Age Rating Under Comprehensive Health Care Reform: Implications for Coverage, Costs, and Household Financial Burdens

Timely Analysis of Immediate Health Policy Issues
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Summary

Recent proposals for comprehensive health care reform that have emerged from the US House of Representatives and Senate have differed in the premium rating rules that would be applied to non-elderly adults (those below age 65). Current proposals range from allowing insurers to set premiums for older adults as much as 5 times as high as those for younger adults for identical coverage to limiting the highest premiums to twice that of the lowest.

While allowing considerable variation in premiums by age reduces premiums for younger adults, it increases them for older adults. Thus, the choice of premium rating rules can have significant implications for the financial burdens placed upon individuals and families under reform.

In this paper, researchers from the Urban Institute use their Health Insurance Policy Simulation Model (HIPSM) to quantify the financial implications of the premium rating policy choice for households of different ages, incomes, and sizes. They compare 5:1 and 2:1 age rating rating to pure community rating and base their simulations on the structure of subsidies and insurance reforms outlined in the House Tri-Committee health care reform bill (H.R. 3200). The analysis focuses largely on those with incomes above 133 percent of the federal poverty level who would purchase health insurance coverage directly through the new National Health Insurance Exchange.

The authors find that there is little difference in overall health insurance coverage or aggregate spending under reform, regardless of the premium rating option chosen. However, practical affordability of total health care costs (premiums and out-of-pocket expenses) will be strongly related to premium rating rules for those individuals and families with incomes too high to qualify for federal subsidies, particularly those with incomes between 400 and 500 percent of the federal poverty level. For many older adults and older families, the higher out-of-pocket costs that come with greater medical use in older age, combined with high premiums due to steep age rating (such as 5:1 bands), would lead to a high burden of total health care costs relative to income.

Introduction

One of the central goals of comprehensive health care reform is to eliminate discrimination by health status in the sales and pricing of health insurance and reduce the financial burdens associated with poor health. Consequently, current proposals being considered by Congress would prohibit health insurers from setting premiums based explicitly on the health experience of enrollees. These proposals would promote sharing of health care risk by limiting, but not eliminating, the differences in premiums charged to individuals of different ages. The age rating limits are quite different across the proposals under consideration. The Baucus proposal (as of September 16, 2009),[1] for example, would allow age rating bands of 5:1 (i.e., the premiums charged the oldest adults could be no more than 5 times those charged younger adults), while the House Tri-Committee proposal and the Senate Health, Education, Labor, and Pension (HELP) Committee proposal would limit age rating bands to 2:1. The larger the variation permitted in premiums based upon age, the less broadly risk is shared, as health care expenditures tend to increase with age.[2] The smaller the variation permitted, the greater is the extent to which younger individuals who purchase coverage will tend to cross-subsidize the health care expenses of older individuals.

Such differences in age rating bands will lead to significant differences in the distribution of health care burdens across individuals and families of different ages, particularly those enrolling in coverage independently through the proposed National Health Insurance Exchange (referred to here as "the exchange"). This analysis highlights these differences, providing insight into the trade-offs inherent in this policy choice. We compare the distributional consequences across individuals and families under a health care reform approach similar to that delineated in

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the House Tri-Committee proposal (H.R. 3200) using age rating of 5:1, 2:1, and 1:1 (i.e., pure community rating where all ages are charged the same premium). This analysis takes into account the financial protections that would be provided through premium and out-of-pocket subsidies in the exchange for the modest income population under the House Tri-Committee bill. While our primary focus is on household financial burdens for different age and income groups under health care reform, we also summarize the implications of the different rating rules for health insurance coverage and the costs associated with health care reform. The analysis concentrates largely on the population enrolling in non-group health insurance coverage through the exchange.

Methods

This paper uses the Urban Institute's Health Insurance Policy Simulation Model (HIPSM). HIPSM models the decisions of businesses and individuals in response to policy changes, such as Medicaid expansions, new health insurance options, subsidies for the purchase of health insurance, and insurance market reforms. The model simulates changes in government and private costs, rates of employer offers of coverage, and enrollment decisions of individuals/families in public, employer-based, and non-group health insurance coverage under a wide variety of reforms.

