American Academy of Actuaries

Issue Brief

Drivers of 2022 Health Insurance Premium Changes

SEPTEMBER 2021

Key Points

- As more information is available on how COVID-19 has affected and could continue to affect health care spending, carriers are more likely to include adjustments in their 2022 rates. Nevertheless, those impacts are not expected to be material.
- Issues surrounding the pandemic continue to be a consideration for rate setting, including how the pandemic may affect regional variations in hospital utilization, the cost of vaccinations and need for booster shots, how and where members seek or delay medical care, and utilization for mental health services and telemedicine.
- Uncertainties remain regarding how the potential ending of the public health emergency and the enhanced premium subsidies available through the American Rescue Plan Act will affect plan enrollment and spending.

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The 2022 individual and small group health insurance premium rate filing process for carriers is well underway. Actuaries generally develop proposed premiums based on their projections of medical claims and administrative costs for pools of individuals or groups with insurance. Projected medical claims reflect unit cost and utilization levels, as well as the mix and intensity of services, all of which can vary by geographic area and from one health plan to another. Risk pool composition is also important, as medical claims reflect the health status of individuals in the risk pool. Relevant laws and regulations that govern various aspects of insurance plans—such as benefit requirements, issue and rating rules, and risk-mitigation programs—can affect the composition of risk pools and projected medical spending, as well as any amounts insurers need to include in premiums to cover the cost of taxes, assessments, and fees they will pay.

Each year, the American Academy of Actuaries Individual and Small Group Markets Committee publishes a public policy issue brief outlining the factors driving premium changes for the next plan year. For the 2021 rating cycle, the COVID-19 pandemic introduced new and significant uncertainties into the development of premium rates. In our observation, due to the high level of uncertainty, some carriers included no COVID-19 adjustments in the 2021 rates; however, other carriers included material COVID-19 adjustments. While much of those initial uncertainties have resolved, the 2022 rating cycle may see some related, secondary impacts of the pandemic such as the potential for ending of the public health emergency and the American Rescue Plan Act's (ARPA)[1] enhanced subsidies in some rate filings. Because there is more information on how COVID-19 has and could continue to affect health care spending, carriers are more likely to include adjustments in their 2022 rates. However, those impacts are not expected to be material.

1 https://www.congress.gov/bill/117th-congress/house-bill/1319?q=%7B%22search%22%3A%5B%22hr+1319%22%5D%7D&s=1&r=1

So, while more typical, non-COVID-19 impacts still apply, issues surrounding the pandemic continue to be considerations for rate setting and will impact both the individual and small group health insurance markets. Therefore, similar to the Academy's issue brief, *Drivers of 2021 Health Insurance Premium Changes: The Effects of COVID-19*, this year's issue brief examining 2022 premium changes will include the impacts of COVID-19 as well as secondary impacts.

COVID-19 Impact on 2020 Claims Experience

The Affordable Care Act (ACA) rate review process requires issuers to develop premium rates based on the most recent year of experience, which is two years prior to the pricing plan year. Adjustments are then applied to reflect expected differences in claim costs between the experience year and the pricing plan year. In the case of 2022 rates, the 2020 benefit year is, in most cases, being used by insurers as the experience period. Because this experience was significantly impacted by the COVID-19 pandemic, with the impact varying across the country, additional adjustments need to be considered. The following are some impacts of the pandemic observed by the committee with implications for 2020 claims experience:

- At the onset of the COVID-19 pandemic, utilization of many types of non-COVID-19 medical services decreased significantly because of stay-at-home orders and state and local closing and curtailment of non-essential services. Utilization of these non-COVID-19 nonessential / elective services started to increase in the summer of 2020 relative to the beginning of the COVID-19 pandemic but may still have been lower than pre-pandemic levels in many areas.
- In the fall of 2020, a sharp increase in COVID-19 hospitalizations required some health care systems to reduce non-emergency medical services to ensure inpatient hospitals had adequate staff and resources.
- The beginning of the COVID-19 pandemic saw an initial increase in utilization of prescription drug services due to early refills, however, the overall impact was much less pronounced relative to the impact on medical services.
- The direct costs associated with COVID-19 in 2020 were significant. Issuers incurred costs for the treatment of COVID-19 patients, including high-cost hospitalizations, as well as costs associated with COVID-19 testing.

