

Assessing the Implications of Moving to Modified Community Rating in the New Jersey Individual Health Coverage Program

Application of a Simulation Model

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To inform support and stimulate sound and creative state health policy in New Jersey and around the nation

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Outline

- **Background**
 - Policy Context and IHCP Trends
- **Modified Community Rating Simulation**
 - Goal
 - Approach
 - Findings
- **Discussion**

Policy Context

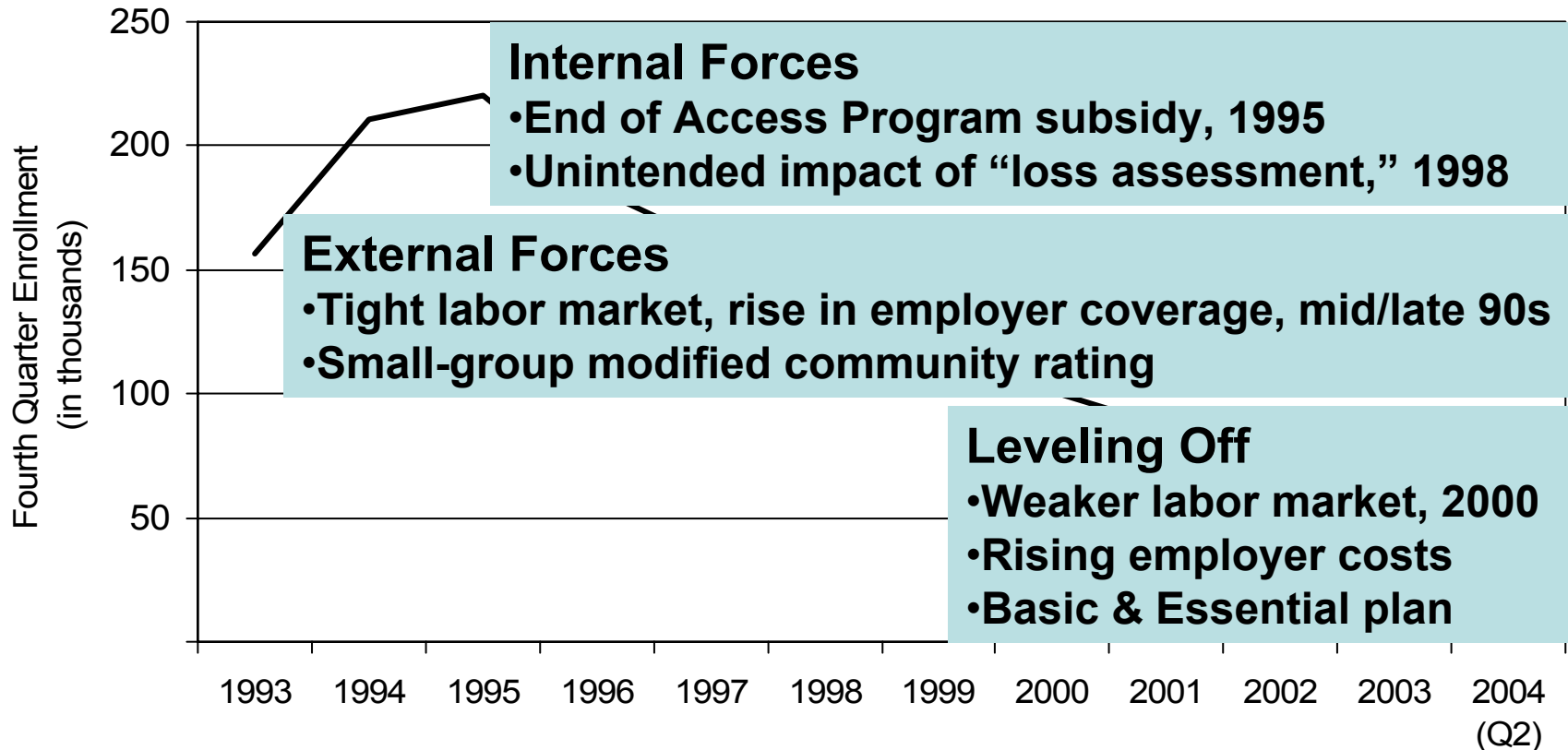
- **Prior to 1992**
 - BCBS plan and non-group market failing
 - Courts overturn subsidy mechanism (hospital rates)
 - Significant support for introducing market forces
- **1992 Reforms**
 - Individual Health Coverage Program (IHCP)
 - Pure community rating, open enrollment
 - Standard plans
 - Carrier loss assessment mechanism
 - Small Employer Health Benefit Program (SEHBP)
 - Modified community rating
 - Semi-standard plans

IHCP Trends

- **Enrollment decline, 1995-2002**
- **High premium growth**
- **Market segmentation**
- **Adverse risk retention**
- **Enrollment stabilized, 2002**

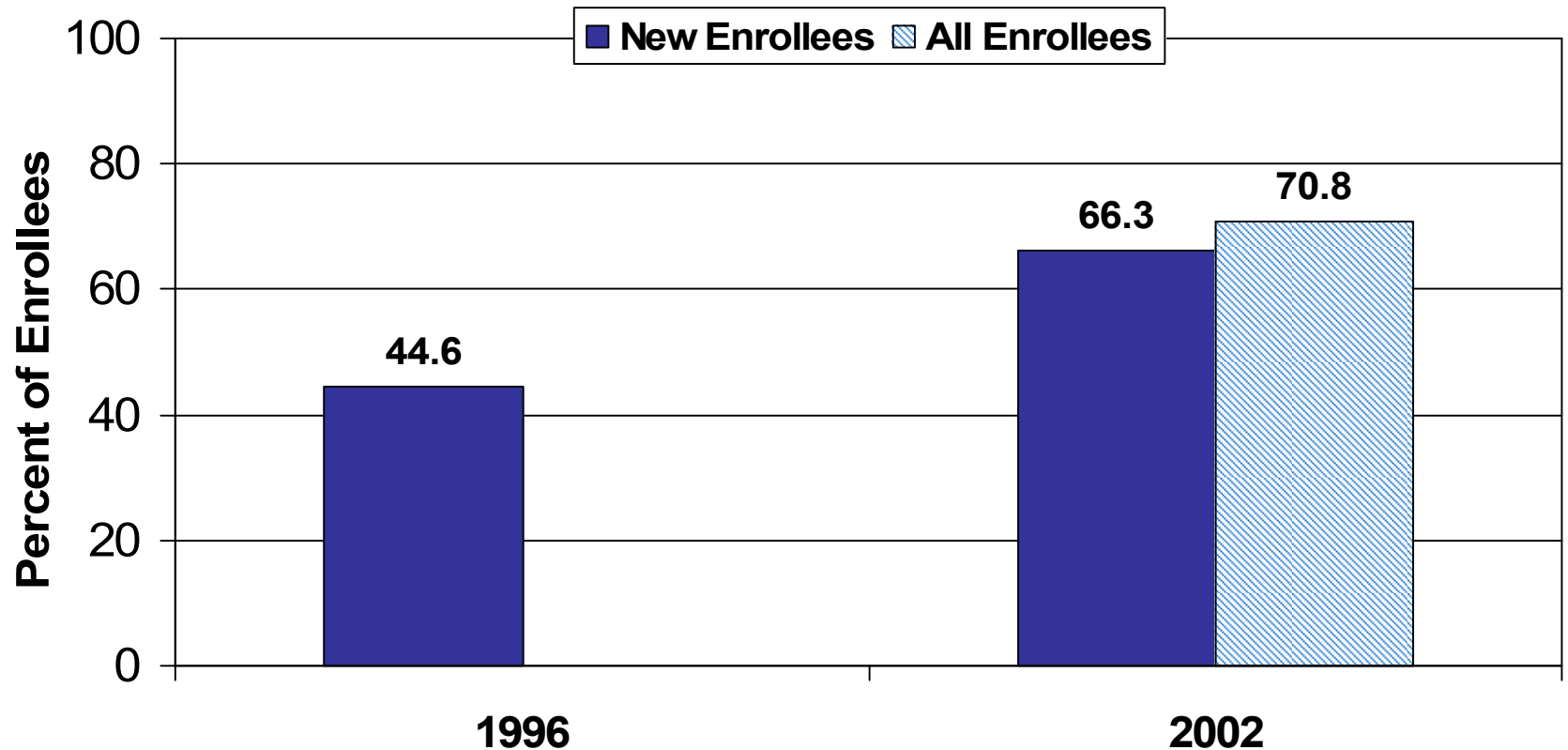
Source: Monheit AC, Cantor JC, Koller M and Fox K. "Community Rating and Sustainable Individual Health Insurance Markets: Trends in the New Jersey Individual Health Coverage Program." *Health Affairs*, 23:4 (July/August 2004) 167-175.

