Obamacare's Shocking Effect on Premium Prices

Source: White House on Flickr.

The Affordable Care Act, which is best known in its shorthand form as Obamacare, was developed with a couple of goals in mind. One was obviously to reduce the number of uninsured people in the U.S. The idea here is that if more people are insured they're liable to go the doctor more often for preventative care and live healthier, longer lives. If that's the case, it's possible health care costs could drop over the long run since health concerns, which can become very costly later in life, could be caught sooner.

More importantly, however, Obamacare was implemented to help spread medical costs across a greater swath of the American population in order to control medical cost inflation. To be clear, Obamacare was never intended to make health care premiums lower. Instead, it was designed to spread the extremely high costs of caring for elderly and sick patients across a younger, healthier population, sort of how the working population subsidizes retirees through Social Security.

But how well Obamacare is controlling insurance premiums has always been up to interpretation. We've witnessed studies that suggest a number of states will see premiums fall in 2015. Other examples suggest premium price hikes in excess of 50%. Yet, most of these studies fail to tackle some key point or they're incomplete since not all data is in as of publication.

Would this latest study (link opens PDF) from the National Bureau of Economic Research, which was conducted by Amanda Kowalski of the Brookings Institution, prove different?

Obamacare did what to premium prices?!

Utilizing data collected by the National Association of Insurance Commissioners that was compiled by SNL Financial, Kowalski was able to determine that enrollment-weighted insurance premiums have risen in the post-Obamacare environment by a shocking 24.4% *more* than they would have risen had they "followed state-level seasonally adjusted trends."

Source: Flickr user Dan Moyle.

What makes this study so unique is that most studies specifically target exchange-only premium movements. Brookings' study focused on a combination of enrollments by state and federally run exchanges, as well as non-market transactions where consumers purchased directly from an insurer. This is particularly notable because even though a significant chunk of exchange-based enrollees qualified for a subsidy, persons outside of Obamacare's health exchanges didn't receive any subsidies, and were therefore required to make up for this boost in premium on their own. According to *Forbes* this totaled 6.2 million out of the 13.2 million enrollees.

Furthermore, based on Brookings' data just six states (and Washington D.C.) witnessed their premium pricing fall under Obamacare, while states like Florida, Georgia, and Texas saw non-group coverage skyrocket by more than 35% over what seasonally adjusted increases would have occurred had Obamacare not been implemented.

You'll still want to consider this

We certainly haven't seen any studies of this magnitude yet, so to say it's a bit shocking could be an understatement. It's certainly more encompassing than merely looking at the exchanges as it gives us a better idea of what premiums really do look like for the majority of the public. But even this study isn't without flaws.

One primary factor that can't be included with any certainty in predictive models like this is the "feeling out" period from insurers. Keep in mind when you have a transformative health reform law like Obamacare that it can take time for experienced insurers to get their pricing correct.

Source: White House on Flickr.

By a similar token, insurers such as **Molina Healthcare** (NYSE: MOH) and **Centene** (NYSE: CNC) dipped their toes into the individual market for the first time ever. They, along with a number of insurers who'd previously only stuck to government-sponsored members (i.e., Medicaid and Medicare), had no experience pricing plans in 2014, and many simply overshot the mark. In my home state of Washington, for instance, Molina proposed a high single-digit decrease in year-over-year premiums, primarily because it's still adapting to the new conditions. I suspect we're seeing a lot of insurers playing things by feel at the moment, and it could take another year or two before they've got a good handle on policy pricing given the varying mix of new enrollees in terms of age and overall health.

Another key point is that the author of the study, Amanda Kowalski, made a number of assumptions since she only used two quarters worth of data in order to get a feel for early pricing action related to the implementation of the ACA. Because of this, Kowalski had to make assumptions about insurer-quarter-state level data for about 20% of the population. That certainly leaves some margin for error. Additionally, Kowalski notes that despite her best efforts to quell any data holes, the data for California and New Jersey was incomplete. Though she refers to the data holes as minor, they still leave some room for pricing interpretation.

Year two will tell the tale

Ultimately this second year of enrollments, which opens up on Nov. 15, 2014 and runs for three months through Feb. 15, 2015, is going to give us a better idea of how well consumers and insurers are adjusting to Obamacare.

Insurers are going to have a doubly difficult task this year of courting individuals who didn't sign up last year, as well as retaining existing enrollees who admittedly could be eager to search around for a better deal. In many instances the cheapest plan from 2014 is no longer the least expensive in 2015, so consumers are liable to shop around. Insurers have a lot to concern themselves with in 2015, and consumers will certainly give us big clues by the end of February as to how pricing is affecting their insurance purchasing habits. Soon enough we won't need predictive models to tell us how the American public is faring under Obamacare -- that much I can promise.