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Wendy Gonzalez sits with an insurance agent from Sunshine Life and Health Advisors as she purchases insurance under the Affordable Care Act in the Mall of Americas. | Getty

HEALTH CARE
Experts see big price hikes for Obamacare
Premiums could rise more sharply in 2016.

By PAUL DEMKO | 5/30/15 7:04 AM EDT

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The cost of Obamacare could rise for millions of Americans next year, with one insurer proposing a 50 percent hike in premiums, fueling the controversy about just how "affordable" the Affordable Care Act really is.

The eye-popping 50 percent hike by New Mexico insurer Blue Cross Blue Shield is an outlier, and state officials may not allow it to go through. But health insurance experts are predicting that premiums will rise more significantly in 2016 than in the first two years of Obamacare exchange coverage. In 2015, for example, premiums increased by an average of 5.4 percent, according to PwC's Health Research Institute.

The premium increases come at a tenuous time for Obamacare, which remains under fire from a Republican Congress that wants to repeal the law, while a Supreme Court ruling on federal subsidies for the health insurance looms in June as well.

"Insurers seem to be reporting higher trend, which means they are seeing bigger increases in health care costs," said Larry Levitt, senior vice president for special initiatives at the Kaiser Family Foundation. "But really what's going on here is they now have data showing what the risk pool looks like. Initially in 2014 they were completely guessing about who was going to enroll and how much health care they were going to use."

Many plans haven't yet made public their proposed rates; Monday is the deadline for publishing and providing an explanation for rate hikes of at least 10 percent. None announced so far is as dramatic as the New Mexico plan, although a few others are also quite sharp. The Blues in Maryland and Tennessee, both with the largest market share on the exchanges in their states, are seeking increases of more than 30 percent. In Oregon, Moda Health Plan — which attracted more than 40 percent of exchange customers in 2015, despite competing against a dozen other health plans — is seeking average rate increases of 25 percent. Other plans released to date — including some in these four states — are seeking far more modest increases.

The reasons for the rising premiums are complex. Part of it, as Levitt noted, is simply that the carriers know a lot more about the health status and health care patterns of their new customers. Part of it's rising drug prices. And the planned phasing out of certain ACA programs that were designed to reduce risk for insurers who entered the untested Obamacare marketplaces, are also causing carriers to price cautiously.

POLITICO PRO
Full coverage of health care policy

In addition, those plan cancellations — and the political outcry they caused in 2013 — still plays a role. To quell the controversy, the Obama administration allowed plans that don't meet the Affordable Care Act coverage requirements to remain in place through 2017. Insurers are still dealing with the market disruption and economic fallout of competing with those noncompliant plans.

"With this much uncertainty, you become conservative, and so you raise your rates," said Dr. Martin Hickey, CEO of New Mexico Health Connections, a nonprofit co-op seeded with loan dollars under the Affordable Care Act.

Seth Chandler, an expert in insurance law at the University of Houston and author of the "ACA Death Spiral" blog, sees another market force at play. "Insurers played this strategy of getting customers in the door by experimenting with lower premiums than really were appropriate, and then hoped that those customers would stick," Chandler said. "If they did stick, they could raise the rates." In the health insurance industry, customers do tend to "stick" to a health plan, rather than choosing a new plan, new network, and new doctors.

Affordability, already a political talking point, is a concern of consumers and advocates, who are imploring state regulators to vigorously contest price hikes that could render coverage unattainable for low-income people, even with Obamacare subsidies.

"People are already having that sticker shock," said Gabriel Sanchez, executive director of the Robert Wood Johnson Foundation's Center for Health Policy at the University of New Mexico, who ran focus groups recently among Latinos in New Mexico.

The bottom line for participants, he said, was "I thought this was the Affordable Care Act?"

But the large proposed increases among market leaders are sparking a new round of relimitations, and Republicans on the Hill are again pledging to undo Obamacare. Rising costs would also be likely to elevate the issue in the looming 2016 presidential contest.

