

Young invincible provision points to lingering questions about cost and sustainability

An unresolved quandary under reform arising from the complexity in health plans



Thomas D. Snook
FSA, MAAA

For the last several months, various Congressional committees have sought to categorize different benefit levels and establish certain minimum “actuarial values” for benefit plans. While the motivation for these requirements may make sense—if you’re going to mandate coverage, it should meet certain criteria—there are a number of potential unintended consequences that may ultimately defeat some of the purposes of reform.

This dynamic is documented in a June healthcare reform briefing paper, *Understanding Healthcare Plan Costs and Complexities*.¹ That paper looks at various benchmarks of “actuarial value” put forward by the Senate Finance Committee² and highlights a challenge to reform efforts—namely, that the values initially suggested as minimums were in fact higher than those for many existing plans. For example, the minimum “actuarial value” suggested for a platinum or high option benefit plan (i.e., the richest plans) had a value of .93 when in fact typical HMO-style plans carry an “actuarial value” lower than that, such as the one with a .91 value shown in our paper. The operating definition of actuarial value is borrowed from the Finance Committee: the ratio of benefit costs to allowed cost (i.e., the cost of covered services, prior to member cost-sharing).

Since releasing these initial “actuarial values” in May, the Senate Finance Committee has modified the ratios downward somewhat. A paper published by Sen. Max Baucus over Labor Day weekend, *Framework for Comprehensive Health Reform*,³ includes values that are lower than those suggested in May (e.g., the new value for platinum plans is .90, more in keeping with the typical HMO-style plan).

That said, the risk still exists that any minimum benchmark may in fact exceed benefits for existing plans, which may result in cost increases for payers and consumers. This is particularly true of the bronze level of benefits cited in the Baucus paper. At 65%, this minimum “actuarial value” would preclude high-deductible health plans, which currently constitute a preponderance of policies in the individual health insurance market. Essentially, the position in the Baucus proposal is that reform will require these individuals to buy up to a richer benefit package than they currently have.

A NEW WRINKLE

The Framework paper also highlights another possible issue when it outlines an exception to the bronze, silver, gold, and platinum benchmarks set forward. Quoting from the paper:

A separate ‘young invincible’ policy would be available in addition to these benefit options. This policy would be targeted to young adults who desire a less expensive catastrophic coverage plan but with a requirement that preventive services be covered below the catastrophic amount. Cost-sharing for preventative benefits would be allowed.

On the one hand, the creation of a young invincible group makes a certain amount of practical sense. Many uninsured are young people with modest incomes who do not see the need for insurance, and they are likely to desire the most affordable option. Indeed, their particular risk profiles may warrant a less expensive option. This same thinking may also apply to other population sub-groups.

Creating a separate pool for these people will result in unintended consequences elsewhere. The people most likely to be attracted to young invincible policies—obviously the young and healthy—are people with precisely the kind of risk profiles that can help offset the costs posed by older and/or less-healthy individuals under community rating.

On the other hand, creating a separate pool for these people will result in unintended consequences elsewhere. The people most likely to be attracted to young invincible policies—obviously the young and healthy—are people with precisely the kind of risk profiles that can help offset the costs posed by older and/or less-healthy individuals under community rating.

1 Snook, Thomas D., Dobson, Robert H., & Harris, Ronald G. (June 15, 2009). Understanding healthcare plan costs and complexities. Milliman healthcare reform briefing paper. Retrieved September 14, 2009, from <http://www.milliman.com/perspective/healthreform/understanding-healthcare-plan-costs-rr06-15-09.php>.

2 U.S. Senate Finance Committee (May 14, 2009). Expanding health care coverage: Proposals to provide affordable coverage to all Americans. Retrieved September 14, 2009, from <http://finance.senate.gov/sitepages/leg/LEG%202009/051109%20Health%20Care%20Description%20of%20Policy%20Options.pdf>.

3 Baucus, Sen. Max (2009). Framework for comprehensive health reform. U.S. Senate Finance Committee (Bipartisan Six). Retrieved September 14, 2009, from <http://voices.washingtonpost.com/ezra-klein/BaucusFramework.pdf>.

Put another way, any insurance pool has a mix of healthy and non-healthy lives. If you take, say, the healthiest 10% and isolate them in their own pool, the cost for the remaining 90% will be higher. Might participation by these healthy individuals have otherwise helped minimize the cost of the standard platinum, gold, silver, and bronze benefit options without the lure of a young invincible policy? Would they have been willing to pay the cost associated with any of the four standard options? These are challenging issues that need to be considered carefully. The risk mix is a key consideration when developing benefit options and risk pooling provisions that may be prescribed under insurance reform.

PUTTING YOUNG INVINCIBILITY IN THE BROADER REFORM CONTEXT

To look at this another way, the creation of a young invincible policy would appear to contradict the community rating aspects of some reform proposals, which look to limit age and health status as rating criteria. If the guiding principle behind such proposals is to create a rating framework with restricted variation based on age, gender, or health risk, then this exception appears on the surface to be a conspicuous loophole.

In closing, many insurers have accepted the idea of guaranteed issue and limits on rating variables, provided they are accompanied by an individual coverage mandate.⁴ The reasoning is that insurers would be able to accept the most expensive risks into their rating pool so long as they can assure themselves of simultaneously incorporating the better risks presented by the healthy contingent of the uninsured. Getting an adequate number of younger, healthy lives into the program is essential to limiting adverse selection and increasing the likelihood of long-term sustainability of the insurance pool. The young invincible policy has the potential to address a practical concern but in so doing, if not structured very carefully, it could also upset the delicate risk mix balance and thereby increase costs more than many may have bargained for.

Thomas D. Snook is a principal and consulting actuary in the Phoenix office of Milliman. Contact Tom at tom.snook@milliman.com or at 480.348.9020.

⁴ The issue of sound risk classification principles is beyond the scope of this article. However, failure to appropriately address the issue of adverse selection within the overall structure of a reformed health insurance system can lead to higher costs and potentially an unsustainable mechanism for achieving universal coverage.

The materials in this document represent the opinion of the authors and are not representative of the views of Milliman, Inc. Milliman does not certify the information, nor does it guarantee the accuracy and completeness of such information. Use of such information is voluntary and should not be relied upon unless an independent review of its accuracy and completeness has been performed. Materials may not be reproduced without the express consent of Milliman.

Copyright © 2009 Milliman, Inc.