Figure 1: Declining enrollment in the New Jersey Individual Health Coverage Program



Source: New Jersey Individual Health Coverage Program Administrative Data

Figure 2: Percentage of older (age 45-64) IHCP enrollees grew



Sources: 1996 data from Swartz and Garnick and 2002 data from NJ Family Health Survey, IHCP Supplement

Simulation Goal

Assess the likely impact of modified community rating on IHCP premiums and enrollment.

Simulation Approach

- **Simplifying assumptions**
 - Limit to non-elderly adults (21-64)
 - Single coverage only
- **Apply formal rule to determine individuals' decisions to participate or withdraw from coverage**
 - Compare *projected willingness to pay* (person's expected plan payout plus "risk premium") to *projected premiums* (expected plan payout in rating cell plus 25%)
- **Apply affordability constraint**
 - Assume no person pays >10% of family income for coverage
- **Compare implications of alternative policy scenarios and underlying assumptions**

Data Sources

- **New Jersey Family Health Survey (NJFHS)**
 - Total of families in NJFHS (2001), 500 uninsured individuals
 - Supplemental survey of IHCP subscribers (2002), 701 IHCP enrollees
- **2000 Medical Expenditure Panel Survey (MEPS)**
 - Used to develop model of health plan payout
 - Payout estimates projected for NJFHS populations

Policy Scenarios

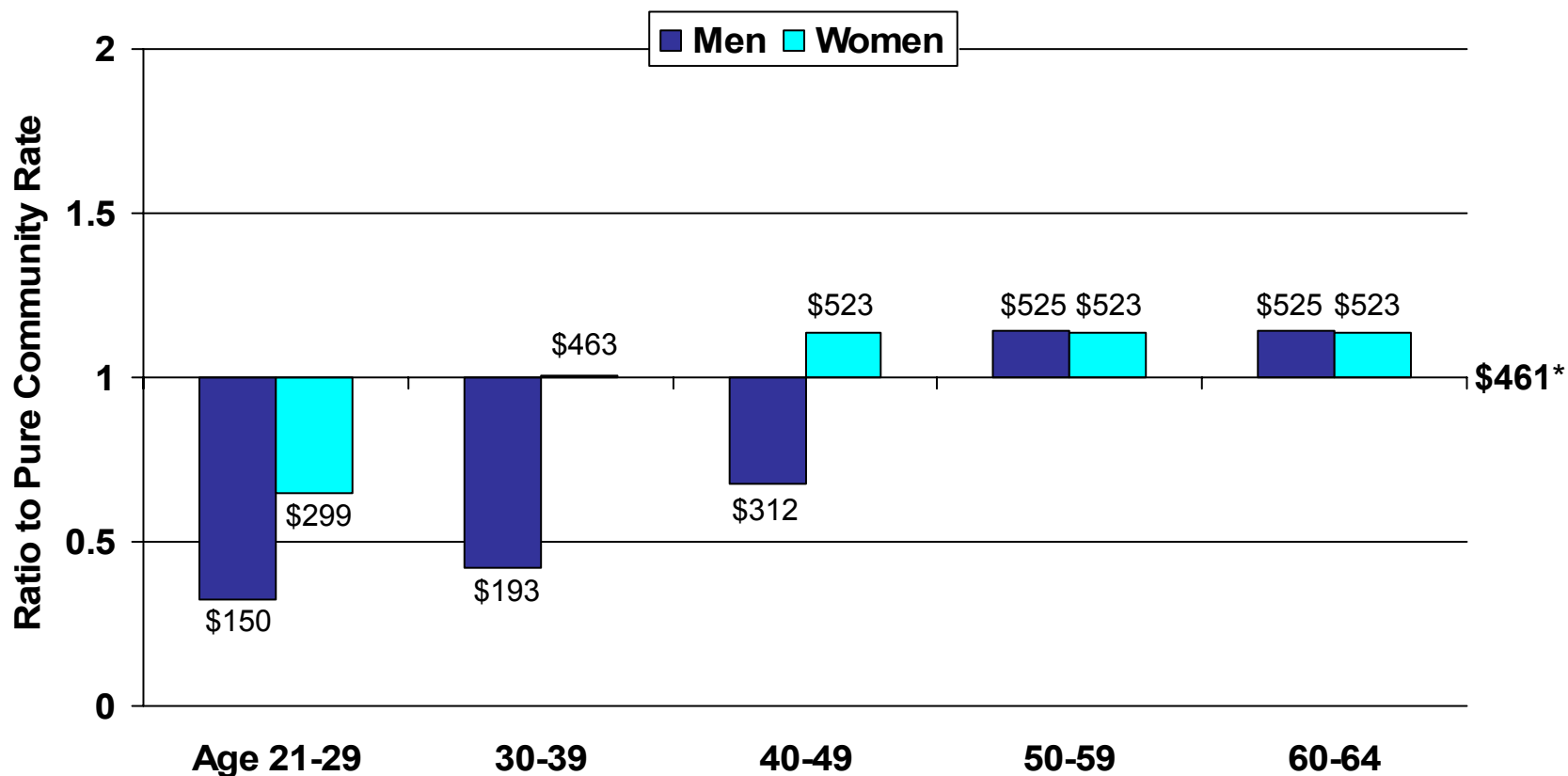
1. Age-Gender Rating; 3.5 to 1 Rate Bands
2. Age-Only Rating; 3.5 to 1 Rate Bands
3. Age-Gender Rating; 5 to 1 Rate Bands

