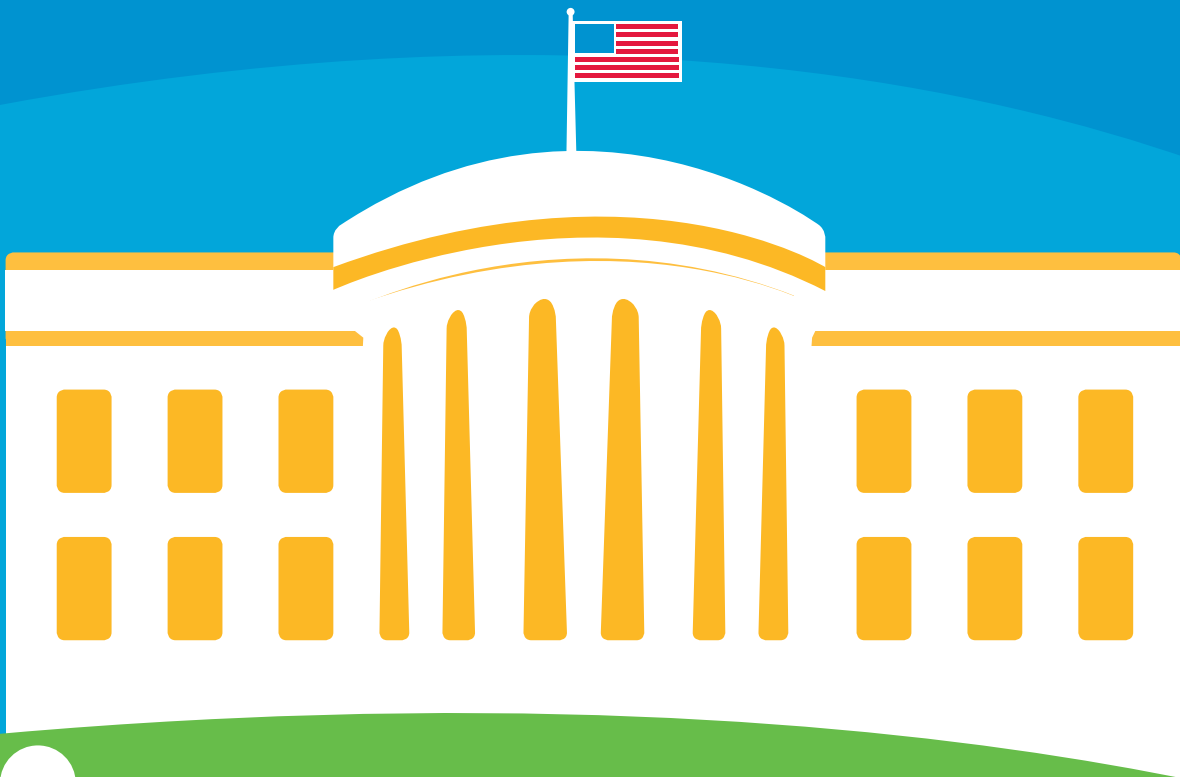




**BlueCross BlueShield  
of Nebraska**

An Independent Licensee of the Blue Cross and Blue Shield Association.

# Broken Promises?



## The Nebraska **BLUES** Health Care Reform Impact Study

*Study Shows Reform Measures Would Hurt Younger,  
Healthy Nebraskans and Small Businesses*

## The Nebraska BLUES Reform Impact Study

### Summary

Rising health care costs and a less healthy America have fueled the urgency for health care reform over the past 10 years. The reform debate reached its peak in the 2008 presidential campaign, as both candidates promised to help the 47 million U.S. citizens without health care coverage and ease the financial burden on the rest of America.

Both political sides promised a break for younger Americans who believe they can't afford health care, and for small businesses that are being crippled by regular double-digit increases in health costs. With passage of new legislation comes the promise of health care that would welcome the young and healthy, assist business owners and allow those with solid coverage to keep it.