The model uses data from several national data sets: the March Current Population Survey (CPS) Annual Social and Economic Supplement, the February CPS Contingent Work and Alternative Employment Supplement, the Medical Expenditure Panel Survey (MEPS), the Statistics of Income (SOI) Public Use Tax File, and the Statistics of US Business. A description of the construction of the model can be found in Garrett el. (2009).[3]

Age rating is simulated in the model using 5 adult age categories: 18-24, 25-34, 35-44, 45-54, and 55-64.[4] Premium rates under reform for each of the 5 adult age groups are determined as follows. For each age group, the average insured cost is computed over those covered by an exchange plan. We then scale these averages in a way that reduces the ratio between the lowest and highest groups to the specified level and, at the same time, preserves the overall average insured cost. The adjustment used has the important property that it preserves the ratios of average costs between the various groups. Premium administrative loads are then added to these adjusted averages. Non-group premiums are constructed by summing the appropriate premium costs for each member of the health insurance unit, consistent with private non-group insurance practices.[5] As a result, premiums will vary not only with the age, but also by the number of individuals in the family.[6]

This analysis uses the core of the House Tri-Committee health reform proposal as a basis of comparison of the distributional effects of the three rating approaches (5:1, 2:1, 1:1). In order to facilitate exposition, a few simplifications to that proposal have been made, however. While the proposal would provide enrollees in the health insurance exchange a choice among private plans and a public plan with three different levels of actuarial value, we simulate only one level of actuarial value (70 percent) for this analysis and do not model the presence of the public plan. Appropriate out-of-pocket subsidies consistent with the proposal are modeled, however, which effectively increases the actuarial value of the plans provided to the low income population. We make these simplifications in order to avoid having to present premiums for multiple different insurance options and to eliminate the analytic complexity associated with the fact that variations in age rating will prompt individuals of different ages to choose higher or lower actuarial value plans in response to facing higher or lower prices for their age group. These simplifications do not substantively impact the results as presented. Tables averaging over multiple plan options are available upon request from the authors.

The reforms are modeled as if they were fully implemented in the year 2009, with all behavior by employers and households having reached equilibrium.[7] The data on premiums, out-of-pocket health care costs, and the distribution of health care financing burdens relative to income are provided for those individuals and families enrolling in coverage independently through the exchange. This group constitutes roughly 9-10 percent of the non-elderly population and reflects a population that would be significantly affected by reform—those without current offers of health insurance through their employers who would not be eligible for free coverage through Medicaid.

Private coverage includes those enrolling in employer sponsored insurance coverage (either inside—employers with up to 50 workers—or outside of the health insurance exchange) and those enrolling in non-group coverage through the exchange.[8] Public coverage includes Medicaid, Medicare, and military coverage. All results that follow include those below age 65 only.

Results

Health insurance coverage. Table 1 shows the distribution of health insurance coverage for adults (by age group) and children under each of the three premium rating options. Overall, there is almost no difference across the premium rating options in the share of the total population that would be left uninsured. In each case, just under 6 percent of the population would remain uninsured, including undocumented residents and those opting to pay a penalty rather than enroll in qualifying health insurance coverage. There are small differences, however, in coverage among the youngest and oldest age groups, depending upon the rating rules chosen. The near elderly (age 55 to 64) would be more likely to be uninsured under 5:1 (7.3% uninsured) or 2:1 (5.8% uninsured) rating than under pure community rating (4.8% uninsured) while younger adults (age 18 to 24) are more likely to be uninsured under pure

Table 1. Distribution of Health Insurance Coverage Under Comprehensive Health Care Reform By Premium Age Rating Option and Age of Covered Individuals, 2009

