



The High Cost of ObamaCare Mandates in Texas' Individual Health Insurance Market

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Findings

- ObamaCare increases premiums in Texas' individual health insurance market in absolute terms compared to premiums prior to the law.
- Many working Texans, especially those in their 20s and 30s, will not qualify for federal subsidies or will qualify for subsidies that do not significantly offset the cost of plans sold on the exchange.
- Federal rules and requirements on exchange-based plans are responsible for higher premiums.
- Young, healthy Texans with incomes in excess of 250 percent of the federal poverty limit are unlikely to purchase coverage on the federal exchange.

Introduction

On October 1, the federally-facilitated health insurance exchanges, or “marketplaces,” established by the Patient Protection and Affordable Care Act (ACA) launched nationwide. Although the website in Texas, like exchange websites elsewhere, was initially plagued with problems, the Department of Health and Human Services (HHS) released information¹ about the insurance plans offered on the exchange prior to the launch. This data, albeit limited, allowed for a preview of average premium rates in a sampling of metro areas in Texas and other states.

In general, the impact on individuals will vary depending on age, gender, location, health status, income level and current coverage. However, an analysis of the exchange rates shows they are on average significantly higher than coverage available on the individual market in Texas prior to the ACA, and that the net effect of the law is to increase premium rates on Texas' individual health insurance market in absolute terms.

Pre- and Post-ACA Coverage

Comparing plans currently available on the individual market in Texas with ACA-compliant plans presents some difficulties, in part because all plans sold on the exchange must meet minimum benefit and actuarial standards not in place prior to the ACA. For example, plans currently available on the individual market in Texas do not include maternity coverage, but all plans sold on the exchange must include such coverage, along with coverage in nine other categories of essential health benefits (EHBs), equal to the

benefits provided in a typical employer-based plan.²

In addition, there is currently no limit on out-of-pocket spending for catastrophic plans on the individual market. Some of the cheapest plans available in Texas have a \$10,000 annual deductible for individuals and a \$30,000 deductible for a family, which does not necessarily include copayments. But the ACA limits out-of-pocket spending to \$6,350 for an individual and \$12,700 for a family, including copayments and deductibles.

Nevertheless, a comparison of pre- and post-ACA rates is helpful when determining how much more Texans may have to pay for coverage beginning January 1, 2014, when ObamaCare's individual mandate takes effect. Although federal subsidies will offset higher premium costs for some, not everyone will qualify for assistance. Those who do not qualify will be facing significantly higher health insurance costs than they would have prior to the ACA, particularly in Texas, where a lightly regulated individual market has kept premiums relatively low compared to states like New York and New Jersey.³

It is also necessary to compare pre- and post-ACA rates to understand what the federal law is doing to the individual market in Texas. A number of provisions in the ACA contribute to aggregate higher premiums costs, and chief among these are age rating restrictions (or modified community rating) and guaranteed issue, which prevents carriers from denying coverage because of pre-existing conditions. These two provisions will

continued

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account for increases in premiums for those under 35—a 19 to 35 percent premium hike because of the age rating restrictions, and a 20 to 45 percent increase as a result of guaranteed issue.⁴ Other factors, including taxes and fees such as the Health Insurance Tax and the exchange user fee, will also contribute to higher premium costs compared to pre-ACA levels.

Effects on the Individual Market in Texas

Because rates on the exchange vary based on differences in age, location, and health plan, and because subsidies will offset premium costs for some people based on age and income, the effects of higher rates in post-ACA cov-

erage plans will be uneven. Young, working Texans are most likely to bear the brunt of these higher costs for two reasons: 1) many of them earn too much to be eligible for subsidies; and 2) premiums for ACA-compliant plans for Texans in their late 20s and early 30s are significantly higher than pre-ACA plans currently on the individual market.