Simulation Findings

Impact of Modified Community Rating on:

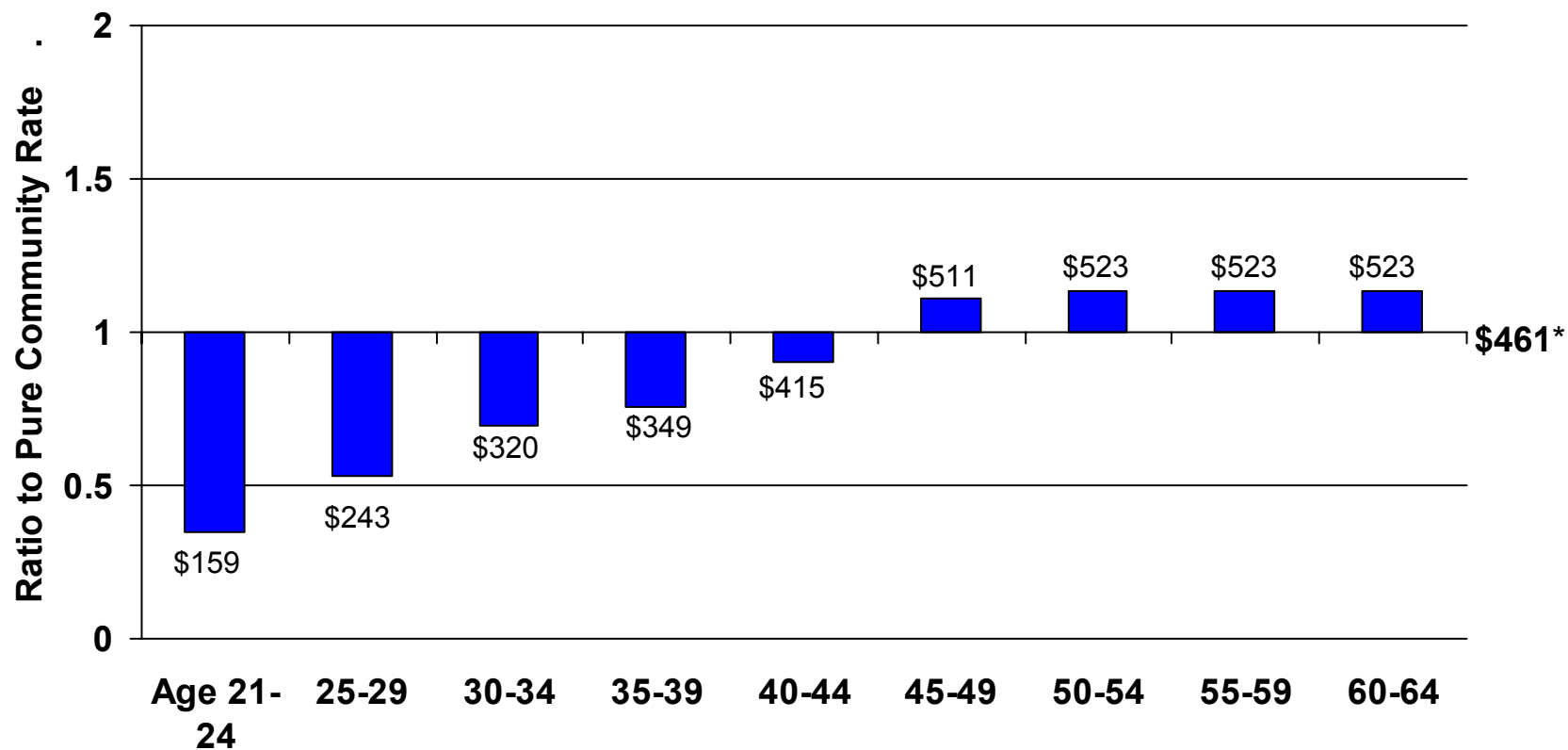
- Premiums by rating category
- Enrollment, total and by rating category
- Characteristics of enrolled population
- Impact of alternative assumptions

Figure 3: Change in IHCP monthly single adult premiums under Scenario 1 (3.5 to 1 bands with age-gender rating)



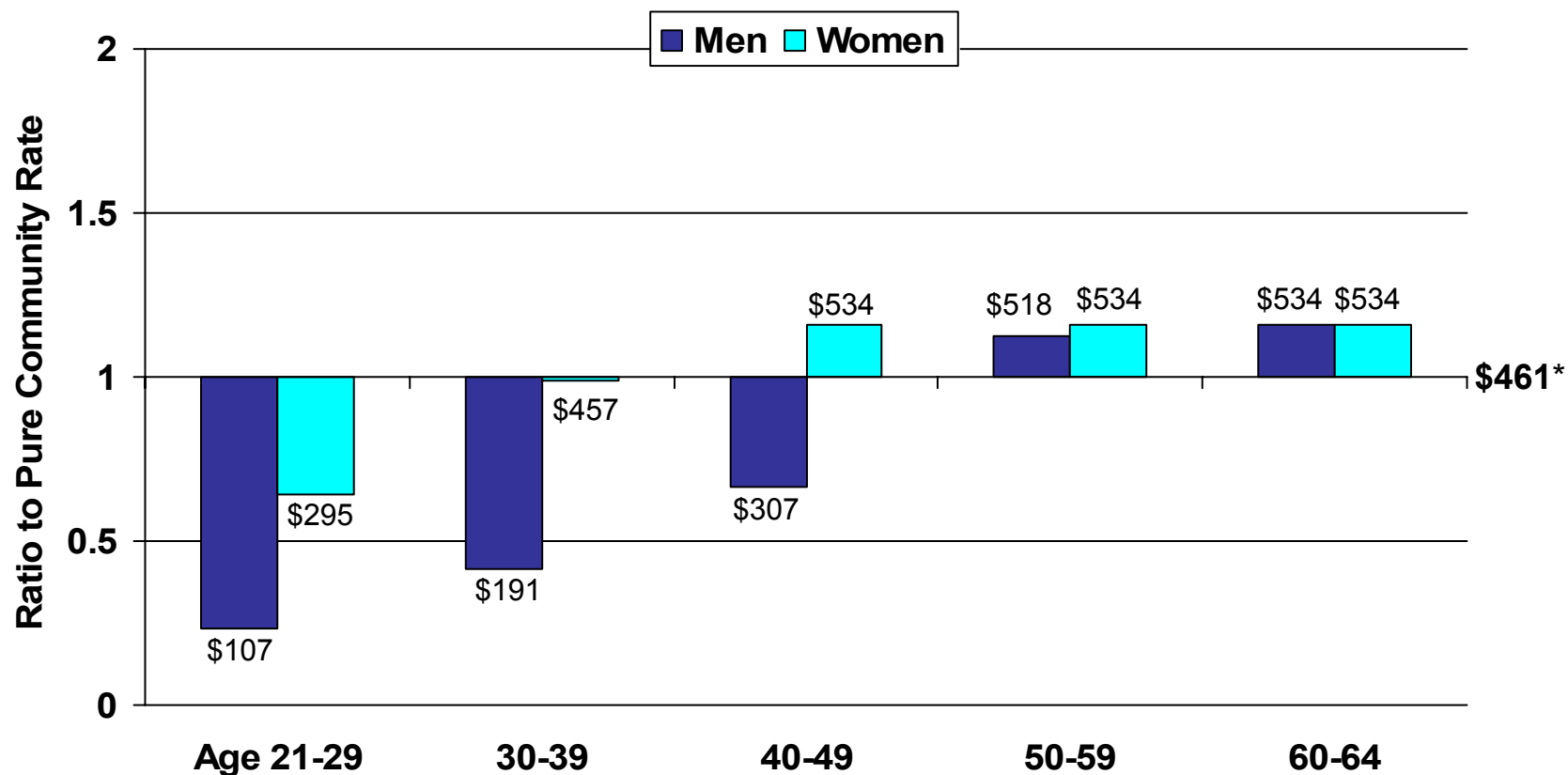
Source: Rutgers Center for State Health Policy, New Jersey Individual Health Insurance Market Simulation Model
 *Monthly premium for the lowest cost HMO in the NJ IHCP with a \$15 copay (October, 2004).

