

## Bloomberg Businessweek

### Companies & Industries

#### Obamacare Scare: Double-Digit Premium Hikes?

By [Alex Nussbaum](#) on March 28, 2013

<http://www.businessweek.com/articles/2013-03-28/obamacare-scare-double-digit-premium-hikes>

With some measures of Obamacare set to kick in next year, the health-care policy wars have taken on a schizophrenic quality. Large health insurance companies are warning individuals and small businesses to brace for significantly higher premiums. Aetna ([AET](#)) Chairman and Chief Executive Officer Mark Bertolini told CNBC ([CMCSA](#)) on March 19 that there would be an average 32 percent premium increase for people buying their own policies starting in 2014. Fans of the Affordable Care Act (ACA) dismiss such talk as scare tactics. Ron Pollack, executive director at Families USA, a Washington-based consumer advocacy group, concedes that premiums may rise initially. But he cites an analysis by the Congressional Budget Office, which predicts that once the law's hundreds of billions of dollars in subsidies and cost savings go into effect in 2014, total out-of-pocket insurance costs will fall by an average of 60 percent.

Who's right? The answer likely hinges on two variables: how many people end up buying insurance and whether overall health-care costs continue their steep upward trajectory. No matter what happens, the health-care overhaul is expected to have little effect on premiums for the 150 million Americans covered through employers. The big changes will be felt by many of the 15 million people who buy their own coverage. Starting next year, they'll be able to do so on the insurance exchanges created under the ACA. By 2020, the number of people buying insurance on these exchanges is expected to hit 26 million; it's estimated that an additional 12 million will buy policies off-exchange. That should generate an extra \$205 billion in annual premiums for insurers by 2021, according to an October report by PricewaterhouseCoopers.

In theory, a bigger insurance pool would lower premiums by spreading risk over a larger base of patients. Insurers argue, though, that new revenue won't offset the higher costs they'll have to pay under the law's new mandates. Beginning in 2014 the industry will start paying \$8 billion in new annual taxes intended to subsidize coverage for the uninsured. Those taxes, increasing every year, will add up to \$100 billion over 10 years. Insurers will also have to stop denying coverage to people with preexisting medical conditions, such as cancer or diabetes, and begin covering "essential benefits," such as maternity care and prescription drugs. By next year average premiums for older enrollees can no longer exceed three times the cost of those for younger customers. Most states today allow a 5-to-1 ratio.

To compensate, insurers say they'll have no choice but to raise rates, particularly on young, healthy people. Considering it costs as little as \$95 a year in penalties to opt out of the law's requirement to buy insurance, carriers say there's a risk that higher premiums will drive young people out of the market altogether, leaving it tilted toward the sickest, costliest patients. That would force carriers to raise prices even more, says Karen Ignagni, CEO of America's Health Insurance Plans, the industry's Washington lobbying group. "It's the people from 26 to 45 that you want to make sure are in the pool to balance it out," she says. "It's in everybody's interest to get the young and the healthy into the system."

Nick Ogden, a 29-year-old from Nashville, says he may pay the penalty rather than higher premiums. Ogden, who runs his own private equity firm, spends \$173 a month for an insurance plan that carries a deductible as high as \$5,000. He worries similar coverage may cost two or three times as much next year, especially because he won't qualify for the subsidies, which offer reduced prices to people making up to four times the federal poverty level (singles making up to \$46,000 a year or a family of four earning up to \$94,000). "I don't see how there's any way that my rate doesn't go up," he says. "Candidly, if I start paying \$5,000 a year in insurance payments, it stops making sense."

The other wild card is the overall cost of medical services. If the law's incentives to curb Medicaid fraud and encourage more preventative care end up lowering health-care inflation, insurers will have a harder time justifying premium hikes. Also, after years of increasing, the number of uninsured Americans has begun ticking down, in part because the law allows people to stay on their parents' health plan through age 26. However, if young people such as Ogden choose not to buy insurance next year because of higher premiums, the ranks of the uninsured could rise again.

As things stand, premiums for some policyholders are bound to go up. Chris Carlson, an actuary with consulting firm Oliver Wyman, estimates that a 25-year-old making \$34,000 will go from paying about \$2,400 a year to \$3,200 for the same policy next year, even with subsidies. Others don't expect such large increases, but it's clear that some young, healthy people will see higher rates. Whether that eventually moderates will be a crucial benchmark of Obamacare's success or failure.

**The bottom line:** *As Obamacare goes into effect, some of the 15 million people who buy their own insurance face higher rates.*

©2013 Bloomberg L.P. All Rights Reserved. Made in NYC