



Reducing Premiums to Make Coverage Affordable

The *Patient Protection and Affordable Care Act* and the *Health Care and Education Reconciliation Act* include several targeted provisions to reduce health insurance premiums.

Health insurance Exchanges to bring down costs of insurance

- ✓ Half of the uninsured are under the age of 30 and have health costs and risks well below average. [Commonwealth Fund, [5/30/2008](#)] Creating a provision for individual responsibility and allowing people to purchase health insurance through an Exchange will add healthy people to the pool for insurance and keep premiums lower for everyone.

Premium assistance to make coverage affordable

- ✓ Eighty-five percent of the uninsured have incomes below 400 percent of the poverty line. [Current Population Survey, 2007] Many of these people do not have health problems, but remain uninsured because of the high cost of coverage today. Premium credits will make coverage affordable for them by limiting the percentage of income they have to pay for coverage.

Reinsurance and risk-adjustment to stabilize premiums

- ✓ Risk adjustment will be used to ensure that no plan suffers from a spiral of adverse selection, and a reinsurance program will reimburse plans whose costs run significantly above premium revenues, allowing plans to set lower premiums from the outset.

Reduced insurance overhead

- ✓ Today, roughly 30 percent of every dollar goes to insurance overhead in the individual market compared to 7 percent of premiums in the large group market, primarily due to the administrative costs of “cherry picking.” [Congressional Budget Office, [12/2008](#)] Such practices will be prohibited and the Congressional Budget Office projects that administrative savings will reduce premiums by 4-5 percent. In addition, Americans will receive a rebate if their insurance company’s administrative costs and profits exceed 15 percent of premium costs in the group market or 20 percent in the individual or small group market.

Competition to lower costs

- ✓ Many states’ small group insurance markets are dominated by one or two large insurers, and it is difficult for small businesses to shop for plans. [Government Accountability Office, [2/27/2009](#)] Creation of a health insurance Exchange will expand choice, increase competition, and lower prices for everyone.

Policies for catastrophic-only coverage

- ✓ Catastrophic-only coverage will be available to those who cannot afford more comprehensive coverage and to young adults, and the ability to stay on parental health plans until the age of 26 will help to keep costs down for young adults.

If you like what you have, you can keep it

- ✓ People who already have insurance can keep that plan through grandfathering.
 - According to a report by Oliver Wyman (commissioned by the insurance industry), “these grandfathered policies will not be impacted by the rating changes.” [Oliver Wyman, [10/14/09](#)]
 - According to the American Academy of Actuaries, this grandfathering of current plans will provide protection against rate shock. In fact, premiums will actually *decrease* for younger adults who keep their plans. [Actuaries, [11/23/09](#)]