For a 27-year-old, non-smoking male, low-cost catastrophic plans on the exchange, which are available only to those under age 30 or those with low incomes who qualify, will be on average 84 percent more expensive than pre-ACA catastrophic plans. For women, these plans will be 40 percent more expensive. Catastrophic exchange plans for men in Austin will be on average 158 percent more expensive than catastrophic plans prior to the ACA, as shown in Figure 1 below. Such plans are not eligible for subsidies, so the premium costs must be paid entirely by the enrollee, out of pocket.

The cost increases for 27-year-olds vary between major metro regions of the state, and are more severe for men than for women, in part because the ACA does not allow carriers to vary rates based on gender, as they have in the past. The highest increases for this age group are in Dallas/

Figure 1: Average Monthly Catastrophic Premiums for Pre- and Post-ACA⁵

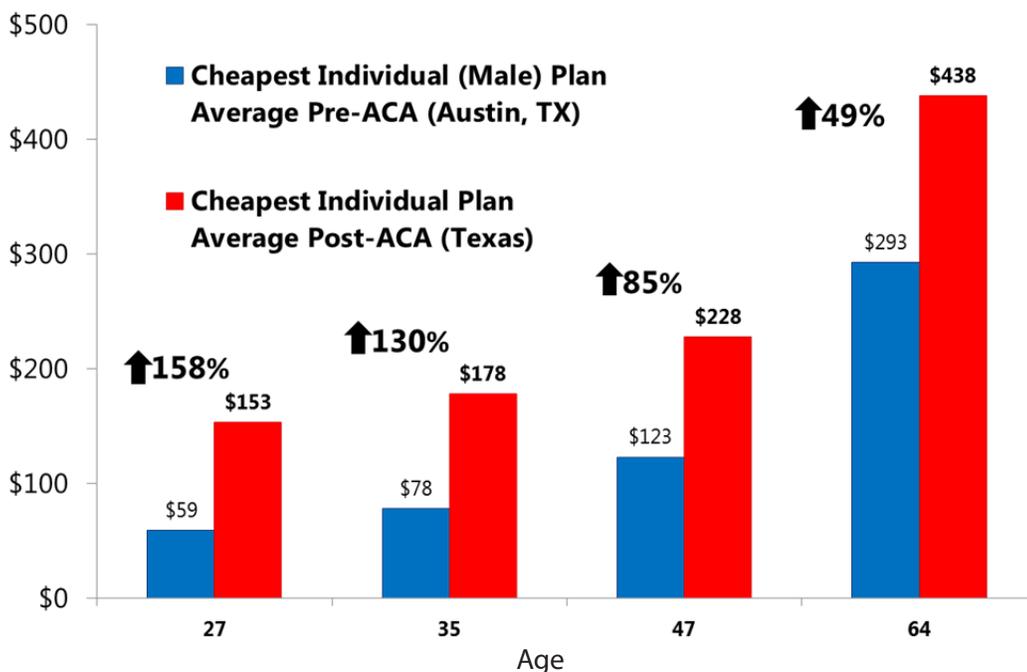
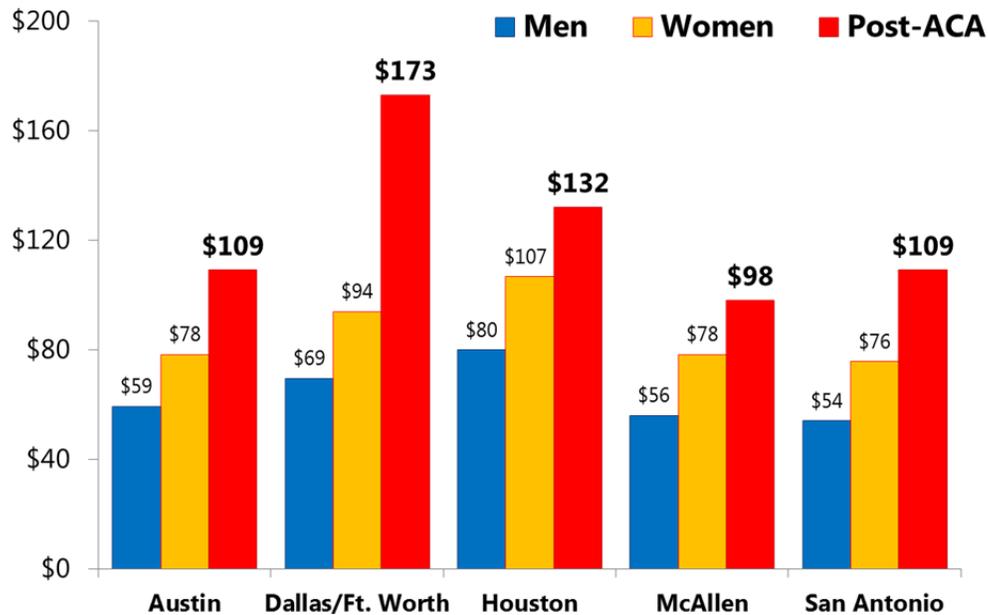


