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# Dramatic Price Increases

## A Look at Colorado's 2017 Individual and Small Group Insurance Premiums

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***Coloradans who buy health insurance on the individual market will see steep price increases in 2017, with rates rising by an average of 20.4 percent. This increase comes on top of premium price hikes of 9.8 percent in 2016 and 0.7 percent in 2015. For some, insurance coverage may become unaffordable, threatening the historic gains made by Colorado in reducing its uninsured rate since 2014.***

In the Eastern Plains, prices will rise an average of 39 percent on the individual market, the state's biggest increase. On the Western Slope, where consumers already pay some of the nation's highest premiums, rates will climb 28 percent.

The Colorado Division of Insurance (DOI) on September 20 approved the rates that insurance carriers can charge for 2017 policies sold on the individual and small group markets.

Individual market prices for 2017 will rise faster than any year since 2014, when the Affordable Care Act (ACA) launched. These rate increases impact eight percent of Coloradans, or about 450,000 people, according to the Colorado Health Access Survey. This includes individual policies sold on Connect for Health Colorado, the state's online insurance marketplace.

**$230.43**
Cheapest Monthly Cost for a Bronze Plan for a 40-Year-Old in Denver

**$424.56**
Cheapest Monthly Cost for a Bronze Plan for a 40-Year-Old in Mesa County

Price increases will translate to sticker shock for many. For example, the price of the second-lowest cost silver plan (the plan that sets the amount of tax credits available through the ACA) available on Connect for Health Colorado to a 27-year-old in several western Colorado counties will be $514 a month. Prices will be even higher for older insurance consumers.

The ACA's tax penalty for not buying insurance is $695 a year, so it's a good bet that some Coloradans will choose to remain uninsured and pay the tax penalty rather than spend more than $6,000 a year on health coverage.

**Table 1. Weighted Average of Increase in Rates from 2016 to 2017, by Market.**

| | Individual | Small Group |
|---|---|---|
| Statewide | 20.4% | 2.1% |
| On Exchange | 20.9% | 5.1% |
| Off Exchange | 19.9% | 2.0% |
| All Platinum Plans | 0.0% | -0.5% |
| All Gold Plans | 19.1% | 1.6% |
| All Silver Plans | 18.9% | 3.1% |
| All Bronze Plans | 21.9% | 1.1% |
| All Catastrophic | 18.4% | — |

