Big Insurance Rate Hikes May Portend ObamaCare "Death Spiral"

Has the ObamaCare "death spiral" begun? An accelerating trend of proposed double-digit health insurance premium increases — some topping 50 percent — suggests that the answer is yes.

Under the Affordable Care Act (ACA), insurers participating in the law's exchanges who wish to raise their rates by more than 10 percent year-over-year must submit their proposed rate increases for review by either state or federal regulators. Those bureaucrats must decide by August whether to approve or deny requests for the following year.

Thirty-seven states plus the District of Columbia have released data on individual plans on the exchanges. An analysis of the data by David Hogberg of the National Center for Public Policy Research reveals that insurers are seeking high premium increases on far more plans in 2016 than in 2015 — and the rate hikes themselves are significantly steeper.

In 2015, insurers asked for rate hikes of 10 percent or more for 121 exchange policies. Of these, 21 requested an increase of at least 20 percent, while 9 requested an increase of at least 30 percent.

For 2016, however, the number of requests for double-digit increases nearly doubled, to 231 policies. Of these, 126 sought a hike of 20 percent or more, and 61 sought a hike of 30 percent or more. And whereas no insurers requested increases of 40 percent or higher last year, for 2016 they are asking for 26 policies to go up by at least 40 percent and 12 to jump by at least 50 percent.

Why are insurers looking to boost premiums so much next year? Simply put, their costs have increased faster than their revenue. According to CNSNews.com, Aetna justified its proposed 59.7-percent rate hike for a Virginia plan by explaining, "Medical costs are going up and we are changing our rates to reflect this increase," adding that "several requirements related to the Affordable Care Act (ACA) also impact these rates." Blue Cross Blue Shield of Minnesota, requesting a 55.8-percent increase for one of its plans, stated: "In 2014, the ratio of claims to revenue received (excluding potential federal risk corridor payments) exceeded 115% and resulted in an operating loss in excess of $135 million."

Costs have increased for a variety of reasons, but ObamaCare is one of the primary ones. "Greater use of health services as well as more people covered by the ACA appear to be responsible for most of the increase," Kaiser Family Foundation president and CEO Drew Altman blogged for the *Wall Street Journal*. Undoubtedly the wider coverage has driven much of the increase in the use of health services, and with people with costly pre-existing conditions now guaranteed coverage (as long as they pay their premiums), insurers are having to fork over benefits for more — and more expensive — treatments. At the same time, they aren't permitted to charge sicker people higher rates than healthier ones, so they end up in the hole.

The "risk corridors" referenced by Blue Cross Blue Shield were supposed to help mitigate this problem. "The risk corridor is a three-year program under which insurers on the exchanges who make a profit are required to share some of those profits with insurers who took losses on the exchanges," Hogberg wrote in an article for the *Federalist*. "However, if there are not enough profit-makers to cover the losses, then the taxpayers would step in to cover the difference."

When it began to look as if taxpayers could be in for a billion-dollar insurance-company bailout last year — last summer, only one exchange insurer told a congressional committee it expected to turn a profit, while others reported significant losses — Congress put the kibosh on any taxpayer funding of the risk corridors. Insurers, who had priced their policies with the expectation of a bailout, were now stuck with insufficient revenue to cover costs. This year, with a better understanding of their costs under ObamaCare and no expectation of risk-corridor cash, insurers are pricing their plans accordingly, leading to the huge rate hikes.

Large premium increases, of course, will make insurance less affordable for many, even those eligible for subsidies. Those who least need coverage, especially at high rates, will likely drop it or switch to lower-cost plans, leaving sicker individuals on the high-cost plans, which will then have to raise their rates again in subsequent years — the classic "death spiral."

"Over time," observed Hogberg,

> one of two things will happen to such insurers. Some of their sicker customers will find the constant rate hikes too much and will seek cheaper insurance. Alternatively, the insurers will sustain big losses and eventually exit the market. Their sicker customers will then have little option but to take their business to less costly insurers. Once either of those scenarios happen [sic], those cheaper insurers won't be cheap for very long.
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> This is already happening to Time Insurance. Time, a subsidiary of Assurant, is asking for some of the biggest rate hikes among insurers for 2016. Its average premium increase of about 52 percent suggests that its risk pool is heavy on the older and sicker customers. It is likely a big reason Assurant is trying to sell its health insurance business. Even if it can't, Assurant says it will be out of the health insurance market by the end of 2016. Its sicker customers will have to go somewhere, and the unlucky insurers that receive them will eventually have to hike their rates too.

ObamaCare boosters have argued that the huge premium jumps being requested are nothing about which to be concerned because regulators won't allow them to take effect. Hogberg, however, pointed out that last year all but four exchanges approved every requested rate increase, and the other four each denied just one request. Moreover, he noted, if regulators do deny proposed rate hikes, forcing them down to politically palatable levels, the insurers who requested them will end up incurring big losses again in 2016 and may eventually leave the exchange altogether. "Fewer insurers means less competition, which will cause premiums to rise even more in the long run," he wrote.

In other words, whether or not rates are allowed to rise as fast as insurers desire, the exchanges are headed for trouble. This was perfectly predictable, even by politicians who thought the ACA was a good idea — hence the subsidies, risk corridors, and other kludges designed to mask the problem for as long as possible.

"In the end," Hogberg said in a statement, "the exchanges are not sustainable, and free-market based reform of our health care system will be necessary."