Figure 2: Average Monthly Catastrophic Premiums by Metro Area⁶



Fort Worth, where catastrophic coverage will increase by more than 150 percent for men and 84 percent for women, as shown in Figure 2.

Other comparisons of pre- and post-ACA rates have used a variety of methods to account for average cost differences, with some calculations showing a 100 percent increase over pre-ACA rates for 27-year-olds in Texas, a 91.2 percent increase for Texans age 50, and a 29.4 percent average increase for a family of four.⁷

Effect of Subsidies on Exchange Plans

A common claim among ACA supporters is that, despite higher premiums on the exchange, coverage will nevertheless be affordable because of federal subsidies. This rea-

soning assumes that most of those seeking coverage on the exchanges will qualify for a significant federal subsidy to offset higher costs. Yet the data on the uninsured in Texas cast doubt on this assumption. Among those aged 18 to 64 who earn between 200 and 399 percent of the federal poverty level (FPL), nearly 30 percent are uninsured (see Table 1). Texans in this income range will not qualify for substantial subsidies.

According to an analysis by David Hogberg, Ph.D., of the National Center for Public Policy research:

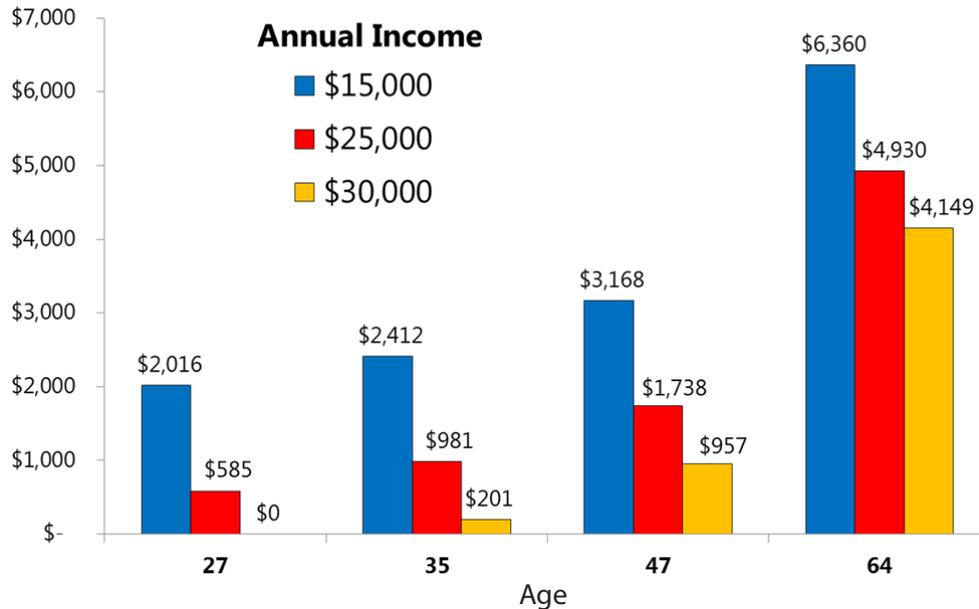
Of those ages 18-34, those who are uninsured or have insurance through the individual market comprise over 57 percent of the group most likely to be eligible