Figure 4: Change in IHCP monthly single adult premiums under Scenario 2 (3.5 to 1 bands with age-only rating)



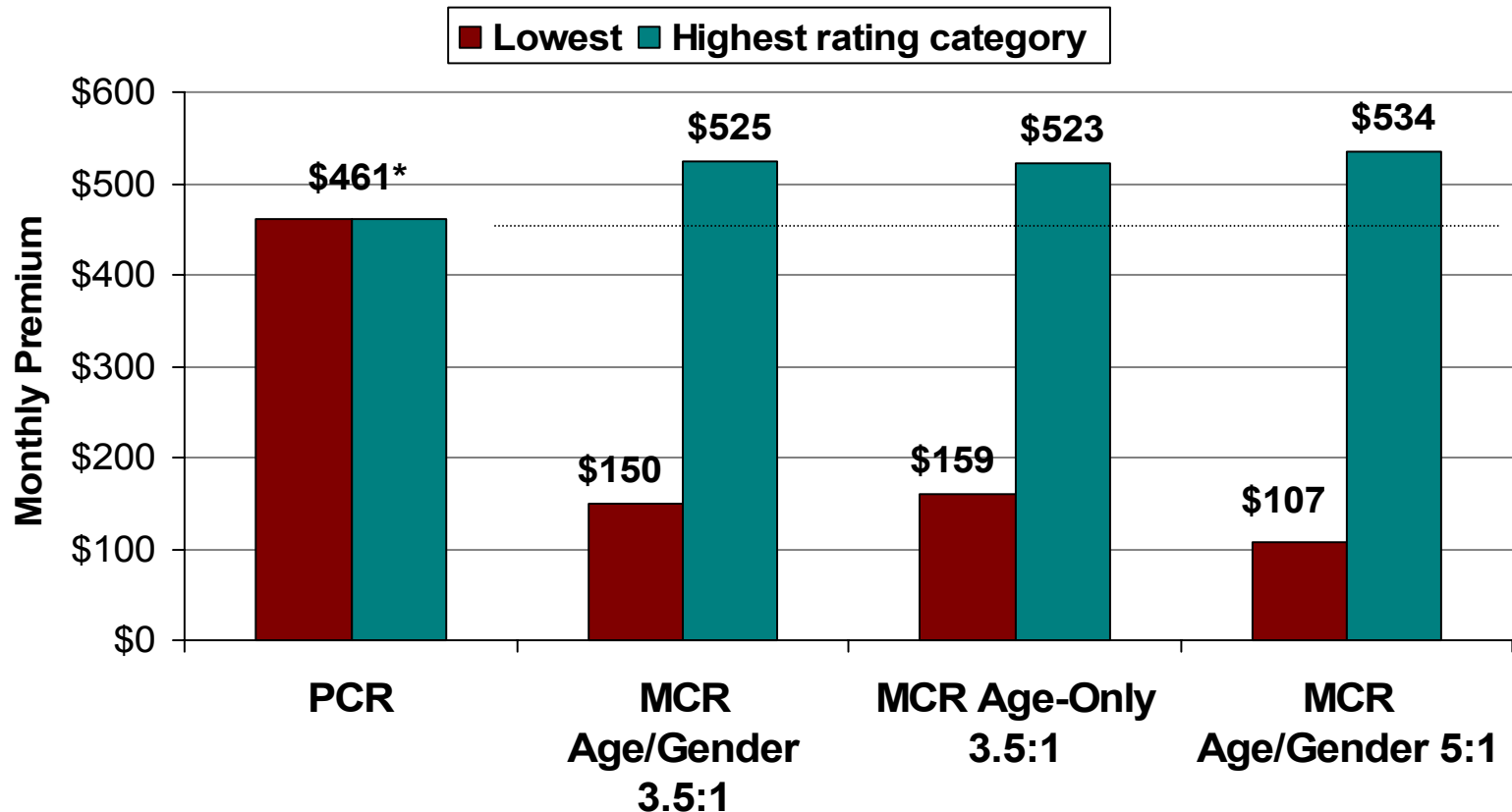
Source: Rutgers Center for State Health Policy, New Jersey Individual Health Insurance Market Simulation Model
 *Monthly premium for the lowest cost HMO in the NJ IHCP with a \$15 copay (October, 2004).

