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Health Care Reform: Factors Affecting Premium Cost

Prior to the Affordable Care Act (ACA) becoming law, it was common practice for insurance companies to vary the price of premiums based on things like health status, demographics, industry and the amount of time someone has been on a plan. While those practices are currently still in effect, they will be banned for some plans starting Jan. 1, 2014.

Beginning Jan. 1, 2014, health insurance companies offering coverage to individuals and small employers will only be allowed to vary premiums based on age, family size, geography and tobacco use. Basing premiums on other factors will be illegal under the Fair Health Insurance Premiums provision of the ACA.

Factors that will no longer be taken into account in determining premium prices in 2014 include health status, past insurance claims, gender, occupation, how long an individual has held a policy and the size of the employer.

Fair Health Insurance Premiums

Under the ACA, health plans will be allowed to adjust premiums based only on the following factors:

- **Age.** Insurance companies will be allowed to vary rates based on age, but they may not charge older people more than three times the rate they charge younger people. Older adults are defined as persons who are 64 and older. Younger persons are defined as people between the ages of 21 and 63.
- **Family size.** Insurance companies will still be allowed to vary rates based on who is enrolled in the plan. Different rates can be charged based on whether the plan covers only an individual or a family. There can also be different family rates depending on the number of people covered by a plan (for example, individual and spouse or individual and children).

Factors that will no longer be permitted in determining premium prices in 2014 include health status, past insurance claims, gender, occupation, how long an individual has held a policy, or size of the small employer.

- **Geographic area.** Insurance companies will be allowed to charge more for people who live in areas where medical costs are high. There are a lot of complex variables that go into determining this, so consult your employer or health plan representative to find out what the rate is where you live.
- **Tobacco use.** Insurance companies will be allowed to charge up to 50 percent more in premiums for people who use tobacco products than they charge for non-tobacco users.

The rating restrictions in the ACA set a minimum floor, not a ceiling, so states can retain or enact more stringent standards than federal law.



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Wellness Program Incentives

The ACA also permits employment-based health plans to charge employees up to 30 percent more on their premiums (and potentially up to 50 percent more) if they fail to participate in a wellness program or meet specified health goals such as losing weight and quitting smoking.

Market Size and Grandfathered Plans

The new guidelines for premiums do not apply to all insurers. They only restrict the premiums that issuers may charge in the individual and small group markets. Issuers in the large group market may be similarly restricted if the state permits these issuers to offer coverage through a health insurance exchange.

If you have a health plan that was in existence before March 23, 2010, that adjusts premiums outside of the above provisions, that plan is considered grandfathered and does not have to change.

Health plans must disclose whether they are grandfathered. To find out if your plan is grandfathered, or if you are unsure of whether your plan is subject to the Fair Health Insurance Premium rules, check your health plan documents or consult your employer or plan administrator.

A medical-themed background image featuring a stethoscope, several white pills, a white pill bottle, and a glass of water, all resting on a surface with an ECG (heart rate) pattern. A red semi-transparent banner is overlaid on the right side of the image.

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