**Source:** Colorado Division of Insurance

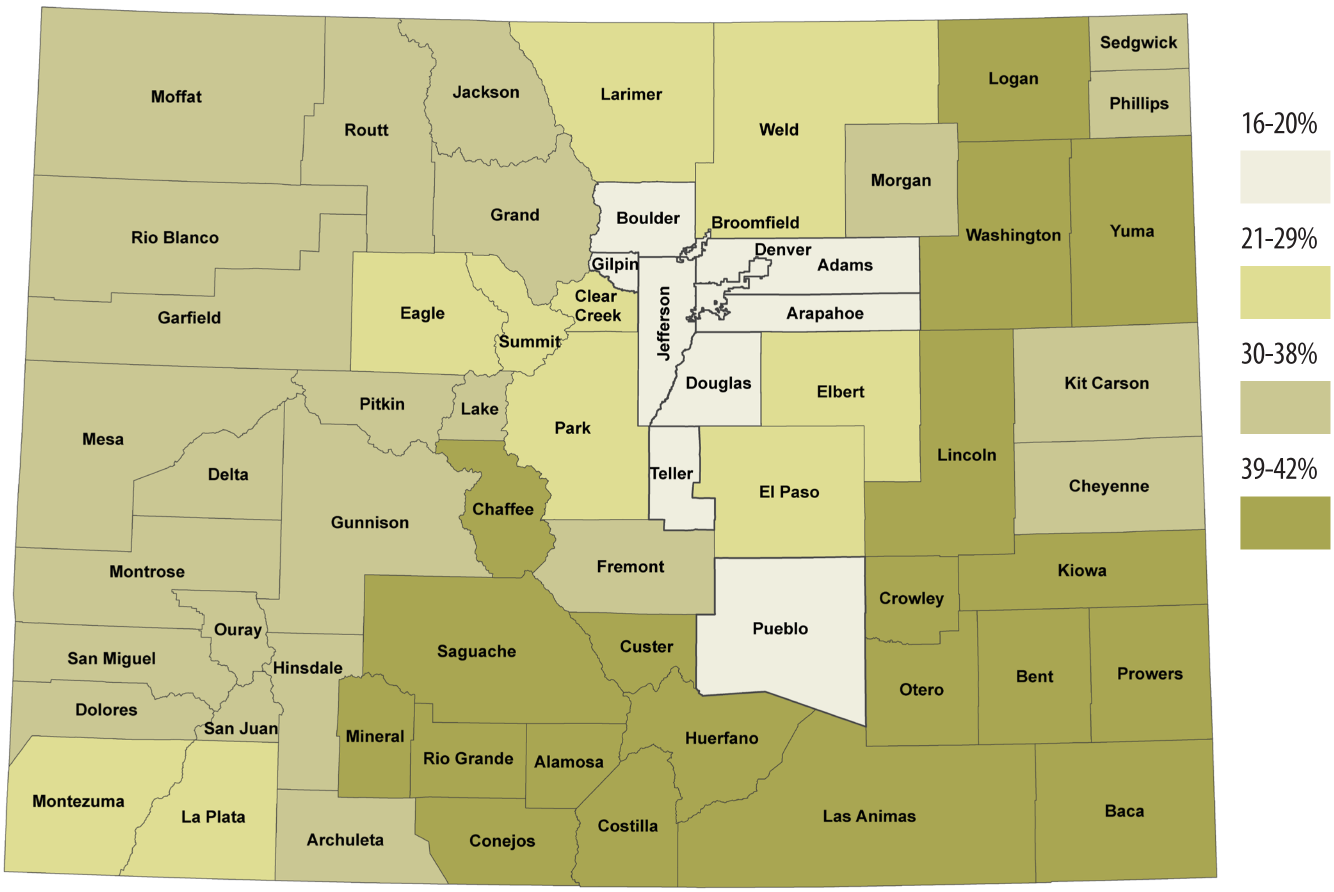
Most Coloradans get their coverage through a large employer or government programs such as Medicaid or Medicare. These prices are not affected by the rates approved by the DOI.

But the new individual market rates disproportionately affect rural Colorado, where there are fewer large employers and where residents face some of the nation's highest insurance rates.

Small group prices will increase at a much more modest pace — 2.1 percent statewide. (See Table 1.) But in the individual market, prices are increasing by nearly 20 percent across all metal tiers except platinum, the most expensive plans. Prices for individual policies sold on Connect for Health Colorado are increasing slightly more than policies sold off the exchange.

Consumers also will feel the results of a shake-up of

**Map 1. Weighted Average Increase of Individual Market Health Insurance Premiums by County, 2016 to 2017**




**Source:** Colorado Division of Insurance

# Background

The DOI regulates insurance policies on the individual and small group markets in Colorado. Private insurance carriers who want to participate in either market file their proposed policies and prices in May. The DOI reviews the prices and issues its final approvals in late summer or early fall for policies that take effect the following year.