Figure 5: Change in IHCP monthly single adult premiums under Scenario 3 (5 to 1 bands with age-gender rating)



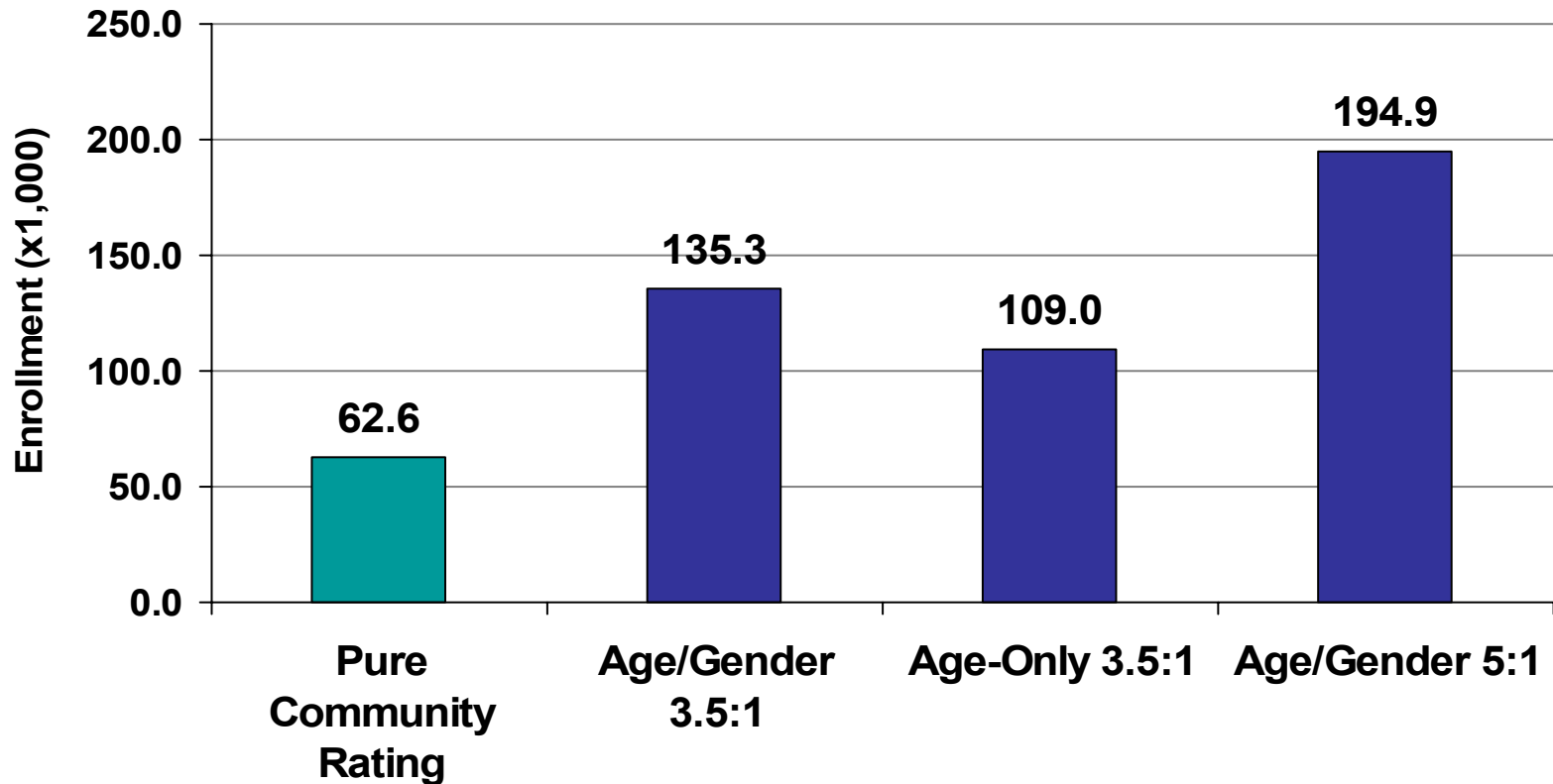
Source: Rutgers Center for State Health Policy, New Jersey Individual Health Insurance Market Simulation Model
 *Monthly premium for the lowest cost HMO in the NJ IHCP with a \$15 copay (October, 2004).

Figure 6: IHCP monthly single adult premiums under alternative simulation scenarios



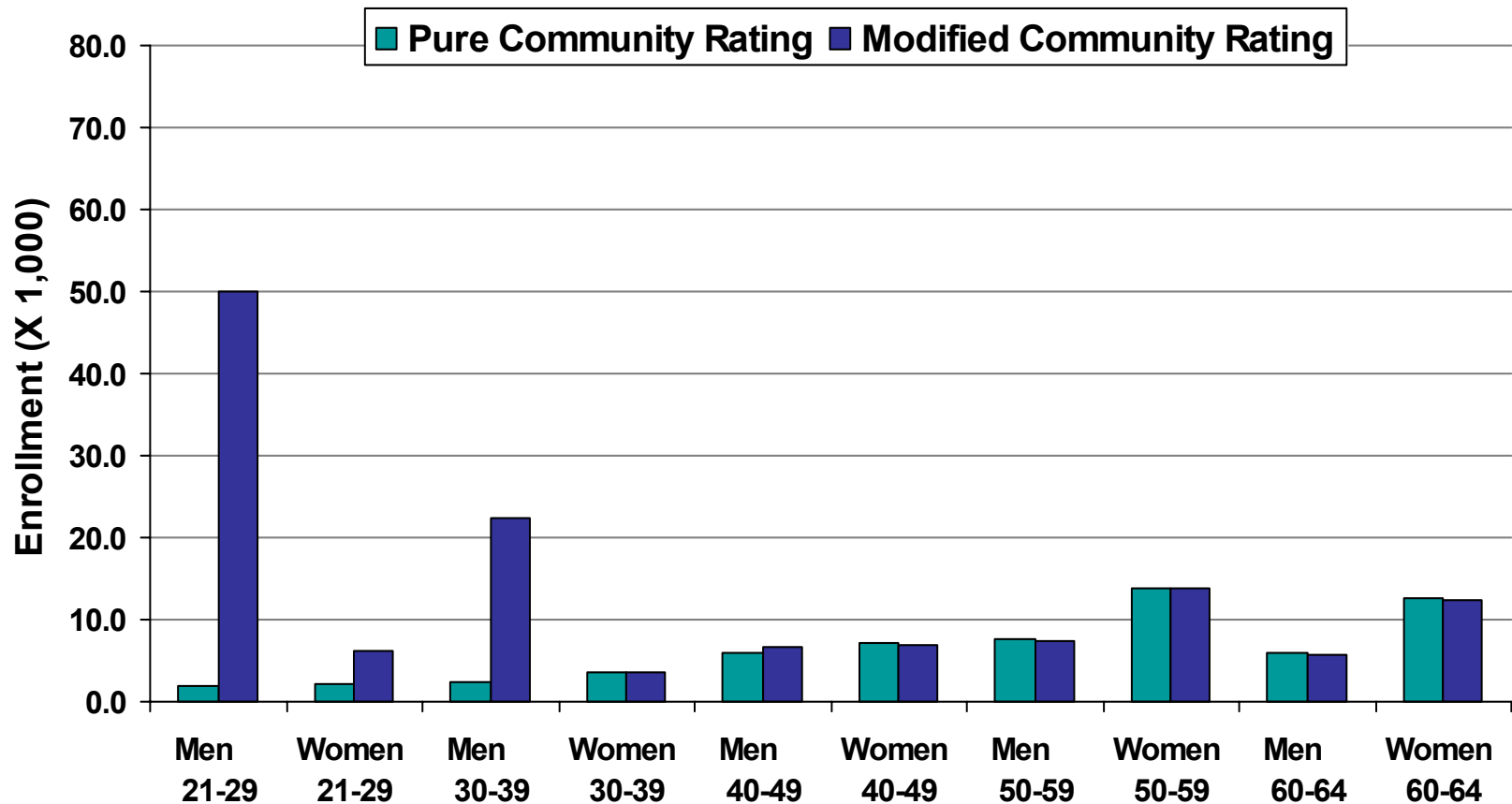
Source: Rutgers Center for State Health Policy, New Jersey Individual Health Insurance Market Simulation Model
 *Monthly premium for the lowest cost HMO product in the NJ IHCP (\$15 copay plan in October, 2004).

