

Are health carriers ready to explain the 2018 age curve?

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One component of the Patient Protection and Affordable Care Act (ACA) rating methodology is the federal age curve.

The federal age curve determines how much an individual's premium can vary based upon age, while holding plan design, smoking status, and geography constant. For the first time since the inception of the ACA in 2014, the federal government is changing the age curve for ages 0 to 20, effective January 1, 2018, as announced in the 2018 U.S. Department of Health and Human Services (HHS) Benefit and Payment Parameters.¹ This change affects all ACA plans in both the individual and small group markets.

Individuals under the age of 21 will experience significant premium changes because of the age curve change. The table in Figure 1 displays how the age curve will change, with the last column demonstrating the dollar impact for an assumed \$200 per month premium. Please note that the adult age factors (ages 21 and up) do not change.²

For example, a \$200 per month premium charged to a 20-year-old in 2017 will increase to \$305.51 per month in 2018 ($\$200 / 0.635 \times 0.970 = \305.51), assuming no other changes to the age 20 rate. Health carriers file rate changes every year to account for trend, claims experience, plan design modifications, and other rating factors. If a health carrier were to file an average rate change of 20% for these other rating components combined, a 20-year-old rate in 2018 would change to \$366.61 per month ($\$305.51 \times 1.2 = \366.61), an 83.3% rate increase over the 2017 age 20 rate.

A family policy will not receive as high of a premium rate change as a dependent-only policy because adults do not have the additional age curve change as displayed in Figure 1.

FIGURE 1: 2018 AGE CURVE CHANGE IMPACT*

AGE BAND	2017 AGE FACTOR	2018 AGE FACTOR	% CHANGE	\$ CHANGE**
0-14	0.635	0.765	20.5%	\$40.94
15	0.635	0.833	31.2%	\$62.36
16	0.635	0.859	35.3%	\$70.55
17	0.635	0.885	39.4%	\$78.74
18	0.635	0.913	43.8%	\$87.56
19	0.635	0.941	48.2%	\$96.38
20	0.635	0.970	52.8%	\$105.51

* Excludes: Alabama, D.C., Massachusetts, Minnesota, Mississippi, New Jersey, New York, Utah, and Vermont.³

** Assumes a \$200 per month base 2017 premium.

How should health carriers explain the 2018 age curve to their members?

Health carriers should develop a communication plan explaining to their members what is causing premium increases. Because the premium change will vary by member, clear messaging is important. This communication could take any or all of the following forms:

- Preparing a written explanation in their renewal notifications
- Doing outreach calls for individuals receiving high premium changes
- Providing the customer service center with a well-scripted explanation of the federal age curve change for members impacted by this change
- Posting an explanation on their websites

1 Under 45 CFR §147.102(e), the federal government must create an age curve that applies when a state does not establish its own uniform age curve, as described in 45 CFR §147.103(a). The default age curve was specified in final guidance posted at <https://www.cms.gov/CCIIO/Resources/Regulations-and-Guidance/Downloads/Final-Guidance-Regarding-Age-Curves-and-State-Reporting-12-16-16.pdf>.

2 However, due to the single risk pool rating mechanics, the higher child age factors have a slight downward effect on adult rates, dependent on the mix of expected members by age.

3 Per <https://www.cms.gov/CCIIO/Programs-and-Initiatives/Health-Insurance-Market-Reforms/Downloads/StateSpecAgeCrv053117.pdf>, the standard age curve applies in Alabama's small group market and New Jersey's individual market. New York and Vermont utilize family tier rating, and so there is no explicit rating for age.

Health carriers choosing a written communication of the rate increase should be mindful of several underlying components driving rate increases. For example, rate increases vary by plan design and geography in addition to age. Health plans may decide to prepare several versions of the renewal notification for different scenarios.

Health carriers communicating premium changes via the phone should be prepared to answer follow-up questions customers may have regarding the other components of their rate increases beyond age. Customer service representatives should be aware that different member demographics would likely have different questions (particularly those with members under age 21), and health plans should prepare several explanations accordingly.

Health carriers may want to create a separate ACA section on their websites. This section could explain how the federal age curve is changing from calendar year 2017 to 2018. Examples could be displayed to help members understand how this impacts the premium rates.

The ACA age curve change will have a dramatic effect on individuals and small groups who enroll dependents under the age of 21, with the greatest impacts for those with dependents between the ages of 15 and 20. This impacts all ACA plans and all ACA health carriers in the same manner (except those in states listed in the footnote to Figure 1 above). States do have the opportunity to seek approval from the federal government to modify age curves. However, any future changes would most likely first go into effect January 1, 2019. Health carriers should be proactive and prepare to explain 2018 rate changes to their ACA policyholders in order to avoid member dissatisfaction.

This information is solely intended to provide consideration related to the premium impact of the changes to the ACA age curve factors from 2017 to 2018 required in most states. As noted earlier, the dollar values shown in this paper are illustrative, based upon a \$200 per month premium charged to a 20-year-old in 2017, and isolated only to the impact of the ACA age curve factor changes. Please note there are many components that comprise a premium change, and the age curve is just one component. This article is based upon healthcare laws and regulations applicable in late 2017.

Amy Giese and Nick Krienke are members of the American Academy of Actuaries and meet the qualification standards for sharing the information in this paper. To the best of our knowledge and belief, this information is complete and accurate.

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