Age Group	Age Rating Restriction	Private Health Insurance	Public Coverage	Uninsured	Total
Children, <18					
	1:1	57.0%	38.0%	5.0%	100.0%
	2:1	57.2%	38.2%	4.6%	100.0%
	5:1	57.2%	38.6%	4.2%	100.0%
18-24					
	1:1	48.2%	43.2%	8.6%	100.0%
	2:1	50.0%	41.9%	8.1%	100.0%
	5:1	52.7%	40.1%	7.2%	100.0%
25-34					
	1:1	72.2%	22.0%	5.8%	100.0%
	2:1	72.4%	22.0%	5.6%	100.0%
	5:1	72.9%	22.0%	5.0%	100.0%
35-44					
	1:1	77.9%	17.4%	4.7%	100.0%
	2:1	77.9%	17.4%	4.7%	100.0%
	5:1	78.1%	17.4%	4.5%	100.0%
45-54					
	1:1	79.1%	16.1%	4.8%	100.0%
	2:1	78.8%	16.2%	5.0%	100.0%
	5:1	78.5%	16.2%	5.4%	100.0%
55-64					
	1:1	71.2%	23.9%	4.8%	100.0%
	2:1	70.0%	24.2%	5.8%	100.0%
	5:1	68.3%	24.5%	7.3%	100.0%
All Non-Elderly					
	1:1	72.2%	22.4%	5.4%	100.0%
	2:1	72.2%	22.2%	5.6%	100.0%
	5:1	72.3%	22.0%	5.7%	100.0%

Source: The Urban Institute's Health Insurance Policy Simulation Model (HIPSM), 2009.
Note: Analysis based on the subsidy and health insurance exchange structure in the House Tri-Committee proposal, H.R. 3200.

community rating (8.6% uninsured versus 7.2% under 5:1 age rating).

Aggregate government, employer, and household spending. Table 2 shows the costs associated with health care reform under the current system and under each of the reform premium rating options. There is little difference in costs across the 3 rating options. The 5:1 age rating option would increase government costs ($349 billion) relative to pure community rating or 2:1 age rating ($345 billion under either). The main reason for the higher costs under 5:1 age rating is that the average subsidy provided to the older individuals goes up more than the average subsidy for the younger age groups falls relative to the pure community rating case. Since the maximum premium to be paid by a subsidy-eligible unit is a fixed percentage of income, the number of those receiving subsidies in each age group does not change much with variation in age-rating. Thus, the difference in average subsidies means higher overall subsidy costs.

In addition, employer spending under 5:1 or 2:1 rating is somewhat higher than under pure community rating because more individuals remain in employer-based insurance due to the exchange-based options being less attractive to older workers with pre-reform employer coverage. Household spending does not change significantly across the rating options. System-wide spending on health care is therefore approximately 1.4 percent higher under 5:1 age rating than under pure community rating (1:1).

Average premiums. Table 3 shows the full unsubsidized average non-group premiums in the health insurance exchange for each adult age group

Table 2. Aggregate Government, Employer, and Household Costs Under Comprehensive Health Care Reform by Premium Age Rating Option, 2009 *(in billions)*

	Current Law	Reform		
		1:1	2:1	5:1
Government Spending				
Medicaid/CHIP and Household Subsidies	253	349	349	352
Employer Subsidies	0	8	8	9
Less Assessments and Penalties	0	12	12	12
Net Government Spending	**253**	**345**	**345**	**349**
Uncompensated Care	62	23	24	24
Employer Spending, incl. assessments	415	420	428	432
Household Spending, incl. penalties	324	343	344	342
Total Public and Private Spending	**1,054**	**1,131**	**1,141**	**1,147**

Source: The Urban Institute's Health Insurance Policy Simulation Model (HIPSM), 2009.
Notes: Analysis based on the subsidy and health insurance exchange structure in the House Tri-Committee proposal, H.R. 3200. Household spending includes health insurance premium payments by workers and others as well as direct out-of-pocket spending on medical care and penalties for non-compliance with the individual mandate.

