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Simply Calling Something

As I write this article in an effort to update you about the status and most recent developments of the federal

Affordable Care Act (the ACA or Obamacare),

I'm acutely aware of one thing: by the time you read this, pretty much everything I have written will be outdated. Things are changing so rapidly, and the Obama administration is adjusting its "official" rules so frequently, we don't know what the federal government's position will be from one month to the next. Here are a few things we do know:

On October 1, 2013, the federal government rolled out the Obamacare marketplaces called "Exchanges" on Healthcare.gov. Knowing these Exchanges would be of interest to employers and individuals alike, I adjusted my work schedule so I could tinker around on the website and write an article about my personal experience by the end of the month. I budgeted ample time (or so I thought) to go through the process as if I were an individual seeking health insurance, so I could develop my own fair and unbiased conclusions and assessment of the Exchanges. I waited for the website to go live, and jumped online as soon as it did. Alas, here I sit, well into the month of November, scrambling to finish this article before the magazine deadline, and the only thing I know for sure is that I'm more confused than ever as to how the Exchanges will actually work, and I highly doubt whether the plans and rates they offer are going to be affordable.

As you undoubtedly know by now, the federal Obamacare Exchanges haven't worked since they were launched. In fact, on the day the highly touted website debuted, a mere six Americans nationwide were able to enroll in an Exchange plan. Despite the colossal failure of the website, the Obama administration dismissed the universal criticism and claimed it crashed because of "overwhelming interest and demand." The administration said it was a wonderful problem to have because so many Americans were clamoring to buy insurance through the Exchanges, and although there were a few computer "glitches" that still needed to be ironed out, Obamacare was off to a great start.

We are now more than a month into the Obamacare Exchanges, and we have learned the minor computer glitches are actually the mother of all computer glitches, and no one knows for sure if and when the Exchanges will be fully up and running. In fact, at this point, smart money says it will take weeks

(maybe even months or years) to fix everything on this critical prong of the Obamacare program.

The website problems have stymied hundreds of crackerjack computer programmers, and have stopped Obamacare dead in its tracks. In addition to the glitches that have made it virtually impossible to access and navigate the Exchanges, we have discovered the rates for Exchange plans aren't all that "affordable" after all. It also turns out that many of the required metal plans offered on the Exchanges don't have great benefits either. While it's true that some plans in the Individual Exchanges are currently cheaper than plans in the open market, there are a couple important things to consider before drawing any conclusions about the effectiveness of the Exchanges, or the affordability and value of the plans:

- **The plans sold** on the individual Exchanges are currently (and temporarily) being subsidized on the backs of private health insurance and employer-sponsored self-insured plans. This subsidization, which increases the cost of coverage outside the Exchange by \$63 per year for each covered employee, spouse and child, will continue through 2016. This "reinsurance" program artificially reduces the cost of health insurance policies purchased inside the government-run individual Exchanges, and inflates the cost of insurance policies and self-funded coverage in the private market. The effect of this cost shifting is that it unfairly increases the cost of insurance coverage in the private market, so the government can attract people to the Exchanges by providing "cheaper" (*i.e.*, subsidized) health insurance. It also produces an inaccurate assessment of the true affordability of the policies sold on the Exchanges.
- **Individual plans sold** on the Individual Exchanges are eligible for subsidies from the federal government for anyone with a household income of up to 400% of the federal poverty level (FPL). Many people who receive these subsidies will find health insurance policies sold on the Exchanges to be more affordable than the policies sold on the private market; however, subsidizing coverage doesn't make it more affordable any more than increasing your kids' allowance makes it cheaper for them to go to the movies, it just makes it more "affordable" to the person who receives the subsidy. Nonetheless, despite the federal subsidies, many people are still going to find health insurance is elusive and unaffordable.

2016 “Affordable” Doesn’t Make It So!

- **Federal subsidies are based on household income**, and an individual or family that purchases coverage on an Exchange must still pay a portion of their insurance premium (unless, in some cases, they are willing to choose a “bronze” plan with a deductible in the \$5,000 range). If the Exchange participant selects a mediocre “silver” plan with a deductible in the \$1,500 range, the participant will have to contribute a minimum of 2% and a maximum of 9.5% of gross household income toward the premium. Depending on the family’s gross household income, this works out to anywhere from \$471 - \$8,949 per year for a family of four! Whether that level of personal contribution makes health insurance “affordable,” will depend on individual facts and circumstances, but I would argue it’s not a whole lot different than it was pre-ACA, especially for those at higher income / lower subsidy levels.

- **A consumer must compare plan benefits and network access** in order to have a true apples-to-apples comparison of Exchange policies versus private policies. Many of the “cheaper” metal plans sold on the Exchanges have significantly higher deductibles and higher out-of-pocket maximums, or they have more limited access to preferred providers because the provider networks are so restrictive. The cheapest bronze plans may be “affordable” from a “premium” perspective, but because these plans can leave consumers with thousands of dollars in unpaid medical expenses, they may be far from affordable from a “benefits” perspective. Likewise, silver, gold and platinum plans may provide better benefits, but they may require “unaffordable” premium contributions. Unfortunately, to the unsophisticated consumer, the affordability inquiry often stops at the monthly premium rate, and benefit specifics are ignored. This is akin to someone who is selling a car for \$5,000 without disclosing the year, make, model and condition of car. Unless a potential purchaser has access to all of the relevant information, he would be a fool to think the car was being sold at an affordable price, and an even bigger fool if he made an offer to purchase the car without that information.

As if it isn’t enough that the Obamacare Exchanges are offering many unaffordable plans under the guise of affordability, it is crucial to note that many Americans who have been insured under an affordable private insurance policy for years will be forced by the ACA to relinquish their existing policy and purchase an Obamacare metal plan. Although many people

believe this is just happening in the individual health insurance market, it is also happening in the small employer market (which is currently defined as employers with 50 or fewer employees, but will increase to employers with up to 100 employees in 2016).

Despite President Obama’s assurance that “if you like your health care plan, you can keep your health care plan, period,” many Americans are just now learning that promise wasn’t true. By law, any non-grandfathered individual or small employer health insurance policy must be replaced with an Obamacare metal plan upon renewal in 2014. That means unless a plan is “early renewed” in 2013 (which will merely postpone the metal plan requirement until December 2014), the plan must be cancelled by the insurance company and replaced with a community-rated Obamacare metal plan. This is true even if the plan provided top-notch benefits at an affordable rate.

Although there are some individuals and employer groups that will get a premium reduction because they were at a higher than average rate, most will experience an increase in premiums. It’s basic math, and it’s indisputable. Whether that makes insurance more “affordable” probably depends on whether you are in the minority of people who will see a premium reduction, or in the majority of people who will receive a premium increase. I would submit the overwhelming majority of people (even those who will receive a modest premium reduction), will still find Obamacare health insurance premiums to be unaffordable.

All this talk about the unaffordability of health insurance begs an obvious and critical question: Why are health insurance premiums so high? To answer this question, I’m going to borrow a phrase out of an article I read years ago: health insurance is expensive because health care is expensive. With that basic and irrefutable premise, it’s easy to see that unless and until we find a way to rein in the cost of health care, and bend the health care cost curve downward for an extended period of time, we will never find a way to make health insurance truly affordable. Unfortunately, the ACA didn’t do anything to reduce the cost of medical care; it simply attacked the funding mechanism (*i.e.*, the health insurance). Until we address the underlying cost drivers, the ACA’s promise of affordability will be nothing more than a self-serving (albeit inaccurate) label.

As Always ...

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