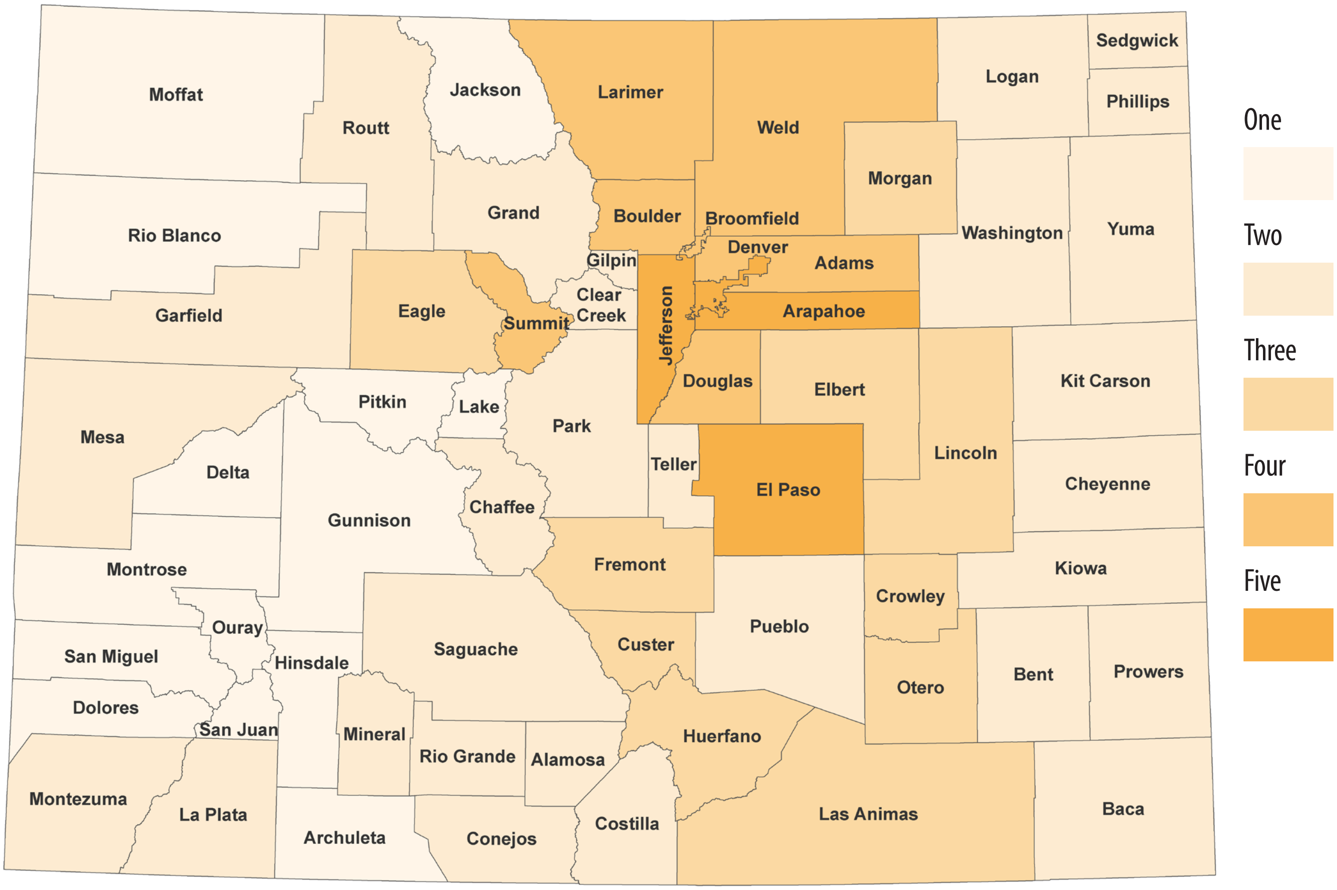
The DOI has published detailed data on the policies it regulates since the major provisions of the Affordable Care Act took effect in 2014. Wakely Consulting, an Englewood-based actuarial firm that specializes in health care, prepares a weighted average of price changes by region on behalf of the DOI. These data allow for accurate year-to-year comparisons of the number of insurance carriers and the prices they charge for comparable plans.

the insurance market next year. UnitedHealthcare and Humana Insurance will not offer individual market plans in 2017. Rocky Mountain Health Plans, which has announced plans to merge with United, will pull back from most of the Western Slope and offer individual market plans only in Mesa County. And Anthem Blue Cross Blue Shield will no longer offer its preferred provider organization plan on the individual market.

Altogether, these changes mean 92,000 Coloradans will have to find new insurance plans for 2017, according to the DOI.

The contraction of the individual market is resulting in some shifts in pricing strategies. Kaiser Permanente, for the second consecutive year, retains its title as the lowest-cost insurer in all markets where it offers insurance, both on the exchange and off the exchange. It took over this role after the Colorado HealthOP exited the market before the 2016 open enrollment period.

**Map 2. Number of Insurance Carriers by County, Through Connect for Health Colorado, Individual Market, 2017**




**Source:** Connect for Health Colorado

But with UnitedHealthcare and Humana leaving Colorado's individual market, Cigna has emerged as the second lowest-priced insurance option in nearly all regions. In some cases, the difference in the cost of an average silver plan for a 40-year-old between Kaiser and Cigna is literally only pennies.

A new company, Bright Health Plans, will enter the Colorado market in 2017, offering plans in Denver, Boulder, Colorado Springs and Western Slope.