Table 3. Average Premium for Exchange Based Non-Group Health Insurance Under Comprehensive Health Care Reform By Premium Age Rating Option and Age of Covered Individuals, 2009

Age Group	Premium Rating Option		
	1:1	2:1	5:1
Single Adults			
18-24	3,744	2,965	1,884
25-34	3,744	3,237	2,648
35-44	3,744	3,575	3,482
45-54	3,744	4,516	5,564
55-64	3,744	5,930	9,420
Family Units			
No family member age 45 to 64	7,856	6,949	5,861
One family member age 45 to 64	7,537	8,146	8,720
Two family members age 45 to 64	7,478	9,662	12,590

Source: The Urban Institute's Health Insurance Policy Simulation Model (HIPSM), 2009.
Notes: Analysis based on the subsidy and health insurance exchange structure in the House Tri-Committee proposal, H.R. 3200. Premiums are based upon a 70% actuarial value plan.

under each premium rating option. Premiums do not vary by age under pure community (1:1) rating as the costs for all age groups are pooled together. Average family premiums will vary modestly with age as the average number of family members varies somewhat across age groups. Under this approach, the premium for a single policy would be $3,744. Average family policies would range from $7,478 to $7,856, with families with no members age 45 to 64 tending to be a little larger and hence facing a somewhat higher average premium than families with at least one member in that older age group.

Under 2:1 age rating, the premiums increase from youngest to oldest, with the youngest adult (18-24) single premiums just under $3,000 and the oldest adult (55-64) premiums averaging just under $6,000. The largest relative increase between age groups comes between the 45 to 54 year olds and the 55 to 64 year olds, with the latter group's premium 31 percent higher than that of the former. There is only a 9 percent difference between the youngest two age groups. Among families, average premiums range from $6,949 for a family with no members in the 45 to 64 age group to $9,662 for a family with two members in the 45 to 64 age group, a premium difference of almost 40 percent.

In the case of 5:1 age rating, premiums for the youngest single adults are $1,884, lower than the 2:1 age rated premiums for this group by $1,081. The oldest age group premium under 5:1 would be $9,420, or almost $3,500 higher than the premiums that they would face under 2:1 age rating. Again, the largest relative difference between age categories occurs between the oldest two groups, where the premiums charged for a 55-64 year old would be 69 percent higher than that for a 45 to 54 year old. Differences by age can also be seen in the family premiums. The average premium for a family with two members age 45 to 64 would be $12,590, compared to $5,861 for a family with no member in that age group. The average premium decrease for the youngest family type of moving from 2:1 to 5:1 rating would be almost $1,100 whereas the average premium increase from the same move for the oldest family type would be about $3,000.

Premium and out-of-pocket costs, taking subsidies into account. Table 4 shows average household spending of those enrolled in the exchange by those of different ages and incomes under the three premium rating options. These averages by categories of individual insurance purchasers and family purchasers reflect premiums plus out-of-pocket health care spending less any subsidies for which the purchasers are eligible.

The variation in out-of-pocket spending across premium rating options within a given age group is quite narrow for

Table 4. Net Cost to Families (Premiums plus Out-of-Pocket Costs Less Subsidies) for Exchange-Based Non-Group Policyholders Under Comprehensive Health Care Reform By Premium Age Rating Option, Age of Covered Individuals, and Income Relative to Poverty, 2009

Age Group of Single Units	Age Rating Restriction	Income Relative to Poverty		
		133-300%	300-400%	400%+
18-24				
	1:1	1,622	4,580	4,415
	2:1	1,579	3,787	3,767
	5:1	1,422	2,715	2,689
25-34				
	1:1	1,826	4,328	4,426
	2:1	1,806	3,881	3,917
	5:1	1,762	3,300	3,322
35-44				
	1:1	1,861	4,568	4,726
	2:1	1,870	4,392	4,559
	5:1	1,869	4,299	4,464
45-54				
	1:1	1,874	4,825	5,016
	2:1	1,879	5,431	5,708
	5:1	1,882	5,702	6,682
55-64				
	1:1	2,103	5,089	5,458
	2:1	2,004	5,975	7,378
	5:1	1,923	5,986	10,617
Age Group of Family Units	**Age Rating Restriction**	**Income Relative to Poverty**		
		133-300%	**300-400%**	**400%+**
No family member age 45 to 64				
	1:1	3,095	8,188	10,346
	2:1	2,999	7,901	9,679
	5:1	2,947	7,515	8,753
One family member age 45 to 64				
	1:1	3,435	7,484	9,837
	2:1	3,449	8,113	10,435
	5:1	3,475	8,655	11,027
Two family members age 45 to 64				
	1:1	4,109	8,600	10,227
	2:1	4,114	8,997	12,166
	5:1	4,177	9,423	14,793