Chalk it up as a potentially broken promise, according to the **Nebraska BLUES Reform Impact Study**—Nebraska-specific research released by Blue Cross and Blue Shield of Nebraska (BCBSNE).

### The Numbers

Using industry research and applying measures from both health reform bills to BCBSNE's most popular health insurance plans, the projections for Nebraskans are much less than promising—especially for healthy, 25-34 year-olds and small business owners. A 40-year-old with a family will also pay more, if current provisions in both health care bills pass.

There is good news for one group: Health insurance premiums will decrease for 60+ year-old Nebraskans—but unfortunately at the expense of double or triple-digit increases for their kids and grandkids.

The following pages detail the findings of BCBSNE's **Reform Impact Study**, and illustrate why current reform proposals could fall short of transforming America's troubled health care system.

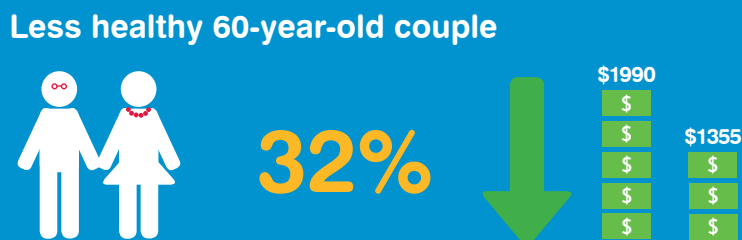
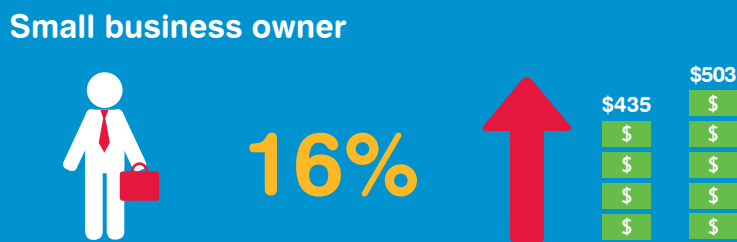
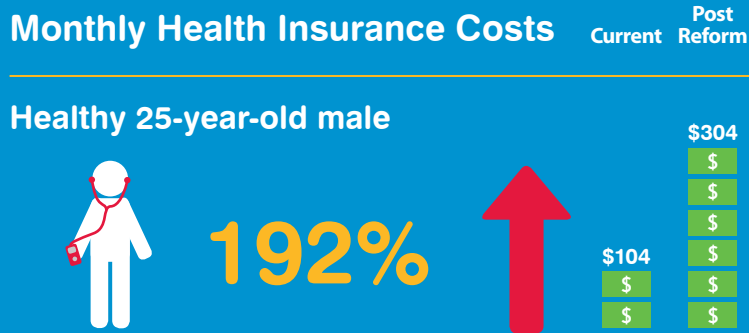
*"We strongly support the reform of America's health care system, and have been working for years to that end. However, it must be reform done right. Our concern is that current legislation will make the problems worse for many Nebraskans."*

—Steven S. Martin  
President and CEO, Blue Cross and Blue Shield of Nebraska



For more information about the Blues' recommendations for reforming America's health care system, visit [www.bcbsne.com/brokenpromises](http://www.bcbsne.com/brokenpromises)

## Monthly Health Insurance Costs



The statistics represented here and throughout the Reform Impact Study reflect the impact of current reform measures on Blue Cross and Blue Shield of Nebraska products and member profiles, and do not take into consideration tax credits being discussed as part of emerging legislation. It is not yet clear what tax subsidies would be passed, or the net impact of those credits on individual and small business insurance products.



### What does that mean?

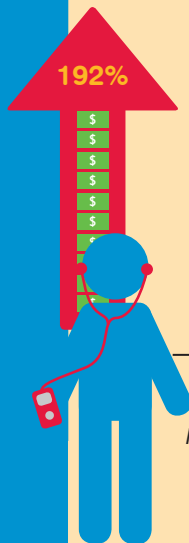
Look for this guide throughout the Nebraska BLUES Reform Impact Study to help explain industry and legislative jargon that sometimes muddy the waters of this debate.

