



AMERICAN ACADEMY *of* ACTUARIES

November 14, 2013

Subject: Implications of changing ACA rules regarding insurance cancellations in the individual and small group health insurance markets

Dear Senator/Representative:

The American Academy of Actuaries'¹ Health Practice Council urges you to consider the potential adverse consequences of changing the Affordable Care Act (ACA) provisions regarding plan cancellations in the individual and small group health insurance markets. Finding an appropriate balance between allowing consumers to maintain current coverage and ensuring a sustainable insurance market requires carefully weighing the potential costs as well as the potential benefits of proposed fixes. Just as with the potential adverse consequences of delaying the ACA's individual mandate provision and/or extending its open enrollment period, which we previously brought to your attention in our [letter](#) of Nov. 5, there are actuarial implications to such changes to plan cancellations.

In general, under the ACA, consumers with health insurance coverage as of Mar. 23, 2010 are allowed to retain their plans as long as significant coverage changes were not made. Allowing consumers to retain policies that otherwise would have been cancelled because they lost grandfathered status or were purchased after that date could negatively impact the composition of the risk pools for plans operating under the rules taking effect in 2014. In particular, if lower-cost individuals retain their prior coverage, and higher-cost people move to new coverage, the medical costs for those purchasing new coverage would be higher than expected.

Also allowing current plan participants to purchase coverage from the plans operating under pre-2014 rules would exacerbate this problem. In effect, such an allowance would result in two parallel insurance markets operating under different rules. People with lower expected medical costs would be more likely to choose plans under the pre-2014 rules, while those with higher expected costs would be more likely to choose plans under the 2014 rules. The viability of the latter market would be threatened as higher premiums would be needed to reflect the higher-cost population.

In general, the effects of allowing individuals whose policies otherwise would be cancelled to continue enrolling in those policies would have similar effects as those resulting from delaying the individual mandate and/or extending the open enrollment period:

¹ The American Academy of Actuaries is a 17,500-member professional association whose mission is to serve the public and the U.S. actuarial profession. The Academy assists public policymakers on all levels by providing leadership, objective expertise, and actuarial advice on risk and financial security issues. The Academy also sets qualifications, practice, and professionalism standards for actuaries in the United States.

- Premiums in the new 2014 insurance markets would have been higher if the ACA rules regarding cancelled policies had been relaxed.
- Approved premiums for 2014 are based on assumptions regarding plan cancellation requirements under ACA rules. The premiums approved for 2014 may not adequately cover the cost of providing benefits for an enrollee population with higher claims than anticipated in the premium calculations.
- Costs to the federal government could increase as higher-than-expected average medical claims are more likely to trigger risk corridor payments.
- Relaxing the plan cancellation requirements could increase premiums for 2015. Insurers cannot increase premiums in future years to make up for prior losses. However, assumptions regarding the composition of the risk pool would reflect plan experience in 2014.

Before deciding whether to consider proposals addressing plan cancellation requirements, the American Academy of Actuaries' Health Practice Council encourages you to examine the implications of such proposals as outlined above. We would welcome the opportunity to discuss our concerns with you in more detail. If you have questions or would like to meet with us, please contact Heather Jerbi, the Academy's assistant director of public policy, at 202.785.7869 or Jerbi@actuary.org.

Sincerely,

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American Academy of Actuaries