The 2017 price data help bring some issues into focus:

- Carriers are leaving the individual market, both in Colorado and around the country. The carriers that remain are charging more, citing the higher-than-anticipated cost of paying the medical bills of their customers.
- The ACA tax credits should ease the sticker shock for some consumers. But the tax credits get smaller as incomes head higher. This means the credits won't cover the steep price increases for people at the upper end of the eligibility scale, and subsidies are not available at all for those with incomes above 400 percent of the federal poverty level.
- For the second year in a row, the small group market is seeing smaller price increases, and more carriers are offering small group plans compared with the individual market. The small group market consists of insurance plans available to small businesses (those with up to 100 employees).

## Metal Tiers

**The Affordable Care Act places insurance policies into four tiers, based on the average amount of medical costs paid by the plan. Here's a look at the tiers:**

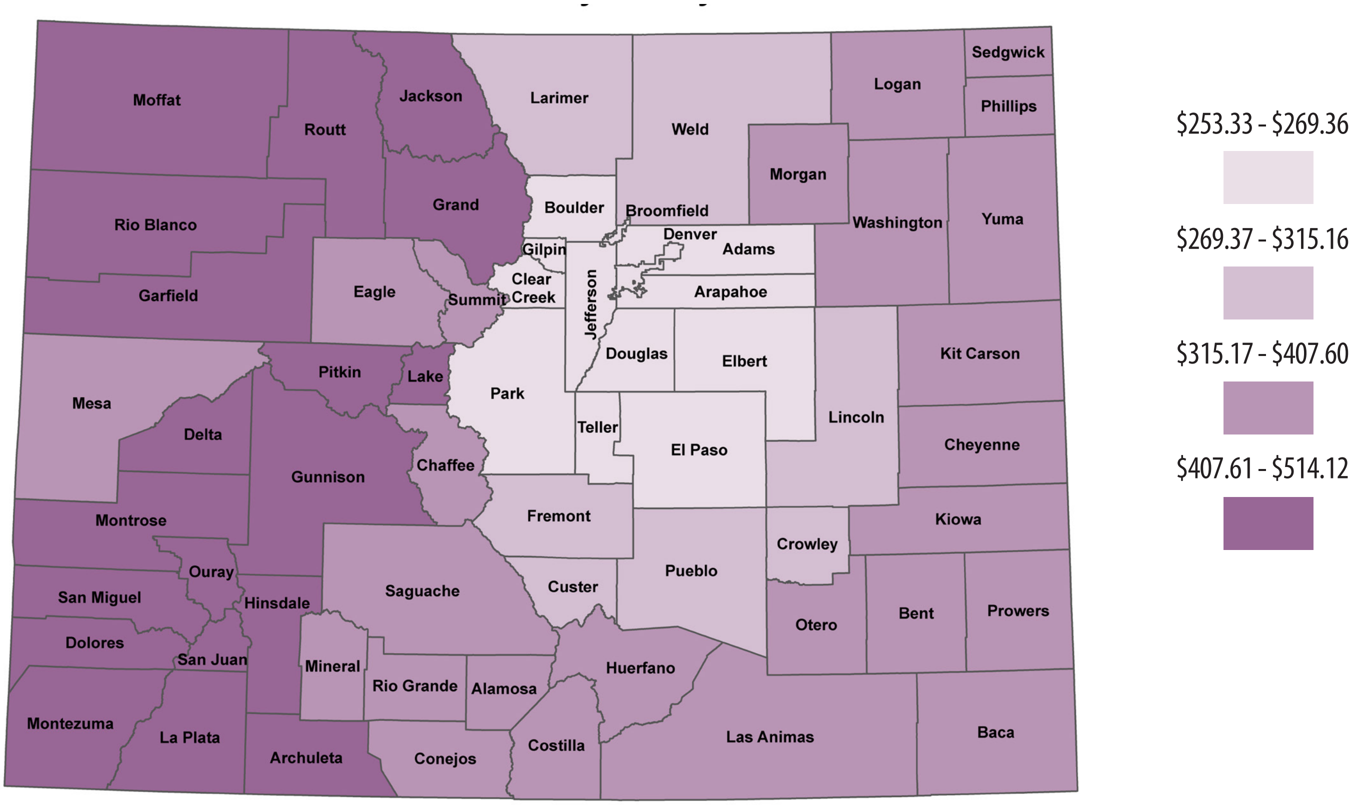
- **Bronze: 60% of costs paid**
- **Silver: 70% of costs paid**
- **Gold: 80% of costs paid**
- **Platinum: 90% of costs paid**

## Definitions

**Individual Market:** People who don't get health insurance through an employer or the government and buy coverage directly from insurers.

