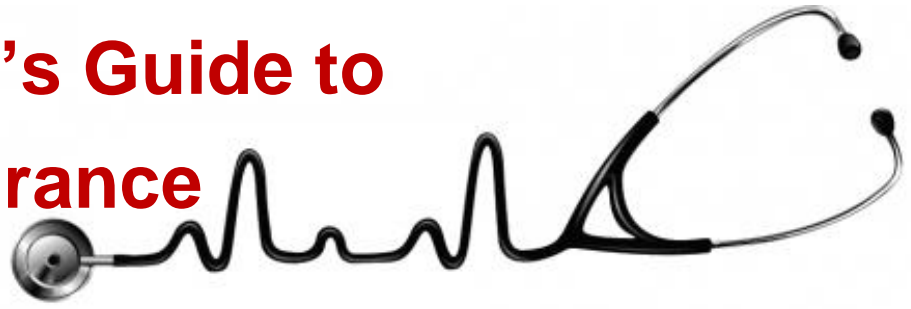


# A Beginner's Guide to Health Insurance



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## Addressing the changes in today's health care and how it affects us

BY MARY ANN MCRAE

Do you know how much health care is affecting your wallet? Understanding health insurance is not easy for the average consumer. The passing of recent legislature has made it possible for many more people to receive health coverage, but has also complicated an already confusing system. So let's break it down. In order to understand the economic effect, one must understand the Affordable Care Act (ACA) and how it changes the insurance market on a state by state basis. Then, make an informed decision of where to buy insurance and from whom. This Beginner's Guide will walk us through the basics.

### The ACA

The goal of the ACA is to increase coverage and lower the costs of health care for those who previously could not afford it. The Congressional Research Service Report indicates that the reforms "targeted improved access to

health insurance, coverage affordability, and coverage quality."<sup>1</sup> The ACA calls for the creation of an insurance exchange in which many insurance providers would compete with one another. This competition has the goal of lowering premiums and increasing coverage. These exchanges are run via a government website and is also known as the Marketplace.

In addition, a mechanism called the Consumer Operated and Oriented Plans (CO-OPs) was created in order to provide a nonprofit competitor to the for-profit insurance companies. CO-OPs increased the number of health insurance providers in state markets and further reduced premiums.<sup>2</sup>

Insurance companies now report, however, that the costs of the ACA are much higher than expected.

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**"Costs are being driven up by people who are gaming the system."**

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## U.S. Costs of Health Administration and Private Insurance

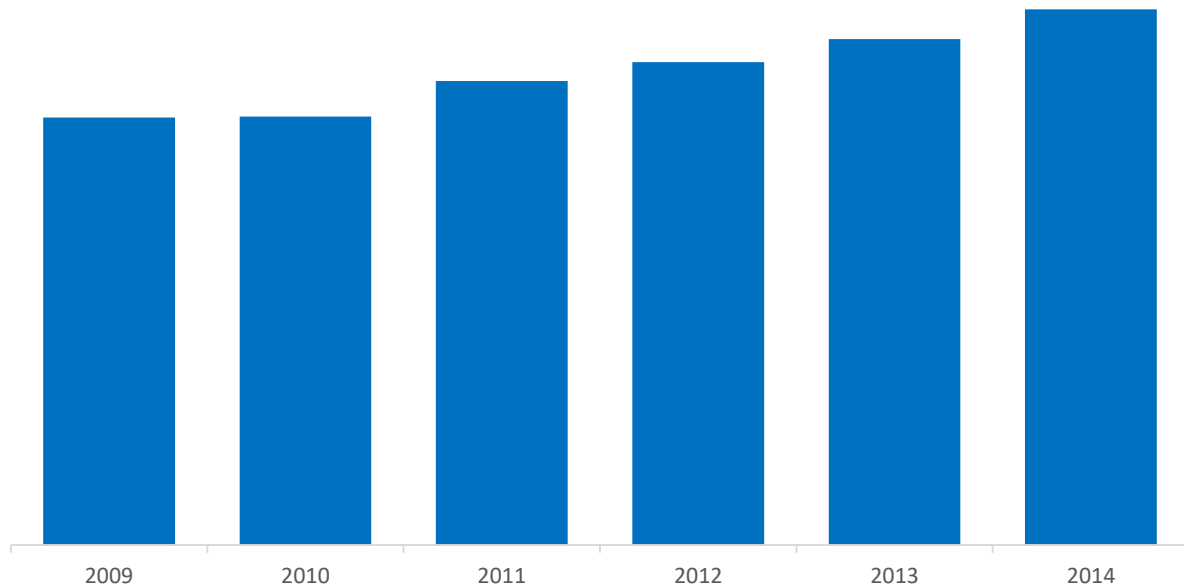


Figure 1

For an insurance provider to take on a client, the client must enroll during a specified enrollment period. “Insurers indicate their costs are being driven up by people who are gaming the system by using special enrollment periods where compliance with eligibility requirements is often not validated.”<sup>3</sup> Before an insurance provider could deny coverage to someone with pre-existing conditions.<sup>4</sup> Now, such discriminations are not allowed under the ACA, and companies must take on those who sign up just before incurring expenses, quickly incur claims, or drop coverage without paying much.

The competition drives the rates down, but costs have increased because providers must be less discriminatory in taking on clients. As shown in Figure 1, the costs of health administration and private insurance in the United State is steadily climbing.<sup>5</sup> From the time that

the ACA was approved in 2010 until it was put in effect in 2014 there was a 40 percent increase in health costs.