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- Federal requirements were imposed on issuers to waive any member cost-sharing for COVID-19 testing. Many issuers subsequently chose to waive member cost-sharing for COVID-19 treatment, and some issuers chose to waive member cost-sharing on telehealth services.
- While telehealth services have been used to help fill in some of the service gaps in 2020 and 2021, there is still uncertainty as to whether telehealth will continue to replace certain office visits, whether 2022 treatment patterns will return to pre-COVID-19 levels, or somewhere in between. Prior to COVID-19, telemedicine services were typically reimbursed at a lower unit cost than similar in-office services. In some cases, providers are currently receiving the standard in-office payment rates, and changes to reimbursements may influence provider incentives relative to telemedicine. Additionally, telemedicine is not likely to be as comprehensive as an in-person visit for certain services, and as such could lead to increased utilization if it takes longer to identify and treat health conditions in this medium. There could also be increased utilization due to the convenience of telehealth compared to an office visit if providers begin to offer the option more broadly. The area where telehealth is expected to continue at higher levels than pre-COVID-19 is for mental health services.
- Several additional aspects of the COVID-19 pandemic likely impacted issuers' 2020 experience. Social distancing and mask mandates likely reduced spread of influenza and colds, decreasing the need for services associated with these illnesses.[2] There was also an increase in utilization of mental health services due to individuals being separated from their normal support systems and social interactions.

Drivers of 2022 Rate Changes

When developing 2022 health insurance rates, insurers are likely to consider multiple scenarios involving differing assumptions and may consider the following:

- Will new COVID-19 waves emerge later in 2021 (such as the delta variant) or in 2022, nationally or regionally?
- What are the impacts of the increases in deferred and avoided services including the underlying impacts to morbidity of these delays?
- What's is the cost of vaccines delivered in 2022?
- How does the need for booster vaccines, and their cost and availability impact 2022 rates?
- How do the following changes impact 2022 rates?
    - The changes to composition of the individual market due to premium credits, subsidies, changes in open enrollment periods and Medicaid changes.

2 "Decreased Influenza Activity During the COVID-19 Pandemic—United States, Australia, Chile, and South Africa"; *Morbidity and Mortality Weekly Report*; Centers for Disease Control and Prevention; Sept. 18, 2020.

· Changes to the composition of the small group market due to expiration of COBRA[3] subsidies and unemployment benefits and the movement to self-funded coverage.

Greater degrees of uncertainty could lead to more conservative assumptions and risk margins for some insurers. Alternatively, carriers might lower risk margins, seeing an opportunity to capitalize on the increased exchange enrollment due to the ARPA subsidies. In many states, health insurers are permitted to file updated rates on a quarterly basis in the small group market, which could reduce the need for conservatism. However, individual market rates are filed annually and cannot be updated during the calendar year.

Changes in Risk Pool Composition Due to Economic Impacts of COVID-19

Individual Market

The composition of the 2022 individual market is likely to be different than the underlying experience in 2020. The individual market enrollment increased by 5.8% from February 2020 to February 2021[4] and there may be further increases in the individual market into 2022 enrollment due to:

- *Larger premium tax credits available from ARPA for 2021[5] and 2022*—The ARPA increased advanced premium tax credits for all income brackets, including extending tax credits to those who earn over 400% of the federal poverty level (FPL). This will make individual coverage even more affordable across the board. In particular, consumers with incomes of less than 150% of the FPL qualify for a zero-premium silver plan.
- *Medicaid redeterminations resume*—There is an expectation is that the federal Public Health Emergency (PHE) will end before 2022. This will cause Medicaid eligibility redeterminations to resume, moving many people off Medicaid rolls and into either the individual market or the uninsured population.
- *ARPA COBRA premium subsidy ends*—The ending of the COBRA premium subsidy on Sept. 30, 2021, will mean that many former employees eligible for COBRA continuation coverage will no longer qualify for premium subsidies. When this financial support ends, many of those with COBRA coverage could move into the individual market or uninsured population.

These enrollment increases may be partially offset by individuals who leave the individual market, particularly individuals who become eligible for Medicaid or eligible for employer-sponsored insurance due to the economic recovery. This population movement could cause the underlying morbidity level of the individual pool to change. These

3 Consolidated Omnibus Budget Reconciliation Act.
4 *Health Coverage Under the Affordable Care Act: Enrollment Trends and State Estimates*; Assistant Secretary for Planning and Evaluation; U.S. Department of Health and Human Services; June 5, 2021.
5 There have been increased plan selections during 2021 due to the 2021 Special Enrollment Period (SEP). "2021 Marketplace Special Enrollment Period Report"; Centers for Medicare and Medicaid Services; June 14, 2021.

changes will depend on the on the characteristics of those leaving and those entering the market. For example, healthy uninsured individuals could be more likely to obtain coverage due to the increased subsidies available due to ARPA, including subsidies for those over 400% FPL who were previously not eligible for tax credits. However, those leaving the individual market because of obtaining employer-sponsored coverage may also be healthier than average given that individuals eligible for employer coverage are generally thought to be healthier than the average individual member. This exit could cause morbidity to increase. Moreover, coverage transitions can result in adverse selection. For instance, when individuals lose coverage, they must decide whether to purchase coverage, and less-healthy people are generally thought to be more likely to purchase coverage than healthy individuals. However, COVID-19 has highlighted the importance of having health insurance, so healthier individuals may be more likely to purchase coverage than in prior years.

