

## **Health Insurance Rates under the Affordable Care Act**

Health care reform will change the way insurance premiums are calculated in the individual and small business markets beginning in January 2014. This change will impact the cost to individuals and families purchasing plans through the health insurance exchange (coveredca).

### **Current Rate Calculation**

Today, health insurance premiums are calculated based on the subscriber's age and family tier. Under the current system, there are seven different age brackets (under 30; 30-39; 40-49; 50-54; 55-59; 60-64; 65 and over) and four different family tiers (employee only; employee and spouse; employee and child; family). The rates for family plans are the same no matter how many dependent children are covered under the policy.

In company-sponsored plans, the age of the policyholder (employee) is used to determine the premium. In individual plans, the age of the youngest adult on the plan is used to determine the premium. For example, if a 32-year old male and a 28-year old female are purchasing a policy, the rate is determined based on the female's age because she is younger. If the couple had three children, they would be charged the same rate as a family with only one child. Based on the Kaiser 30N plan, effective January 2013, their monthly premium would be \$1,179.

### **New Rate Calculation**

Beginning in 2014, health insurance premiums for Americans purchasing plans through the exchange (coveredca) will be calculated based on the age of each person covered by the plan. Under the new system, a rate will be assigned to every individual on the plan according to their age. The rate for each insured person is added together to get the total monthly premium.

To understand the impact this change will have, let's take a look at a family of five. John and Jane Smith have three children—Kate, age two; George, age four; and Henry, age six. John is 32 years old and his wife Jane is 28 years old. Under the new Affordable Care Act compliant rating system, the premium for each person in their family would be:

John - \$364  
Jane - \$335  
Kate - \$196  
George - \$196  
Henry - \$196

When you add the rate for all five family members together, the total monthly premium is \$1,287 compared to \$1,179 using the current rates.

Unlike the current calculation, where the premium is the same no matter how many dependent children are on the plan, families will be charged for up to three dependent children under the age of 20. If you have more than three children under 20, there is no additional charge to have them included on your plan.

If you have dependent children over the age of 20, you can pay an additional cost for them to remain on your plan as adults or they can obtain insurance through the exchange. Because many young workers and college students will not be able to afford health insurance, they will qualify

for subsidies in the form of premium tax credits and/or cost sharing reduction, minimizing the amount they have to pay for health coverage.

Annual rates are effective beginning January 1, are based on your age at that time and remain in effect for the entire year. So if you turn 33 after January 1, you will still pay the 32-year-old rate for the entire year. When the new way of calculating rates takes effect your premium will increase every year from ages 20-64.