ObamaCare Is Raising Insurance Costs

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Despite what you read, premiums in Oregon and California are going up, especially for the youn

California and Oregon have recently announced the premiums for the health plans that will be offered through their ObamaCare insurance exchanges in 2014. Supporters of the law are jubilant. KQED, northern California's largest public radio station, reported that "experts had warned of 'rate shock.' That has not happened." The New York Times editorial page chimed in, writing that "For the most part, the premiums will increase only slightly or even decrease for individuals and family coverage on the exchanges."

A closer examination of these health plans reveals a less rosy picture. Although the premiums are lower than some anticipated, this has been achieved by designing the plans around much more limited provider networks and including greater cost-sharing than the typical commercial health-insurance plan. The premiums for the policies that will be offered on the states' exchanges are much higher than analogous plans being sold today.

One of the most important feature of any health plan is its "network"—the group of doctors and hospitals that agree to serve the plan's enrollees. Although the California and Oregon networks are not final, there are indications they will be narrow.

California HealthLine, a service of the California HealthCare Foundation, reports that "some premier provider networks" (such as Cedars-Sinai and UCLA Medical Center) are largely absent from the exchange plans. In Los Angeles County, most of the exchange plans are priced comparably to L.A. Care—the health plan for Medicaid beneficiaries. This suggests that the other exchange plans will have provider networks similar to those that serve Medicaid—networks that have been criticized for giving beneficiaries inferior access to care.

Even after the networks are made public, it will still be difficult to precisely determine their breadth. That's because a physician who participates in a network does not have to accept an unlimited number of patients enrolled in the plan. Providers can't discriminate against patients on the basis of prohibited characteristics like race or ethnicity. They can limit the number of patients they take with exchange insurance if they can't handle any more patients.

Exchange plans also involve much more cost-sharing than the typical plan. For example, the deductible of an individual "silver" plan—the benchmark for determining the subsidies for low- and moderate-income people—in the California exchange is $2,000, considerably higher than the $1,250 minimum deductible for a High-Deductible Health Plan that qualifies for a Health

Savings Account under current federal law. (The deductible for a "bronze," or budget, plan is $5,000.)

Determining whether premiums for exchange plans are higher or lower than premiums of currently available plans is therefore difficult, because the two types of plans are not always directly comparable. However, one firm's exchange plans can be evaluated against its current product line: Kaiser Permanente. Kaiser is the nation's largest Health Maintenance Organization that serves its enrollees through its own proprietary network. Its network will be roughly the same in 2014 as it is today, and the wide variety of plans it currently offers makes comparisons more feasible.

This apples-to-apples assessment shows how much higher exchange-plan premiums will be. For example, a 25-year-old male who lives in San Francisco can purchase a "California 40/4000" policy from Kaiser today that has a $40 copayment for office visits after a $4,000 deductible, with a $5,600 out-of-pocket maximum, for $140 per month. Kaiser's most comparable exchange policy—a "bronze" plan with the minimum benefits and the highest out-of-pocket costs—has a $5,000 deductible with a $6,400 out-of-pocket maximum, although it allows three office visits per year that are exempt from the deductible. It costs $227, 62% higher than its current comparable plan, the California 40/4000.

Oregon's exchange policies are about the same. Today, a 25-year-old male who lives in Portland can purchase an "Oregon KP 2000/20%/HSA/Rx" policy from Kaiser that has 20% copayments, a $2,000 deductible and a $5,000 out-of-pocket maximum. It costs $129 per month. The most comparable exchange plan, a "silver" plan, has 25% copayments, a $1,750 deductible, and a $5,000 out-of-pocket maximum. It costs $229 per month—78% higher.

None of this means that the exchange plans will provide inferior care or inadequate protection against financial risk. But it does show that the Affordable Care Act's goal of expanded coverage is going to require much higher premiums, especially for young people, and significant changes in the access and low cost-sharing that Americans have come to expect.

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