**Small Group Market:** Employers with fewer than 100 workers.

**Map 3. Sample Insurance Rates for Second-Lowest Cost Silver Plan for a 27-Year-Old, Sold on Connect for Health Colorado, 2017**




**Source:** Connect for Health Colorado

## *Some Perspective from Recent History*

Insurance prices were rising before the ACA. In fact, large annual increases in insurance costs were the main impetus behind the law. However, data from the pre-ACA days is not easy to compare with current data. The ACA created the system of bronze, silver, gold and platinum plans that allows comparisons of similar insurance products. Prior to the ACA, there was no easy way to compare insurance policies.

Colorado insurance prices have bounced around since the ACA was implemented.

In the first two years of ACA implementation, carriers competed for market share by offering low prices — lower than they needed to cover the cost of medical care for their members. This fierce competition has given way to a reluctance to participate in the individual market. Many carriers have withdrawn, and the ones that remain have raised their prices.

In 14 counties in western Colorado, just one carrier — Anthem — is offering plans through Connect for Health Colorado. This region also has the state's highest prices (see Maps 1 and 2).

On the other hand, the small group market seems to be stable, with more carriers participating and modest price increases (see Table 2).

## Tax Credits Can Help

The ACA offers tax credits for people who buy coverage on state-based exchanges like Connect for Health Colorado.

Tax credits are based on the price of the second-lowest silver plan in each region. In general, tax credits will rise when prices rise, and this will help cushion the shock of rising prices for some Coloradans.

**Table 2. Weighted Average of Increase in Rates from 2016 to 2017, by Region. Includes Both On- and Off-Marketplace Plans.**

| Region | Individual | Small Group |
|---|---|---|
| Statewide | 20% | 2% |
| Boulder | 19% | 2% |
| Colorado Springs | 25% | 2% |
| Denver | 17% | 0% |
| Fort Collins | 23% | 2% |
| Grand Junction | 37% | 23% |
| Greeley | 22% | 4% |
| Pueblo | 17% | -2% |
| Eastern Plains | 39% | 1% |
| Western Slope | 28% | 15% |

**Source:** Colorado Division of Insurance

## *A Regional Problem*

Rising prices affect all regions of the state, but rural residents are taking the biggest hit. The largest weighted average increase will happen in the Eastern Plains region, which includes, the San Luis Valley, with a 39 percent jump (see Table 2).

The Western Slope region has the state's highest prices and some of the steepest increases, an average of 28 percent. The Grand Junction region will see a 37 percent increase.

The San Luis Valley counties of Alamosa, Conejos, Costilla and Saguache will have the state's largest average increases, 42 percent, while Denver-area counties will see the lowest increases (see Map 1).

At the same time, a larger proportion of western Coloradans rely on the individual market for coverage than do urban residents.

More than 12 percent of western Colorado residents use the individual market compared with a state average of eight percent. And in the resort counties of Summit, Eagle, Grand, Pitkin and Garfield, nearly one of five residents is insured through the individual market.

It's more expensive to see a doctor or go to the hospital in western Colorado, and people in the region tend to use health care more than others in the state. These factors are likely driving insurance prices in the region, according to an actuarial study performed for the DOI this year.