Source: The Urban Institute's Health Insurance Policy Simulation Model (HIPSM), 2009.
Notes: Analysis based on the subsidy and health insurance exchange structure in the House Tri-Committee proposal, H.R. 3200. Premiums are based upon a 70% actuarial value plan.

those in the most highly subsidized income group, 133-300 percent of the federal poverty level (FPL). The combination of the premium subsidies which limit the share of income that must be spent to obtain coverage and the lower cost-sharing requirements for this income group provide considerable spending protection for the older age individuals, even under 5:1 age rating. Even among this lowest income group, there do remain some differences in average spending across the rating options since individuals of different ages will be more or less likely to enroll in non-group coverage through the exchange depending upon the rating rules in place.

For the 300-400 percent of the FPL group, the subsidies provided for exchange coverage do not dominate the premium rating rules to the same extent as they do for the lower income group.

Direct spending patterns related to age become evident. Average spending for premiums and out-of-pocket costs average $4,580 for 18-24 year old single policyholders under pure community rating, but only $2,715 under 5:1 rating. For these young adults, the premium subsidies are not significant (as evidenced by the similarity in their spending to their higher income unsubsidized counterparts) and their use of health care services is low. Conversely, for the older adults in this income range, even the more limited subsidies available to them limit their direct spending on health care, compressing the differences across the age rating options. In this income group, average spending for single policyholders age 55 to 64 are $5,089 under 1:1 rating and are $5,986 under 5:1 rating. The subsidies to families in this income group continue to limit average spending as well as blunt the differences across rating options.

The 400 percent of FPL and higher income group shows the implications of the three rating options for individual and family policyholders who are not eligible for any federal financial assistance with premiums or out-of-pocket costs. While there is little difference across the rating options for the 35-44 single policy holders, the differences for younger and older individuals and family units are substantial. A single policy holder aged 55 to 64 would face average spending of $10,617 under 5:1 rating, about $5,100 more than their $5,458 average spending under 1:1 rating. In contrast, the average savings resulting from moving from 1:1 to 5:1 rating for the youngest adults in this income group is about $1700. Similar patterns are observed for family units.

Financial Burdens: Direct Household Health Spending Relative to Income. Table 5 provides information on the distribution of household health care financing burdens by age and income under the three rating options. We show the median and 90th percentile share of income devoted to health care within each age and income category. We provide results by narrower income groups than in the prior table in order to more clearly show the financial burden differences across premium rating options as subsidies phase down with income and for those just over the subsidy eligibility level.

Because of the significant premium and out-of-pocket subsidies provided through the reform proposal for the lowest income populations, the choice of rating option has almost no impact on the health care financing burdens of those below 300 percent of the FPL purchasing non-group coverage in the exchange. For example, for the median young adult age 18-24 with income between 133 and 200 percent of the FPL, health care spending would account for about 5 percent of income under this reform, regardless of the rating option used. Ten percent of this group of young adults would spend 7 percent of their incomes or more on health.[9]

