

Testimony Before The House Oversight and Government Reform Committee

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Obamacare's Impact on Premiums and Provider Networks

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Written Statement

Chairman Issa, Ranking Member Cummings, and members of the Oversight Committee: thanks for inviting me to speak with you today about the Affordable Care Act.

My name is Avik Roy, and I'm a Senior Fellow at the Manhattan Institute for Policy Research, in which capacity I conduct research on health care and entitlement reform.

I am an advocate of market-based universal coverage. I believe that the wealthiest country in the world can, and should, strive to protect every American from financial ruin due to injury or illness. Furthermore, I believe that well-designed, subsidized insurance marketplaces are among the most attractive vehicles for achieving these goals.

It is for these reasons that I am deeply concerned about the way in which the ACA's insurance exchanges have been designed and implemented. Most of all, I'm concerned that the law will drive up the cost of health insurance, especially for people who shop for coverage on their own.

The Manhattan Institute study: Underlying premiums increase by an average of 41%

As you know, the ACA makes substantial changes to the individual health insurance market. The law broadly bars insurers from charging different rates to the sick and the healthy, and requires insurers to raise rates on younger individuals in order to partially

subsidize care for the old. It mandates that insurers cover a broad range of services that individuals might not otherwise choose to purchase. The law taxes premiums, pharmaceuticals, and medical devices in a manner that has the net effect of increasing the cost of insurance.

Earlier this month, I and two colleagues at the Manhattan Institute completed the most comprehensive study to date of individual-market premiums in 2014 relative to 2013. The analysis can be found here:

<http://www.forbes.com/sites/theapothecary/2013/11/04/49-state-analysis-obamacare-to-increase-individual-market-premiums-by-avg-of-41-subsidies-flow-to-elderly/>

We examined the five least-expensive plans available in the individual market for every county in the United States, averaged their premiums, and adjusted the result to take into account those who, due to pre-existing conditions, could not purchase insurance at those rates. We examined premiums for 27-, 40-, and 64-year old men and women.

We then compared those rates to the comparable ones on the ACA exchanges. Our analysis found that the average state will see a 41 percent increase in underlying premiums, prior to the impact of subsidies. Among the states seeing large increases are Nevada (179%), New Mexico (142%), North Carolina (136%), Vermont (117%), and Georgia (92%). Our analysis did find that eight states will see average premiums decrease under the law, including Massachusetts (-20%), Ohio (-21%), and New York (-40%).

Of the six categories we studied, 27-year-old men face the steepest increases, with an average hike of 77 percent. 40-year-old women see the mildest increases, with an average of 18 percent.

Subsidies will mainly benefit the elderly

We also studied the impact of the law's premium assistance payments on exchange premiums. Our analysis found that, for individuals of average income, taxpayer-funded insurance subsidies primarily flow to those nearing retirement. This is because the elderly will still pay more for insurance, on average, than younger individuals, and because the subsidies are designed to fix the percentage of one's income devoted to paying health insurance premiums.

Taking subsidies into account, 64-year-old men will pay on average 19 percent less for insurance under the ACA system, whereas 27-year-old men will pay 41 percent more.

Adverse selection is likely to occur

The Manhattan Institute analysis indicates that we are indeed likely to see a fair amount of adverse selection on the exchanges. People who consume an above-average amount of health care services, such as sicker and older individuals, have a compelling economic incentive to enroll on the ACA marketplaces. Healthier and younger individuals have less of an incentive, even when one takes the individual mandate into account.

While many in the press are focused on the exchange enrollment figures that HHS released yesterday, what's more important than the *number* of people who enroll in the exchanges is the *composition* of the people who enroll in the exchanges. This will give us a sense of whether or not marketplace premiums are likely to further increase in 2015 and 2016, exacerbating the problem of adverse selection.

H.R. 3362, the Exchange Information Disclosure Act, would require HHS to provide weekly updates on exchange enrollment statistics. A greater degree of transparency and regular disclosure from HHS would be a desirable outcome. I would encourage the Oversight Committee to consider the importance of requiring HHS to disclose the kind of information that would help us monitor adverse selection; that is to say, indicators of health status, such as age.

