 61	$965	$900	$815	$830
Family Monthly Premium	Fresno	Age 21	$1,145	$765	$650	$650
		Age 41	$1,325	$970	$925	$820
		Age 61	$2,120	$1,760	$1,595	$1,495
	Los Angeles (south)	Age 21	$995	$900	$865	$725
		Age 41	$1,155	$1,155	$1,250	$910
		Age 61	$1,870	$2,105	$2,155	$1,665
	Mono	Age 21	$1,195	$1,095	$1,075	$755
		Age 41	$1,500	$1,390	$1,540	$945
		Age 61	$2,735	$2,520	$2,630	$1,730
	Sacramento	Age 21	$1,130	$845	$720	$755
		Age 41	$1,315	$1,085	$1,035	$945
		Age 61	$2,115	$1,970	$1,775	$1,730
	San Diego	Age 21	$995	$830	$705	$735
		Age 41	$1,160	$1,055	$1,025	$925
		Age 61	$1,875	$1,930	$1,755	$1,685
	San Francisco	Age 21	$1,140	$860	$720	$790
		Age 41	$1,330	$1,105	$1,035	$990
		Age 61	$2,140	$2,005	$1,775	$1,810

Difference Between Individual/Small Group and Large Group Policies

In addition to examining changes in individual policies from 2013 to 2014, it is valuable to assess differences in coverage between individuals, small groups, and large groups. Of interest is how the

common benefit plans in the large group market compare to the plans that are offered to individuals and small groups. Specifically, it is important to consider both the range of covered benefits and the actuarial value of the benefit package. Detailed reporting of large group products is less available than reporting of individual and small group products. Further, premium rates for large groups are typically established based on the employer group's specific experience, and is often pooled for all employees across the country for employers with operations in multiple states.

To provide a California-specific point of comparison, a review was conducted of the benefits available to participants in the CalPERS programs, which provides benefits to state and local employees and their dependents throughout California. The actuarial value of the benefits in that program range from 86% to 92%. The table below shows the key benefit provided through CalPERS. Because CalPERS provided a broad scope of benefits before passage of the ACA, significant changes in covered benefits are not required to bring the benefits offered into compliance.

Table 5. Benefit Designs for CalPERS Plans in 2013

	CalPERS
Estimated Actuarial Value	86%-92%
Deductible	$0-$500
Copayments	$15-$20
Co-Insurance	20%
Out-of-Pocket Maximum	$1,500-$3,000
Lifetime Maximum	unlimited
Major Excluded Services (by certain plans)	- Pediatric dental and vision
Covered Services	**Cost-Sharing Requirement**
Professional Services	$15-$20
Preventive Care	No charge
Lab and X-Ray	No charge-20%
Prescription Drug	$5 (generics) $20-$50 (brand/specialty)
Outpatient Services/ER	No charge-$15/20%
Inpatient Services	No charge-20%
Mental Health Services	No charge-$20/20%
Pregnancy	No charge-20%
Nursing and Rehabilitation	No charge-$15/20%

Premium rates in CalPERS are based on coverage level, but do not vary based on age or geography. Table 6 shows the average premiums for enrollees in the most popular CalPERS plans.

Table 6. Average Premiums of CalPERS Plans in 2013

	CalPERS
Individual Monthly Premium	$625
Family Monthly Premium	$1,625

Difference Between Individual/Small Group and Medi-Cal

A final point of comparison is to the coverage available in the Medi-Cal program. Individuals who qualify for subsidized coverage in Covered California may move between Medi-Cal and commercial coverage as their income levels change. Medi-Cal requires only nominal cost sharing for some eligibility categories, so it provides coverage at a very high actuarial value. All major benefit categories are covered by Medi-Cal. The actuarial value of Medi-Cal benefits is estimated to be approximately 100%. When compared to typical commercial plans, Medi-Cal covers benefits that may be routinely excluded by commercial plans, such as brand and specialty drugs, mental health and substance abuse services, maternity and pregnancy-related services, and certain nursing and rehabilitation services.

Looking Forward

Significant changes in benefits and premiums will take effect in 2014. To assess the level of change that occurs, this report will be updated with information on the California market in 2014. Among the factors that will affect the cost of premiums are the plan choices that consumers make, as well as mandated changes in how premiums are rated. Consumers will select among the four metal levels of coverage, with significant incentives for selecting bronze (60%) or silver (70%) coverage plans, though many may remain on non-ACA compliant grandfathered plans for a period of time. Low-income enrollees in exchange plans will have significant incentive to enroll in silver plans, with the cost-sharing subsidies they will receive, but are likely to be tempted by zero-premium bronze plans. The plan designs for individual products will be enhanced with coverage of essential health benefits; the same benefits will be covered in small group plans, but most are currently included in small group products so less change will be evident for small group enrollees.

Changes in premium rating due to age and geography will affect how consumers see their cost of coverage; the 3:1 rating limitation suggests that, before subsidies, younger enrollees may see premium increases, while older enrollees are likely to see lower rates, all else being equal.

Geographic rating has been standardized in California, but is likely to be a significant driver of changes in rates experienced by consumers. California has now established 19 specifically defined rating regions for both the individual and small group markets, but the configuration of the specific regions was left to the discretion of the health plans.

Changes in the risk mix of the enrolled population will likely have an important effect on premium rates, as insurance coverage is guaranteed for anyone who enrolls during the open enrollment period. Guaranteed coverage will be specifically attractive to those who were previously denied coverage or could only find coverage with significant limitations. These people tend to be higher health care users on

average, and the risk pool must be balanced by lower-cost members to keep prices down. Though everyone is mandated to prove they have insurance coverage, the initial penalty for failing to obtain coverage is relatively low.

An important consideration for consumers is the provider network included in their plan. Narrow network plan offerings, particularly in the public health care exchanges, have proliferated as a means to keep premiums down. A full examination of changes in insurance offerings from 2013 to 2014 should include consideration of the depth and breadth of provider networks, as well as differences in provider networks for different products.

Other considerations may include transparency of information regarding health plan and provider cost and quality, as well as consumer satisfaction.

Appendices

(available at www.chcf.org/publications/2017/02/ca-indiv-market-before-aca)

A. Benefit Designs of Top Selling Individual Plans in 2013

B. Benefit Designs of Top Selling Small Group Plans in 2013

C. Premiums of Top Selling Individual Plans in 2013

D. Premiums of Top Selling Small Group Plans in 2013

E. Benefit Designs of Popular CalPERS Plans in 2013