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Study: Health overhaul to raise claims cost 32 pct

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By RICARDO ALONSO-ZALDIVAR — Associated Press

WASHINGTON — Medical claims costs - the biggest driver of health insurance premiums - will jump an average 32 percent for Americans' individual policies under President Barack Obama's overhaul, according to a study by the nation's leading group of financial risk analysts.

The report could turn into a big headache for the Obama administration at a time when many parts of the country remain skeptical about the Affordable Care Act. The estimates were recently released by the Society of Actuaries to its members.

While some states will see medical claims costs per person decline, the report concluded the overwhelming majority will see double-digit increases in their individual health insurance markets, where people purchase coverage directly from insurers.

The disparities are striking. By 2017, the estimated increase would be 62 percent for California, about 80 percent for Ohio, more than 20 percent for Florida and 67 percent for Maryland. Much of the reason for the higher claims costs is that sicker people are expected to join the pool, the report said.

The report did not make similar estimates for employer plans, the mainstay for workers and their families. That's because the primary impact of Obama's law is on people who don't have coverage through their jobs.

The administration questions the design of the study, saying it focused only on one piece of the puzzle and ignored cost relief strategies in the law such as tax credits to help people afford premiums and special payments to insurers who attract an outsize share of the sick. The study also doesn't take into account the potential price-cutting effect of competition in new state insurance markets that will go live on Oct. 1, administration officials said.

At a White House briefing on Tuesday, Health and Human Services Secretary Kathleen Sebelius said some of what passes for health insurance today is so skimpy it can't be compared to the comprehensive coverage available under the law. "Some of these folks have very high catastrophic plans that don't pay for anything unless you get hit by a bus," she said. "They're really mortgage protection, not health insurance."

A prominent national expert, recently retired Medicare chief actuary Rick Foster, said the report does "a credible job" of estimating potential enrollment and costs under the law, "without trying to tilt the answers in any particular direction."

"Having said that," Foster added, "actuaries tend to be financially conservative, so the various assumptions might be more inclined to consider what might go wrong than to anticipate that everything will work beautifully." Actuaries use statistics and economic theory to make long-range cost projections for insurance and pension programs sponsored by businesses and government. The society is headquartered near Chicago.

Kristi Bohn, an actuary who worked on the study, acknowledged it did not attempt to estimate the effect of subsidies, insurer competition and other factors that could mitigate cost increases. She said the goal was to look at the underlying cost of medical care.

"Claims cost is the most important driver of health care premiums," she said.

"We don't see ourselves as a political organization," Bohn added. "We are trying to figure out what the situation at hand is."

On the plus side, the report found the law will cover more than 32 million currently uninsured Americans when fully phased in. And some states - including New York and Massachusetts - will see double-digit declines in costs for claims in the individual market.

Uncertainty over costs has been a major issue since the law passed three years ago, and remains so just months before a big push to cover the uninsured gets rolling Oct. 1. Middle-class households will be able to purchase subsidized private insurance in new marketplaces, while low-income people will be steered to Medicaid and other safety net programs. States are free to accept or reject a Medicaid expansion also offered under the law.

Obama has promised that the new law will bring costs down. That seems a stretch now. While the nation has been enjoying a lull in health care inflation the past few years, even some former administration advisers say a new round of cost-curbing legislation will be needed.

Bohn said the study overall presents a mixed picture.

Millions of now-uninsured people will be covered as the market for directly purchased insurance more than doubles with the help of government subsidies. The study found that market will grow to more than 25 million people. But costs will rise because spending on sicker people and other high-cost groups will overwhelm an influx of younger, healthier people into the program.

Some of the higher-cost cases will come from existing state high-risk insurance pools. Those people will now be able to get coverage in the individual insurance market, since insurance companies will no longer be able to turn them down. Other people will end up buying their own plans because their employers cancel coverage. While some of these individuals might save money for themselves, they will end up raising costs for others.

Part the reason for the wide disparities in the study is that states have different populations and insurance rules. In the relatively small number of states where insurers were already restricted from charging higher rates to older, sicker people, the cost impact is less.

"States are starting from different starting points, and they are all getting closer to one another," said Bohn.

The study also did not model the likely patchwork results from some states accepting the law's Medicaid expansion while others reject it. It presented estimates for two hypothetical scenarios in which all states either accept or reject the expansion.

Larry Levitt, an insurance expert with the nonpartisan Kaiser Family Foundation, reviewed the report and said the actuaries need to answer more questions.

"I'd generally characterize it as providing useful background information, but I don't think it's complete enough to be treated as a projection," Levitt said. The conclusion that employers with sicker workers would drop coverage is "speculative," he said.

Another caveat: The Society of Actuaries contracted Optum, a subsidiary of UnitedHealth Group, to do the number-crunching that drives the report. United also owns the nation's largest health insurance company. Bohn said the study reflects the professional conclusions of the society, not Optum or its parent company.

Medical claims costs are the main driver of health insurance premiums. A study by the Society of Actuaries estimates the new federal health care law will raise claims costs nationally by an average of 32 percent per person in the individual health insurance market by 2017. That's partly due to sicker people joining the pool. The study finds wide disparities among states. The estimates assume every state will expand its Medicaid program.

STATE Percentage change, per-person, per-month

Alabama	60.3%
Alaska	19.2%
Arizona	22.2%
Arkansas	40.9%
California	61.6%
Colorado	39.1%
Connecticut	28.8%
Delaware	29.3%
Washington, D.C.	51.9%
Florida	26.5%
Georgia	27.6%
Hawaii	21.9%
Idaho	62.2%
Illinois	50.8%
Indiana	67.6%
Iowa	9.7%
Kansas	18.9%
Kentucky	34.1%
Louisiana	28.6%
Maine	4.1%
Maryland	66.6%
Massachusetts	-12.8%

Michigan	25.8%
Minnesota	18.9%
Mississippi	43.2%
Missouri	58.8%
Montana	20.1%
Nebraska	30.8%
Nevada	29.2%
New Hampshire	36.8%
New Jersey	-1.4%
New Mexico	34.9%
New York	-13.9%
North Carolina	13.5%
North Dakota	8.4%
Ohio	80.9%
Oklahoma	29.3%
Oregon	14.3%
Pennsylvania	28.0%
Rhode Island	-6.6%
South Carolina	36.8%
South Dakota	29.0%
Tennessee	46.4%
Texas	33.8%
Utah	28.4%
Vermont	-12.5%
Virginia	28.4%
Washington	13.7%
West Virginia	35.3%
Wisconsin	80.0%
Wyoming	31.6%

National 31.5%

Source: Society of Actuaries

AP White House Correspondent Julie Pace contributed to this report.

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