Obamacare and Health Insurance Companies

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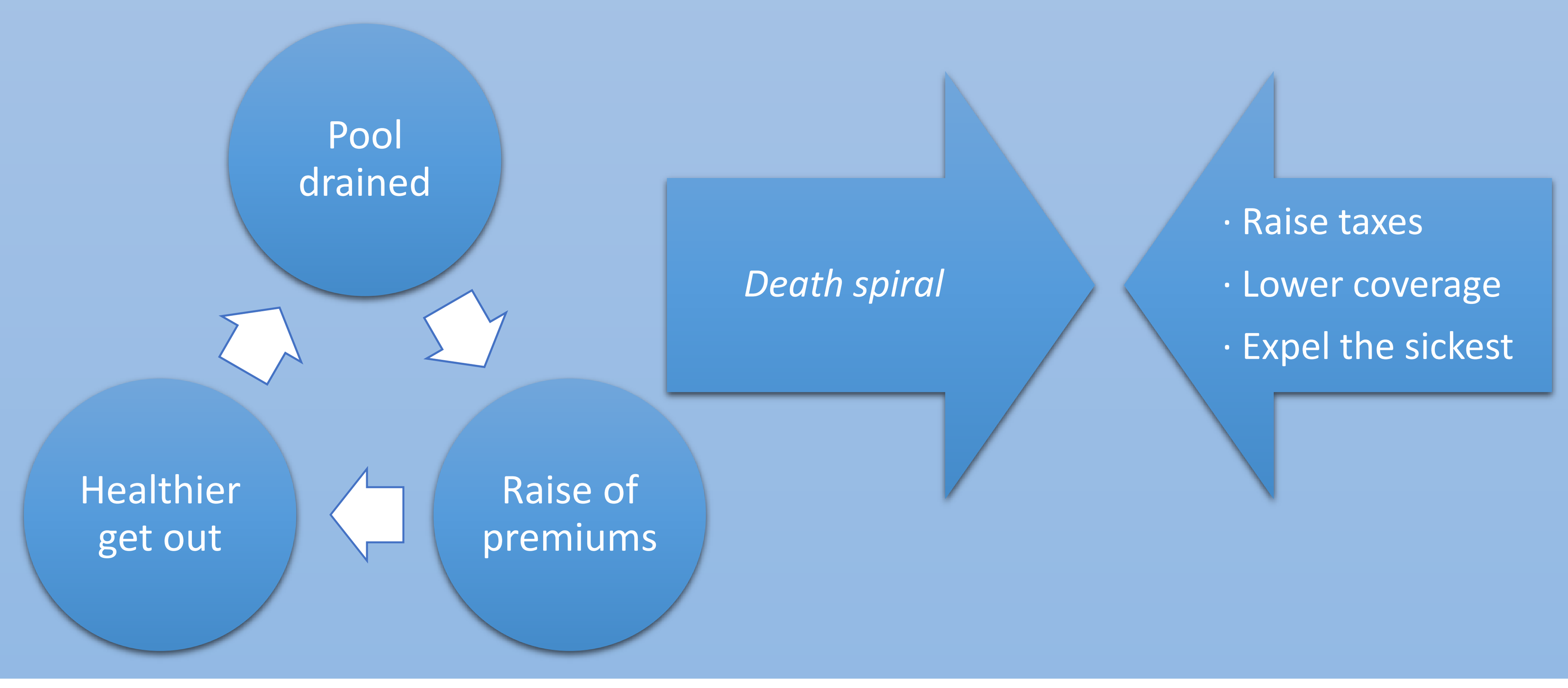
Introduction