"People are paying more as a result of the Democrats' health care law, and they're going to be paying even more next year, and the year after that, until we're able to do something to stop it," Sen. John Barrasso (R-Wyo.), chair of the Senate Republican Policy Committee, said in a floor speech before the Memorial Day recess. "Republicans are offering real solutions that will end these destructive and expensive Obamacare side effects."

Hovering over the rate-setting season is the specter of the *King v. Burwell* lawsuit currently before the Supreme Court. A ruling is expected in late June, and defeat for the White House would mean subsidies would be eliminated in at least 34 states that use the federal health insurance exchange. That would throw the insurance markets into chaos.

Because of the *King* uncertainty, at least a half dozen states, including Texas, are allowing insurers to submit two sets of rates depending on which way the court rules. But for the most part the proposed 2016 rates don't account for the possibility that subsidies might disappear for millions of low-income Americans.

"How do you price for the apocalypse?" asks John Gorman, a consultant who works with insurers.

The ability of state regulators to fight steep rate hikes varies across the country; a dozen states have no authority to approve or reject proposed rates. The level of scrutiny does appear to make a significant difference. In states where regulators have the authority to approve rates, final premiums saw a median drop of 2.9 percent from initial proposals in 2015, according to a study of 25 states by PwC's Health Research Institute. In states with no such authority, premiums only came down 1.3 percent from initial proposals. In Maryland, for example, regulators only allowed rate hikes roughly half as steep as initially proposed by CareFirst Blue Cross Blue Shield for 2015.

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Insurers were largely pricing in the dark during the first two years. They had very little first-hand knowledge about how sick — and expensive — their new customers would prove to be once they actually started using their coverage. Even now, health plans are working with incomplete knowledge about the emerging marketplace.

But one early indicator that insurers keep pointing to is the spiraling cost of prescription drug coverage. Pharmacy costs increased by 11 percent in 2014, up from 2.5 percent the previous year, according to the Altarum Institute. That spike was primarily driven by expensive specialty drugs, including breakthrough treatments for hepatitis C.

"You're seeing the biggest growth as a percent of total expenses being in the pharmacy area," said Ken Lalime, CEO of HealthyCT, a nonprofit insurer that is seeking to increase premiums for individual plans by an average of 14 percent for 2016. "They're growing fast."

But a study published this week in Health Affairs suggests that exchange customers are actually spending less on drugs than their counterparts in the employer-sponsored market. Looking at roughly 1 million individuals who signed up for coverage through the exchanges in 2014, researchers found that they spent an average of \$72 per month on prescriptions. By comparison, the employer-sponsored group spent \$93 per month on pharmaceuticals — or nearly 30 percent more.

Charles Roehrig, director of Altarum's Center for Sustainable Health Spending, said that suggests insurers aren't attracting a disproportionately sicker, more expensive population as widely anticipated. "This is the first real hard evidence I've seen and its points in the other direction," Roehrig said.

In addition, insurers are dealing with uncertainty and the phasing out of "risk adjustment" programs that were designed to protect companies from undue financial risk if they participated in the exchanges. The reinsurance program, which compensates health plans that end up with a disproportionately expensive population, is scheduled to disappear after 2016. The program has already dwindled from \$10 billion in 2014 to \$4 billion in 2016.

How premium increases will ultimately shake out also remains an open question. In most states, final rates won't be available until the end of the summer. The political saliency of the issue will ultimately hinge on whether there is widespread anger about the increasing cost of Obamacare exchange plans.

The University of New Mexico's Sanchez said the cost of premiums hasn't been a major political issue in the state so far. That's in part because Gov. Susana Martinez, a Republican, hasn't actively resisted implementation of the health law like many of her GOP counterparts. But Sanchez thinks health insurance costs could emerge as a political factor if the final rates are close to what's currently being proposed.

"Most voters, particular in this economic climate, are pocketbook voters," Sanchez said. "Their personal finances are driving their political behavior."

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Authors: Paul Demko

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