Small Group Market

In contrast with the individual market, the ACA small group market should be relatively unaffected by ARPA as subsidy enhancements only apply to individual market coverage. Likewise, the formal end of the PHE should be less impactful. There may be some minor increase in uptake of coverage offered by small employers who have individuals who currently remain covered by Medicaid due to maintenance of effort provisions. COVID-19 has been cited as a reason for employees to stay out of the workforce, so the end of the PHE could potentially lead to a minor increase in employment as individuals may be less hesitant to enter the workforce.

The composition of the small group risk pool could also be affected when enhanced unemployment benefits expire, as these benefits can create incentives for some individuals to remain unemployed and not seek employment. Currently funded through Sept. 6, 2021,[6] the Pandemic Unemployment Assistance (PUA), Pandemic Unemployment Compensation (PUC), and the Pandemic Emergency Unemployment Compensation are federal assistance programs that broaden eligibility for unemployment benefits, increase the amount of unemployment benefits, and extend the length of unemployment benefits. Some have argued that that these programs are making it difficult to hire employees, especially for small businesses,[7] though there is mixed evidence about the degree to which this is happening. Once these programs end, some previously unemployed workers may seek employment and coverage under employer-sponsored plans may increase. However, several factors may dampen this increase:

- The percentage of small groups (SG) that offer health insurance coverage is much lower than that of the larger group market, hovering around 31%[8] compared to 97% for

6 "The American Rescue Plan"; U.S. Department of Labor.
7 "Small Business Economics Trends"; NFIB.
8 Table I.A.2: Percent of private-sector establishments that offer health insurance by firm size and selected characteristics: United States, 2019 (ahrq.gov)

- firms with 50 or more employees. This means that while small group employment will increase, enrollment in the ACA SG risk pool will increase by a smaller number.
- Sectors that have seen the largest reductions in jobs and greatest struggles in hiring are in many cases less likely to offer a full health benefits package, though it is unclear how much lower the offer rate is than the 31% for small employers overall.
- Level funded and other self-funded arrangements have grown in popularity, and increased employment may accelerate shifts to non-ACA compliant coverage.
- As the public health fears associated with the pandemic decreases, the economy continues to improve, and hiring increases, enrollment in small group coverage is likely to increase. At the same, the impact to small group morbidity is unknown but seems likely to be negligible because:
    - Employment and health are generally positively correlated, so the health status of workers who can get jobs should be similar in this regard to existing workers.
    - While there has been a significant reduction in health service utilization due to COVID-19, there has been little evidence of any change in morbidity of the market.

COVID-19 Treatments and Testing Costs

The 2020 COVID-19 experience and emerging 2021 experience have provided insurers with information on COVID-19 treatment costs. However, there is still uncertainty regarding 2022 treatment costs. The treatment costs and use of therapies could vary from historical experience as providers refine best practices and as the sociodemographic characteristics of those contracting COVID-19 shift over time. Costs will also vary by population due to the overall mix of case severity and differences in regional vaccination rates, resulting in variable hospitalization rates. If variants emerge rendering the vaccines less effective or experts determine the antibody response is less effective over time, the population may need vaccine booster shots at the expense of the insurer.

The cost of COVID-19 treatment may vary significantly by area. The largest determinant of COVID-19 treatment utilization and therefore cost is the percentage of the population that is vaccinated. The vaccinated percentage varies significantly by region and in some cases by county.

Medical Loss Ratio (MLR) Impacts

It has been widely reported that 2020 claims were below priced levels and premium rebates could be required under the MLR provisions of the ACA. The MLR calculation is a three-year average. Because 2018 and 2019 saw significant MLR rebates in the individual market, this could increase the potential for 2020 rebates as well. Issuers may consider projected MLR rebates when setting their 2022 rates, especially given the level

of MLR rebates expected for 2020. This consideration could be given additional weight if the issuers anticipate owing 2020 rebates given their expectations regarding the net impact of COVID-19. For instance, issuers could reduce the level of conservatism in rate filings to reduce the possibility of owing 2022 rebates. On the other hand, issuers may be less concerned about having rates that end up being too high, relying on the MLR to return any excess premiums to enrollees, particularly in markets where an issuer is able to maintain a competitive position without significant reduction to rates.

State-Based Considerations

Individual and group health insurance premiums are set at the state level, reflecting legislative and regulatory actions specific to a particular state. While several federal actions occurred over the past several years that directly impacted premiums (e.g., reducing the individual shared responsibility tax to zero, rescinding the health insurance industry fee), a few states are reversing these federal actions, while also adding new state insurance premium subsidies.