### A Closer Look

UnitedHealth, especially, found the costs of participating in the exchange too high. In 2015 the company considered leaving the ACA exchanges because of losses incurred and did so in 2016. Stephen Hemsley, UnitedHealth CEO, stated, “We cannot sustain these losses.”<sup>6</sup> Aetna, another major provider, announced “serious concerns about the exchanges.”<sup>7</sup> While some companies are doing well, many insurance providers cannot sustain the losses brought on by the ACA and are leaving the exchanges.

All states are seeing the effects differently because insurance is sold on a state by state basis. In particular, Arizona has seen severe changes because of the lack of providers available as the providers leave the exchanges. In Figure 2 we see that nearly all the counties in Arizona will be left with only one insurer.<sup>8</sup> Providers cannot afford the costs of insuring people under the ACA. Those who remain in the exchange must increase premiums in order to cover costs. “Premiums for some plans will be more than double this year.”<sup>9</sup> As premiums increase, benefits covered decrease.

### Health Insurance Providers in Arizona

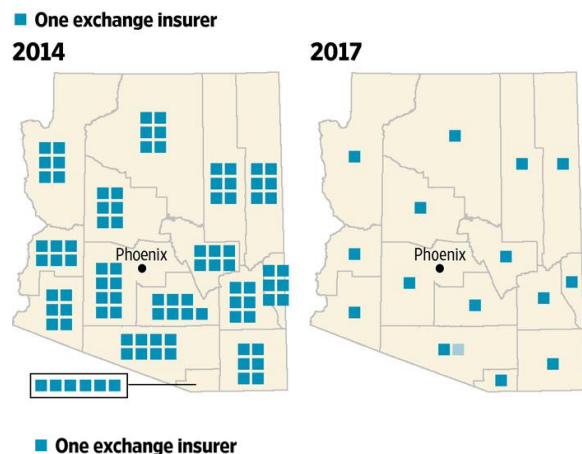


Figure 2

## The Effect on Business

Competition is generally good for business. It increases productivity and lowers the cost of the product. However, here we see that combining legislation and business has had a startling impact.

The question is, has this new monopoly-like state in the Marketplace left us

worse off? The government subsidies are footing the bill for many people. They receive more than they would have and for less money, but at what cost? Prices for those who do not receive subsidies are increasing.

Good intentions of lowering insurance rates have actually resulted in severely increased rates. Insurance companies now find it difficult to continue providing on the individual market and must return to group rates in order to avoid great losses.

## So Now What?

When searching to minimize cost and maximize coverage, one must consider the benefits provided by employers and the Marketplace options for individual buyers. As premiums increase, employers must decide how much they can afford to offer full time employees. Data shows that employers have not passed on the full cost of the increase; employees take on about 20 percent of the increased premium.<sup>10</sup> Employers who qualify may opt to let their employees shop in the Marketplace of exchanges. The ACA makes it easier to buy your own insurance on the individual insurance market. “The average annual premium for a 51-year-old single buyer is just under \$5,500 with a deductible of about \$3,000.”<sup>11</sup> Understanding health insurance is not so hard. It’s weighing the economic side effects and business changes with the increased coverage nationwide.

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<sup>1</sup> Cooper, R, & Gardner, L 2016, 'Extensive Changes and Major Challenges Encountered in Health Insurance Markets under the Affordable Care Act', *Journal Of Financial Service Professionals*, 70, 5, pp. 53-71, Business Source Premier, EBSCOhost, viewed 29 November 2016

<sup>2</sup> Ibid.

<sup>3</sup> Ibid.

<sup>4</sup> Levitt, Larry, Cynthia Cox, & Gary Claxton. "How Has the Individual Insurance Market Grown Under the Affordable Care Act?" Kaiser Family Foundation - Health Policy Research, Analysis, Polling, Facts, Data and Journalism. May 12, 2015. Accessed November 25, 2016. <http://kff.org/health-reform/issue-brief/data-note-how-has-the-individual-insurance-market-grown-under-the-affordable-care-act/>.

<sup>5</sup> US Department of Health and Human Services. n.d. U.S. government health administration and net cost of private health insurance from 1960 to 2014 (in billion U.S. dollars)\*. Statista. Accessed 29 November, 2016. Available from <https://www-statista-com.erl.lib.byu.edu/statistics/184703/us-health-administration-costs-and-health-insurance-since-1960/>.

<sup>6</sup>Sneed, Tierney. "The Real Reasons Insurance Companies Are Complaining About

Obamacare." TPM. 2016. Viewed 27 November 2016.

<http://talkingpointsmemo.com/dc/obamacare-insurers-complaints-threats>.

<sup>7</sup> Ibid.

<sup>8</sup> Wilde Matthews, Anna. "Inside the Affordable Care Act's Arizona Meltdown." *The Wall Street Journal*. 31 October 2016. Accessed 15 November 2016.

<http://www.wsj.com/articles/inside-the-affordable-care-acts-arizona-meltdown-1477925051>.

<sup>9</sup> Ibid.

<sup>10</sup> Depew, B, & Bailey, J 2015, 'Did the Affordable Care Act's dependent coverage mandate increase premiums?', *Journal Of Health Economics*, 41, pp. 1-14, Business Source Premier, EBSCOhost, viewed 29 November 2016.

<sup>11</sup> Dickstein, M, Duggan, M, Orsini, J, & Tebaldi, P 2015, 'The Impact of Market Size and Composition on Health Insurance Premiums: Evidence from the First Year of the Affordable Care Act†', *American Economic Review*, 105, 5, pp. 120-125, Business Source Premier, EBSCOhost, viewed 29 November 2016.