# Real rates, Real people Drastic change

## The Nebraska Study

The Nebraska BLUES Reform Impact Study illustrates projected monthly premiums for approximately 95,000 Blue Cross and Blue Shield members of different ages and health status. The study uses BCBSNE's most popular health plans for individuals and small businesses as test cases for proposed reform provisions found in both Congressional bills.

The displays that follow show how premiums being paid now by actual BCBSNE members are generally expected to change in light of reform measures such as guaranteed issue, the elimination of a health status discount and an annual tax on health insurance companies. Projected premiums are also shown *without any adjustment for increased medical costs over time*—a certainty in light of annual double-digit increases in health costs.



## What will Reform cost... A healthy 25-year-old male in Nebraska

**CURRENT Monthly Premium:** \$104

Impact of guaranteed issue and a weak individual mandate.....	\$52
Limiting age ratio to 3:1; Eliminating gender rating .....	\$100
Eliminating health status discount .....	\$14
Requiring higher benefit level (65% actuarial value and required new benefits).....	\$22
Health insurer tax .....	\$9
Pharmaceutical tax/ Medical device tax .....	\$3

**Monthly Premium AFTER REFORM** \$304

*Product analyzed: BlueEssentials+ with \$500 deductible*

## The Impact

The impact of health care reform on health insurance premiums in Nebraska will vary significantly by age and group type, mainly because new and existing rules differ between individual, small employer and large employer blocks of business.

Some proposed reforms will cause lower-risk, healthier individuals and groups to pay higher premiums, while some higher-risk individuals and groups will pay less than they do now. Other reform measures will generally increase premiums for everyone, regardless of risk.

In cases where specific provisions differ between the bills being considered, BCBSNE analyzed what could be considered as likely compromises on those provisions.

The final impact to consumers will also depend on the tax subsidy that may be obtained by purchasing insurance through a proposed state insurance exchange. Such subsidies in proposed legislation have been based on income in relation to the Federal Poverty Level.

The main assumption used for this analysis is how the combination of guaranteed issue and a weak individual mandate will damage the insurance pools. Most industry research applied to proposed reform so far assume a 50% increase in individual rates due to people purchasing insurance only when they're sick.

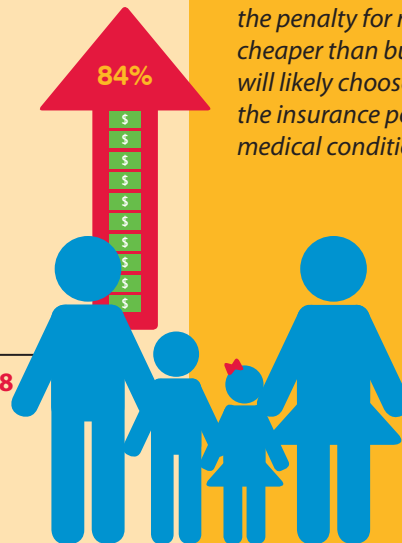
# There is some good news... If you're an older Nebraskan

## What will Reform cost... A 40-year-old couple with 2 children, average health

<b>CURRENT Monthly Premium:</b>	<b>\$662</b>
<hr/>	
Impact of guaranteed issue and a weak individual mandate.....	\$331
Limiting age ratio to 3:1; Eliminating gender rating.....	\$132
Eliminating health status discount.....	\$-44
Requiring higher benefit level (65% actuarial value and required new benefits).....	\$89
Health insurer tax.....	\$35
Pharmaceutical tax/ Medical device tax.....	\$13

**Monthly Premium AFTER REFORM** **\$1,218**

Product analyzed: BlueEssentials+ with \$500 deductible



### Individual mandate

An *individual mandate* would require every person to purchase health insurance. If there is a “weak” individual mandate in the reform plan—the penalty for not buying insurance is actually cheaper than buying insurance—healthier people will likely choose to pay the penalty and only get in the insurance pool when they have an expensive medical condition (injury, surgery, pregnancy, etc.).