Table 1: Uninsured Texans by Income

Texans Age 18 - 64	Under 138% Federal Poverty Threshold (<\$15,856)	138-199% Federal Poverty Threshold (\$15,856-\$22,865)	200-399% Federal Poverty Threshold (\$22,980-\$45,845)	Over 400% Federal Poverty Threshold (>\$45,960)
Total Uninsured	2,060,005	873,549	1,349,963	543,642
Total 18 - 64	3,727,091	1,813,497	4,641,689	5,553,921
Percent 18-64 Uninsured	55.3%	48.2%	29.1%	9.8%

Source: 2012 American Community Survey, U.S. Census Bureau (Sept. 17, 2013)

Figure 3: Maximum Individual Subsidies, Texas Statewide Average



for the exchanges. The Congressional Budget Office Estimates that seven million people will participate in the exchanges in 2014... [A] large portion of the total number of single people without children ages 18-34 have a substantial financial incentive not to participate next year. Sixty-one percent will have at least \$500 worth of incentive to avoid the exchange, and 49 percent will have at least \$1,000 worth.⁸

It is this group of comparatively younger, healthier Americans that the exchanges need in large numbers in order for plans to remain affordable and prevent adverse selection. Indeed, the exchange system depends on the young and healthy subsidizing coverage for the old and sick via higher premiums and out-of-pocket costs. By some estimates, nearly 40 percent of the 7 million targeted for enrollment on the exchanges in the first year will need to be young, healthy adults whose premiums and low numbers of claims can balance the cost of insuring older, sicker enrollees.⁹

And yet the price of plans on the exchanges will be prohibitively expensive for those earning even as much as 250 percent FPL, or about \$28,725 a year. Consider the following scenarios:

- A 27-year-old Houston resident earning 250 percent FPL, or about \$28,725 annually, will only qualify for a subsidy of \$8.40 a month, leaving more than \$192 in out-of-pocket monthly costs for the second lowest-cost plan on the exchange.
- A 27-year-old making \$30,000 a year in Austin will not qualify for any federal subsidy at all, and will have to pay about \$109 a month out-of-pocket for a low-cost catastrophic plan on the exchange, amounting to more than \$1,300 annually.
- A 35-year-old Texan who earns \$30,000 a year will be eligible for annual subsidies that amount to a mere \$201 (see Figure 3), leaving average out-of-pocket annual costs for the second lowest-cost silver plan in Texas at more than \$2,500.¹⁰
- A 40-year-old San Antonio resident earning 300 percent FPL (\$34,470) does not qualify for a subsidy and will pay an annual premium of approximately \$2,871 out-of-pocket for the second lowest-cost silver plan on the exchange.

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very population that has the least incentive to do so. Compared to thousands of dollars in potential out-of-pocket costs, the fine for failing to purchase insurance in 2014 will be \$95 or one percent of household income over the filing threshold. While older Texans and those with pre-existing medical conditions have a clear incentive to obtain coverage through the exchange, the young and healthy have no such incentive.

Conclusion

The net effect of ObamaCare's mandates and regulations on the individual health insurance market in Texas is to increase premium rates in absolute terms. That federal subsidies will offset these higher costs for some enrollees

does not mean that the law has not caused premiums to rise relative to what they were prior to its implementation. Although coverage details of plans offered on Texas' individual market before and after ACA implementation do vary, rates for the plans most attractive to younger, healthier Texans—catastrophic plans with high deductibles—have increased dramatically.

