

# KNOW YOUR BENEFITS.

From Clarke and Company

HCR



## 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 factors such as health status, demographics, industry and the amount of time someone had been on a plan. These practices are now banned.

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

Factors that are no longer taken into account in determining premium prices 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 are allowed to adjust premiums based only on the following factors:

- **Age.** Insurance companies are 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 ages 21 to 63.
  - **Family size.** Insurance companies are still 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).
  - **Geographic area.** Insurance companies are 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.
- Factors that are no longer permitted in determining premium prices include health status, past insurance claims, gender, occupation, how long an individual has held a policy and size of the employer.**
- **Tobacco use.** Insurance companies are 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.

### **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 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



CLARKE & COMPANY  
BENEFITS LLC

This Know Your Benefits article is provided by Clarke & Company Benefits, LLC and is to be used for informational purposes only and is not intended to replace the advice of an insurance professional. Visit us at <http://www.clarkebenefits.com>. ©2013-2014 Zywave, Inc. All rights reserved.

## Health Care Reform: Factors Affecting Premium Cost

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 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 collection of medical supplies including a white pill bottle, several white pills, a white stethoscope, a glass of water, and a clear test tube, all resting on a grid background with a faint ECG line.

**KNOW  
YOUR  
BENEFITS.**

HCR