### Guaranteed issue

*Guaranteed issue* means an insurance company would be required by law to issue policies to all applicants whether they are healthy or unhealthy.

### Health Status Discount

Most health insurance companies provide discounts to healthier people, which encourages those low-risk individuals and groups to purchase voluntary coverage.

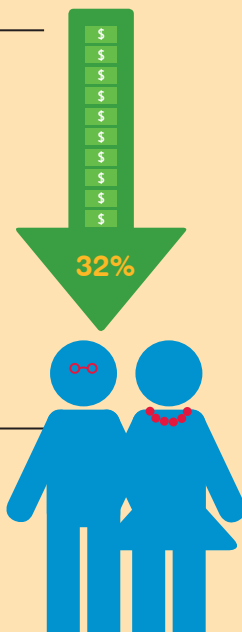
All of the current reform proposals eliminate health status discounts. If everything else stays constant (not likely), this means that healthier individuals and groups will pay more for their coverage, and less healthy individuals will pay less.

## What will Reform cost... A 60-year-old couple, poor health

<b>CURRENT Monthly Premium:</b>	<b>\$1,990</b>
<hr/>	
Impact of guaranteed issue and a weak individual mandate.....	\$995
Limiting age ratio to 3:1; Eliminating gender rating.....	\$-709
Eliminating health status discount.....	\$-1,073
Requiring higher benefit level (65% actuarial value and required new benefits).....	\$99
Health insurer tax.....	\$39
Pharmaceutical tax/ Medical device tax.....	\$14

**Monthly Premium AFTER REFORM** **\$1,355**

Product analyzed: BlueEssentials+ with \$500 deductible



# NOT Taking Care of Business

Depending on the age and health of their employees, small business owners could take a big hit if current health care reform measures make it through Congress and land on the President's desk.



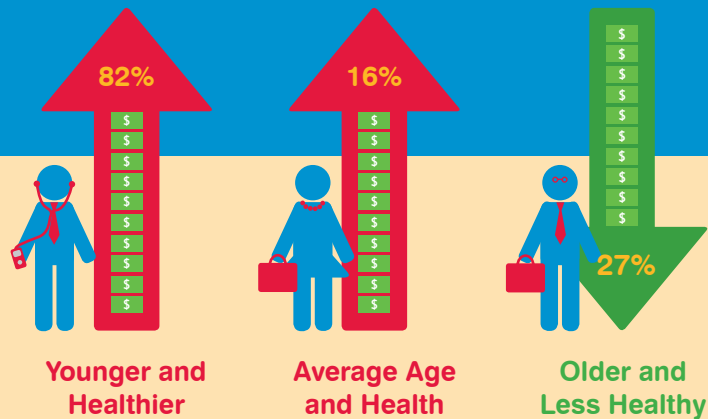
## "High-Cost" Health Insurance Tax

The proposed legislation includes an excise tax on insurance companies if the value of employer-sponsored health coverage for an employee exceeds a threshold amount (The threshold is currently **\$8,000** for single coverage and **\$21,000** for family coverage).

Small businesses with an older, less healthy employee group would be subject to the tax because single premiums exceed the threshold. Because of minimum benefit requirements (another reform measure), it may be difficult or impossible for businesses with aging employees to avoid high-cost insurance.

## What will Reform cost...

A small business owner in Omaha, NE with Eight Employees who are...