**Figure 1. Number of Plans Offered Since ACA Implementation**

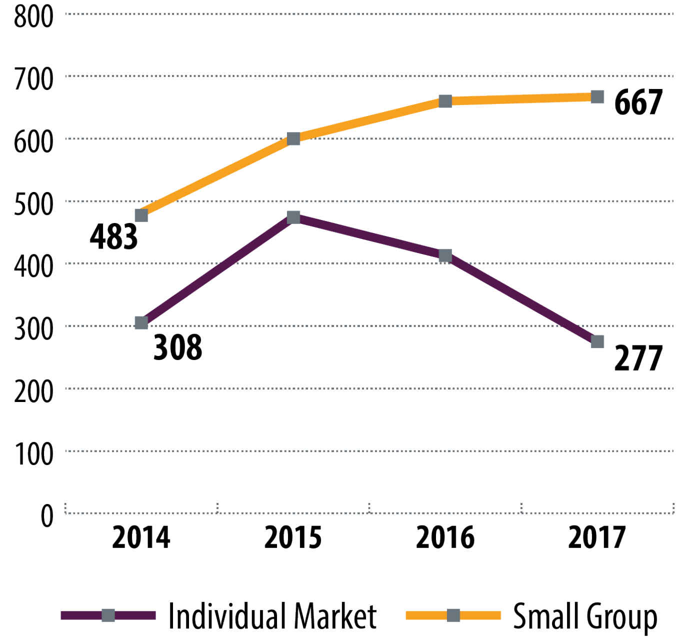
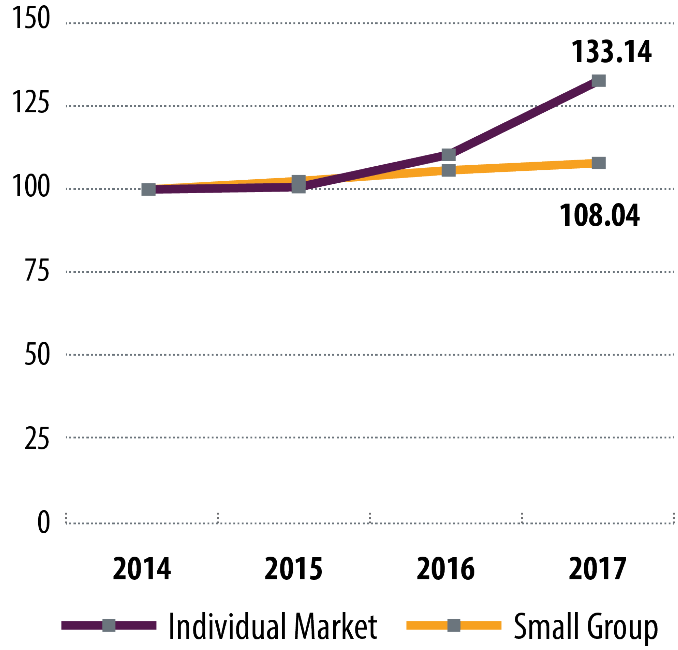



**Figure 2. Index of Average Individual Market Prices, Statewide (2014 = 100)**




*This index tracks average insurance premium price changes using 2014 as a base year.*

Insurance prices will rise by double digits even in the small group market in Mesa County and the rest of western Colorado.

Whatever the reasons, the cost of health coverage has become one of the most vexing problems in the region.

## *Why Are Prices Rising? Some Possibilities*

### *Price and Quantity of Care*

It's important to keep in mind that the individual and small group markets are subject to the same forces that keep driving up health care costs in general.

The price of medical care and prescription drugs is going up. Insurance companies are subject to medical loss ratio requirements, which force insurers to issue refunds if the amount they collect in premiums far exceeds their customers' cumulative medical costs. As a result, the vast majority of premiums they charge have to go to medical care.

The price of medical care depends, in part, on the negotiation between insurers and providers. Insurers want to negotiate lower prices with providers, while providers want higher prices for the care they give. In some areas of the state with higher prices, there are fewer providers. This could give the providers who are there more leverage to negotiate prices with insurance companies.

Despite rising prices for care, national data show that the consumption of health care services continues to go up.

### *Market Instability*

Another likely factor is instability in the market and lack of predictability.

Even though the major provisions of the ACA have been around since 2014, the individual market it created is not yet mature. People move in and out of different plans when they find a better price. Insurers discontinue some plans and offer new ones. Some companies — most notably the Colorado HealthOP — go out of business. Colorado HealthOP cut its prices dramatically for 2015