Figure 7: Total adult IHCP enrollment under alternative simulation scenarios



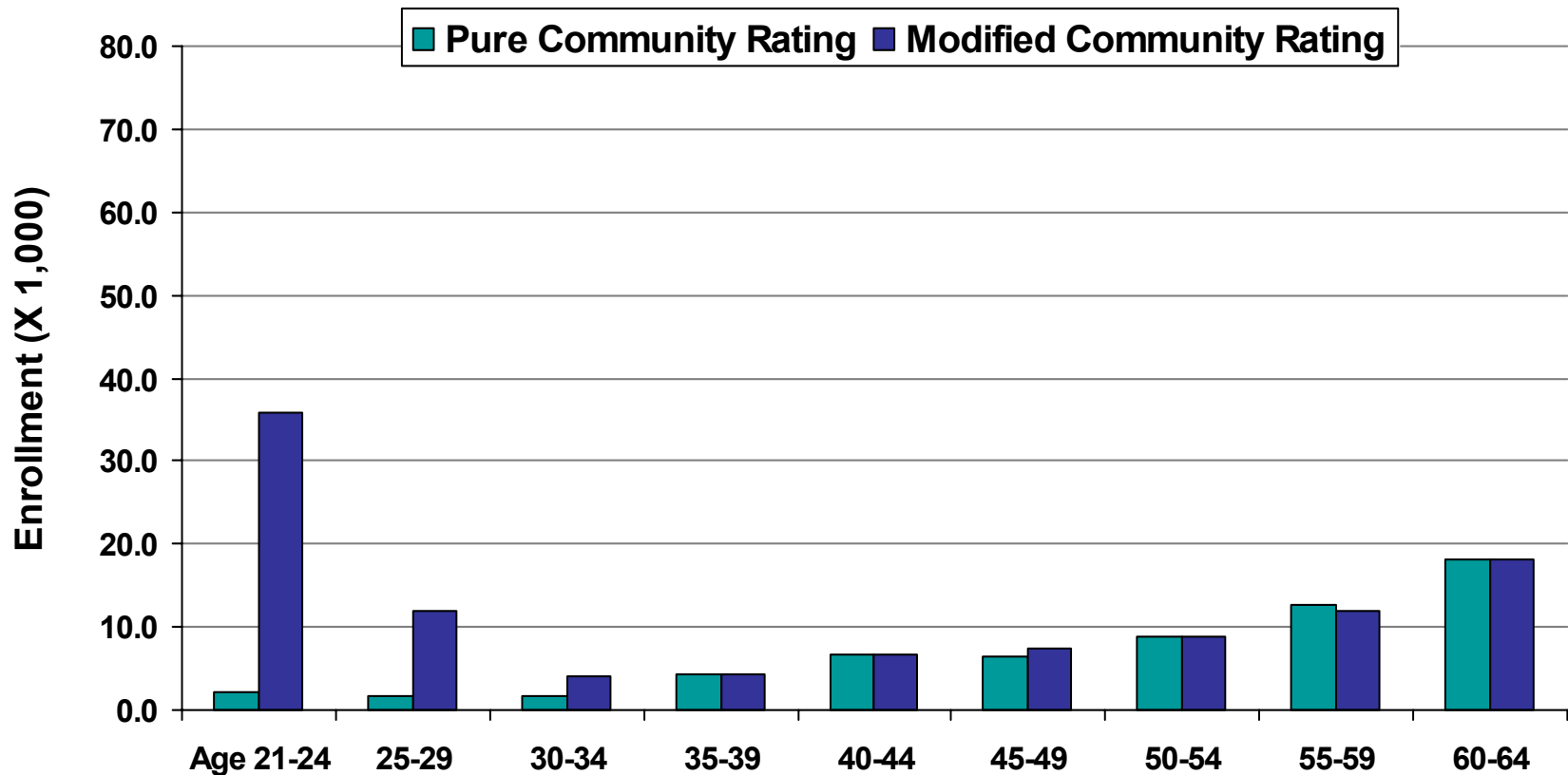
Source: Rutgers Center for State Health Policy, New Jersey Individual Health Insurance Market Simulation Model
Note: Limited to four of the five largest carriers, representing 95% of total covered lives

Figure 8: Adult IHCP enrollment under pure community rating and Scenario 1 (3.5 to 1 bands with age-gender rating)