However, as income increases and the subsidies decrease and are phased-out, very significant differences in burden across rating options emerge. The differences are particularly evident for the income group just beyond the subsidy eligibility range, those between 400 and 500 percent of the FPL. For single policyholder adults age 55-64 in this income range, the median health care financing burden is 9.8 percent of income under 1:1 rating, 14.4 percent under 2:1 rating, and a startling 21.6 percent of income under 5:1 rating. At the 90th percentile the financing burden for this group is 19.1 percent under 1:1 rating, rising to 18.9 percent under 2:1 and 26.5 percent under 5:1. For the youngest adults in this income group, the differences in health care financing burdens are not quite as dramatic across the rating options. Median spending for 18-24 year olds would be 8.5 percent at the median under 1:1 rating, falling to 6.9 percent under 2:1, and 4.7 percent under 5:1. At the 90th percentile, their financing burden would be 10.4 percent under 1:1, 8.8 percent under 2:1, and 6.4 percent under 5:1. Similar patterns emerge among those with incomes above 500 percent of the FPL, although the relative financial burdens are somewhat lower across the board due to the group's higher incomes. Averaged over all enrollees in the unsubsidized income groups, age rating increases financial burdens at the 90th percentiles compared to 1:1 rating.

For families ineligible for subsidies (incomes over 400 percent of the FPL), the premium rating choice can have significant implications for financial burden, particularly in the case of families with two members age 45 to 64. For these older families in the 400 to 500 percent of the FPL income group, median health spending would be 14.0 percent of income under 1:1 rating, 16.0 percent of income with 2:1 rating, and 16.6 percent of income with 5:1 rating. At the 90th percentile, financing burdens for this group would amount to 21.4 percent of income under 1:1 rating, about 22.9 percent of income under 2:1, and 27.7 percent of income under 5:1.

Discussion

This analysis finds that choice of premium rating (pure community rating/1:1 rating, 2:1 age rating, or 5:1 age rating) would have very little effect on overall rates of health insurance coverage or on aggregate health spending of government, employers, and households under comprehensive reform similar to the House Tri-Committee proposal. However, we do find that different premium rating options would have very significant implications for the distribution of health care financing burdens on individuals enrolling in health insurance coverage directly through the new exchange. While subsidies provided by the federal government to those with incomes below 400 percent of the federal poverty level ameliorate the lion's share of premium differences due to the choice of rating, rating differences will significantly alter health care financing burdens for the youngest and oldest adults and families with higher incomes.

Table 5. Distribution of Health Care Spending Relative to Income [(Premiums + Out-of-Pocket Costs – Subsidies)/ Income] for Non-Group Insurance Purchasers in the Exchange By Premium Age Rating Option, Age of Covered Individuals, and Income Relative to Poverty