**Table 3. Yearly Price Increases on the Individual Market, Medical Plans**

| Company | **2015** (increase from 2014) | **2016** (increase from 2015) | **2017** (increase from 2016) | Cumulative change 2014-17 |
|---|---|---|---|---|
| Bright Health Plans | Not in market | Not in market | New | N/A |
| Cigna | 6.1% | New plans | 9.5% | N/A |
| Colorado Choice | 2.1% | 9.4% | 42.9% | 59.6% |
| Denver Health | 17.5% | 12.7% | -0.5% | 31.8% |
| Freedom | New | -7.5% | 9.1% | N/A |
| Golden Rule | Not in market | New | 46.2% | N/A |
| HMO Colorado (Anthem) | -5.3% | 8.2% | 25.8% | 28.9% |
| Humana Health Plan | -3.0% | 20.1% | Exiting | N/A |
| Humana Insurance Co. | -8.5% | 14.9% | Exiting | N/A |
| Kaiser Permanente | 7.0% | 4.0% | 18.0% | 31.3% |
| National Foundation Life | New | -6.0% | 9.1% | N/A |
| Rocky Mountain HMO | 3.1% | 30.1% | 34.9% | 81.0% |
| R.M. Hospital & Medical (Anthem) | New | 7.4% | 20.6% | N/A |
| UnitedHealthcare | Not in market | New | Exiting | N/A |
| UnitedHealthcare Life | New | -2.3% | Exiting | N/A |

**Source:** Colorado Division of Insurance and captured a large share of the individual market. But the carrier folded at the end of the year, leaving 80,000 people to find new coverage.

The fluid nature of the market means insurance carriers have a hard time building a claims history for their customers that they can use to accurately predict the cost of providing coverage.

### *Political Factors*

Another possible reason for rising prices next year is that Congress eliminated some ACA provisions that will not be available in 2017. For example, insurers that had unexpectedly higher costs could tap a pool of money that had been collected from plans. Carriers lost access to this fund in 2016, even though they were counting on the money when they set their 2016 rates. They are now building this loss of funds into the 2016 and 2017 rates.

### *HealthOP Failure*

When the Colorado HealthOP went out of business, it left behind unpaid claims. Colorado insurance carriers pay into a common fund to cover unpaid claims if one of them goes out of business. That fund is covering around $100 million in claims. Surviving carriers have to pitch in more money to cover those claims, and the cost is likely to be passed on to their customers.

## *How Much Does Competition Matter?*

Significant attention has focused on the exit of some insurance companies from the insurance marketplaces that are a main feature of the ACA, including Connect for Health Colorado. As the number of insurers declines, will premiums necessarily go up?

The answer probably depends on how many insurers remain in the market. In some Colorado counties, only one carrier will offer plans through Connect for Health Colorado in 2017. However, in other areas of the state, multiple insurers remain, so the departure of one carrier may not have a substantial impact on competition.

At the same time, Colorado's small group market offers a greater choice of plans and steadier prices than the individual market.

There are several possible reasons why this market is more stable. These plans cover people who are employed with a company. Employees are less likely to cycle in and out of a plan compared with those who purchase on the individual market.

## Prices Rise Nationally

Colorado's experience of fewer insurers and higher insurance rates is not unique. Similar scenarios are playing out in most other state-based exchanges as well as the national marketplace.

Three of the nation's largest health insurers — Aetna, UnitedHealthcare and Humana — are pulling out of a number of state markets. Aetna, for example, will leave 11 of the 15 states where it has offered ACA policies.

An estimated 17 percent of Americans eligible for an ACA plan during the next open enrollment will have just one insurer to choose from, according to an analysis by the McKinsey Center for U.S. Health System Reform for The New York Times.

Few areas of the nation will be immune from higher premiums next year. Sylvia Burwell, secretary of Health and Human Services, calls 2017 a "transition year" for the marketplace as insurers try to catch up after initially pricing their plans below cost.

One independent analysis suggests an average increase in individual market rates of about 25 percent.

The Kaiser Family Foundation projects that premium prices for benchmark silver plans are projected to rise an average of 10 percent in 2017, double the five percent jump of 2016.

## *Conclusion*

The dramatic price increase for 2017 insurance policies on the individual market will present a significant challenge to Coloradans who rely on this market for their health insurance. The rising prices and falling competition also present a policy challenge for the Affordable Care Act, which was designed to use the individual market as one of the main ways to extend coverage to the uninsured.

It's unlikely that prices will moderate until the price of medical care and the demand for medical services starts to drop.

Colorado Health Institute staff members contributing to this report:

Joe Hanel, lead author
Maggie Bailey
Amy Downs
Chrissy Esposito
Cliff Foster
Deborah Goeken
Emily Johnson
Edmond Toy

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*303 E. 17th Ave., Suite 930, Denver, CO 80203 • 303.831.4200*
***coloradohealthinstitute.org***