States that implemented their own individual mandates are California, New Jersey, Rhode Island, Vermont, and the District of Columbia. Requirements and penalties vary. Most mirrored the original federal requirement, yet Vermont's mandate currently has no penalty. For most of these states, these actions will likely have little impact on 2022 premiums, yet for California and New Jersey the impacts may be greater as each has relatively high subsidy-eligible uninsured rates (CA-11%, NJ-12%).[9] In addition, the California state risk pool could expand with a moderately positive impact on 2022/2023 premiums.

New Jersey implemented a new state health insurance subsidy in 2021.[10] The subsidy is being funded by a fee that took effect in 2021 on health insurance companies. This state fee would recover nearly 40% of the state's lost revenue associated with the federal health insurance providers fee.

Other states that implemented a health insurance assessment include Colorado, Delaware, Maryland, and New Mexico. Others, including Connecticut, are considering a similar effort.[11] The raised funds are being used to provide subsidized premiums, provide reinsurance support, or otherwise support the health insurance market. As such, the economic impact is to raise premiums for all while reallocating the savings to those targeted.

9 "State, County, and Local Estimates of the Uninsured Population: Prevalence and Key Demographic Features"; ASPE (hhs.gov).
10 "Governor Murphy Announces Launch of New State-Based Health Insurance Marketplace, Get Covered New Jersey" (nj.gov).
11 "CT health care reform stumbles as legislative session nears end" (ctmirror.org).

Provider Reimbursement Rates

As providers have faced financial difficulties during the COVID-19 pandemic, some providers have had some success negotiating higher payments from payers. While a portion of these payment increases may be temporary in nature, a portion of the increases could become permanent through renegotiation. These permanent increases could impact provider revenue streams beyond the period of the pandemic.

Summary

Rate setting in the ACA-compliant individual and small group markets is complex, and pricing actuaries are considering a wide range of factors when determining rate levels. The 2022 health insurance premium rate filing process is underway, and how 2022 premiums will differ from those in 2021 depends on many factors. When developing 2022 health insurance rates, insurers are likely to project claims under multiple scenarios due to the uncertainty underlying the COVID-19 pandemic.

New COVID-19 variants and waves in 2021 or 2022 may influence regional variations in hospitalization utilization, increase the need for vaccine booster shots, and impact how and where members seek or delay medical care. Additionally, changes in the utilization of certain types of services such as mental health and telemedicine could affect expected claim costs.

There is evidence that some essential services were deferred during 2020.[12] This deferral of services means that individuals with chronic conditions could see a degradation of their health status, resulting in higher future costs on a per-member basis. In addition, many preventive services such as vaccinations and cancer screenings were being avoided, which could lead to increased future illness or condition severity in future years.[13] In late 2020 and continuing in 2021, insurers experienced increased utilization by members who had been deferring or avoiding services in the first half of 2020.

Economic factors, including the loss of some or all of household income, as well as increased childcare and home-schooling responsibilities, put significant strain on household mental health. Alcohol use increased as a response to isolation caused by the pandemic,[14] which could increase the need for substance use disorder services. In addition, health-related factors also contribute to patient stress. Beyond the increased general worry about health, patients who spend long periods of time on ventilators are

12 "KFF Health Tracking Poll-May 2020: Impact of Coronavirus on Personal Health, Economic and Food Security, and Medicaid"; Henry J. Kaiser Family Foundation; May 27, 2020.
13 See for instance "Vaccine Rates Drop Precipitously as Patients Avoid Doctor's Visits"; *New York Times*; April 23, 2020; "Association of Cancer Screening Deficit in the United States With the COVID-19 Pandemic"; *JAMA Oncology*; April 29, 2021; "Decline in Child Vaccination Coverage During the COVID-19 Pandemic—Michigan Care Improvement Registry, May 2016–May 2020"; *Morbidity and Mortality Weekly Report*; May 22, 2020.
14 Caren Chesler; "As Pandemic and Stay-at-Home Orders Spread, So Does Alcohol Consumption"; Washington Post; April 2, 2020; "Binge Drinking in US Adults Linked With Isolation During the COVID-19 Pandemic"; *Psychiatry Advisor*; Feb. 5, 2021.

showing signs of post-traumatic stress disorder (PTSD). Mental health services may continue to be in more demand. The mental health impacts of COVID-19 seen in 2020 as discussed previously have resulted in a general increase in anxiety, depression, and use of alcohol or other substances, which may result in increased short- or long-term mental health service needs continuing into 2021 and 2022.

The economic impacts of COVID-19 are causing shifts in insurance enrollment along with changes in the risk pool composition related to these shifts. While new information continues to emerge regarding the epidemiological, economic, and health care impacts of this pandemic, there is still a wide range of potential effects on 2022 health insurance premiums.