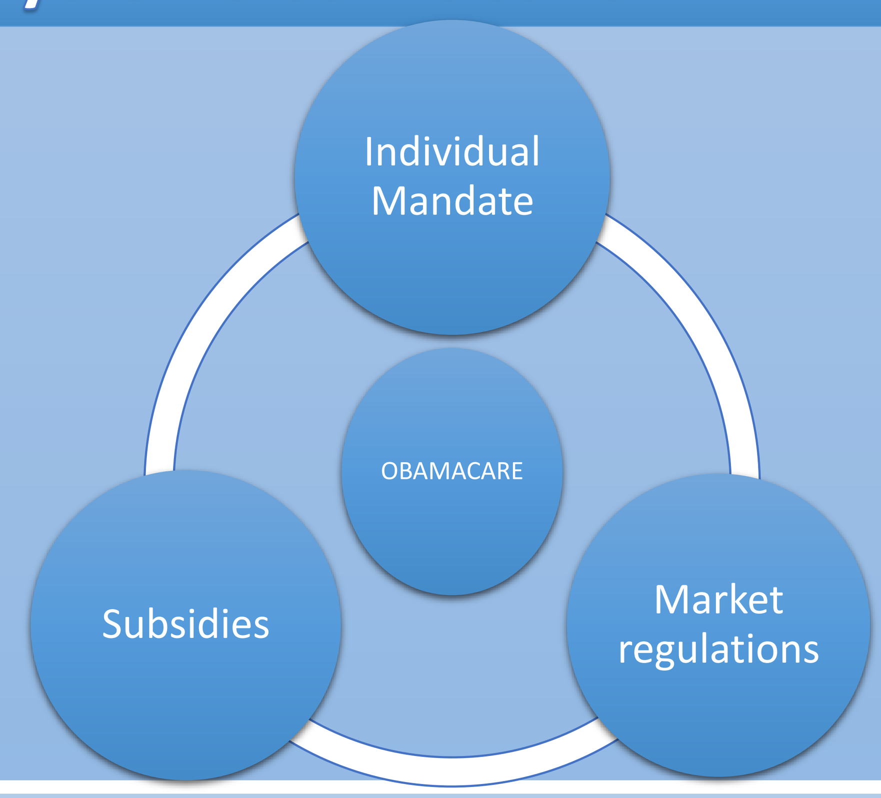
This dissertation studies the health reform introduced in the United States by the **Affordable Care Act**, commonly known as **Obamacare**, and tries to figure out why recently there has been a **flee of big health insurance companies** from some of the State Exchanges created by the reform.

Obamacare aims at extending health **coverage** in the US and at the same time avoid the development of a **death spiral**. In order to achieve these goals, Obamacare is based on **three pillars**: insurance market regulations (open enrolment and community rating requirement), the individual mandate and subsidies.

The death spiral and how insurers avoid it



The three keys of Obamacare



Methodology

Billy	William	Danny	Daniel
• 25 • Non-smoker	• 60 • Non-smoker	• 25 • Smoker	• 60 • Smoker

Delaware (into the Exchange)

Massachusetts (out of the Exchange)

Obamacare restricts the **variables** that can affect premiums for the same level of coverage to four: household size, location, age and tobacco use.

- This research undertakes a comparison between the costs of health care for four different groups of individuals (Billy, William, Danny and Daniel), divided according to their **age** and **tobacco use**.
- The **household** size is always fixed to only one member
- The **location** is set in two different States: one where Aetna is still part of the Exchange (**Delaware**), and another where Aetna is not into the Exchange (**Massachusetts**).

The **annual income** of all four individuals is set to $30,000, which is 252.52% of the poverty level.
Sources: the estimator from the Kaiser Family Foundation and the private marketplace of Aetna.

Results

The individual mandate

Income excess amount	Annual income	$30,000.00
	Tax return filing threshold for singles under 65	$10,350.00
	Annual income above the tax return filing threshold	$19,650.00
	2.5% of total income excess amount	$491.25
Flat dollar amount		$695.00
Annual penalty amount (the higher of excess income amount or flat dollar amount)		$695
Monthly penalty amount		$57.92

