

# WebMemo



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## Obamacare Increases Health Insurance Premiums

*Brian Blase and Rea S. Hederman, Jr.*

One of the major impacts of the Patient Protection and Affordable Care Act is that individuals and families will see higher health insurance premiums. Obamacare imposes several costly new mandates and restrictions on health insurers and providers that will raise health care costs and therefore premiums. This paper lists a dozen factors that will contribute to higher premium costs.

**1. Mandated Benefits.** Obamacare mandates that insurance companies cover a minimum package of benefits. The more comprehensive and generous the insurance, however, the more expensive it will be. The Congressional Budget Office (CBO) estimates that the benefit mandates in Obamacare—in combination with the limited cost-sharing—will increase premiums 27–30 percent in the individual market and up to 3 percent in the small group market.<sup>1</sup>

**2. No Cost-Sharing for Preventive Services.** Preventive services are more likely to increase costs than reduce costs. A recent article in the journal *Health Affairs* notes that 80 percent of preventative care services increase costs instead of saving costs.<sup>2</sup> By requiring more preventive services, costs will rise as health care consumption increases.

**3. Limits on Cost-Sharing (on Covered Items) and Limits on Deductibles.** Individuals who do not have co-payments or deductibles lack “skin in the game” and thus have less incentive to economize on their use of health care services. This results in higher premiums for their health insurance. The CBO concludes that a 10 percent decrease in cost-sharing typically increases health care spending by 1–2 percent.<sup>3</sup>

**4. Minimized Youth Discount.** The average 60-year-old consumes about six times as much health care as the average 20-year-old, but Obamacare mandates that insurers charge the oldest individuals in the risk pool no more than three times the lowest rate. As a result, young individuals will pay much more than the actuarially fair amount for their premiums. Management consulting firm Oliver Wyman estimated that premiums will rise by 45 percent for those age 18–24, 35 percent for those age 25–29, and 26 percent for those age 30–34.<sup>4</sup>

**5. Elimination of the Good Health Discount.** In order to charge individuals a fair premium, insurers in the individual market engage in underwriting to determine applicant risk. That is, healthy individuals are less of a risk and thus enjoy lower premiums, the same way good drivers get discounts on their auto insurance. Obamacare bans this type of underwriting to rate premiums. The result will be higher premiums for the vast majority of individuals who are relatively healthy.

**6. No Annual or Lifetime Limits on Health Benefits and Mandated Coverage of Children Under 26.** These provisions are already taking effect, and they raise the cost of providing insurance. Several insurers have attributed a portion of their annual rate hikes for this year to provisions in

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Obamacare. Regence Blue Cross/Blue Shield of Oregon is attributing 3.4 percent of its 17.1 percent rate increase to Obamacare, while Celtic Insurance Company in Wisconsin and North Carolina is attributing 9 percent of its 18 percent rate increase to Obamacare.<sup>5</sup>

**7. No Pre-Existing Conditions Exclusion and Guarantee Issue.** Healthy individuals will be incentivized to remain or become uninsured, saving on premium expenditures since they would be able to purchase coverage if they need medical care. A greater concentration of relatively unhealthy individuals in the risk pool will increase average premiums.

According to an analysis by Wellpoint, a health benefits company, the guarantee issue provisions in Obamacare will be mostly responsible for the rise in premiums.<sup>6</sup> Furthermore, a recent academic paper found that the existence of guarantee issue regulations more than doubled premiums for individual policies and nearly doubled premiums for family policies.<sup>7</sup>

**8. Cost-Shifting Because of Low Medicare Reimbursement Rates.** Obamacare is set to reduce the reimbursements doctors and hospitals receive

for Medicare. A 2006 *Health Affairs* piece finds that a 1 percent relative decrease in the average Medicare price is associated with a 0.17 percent increase in the corresponding price paid by privately insured patients. The study found that cost shifting from Medicare and Medicaid to private payers accounted for 12.3 percent of the total increase in the price of private insurance from 1997 to 2001.<sup>8</sup>

**9. Taxes on Insurers, Pharmaceutical Companies, and Medical Device Makers.** Obamacare includes many new taxes, including a 2.3 percent excise tax on medical devices and annual fees on health insurance providers. A tax placed on insurance companies or medical device companies will be passed to consumers in the form of higher premiums.

The CBO expects these taxes to be passed on to consumers.<sup>9</sup> Anthem estimated that premiums would rise by 2.5 percent in fully insured markets because of the annual fee on health insurance providers and by 0.5 percent because of the fees on manufacturers and importers of branded drugs and medical devices.<sup>10</sup>