The launch of the federal exchange in Texas heralds an era of significantly higher insurance premiums and out-of-pocket costs for healthy, working Texans. Premiums paid by this group will, in theory, offset the cost of providing coverage for the previously uninsured, chronically ill, the elderly, and those with pre-existing conditions.

However, once 20- and 30-something Texans who earn more than about \$28,000 a year see the cost of coverage on the exchange, it is unlikely they will choose to comply with the ACA's individual mandate. Indeed, they have little incentive to do so, and are likely instead to prioritize their fiscal health over the costly, over-regulated health insurance plans foisted on them by the federal government. ★

Endnotes

- ¹ Health Insurance Marketplace Premiums for 2014 Databook, Dept. of Health and Human Services (25 Sept. 2014).
- ² The ACA defines EHBs as, "(1) ambulatory patient services, (2) emergency services, (3) hospitalization, (4) maternity and newborn care, (5) mental health and substance use disorder services, including behavioral health treatment, (6) prescription drugs, (7) rehabilitative and habilitative services and devices, (8) laboratory services, (9) preventive and wellness services and chronic disease management, and (10) pediatric services, including oral and vision care." Affordable Care Act, Section 1302(b)(1).
- ³ Avik Roy, "Double Down: Obamacare Will Increase Avg. Individual-Market Insurance Premiums By 99% For Men, 62% For Women," *Forbes* (25 Sept. 2013).
- ⁴ James T. O'Connor, FSA, MAAA, "Comprehensive Assessment of ACA Factors That Will Affect Individual Market Premiums in 2014," Milliman, Inc. (25 April 2013).
- ⁵ Pre-ACA monthly data from ehealthinsurance.com (accessed 9/16/13) are the average of the three cheapest plans available to a non-smoking male at each age in Austin, TX. Post-ACA monthly data from aspe.hhs.gov are the lowest cost catastrophic qualified health plan averages available to a non-smoking individual at each age in Texas for 26 rating area IDs. The percentage changes above the blue bars indicate the increase in monthly rates post-ACA.
- ⁶ Pre-ACA monthly data from ehealthinsurance.com (accessed 9/26/13) are the average of the three cheapest plans available to 27-year-old non-smoking men and women in each metropolitan statistical area (MSA) in Texas. Post-ACA monthly data from aspe.hhs.gov are the lowest cost catastrophic qualified health plans available on the federal exchange in each MSA.
- ⁷ Drew Gonshoroski, "How Will You Fare in the Obamacare Exchanges?" Heritage Foundation (16 Oct. 2013).
- ⁸ David Hogberg, Ph.D., "Why The 'Young Invincibles' Won't Participate In The ObamaCare Exchanges and Why It Matters," National Center for Public Policy Research (Aug. 2013).
- ⁹ Lisa Lerer and Alex Wayne, "Insurance Premiums Seen Lower Than Forecast on Health Law," *Bloomberg* (18 July 2013).
- ¹⁰ Average of Second Lowest Cost Silver QHP in 26 Rating ID Areas for Texas, Health Insurance Marketplace Premiums for 2014 Databook, Dept. of Health and Human Services (25 Sept. 2014).

About the Author

John Davidson is a health care policy analyst in the Center for Health Care Policy at the Texas Public Policy Foundation. He joined the Foundation in October 2012.

Davidson began his career in journalism, and has worked as a print and online reporter, managing and executive editor, and freelance writer for a wide variety of publications. He was Executive Editor for Issue Media Group, where he oversaw 19 weekly publications in the U.S. and Canada covering the creative economy, business innovation, and urban growth and design.

A graduate of Hillsdale College, where he served as Editor-in-Chief of the *Hillsdale Collegian* and participated in the DOW Journalism Program, Davidson's writing has appeared in *National Review*, *Texas Monthly*, *First Things*, the *Claremont Review of Books*, *n+1*, and elsewhere.

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