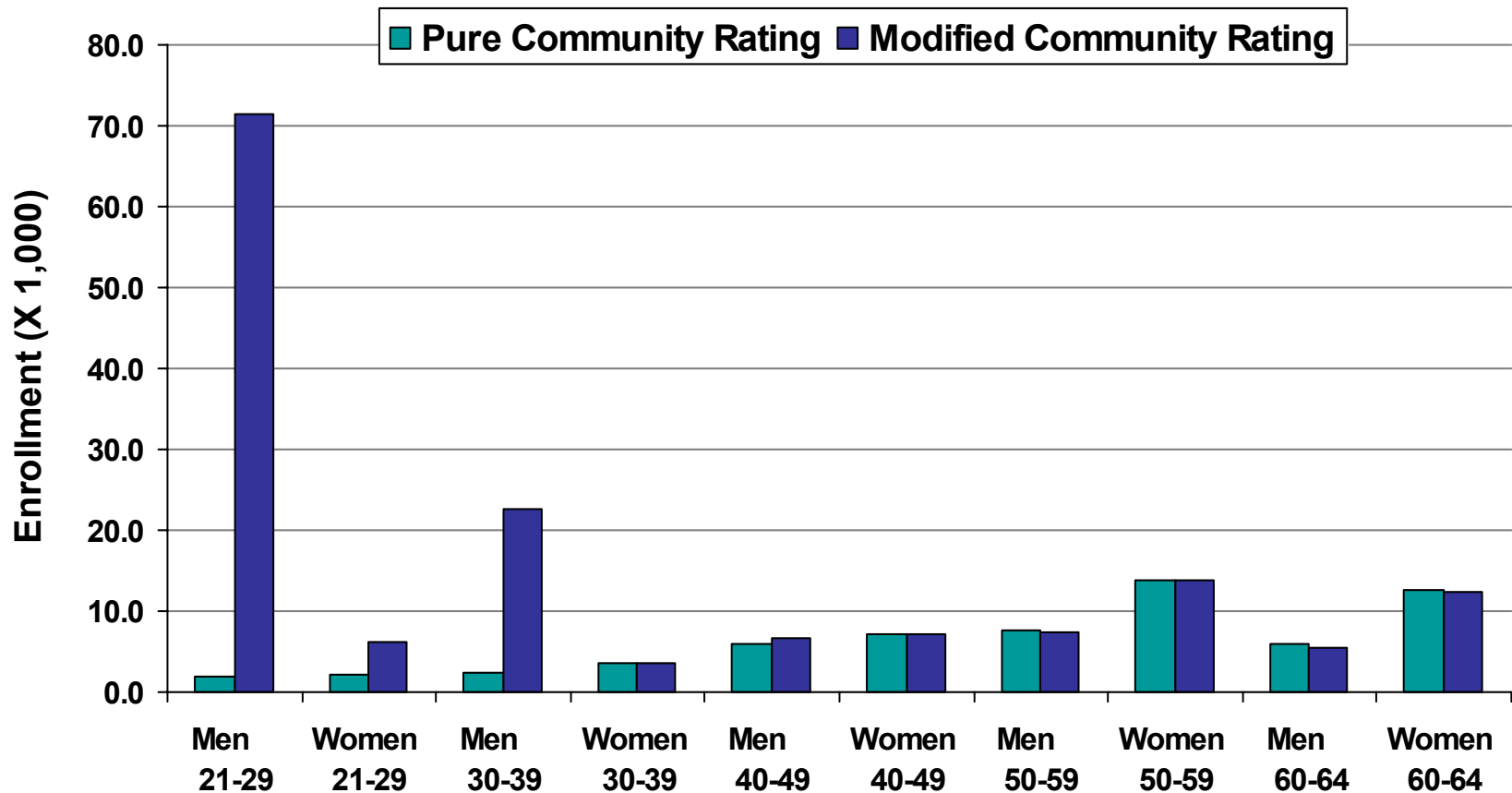
Source: Rutgers Center for State Health Policy, New Jersey Individual Health Insurance Market Simulation Model
 Note: Limited to four of the five largest carriers, representing 95% of total covered lives

Figure 9: Adult IHCP enrollment under pure community rating and Scenario 2 (3.5 to 1 bands with age-only rating)



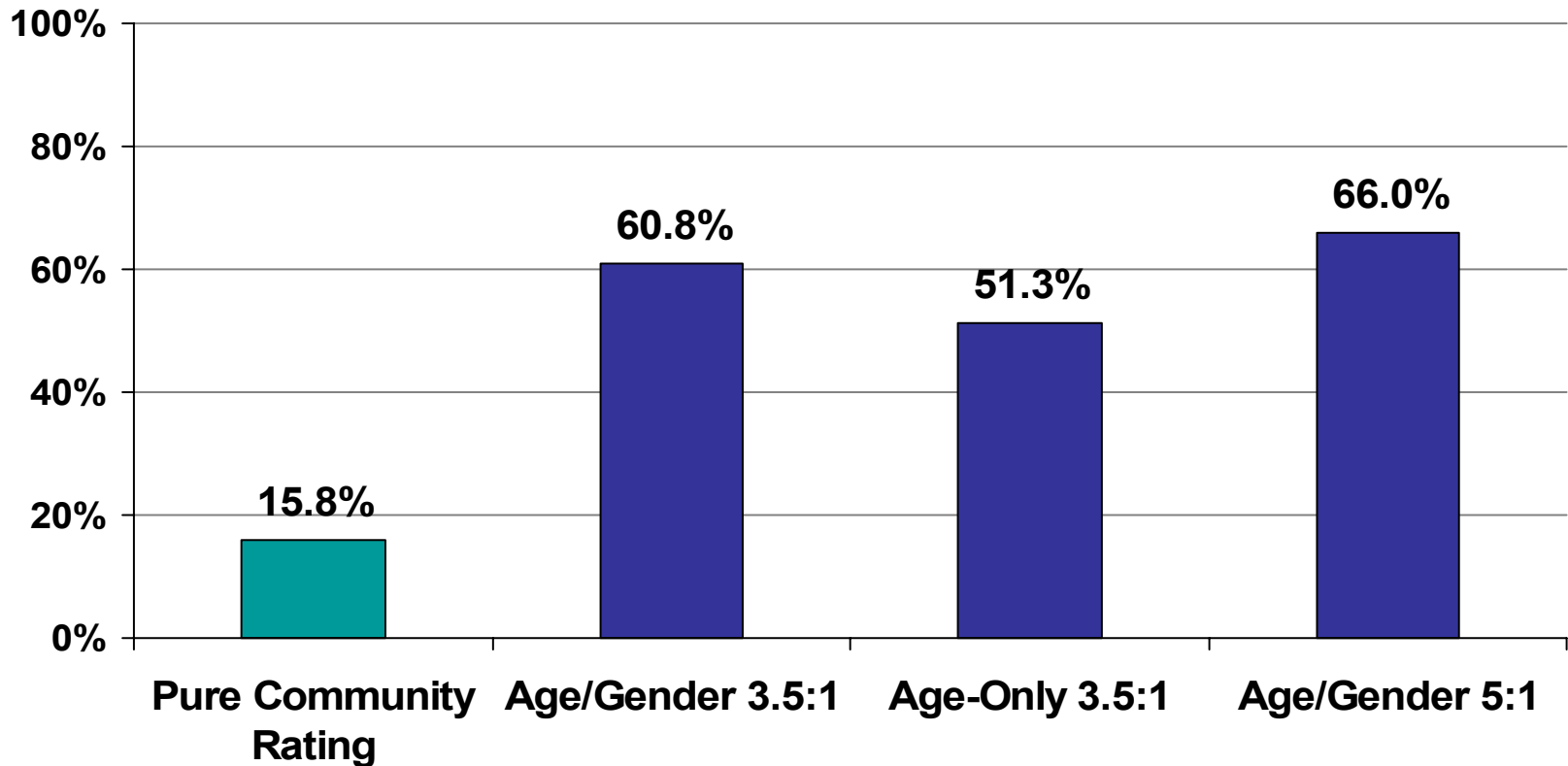
Source: Rutgers Center for State Health Policy, New Jersey Individual Health Insurance Market Simulation Model
 Note: Limited to four of the five largest carriers, representing 95% of total covered lives

Figure 10: Adult IHCP enrollment under pure community rating and Scenario 3 (5 to 1 bands with age-gender rating)



