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Peter Lee, Executive Director
California Health Benefit Exchange
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Dear Mr. Lee,

As a statewide multi-stakeholder leadership group, the Integrated Healthcare Association (IHA) promotes quality improvement, accountability and affordability of health care in California. We work to actively convene all healthcare parties – including hospitals, physician groups, and insurance carriers – for cross-sector collaboration on health care topics. All of the participants in our group are committed to the success of the California Health Benefit Exchange and the vision to increase the number of insured Californians, to improve health care quality and lower costs for all Californians, and to reduce health disparities through an innovative, competitive marketplace that empowers consumers to choose the health plan and providers that give them the best value.

Through our experience working to improve the quality and affordability of healthcare delivered in California, we have found that there are certain elements of insurance markets driven by consumer choice which affect the risk profile of insurance pools. The Affordable Care Act includes many provisions to assure both consumer choice and stable insurance markets; nonetheless, there remain legitimate concerns about risk selection that will require the intervention of policymakers to ensure a stable and balanced risk pool for certain insurance markets.

Specifically, IHA is concerned about the impact of the sudden compression of the age rating bands to 3:1, and urge that the Exchange Board take a series of steps to ensure that the individual market for health insurance has a balanced risk pool. To be perfectly clear, IHA is not objecting to the compression of rating bands, but has grave concerns about the potential negative consequences of an abrupt transition to the 3:1 ratio. Therefore, we are appealing for a better understanding of current age bands in California and, if necessary, the pursuit of a Federal waiver to transition to the 3:1 ratio over several years.

It is our understanding that in California the age rating bands are currently as broad as 7:1 and even higher in certain segments of the individual market. In this scenario, a sudden move to 3:1 means much lower rates for older consumers and much higher rates for younger consumers. Past experience

indicates that such an abrupt transition will result in a dramatic skew of enrollees resulting in an older average age and risk profile not substantiated by premiums. This presents a serious threat to the viability of the Exchange.

According to an analysis by Oliver Wyman,[1] a move to a 3:1 rating band will raise health insurance rates for individuals age 18-34 by 35-45% while lowering them only 12-13% for individuals from 55-64. Again, this will have a major impact of the number of younger people who participate in the individual market. According to a comprehensive literature review by Mathematica Policy Research, the price elasticity of health insurance on the individual market is estimated to be approximately -.4, and there is evidence that people are more sensitive to price fluctuations at lower income levels.[2] Therefore, a conservative estimate would be that enrollment by the "young invincible" consumers who are essential to maintaining a balanced risk pool will be 16% lower than it would have been due to the imposition of more restrictive age rating.

It has been suggested that the loss of some younger enrollees would be balanced out by the increase in enrollment among people in higher age categories that will benefit from the lower rates that are a result of the 3:1 banding. The risk profiles of these groups, however, are not even roughly comparable. According to National Health Expenditure data, the average healthcare spend in 2004 for a person in the 19-44 age range was $3,370 per year while it was $7,787 for a person in the 55-64 age range, approximately 130% higher. As the cost of health insurance is a function of the risk pool of the market, this is not a tradeoff that the Exchange should be excited to make.

We are writing this letter to give you data on this issue consistent with your value of being evidence-based in your decision-making. We suggest the following steps to help counterbalance the impact of the tightening of the age banding in the individual market in particular.

Specifically, the Exchange should:

1. **Analyze age rating in the current market –** We recommend that the Exchange hire an independent actuarial firm, or an existing sub-contractor, to objectively assess the current age banding practices in the individual insurance market in California to determine the impact that the 3:1 age banding restriction will have on prices for enrollees and hence participation in the market.

2. **Develop a glide path to the 3:1 age band ratio** - Based on the abovementioned analysis, use outside actuarial expertise to develop a recommended transition to the 3:1 ratio. For example, phase in the ratio such as 5:1 in 2014, 4:1 in 2015 and 3:1 in 2016.

[1] "Impact of Changing Age Rating Bands in 'America's Healthy Future Act of 2009,'" Oliver Wyman, September 28, 2009.
[2] Su Liu and Deborah Chollet, "Price and Income Elasticity of the Demand for Health Insurance and Health Care Services: A Critical Review of the Literature," Mathematica Policy Research, 2006.

3. **Work with California partners to request a phase-in of age banding from CMS** – There is clear precedent for CMS granting temporary waivers to certain elements of the Affordable Care Act, such as the Medical Loss Ratio requirement, if they are seen to be overly disruptive to the market as would be the case with the immediate move to 3:1 banding. State legislation aiming to reform the individual market would also have to conform to this new timeline. Navigating these hurdles would require considerable effort, but in our view may be essential to assure the viability of the California Health Benefit Exchange.

We understand the difficulty inherent in balancing the concerns of many different stakeholders across the state and we have been very impressed with how the Exchange has managed to handle this task to date. You have made enormous progress under very challenging circumstances, and your project could not be of greater public importance. We share your vision and mission, and suggest these strategies only in the service of the success of your greater project.

Sincerely,

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President and CEO
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cc: Kim Belshé, Public Policy Institute of California
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