**10. Difficulty of Enforcing the Mandate.** Proponents of Obamacare argue that the individual

1. Douglas W. Elmendorf, letter to Senator Evan Bayh (D-IN), November 30, 2009, p. 5, at <http://www.cbo.gov/ftpdocs/107xx/doc10781/11-30-Premiums.pdf> (September 21, 2010).
2. Louise Russell, "Preventing Chronic Disease: An Important Investment, But Don't Count on Cost Savings," *Health Affairs*, Vol. 28, No. 1 (2009), pp. 42–45, at <http://content.healthaffairs.org/cgi/content/abstract/28/1/42> (September 21, 2010).
3. Congressional Budget Office, "Factors Affecting Insurance Premiums," in "Key Issues in Analyzing Major Health Insurance Proposals," Publication 3102, December 2008, at <http://www.cbo.gov/ftpdocs/99xx/doc9924/Chapter3.7.1.shtml> (September 21, 2010).
4. Oliver Wyman, "Impact of Changing Age Rating Bands in 'America's Healthy Future Act of 2009,'" September 28, 2009, at [http://www.oliverwyman.com/ow/pdf\\_files/OW\\_En\\_HLS\\_PUBL\\_2009\\_AgeRatingAnalysisFinal.pdf](http://www.oliverwyman.com/ow/pdf_files/OW_En_HLS_PUBL_2009_AgeRatingAnalysisFinal.pdf) (September 21, 2010).
5. Janet Adamy, "Health Insurers Plan Hikes," *The Wall Street Journal*, September 7, 2010, at [http://online.wsj.com/article/SB10001424052748703720004575478200948908976.html?mod=rss\\_Health](http://online.wsj.com/article/SB10001424052748703720004575478200948908976.html?mod=rss_Health) (September 21, 2010).
6. Wellpoint, "Impact of Health Reform on Premiums," at [http://www.wellpoint.com/newsroom/stats\\_facts.asp](http://www.wellpoint.com/newsroom/stats_facts.asp) (September 21, 2010).
7. William J. Congdon, Amanda Kowalski, and Mark Showalter, "State Health Insurance Regulations and the Price of High-Deductible Policies," September 2006, at [http://econ.byu.edu/faculty/showalter/Assets/Papers/state%20regulations%20and%20insurance\\_5.23.2008.pdf](http://econ.byu.edu/faculty/showalter/Assets/Papers/state%20regulations%20and%20insurance_5.23.2008.pdf) (September 21, 2010).
8. Jack Zwanziger and Anil Bamezai, "Evidence of Cost Shifting in California Hospitals," *Health Affairs*, Vol. 25, No. 1 (2006), pp. 197–203, at <http://content.healthaffairs.org/cgi/content/full/25/1/197> (September 21, 2010).
9. Douglas W. Elmendorf, letter to Senator Max Baucus (D-MT), September 22, 2009, at [http://www.cbo.gov/ftpdocs/106xx/doc10618/09-22-Analysis\\_of\\_Premiums.pdf](http://www.cbo.gov/ftpdocs/106xx/doc10618/09-22-Analysis_of_Premiums.pdf) (September 9, 2010).
10. Anthem, "Health Care Reform: Premium Impact in Wisconsin," at [http://www.wispolitics.com/1006/Anthem\\_PremiumImpact091119.pdf](http://www.wispolitics.com/1006/Anthem_PremiumImpact091119.pdf) (September 21, 2010). This study was of a previous version of the final legislation with smaller taxes. This indicates that the actual burden of the taxes in the final legislation will be larger.

mandate is the glue that holds the legislation together. Because the mandate was so unpopular, however, Congress gave the IRS limited ability to enforce it. It is unlikely, therefore, that the mandate will be effective at encouraging healthy individuals to purchase coverage and cross-subsidize the premiums for the old and the sick.

According to Oliver Wyman, a weak mandate would cause “the average medical claims of members in the reformed individual market [to] be 50 percent higher than the average in the market today (not including medical inflation). This would translate into premium increases of approximately \$1,500 for single coverage and \$3,300 for family coverage in today’s dollars.”<sup>11</sup>

**11. Adverse Selection.** Since health plans will be required to extend coverage to any qualified applicant and will not be allowed to vary premiums based on health status, healthier individuals will likely wait until they are sick before they buy health insurance. With fewer healthy individuals buying coverage, premiums will need to rise to cover the costs of the sick, which will in turn drive even more individuals in good or even fair health to drop coverage. The result could be a classic insurance adverse selection “death spiral” and an implosion of Obamacare.

**12. Increased Demand for Health Care.** The expansion of insurance coverage through Obam-

care will increase the amount of health care that previously uninsured people demand. CBO predicts that a major coverage expansion would cause total demand for health care services to increase by 2–5 percent.<sup>12</sup> Oliver Wyman estimates that the average uninsured will use about 20 percent more in health care services than the average individual, which will raise premiums in the individual market.<sup>13</sup>

**Wishes Do Not Trump Common Sense.** One of the central promises President Obama made during the presidential campaign was that he would “sign a universal health care bill into law by the end of [his] first term as president that will cover every American and cut the cost of a typical family’s premium by up to \$2,500 a year.”<sup>14</sup>

Despite this promise, President Obama’s wishes do not trump basic supply and demand or common sense. If government requires that a product be made more generous and be available to more individuals, its cost will increase. There is no way around the fact that the vast majority of Americans will be paying higher prices for their insurance because of Obamacare.

—*Brian Blase is Policy Analyst in the Center for Health Policy Studies and Rea S. Hederman, Jr., is Assistant Director of and Research Fellow in the Center for Data Analysis at The Heritage Foundation.*

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11. Oliver Wyman, “Insurance Reforms Must Include a Strong Individual Mandate and Other Key Provisions to Ensure Affordability,” October 14, 2009, at [http://www.oliverwyman.com/ow/pdf\\_files/Importance\\_of\\_Strong\\_Individual\\_Mandates\\_-\\_Public\\_Memo.pdf](http://www.oliverwyman.com/ow/pdf_files/Importance_of_Strong_Individual_Mandates_-_Public_Memo.pdf) (September 21, 2010).

12. Congressional Budget Office, “Factors Affecting Insurance Premiums.”

13. Oliver Wyman, “Insurance Reforms Must Include a Strong Individual Mandate.”

14. Politifact.com, “Barack Obama Campaign Promise No. 521: Cut the Cost of a Typical Family’s Health Insurance Premium by up to \$2,500 a Year,” updated December 1, 2009, at <http://www.politifact.com/truth-o-meter/promises/promise/521/cut-cost-typical-family-health-insurance-premium-> (September 21, 2010).