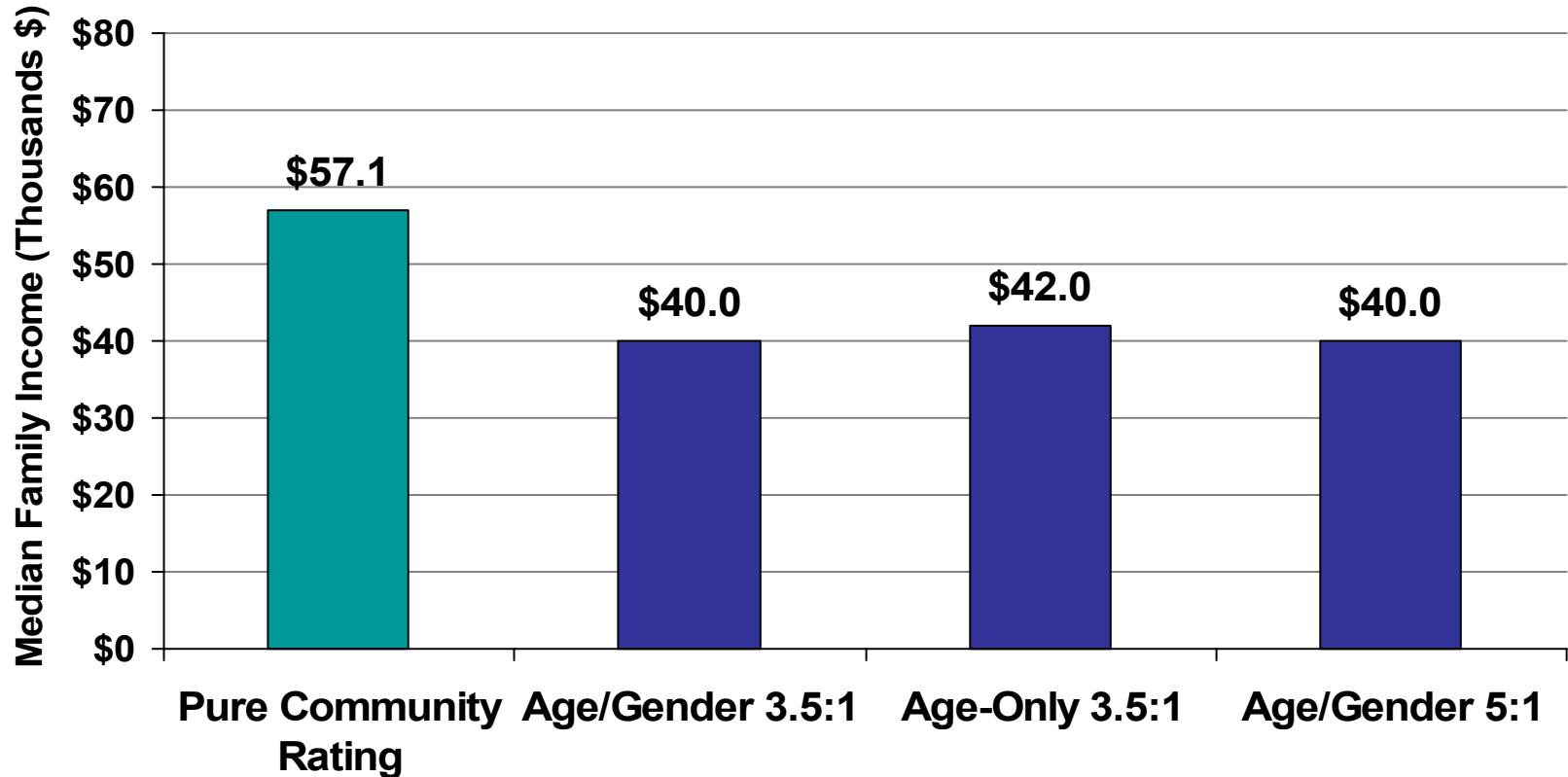
Source: Rutgers Center for State Health Policy, New Jersey Individual Health Insurance Market Simulation Model
 Note: Limited to four of the five largest carriers, representing 95% of total covered lives

Figure 11: Percent of adult IHCP enrollees under age 40, alternative simulation scenarios



Source: Rutgers Center for State Health Policy, New Jersey Individual Health Insurance Market Simulation Model

Figure 12: Median family income of adult IHCP enrollees, alternative simulation scenarios



Source: Rutgers Center for State Health Policy, New Jersey Individual Health Insurance Market Simulation Model

Impact of Alternative Assumptions

- **Lowering price sensitivity assumption**
 - Assume 0.4 price elasticity, consistent with recent studies
 - Assuming lower price responsiveness (0.2 elasticity) brings in fewer young individuals. Little impact on older enrollees
- **Removing affordability limit**
 - Assume no individual willing to pay >10% of income
 - Removing limit increases enrollment among young and lower income individuals

Summary of Findings: Modified Community Rating

- Large increase in total enrollment
 - 1.7 to 3 fold increase, depending on rate band width
- Higher premiums for older adults, few drop out
 - Up to about 15% premium increase
- Significantly lower premiums for younger adults, many new enrollees
 - Up to 55% to 77% decline in premiums
 - 21 to 39 year old grow from about 16% to over half of IHCP
- More moderate income individuals gain coverage

Summary of Findings: Alternative Policy Scenarios

- Large enrollment impact across all three scenarios
- Age-only rating reduces gender differential
 - May be more realistic under “single only” assumption
 - Dampens impact on enrollment of young men
- Wider rate bands increase enrollment of young adults
 - Reduces lowest premiums by about 1/3 but increases highest premiums little

Limitations

- **Data constraints**
 - 4 of 5 top carriers only (95% of covered lives)
 - Limited sample size (701 IHCP, 500 uninsured)
 - Expenditure information is based on statistical model, understates variation
- **Simplifying assumptions**
 - Economically rational behavior
 - Single coverage-only assumption exaggerates gender differences in premiums and enrollment
 - Responses may differ in complex, multiple choice environment
 - Ignores impact of changes in labor market and employer coverage

Discussion

- **Rapid decline in enrollment under PCR**
 - End of subsidies & adverse incentives from loss assessment triggered early decline
 - Strong economy & employer coverage led to continuing erosion
 - Age rating in SEHBP likely exacerbated adverse retention in IHCP
 - Result: adverse retention, rising premiums, market segmentation
 - **Non-group market is fragile and interdependent with group market**

Discussion (2)

- **Modified community rating likely to boost to NJ non-group market but increase premiums for most current enrollees**
 - Many young people had already left the market
 - Older enrollees would pay about 15% higher premiums
 - Reshaped market would serve more younger (healthier) and moderate income individuals
 - MCR may stem future market erosion but stability depends on external factors as well
 - **Policymakers face tradeoff: increasing coverage among young brings higher premiums among for older enrollees**

Discussion (3)

- **Ongoing research**
 - Pooling non-group and small-group markets
 - Reinsurance mechanism
 - Findings Spring/Summer 2005

Selected Project Bibliography

- Monheit AC, Cantor JC, Koller M and Fox K. "Community Rating and Sustainable Individual Health Insurance Markets: Trends in the New Jersey Individual Health Coverage Program." *Health Affairs*, 23:4 (July/August 2004) 167-175.
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