Age Group of Single Units	Age Rating Restriction	Financial Burden (Median and 90th Percentile) by Income Relative to Poverty									
		133-200% FPL		200-300% FPL		300-400% FPL		400-500% FPL		500%+ FPL	
		50th	90th	50th	90th	50th	90th	50th	90th	50th	90th
18-24											
	1:1	5.0%	6.9%	9.6%	13.5%	11.2%	16.4%	8.5%	10.4%	6.1%	8.3%
	2:1	5.1%	7.0%	9.5%	12.8%	9.0%	13.5%	6.9%	8.8%	4.9%	7.2%
	5:1	5.1%	7.0%	7.9%	10.5%	6.0%	10.7%	4.7%	6.4%	3.1%	5.7%
25-34											
	1:1	5.4%	6.9%	9.8%	12.3%	11.4%	14.6%	8.8%	11.9%	5.5%	8.1%
	2:1	5.4%	7.0%	9.7%	12.2%	9.9%	13.9%	7.7%	10.2%	4.8%	7.4%
	5:1	5.4%	7.0%	9.2%	11.6%	8.2%	12.3%	6.5%	8.9%	4.0%	6.5%
35-44											
	1:1	5.1%	7.5%	10.1%	13.1%	11.6%	17.0%	8.6%	13.8%	5.8%	8.0%
	2:1	5.1%	7.5%	10.1%	13.0%	10.9%	16.5%	8.3%	13.4%	5.6%	7.7%
	5:1	5.1%	7.5%	10.1%	13.0%	10.7%	15.9%	8.1%	13.2%	5.5%	7.5%
45-54											
	1:1	5.2%	8.0%	10.2%	14.7%	12.3%	17.9%	9.6%	15.6%	6.2%	9.1%
	2:1	5.2%	8.0%	10.2%	14.5%	13.6%	19.7%	11.1%	16.7%	7.2%	10.3%
	5:1	5.2%	8.2%	10.2%	14.7%	14.5%	20.1%	13.2%	18.6%	8.5%	11.9%
55-64											
	1:1	5.7%	8.3%	11.2%	19.0%	12.7%	19.1%	9.8%	19.1%	5.9%	12.0%
	2:1	5.7%	8.3%	11.0%	17.2%	15.1%	20.5%	14.4%	18.9%	8.4%	14.1%
	5:1	5.7%	8.3%	10.7%	16.1%	15.0%	20.7%	21.6%	26.5%	10.4%	16.9%
All, 18-64											
	1:1	5.2%	7.4%	10.1%	14.2%	11.7%	17.1%	9.1%	14.9%	5.9%	9.8%
	2:1	5.3%	7.4%	9.9%	13.6%	11.3%	17.8%	9.1%	15.5%	6.3%	10.7%
	5:1	5.3%	7.4%	9.2%	13.2%	9.8%	17.1%	7.9%	17.7%	6.2%	11.6%
Age Group of Family Units	**Age Rating Restriction**	**Financial Burden (Median and 90th Percentile) by Income Relative to Poverty**									
		133-200% FPL		200-300% FPL		300-400% FPL		400-500% FPL		500%+ FPL	
		50th	90th	50th	90th	50th	90th	50th	90th	50th	90th
No family member age 45 to 64											
	1:1	5.4%	9.7%	9.9%	15.6%	12.5%	19.2%	12.6%	19.0%	7.7%	13.0%
	2:1	5.3%	9.1%	9.5%	14.8%	12.4%	18.3%	11.9%	16.9%	7.4%	11.9%
	5:1	5.3%	8.7%	9.3%	14.7%	11.9%	17.3%	10.5%	14.6%	6.7%	10.8%
One family member age 45 to 64											
	1:1	5.3%	10.4%	10.8%	16.4%	12.4%	19.8%	12.5%	15.9%	7.5%	12.9%
	2:1	5.3%	10.1%	10.9%	16.5%	13.0%	20.0%	13.6%	17.2%	7.7%	12.9%
	5:1	5.3%	10.6%	10.9%	16.5%	13.9%	20.2%	13.7%	18.1%	8.5%	14.0%
Two family members age 45 to 64											
	1:1	6.7%	13.6%	11.5%	18.2%	15.0%	23.0%	14.0%	21.4%	7.9%	13.1%
	2:1	6.3%	13.7%	11.6%	19.0%	15.5%	26.3%	16.0%	22.9%	9.3%	15.1%
	5:1	6.8%	13.7%	11.8%	19.6%	15.9%	25.0%	16.6%	27.7%	10.5%	18.0%
All families											
	1:1	5.6%	10.2%	10.5%	17.1%	13.4%	21.4%	13.5%	19.5%	7.8%	13.1%
	2:1	5.5%	9.9%	10.4%	17.0%	13.3%	20.8%	13.4%	20.7%	8.3%	14.0%
	5:1	5.4%	9.7%	10.2%	16.9%	13.1%	21.1%	12.6%	19.7%	8.4%	16.0%

Source: The Urban Institute's Health Insurance Policy Simulation Model (HIPSM), 2009.
Notes: Analysis based on the subsidy and health insurance exchange structure in the House Tri-Committee proposal, H.R. 3200. Premiums are based upon a 70% actuarial value plan.