Higher deductibles and narrower networks

Our analysis did not directly examine the degree to which exchange-based plans have higher deductibles and narrower provider networks relative to plans available in 2013. There have been, however, many anecdotal reports of people paying higher premiums for plans with higher deductibles and narrower physician networks than the plans they previously enjoyed.

In particular, prestigious academic medical centers that specialize in the most complex cases, and the rarest diseases, tend to provide costlier care than the typical American hospital. These facilities have been mostly excluded from exchange-based provider networks.

It is not inherently a bad thing for individuals to choose plans with higher deductibles and narrower networks, especially if those choices allow Americans to reduce their monthly premiums. In theory, by encouraging price competition among health care providers, exchanges could exert a downward pressure on overall health costs.

The problem is that, in the case of the ACA, many individuals are reporting higher premiums for less attractive health coverage, in a way that will, all in all, increase national health spending.

It would be one thing if the ACA was forcing Americans off of their old health insurance policies and offering them more attractive plans at a lower price. But millions of Americans are likely to see less attractive coverage at a higher price. If they do, then the Affordable Care Act will not live up to its name, and its goal of near-universal coverage will remain unfulfilled.

I look forward to your questions, and to being of further assistance to this committee.

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For a further discussion of narrow networks in the ACA exchanges, please read the following:

<http://www.forbes.com/sites/theapothecary/2013/09/24/yes-obamacares-exchanges-will-narrow-your-choice-of-doctors-and-thats-a-good-thing/>

Avik Roy

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Roy is a Senior Fellow at the Manhattan Institute. In 2012, Roy served as a health care policy adviser to Mitt Romney. He is editor and principal author of [The Apothecary](#), the influential *Forbes* blog on health care policy and entitlement reform. MSNBC's Chris Hayes calls *The Apothecary* "one of the best takes from conservatives on that set of issues." Ezra Klein of the *Washington Post* [calls](#) *The Apothecary* one of the few "blogs I disagree with [that] I check daily."

In addition, Roy writes a weekly column for *National Review Online* on politics and policy. He is a [frequent guest](#) on television news programs, including appearances on Fox News, Fox Business, MSNBC, CNBC, Bloomberg, PBS, and HBO. His work has also appeared in *The Atlantic*, *USA Today*, *National Affairs*, and *The American Spectator*, among other publications.

At the Manhattan Institute, Roy's research interests include the Affordable Care Act, universal coverage, entitlement reform, international health systems, and FDA policy. Roy is the founder of Roy Healthcare Research, an investment research firm in New York. Previously, he served as an analyst and portfolio manager at Bain Capital, J.P. Morgan, and other firms.

He was born and raised near Detroit, Michigan, and graduated from high school in San Antonio, Texas. *USA Today* named him to its All-USA High School Academic First Team, honoring the top 20 high school seniors in the country. Roy attended the Massachusetts Institute of Technology, where he studied molecular biology, and the Yale University School of Medicine.

Committee on Oversight and Government Reform
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1. Please list any federal grants or contracts (including subgrants or subcontracts) you have received since October 1, 2010. Include the source and amount of each grant or contract.

None

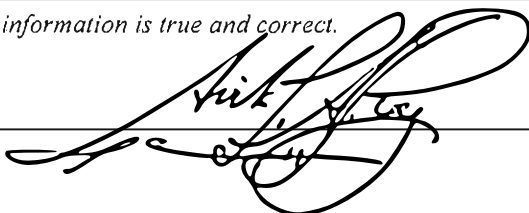
2. Please list any entity you are testifying on behalf of and briefly describe your relationship with these entities.

None

3. Please list any federal grants or contracts (including subgrants or subcontracts) received since October 1, 2010, by the entity(ies) you listed above. Include the source and amount of each grant or contract.

None

I certify that the above information is true and correct.
Signature: _____



Date: December 8, 2013