AMERICAN ACADEMY of ACTUARIES

November 5, 2013

Subject: Implications of delaying the ACA individual mandate

Dear Senator/Representative

Should the U.S. House of Representatives/Senate move to consider legislation to delay the implementation of the Affordable Care Act's (ACA) individual mandate provision, and/or to extend its open enrollment period, the American Academy of Actuaries'[1] Health Practice Council would urge you to first consider the potential adverse consequences of such an action. Irrespective of your views of the ACA, the individual mandate and limited open enrollment periods are integral components of the law, and delaying their implementation could have significant implications for health insurance coverage and costs.

Without the individual mandate or limited open enrollment period, premiums would likely be higher than they would be otherwise. To ensure that people in poor health have access to health insurance, the ACA prohibits insurers from denying coverage or charging higher premiums to those with higher expected costs due to their health status. These prohibitions generally will result in an increase in average health insurance premiums. The individual mandate and limited open enrollment provisions were included in the ACA to offset, at least in part, these premium increases. By encouraging the young and the healthy, as well as the old and the sick, to obtain insurance coverage, these provisions will help ensure that insurance markets are viable and premiums are stable. Without the individual mandate and limited open enrollment period, premiums would likely be higher and more individuals would be uninsured than otherwise would occur without these provisions.

Approved premiums for 2014 are based on assumptions that the individual mandate and limited open enrollment period will be in place. Regulators already have approved the premium rates for 2014, and these premiums are based on the assumption that the individual mandate and limited open enrollment period will be in effect as specified by the ACA. If the individual mandate is delayed or the open enrollment period extended, individuals who purchase coverage likely would be higher-cost individuals; lower-cost individuals would have an incentive to delay purchasing coverage. The premiums approved for 2014, therefore, may not adequately cover the cost of providing benefits for an enrollee population with higher claims than anticipated in the premium calculations.

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[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.

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Costs to the federal government could increase as higher-than-expected average medical claims are more likely to trigger risk corridor payments. The ACA includes a temporary risk corridor mechanism that is used to mitigate the pricing risk that insurers face when they have limited data on health spending for potential enrollees. Under the ACA, the U.S. Department of Health and Human Services (HHS) will make payments to insurers if their losses exceed a certain threshold. If the individual mandate is delayed or the limited open enrollment period extended, the HHS risk corridor payments are more likely to be triggered since the approved premiums—which reflect the assumption that the individual mandate and limited open enrollment period will be in place—may be insufficient to cover the actual claims costs.

Delaying the individual mandate or extending the limited open enrollment period could increase premiums for 2015. Premiums for 2015 will reflect insurers' expectations regarding the composition of the risk pool—that is the health status and expected medical needs of those purchasing coverage. If the individual mandate is delayed or the open enrollment period extended, healthy and lower-cost individuals would be more likely to delay coverage, whereas less healthy and higher-cost individuals would be more likely to obtain coverage right away. This would affect not only the risk pools and insurance claims in 2014, but also those for 2015. Importantly, 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 delaying the individual mandate or extending the open enrollment period, the American Academy of Actuaries' Health Practice Council encourages policymakers to consider the implications of such a proposal as outlined above. If technical issues in the marketplace enrollment process persist over a longer period of time, however, it may be appropriate to revisit these options. 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