For example, under 5:1 age rating, half of single adults in the 55 to 64 age group with incomes between 400 and 500 percent of the FPL would face health care financing burdens of 21.6 percent or more of their incomes, whereas the median financing burden for this group would be 14.4 percent under 2:1 rating and 9.8 percent under pure community rating. While 5:1 rating would lower the financial burdens for 18 to 24 year olds in this income group (median spending 4.7 percent of income as compared to 6.9 percent under 2:1 and 8.5 percent under 1:1) the affordability concerns are substantially more pronounced for the older age group. While 5:1 rating would lower financial burdens for the 25 to 34 age group and increase them for the 45 to 54 age group compared to 2:1 or 1:1 rating, the difference that rating makes for these age groups are smaller than for their younger and older counterparts.

In addition, regardless of which rating option is chosen, over 90 percent of young adults age 18-24 enrolling in coverage through the exchange would be eligible for income-related subsidies (data not shown), thereby protecting them from the full effects of broader based sharing of health care costs with their older counterparts. The same is true for over 80 percent of adults age 25-34 enrolling in non-group coverage through the exchange.

Premium and out-of-pocket subsidies provided by the federal government under H.R. 3200 would go a significant distance in making access to medical care affordable for those individuals and families in the subsidized income range of 133 to 400 percent of the federal poverty level. However, practical affordability of total health care costs (premiums and out-of-pocket expenses) will be strongly related to premium rating rules for those individuals and families with incomes just outside of the subsidy eligibility range. For many older adults and older families, the higher out-of-pocket costs that come with greater medical use in older age, combined with high premiums due to steep age rating (such as 5:1 bands), would lead to a high burden of total health care costs relative to income. The majority of adults age 55 to 64 purchasing non-group coverage through the exchange would face a burden of more than 20 percent of income for a single policy. In order to make combined premium and out-of-pocket health care burdens affordable by conventional standards for this older middle income population, premium subsidies could be extended to higher incomes than are currently being considered or the variance in age-rating bands could be limited to a maximum of 2:1, perhaps with a plan to phase down further over time.

Notes

1 More recent amendments to the Baucus proposal have reduced age rating to 4:1. We have simulated this as well, and the results are close to those for 5:1. In the interest of a timely release of this paper 4:1 results are not reproduced here, but are available upon request.

2 For example, the Medical Expenditure Panel Survey Household Component (MEPS-HC) shows that in 2006, the most recent data available, adults age 18-44 are both less likely to have any medical expense than their counterparts age 45-64 or 65 and over (76.9 percent, 89.3 percent, and 96.7 percent, respectively) and have lower average medical expenses given that they have any expenses ($2703, $5455, and $9080, respectively). Data tables can be access at: http://www.meps.ahrq.gov.

3 Bowen Garrett, John Holahan, Irene Headen, and Aaron Lucas. "The Coverage and Cost Impacts of Expanding Medicaid." Washington DC: The Kaiser Commission on Medicaid and the Uninsured. May 2009. Available at: http://www.kff.org/medicaid/upload7901.pdf.

4 Dependent children (under age 18) are rated together as a group and are not considered in developing the appropriate adult age rating boundaries. A small number of children are observed in the baseline data as being non-group insurance policyholders. These children are presumed to maintain their policyholder status post-reform, and their costs are included in establishing the premium rates for the youngest adult group (age 18-24). They are not, however, included in the presented tables with the young adults. The average cost per dependent child is added into family premiums as appropriate. Premiums vary with the number of children as well as the number of adults in the family.

5 A health insurance unit consists of the group of family members that can typically enroll in private health insurance together. This includes married adults, their dependent children up to age 18, and full-time students age less than 23.

6 For the remainder of this paper, "family" is used to refer to the health insurance unit.

7 Baseline results for costs and coverage in 2009 differ slightly from those we have reported elsewhere because the model is continuously being updated.

8 Only grandfathered non-group plans will persist outside of the exchange, and they are not taken into account in this simulation.

9 For single policyholders age 55 to 64 in the 200 to 300 percent of the FPL group, health care spending relative to income at the 90th percentile is higher (19 percent) under 1:1 rating than under 5:1 rating (16 percent). This seeming anomaly is the consequence of a small additional number of high cost individuals enrolling in the exchange when the rating rules are more favorable for this age group.

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