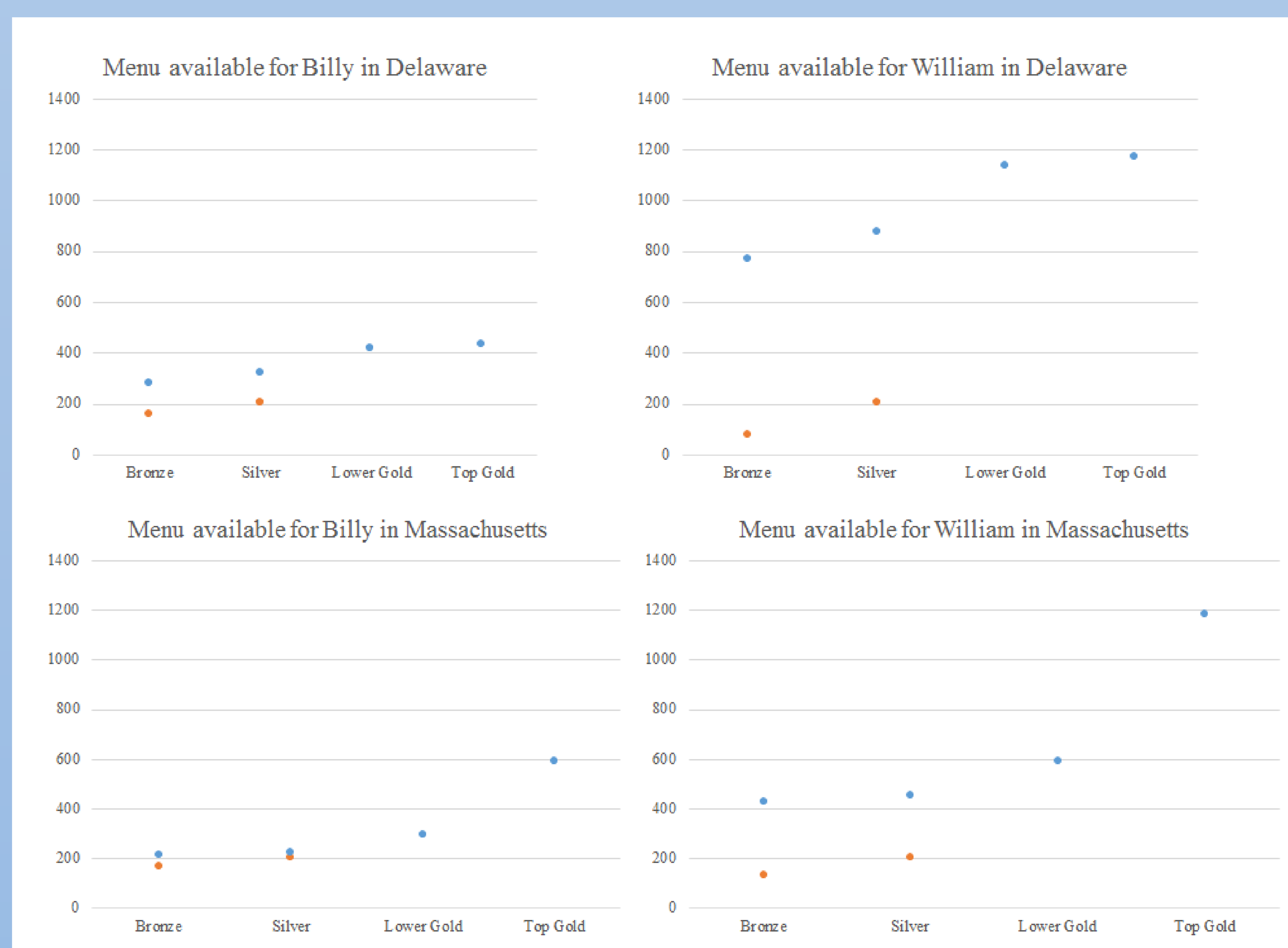
The penalty for a single individual with an annual income of $30,000 is $57.92 per month.
The US average bronze premium is $229, which is far higher than the penalty for not getting coverage at all.
Therefore, there is **little real influence of the individual mandate**, at least for one-member households.

The range of menus available

State	Risk profile (according to age)	Premium range
Delaware	Billy, 25	$149.60
	William, 60	$404.39
Massachusetts	Billy, 25	$378.72
	William, 60	$757.12

Premiums are cheaper and the range is broader in Massachusetts, where Aetna is out of the Exchange, and thus not restricted by market regulations. The range is also wider for the elder.
Hence, the **freedom to charge** can be one of the incentives for Aetna to pull out of the Exchanges.

The subsidies



When considering the **silver plans**, any individual eventually pays the same price, provided that they have the same income and the same family size. Consequently, the elder are far more subsidised than the younger. There is also a compensation between States, as the ones with higher premiums receive more subsidies.
When considering **bronze plans**, the elder end up paying less than the younger.

Conclusions

Advantages

- Subsidies
- Cross-subsidisation
- Compensations for ages and States

Disadvantages

- Inefficiency of the Individual Mandate
- Strict price regulations
- Unattractive for the younger and healthier

Propositions

- Raise the penalty of the individual mandate
- More subsidies for the younger
- Higher premium rate according to age