	Younger and Healthier	Average Age and Health	Older and Less Healthy
<b>CURRENT Single Monthly Premium:</b>	\$234	\$435	\$1,225
Impact of insurance market changes without effective mandates	\$28	\$52	\$147
Limiting age ratio to 3:1; Eliminating gender rating	\$63	\$51	-\$182
Eliminating health status discount	\$68	-\$51	-\$327
Elimination of other rating variables	\$17	-\$3	-\$81
Requiring higher benefit level to chosen group (65% actuarial value and required new benefits)	\$0	\$0	\$0
Health insurer annual tax	\$12	\$14	\$24
High-cost health insurance tax attributable to group	\$0	\$0	\$83
Pharmaceutical tax/ Medical device tax	\$5	\$5	\$9
<b>Monthly Premium AFTER REFORM</b>	<b>\$427</b>	<b>\$503</b>	<b>\$898</b>

Product: BluePride \$1,000 Deductible

# Appendix

## Factors that Shaped the Nebraska BLUES Reform Impact Study

### Age Ratio Limitation and Elimination of Gender Rating

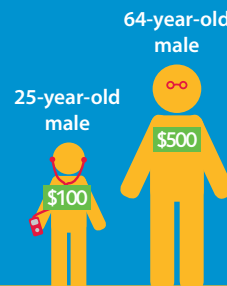
#### Age Ratio

Because of the difference in utilization of medical services and future health risk between younger, healthier people and older, less healthy individuals, the younger, healthier people typically pay about 20% of the premium rates that older, less healthy people pay—an actuarial age ratio of 5:1.

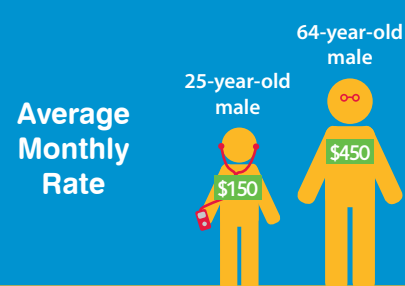
Current health reform proposals would limit age ratios to either 2:1 or 4:1—an attempt to “level the playing field” and flatten the difference between premiums for different age groups. That change—holding all else constant—typically results in younger adults paying more and older adults paying less for health insurance coverage. The percentage change is more dramatic for younger adults than older adults because the base premium for younger adults starts from a much lower value.

Limiting the age ratio to 3:1 will make premiums even higher than they are currently for younger, healthier Nebraskans—a group that already forgoes medical coverage because they think it’s too expensive. (For the Nebraska BLUES Reform Impact Study, BCBSNE analyzed a 3:1 age constraint because both 2:1 and 4:1 age bands are currently being considered in Congress).

#### Current 5:1 Age Ratio



#### After Reform 3:1 Age Ratio



Average Monthly Rate

#### Gender rating

*In another attempt to bring more “universal” rates to everyone, both bills eliminate a standard “gender rating” that results in lower costs for males because maternity benefits and other female-related medical services drive up costs. So under the new proposed plan, women would likely pay less for coverage, but men would make up the difference and pay considerably more.*

#### Elimination of Other Actuarial Rating Variables

In addition to considering health status of a small-employer group, rates typically vary between groups because of other factors that correlate with risk—such as industry and company size—where those anticipated to be lower-risk can receive premium discounts. Health care reform measures currently on the table would prohibit the use of these factors, further hiking rates for lower-risk groups and decreasing rates for higher-risk groups.

#### Requiring Actuarial Value and Benefit Mandates

Current reform proposals all set minimum (i.e., “floor”) benefit requirements for coverage in two ways:

1. By requiring a minimum “actuarial value” that reflects a percentage of covered medical expenses a health insurance company is required to pay. Actuarial value of 65% means the insurer must pay at least 65% of total covered services.
2. By requiring that all health insurance plans include a wider range of benefits, such as no lifetime maximum, pediatric dental and no-cost preventive services. The inclusion of maternity coverage represents a new cost for most individual health insurance products.

These well-intentioned benefit minimums will increase monthly premium costs because these items and benefit levels are not included in current benefit packages. If individuals and groups keep existing plans that do not meet these new requirements, there will be no impact under current proposals. However, identical individuals purchasing health insurance post-reform, or individuals who choose to change their current coverage, will be required to pay the higher prices for the richer benefits.

For the purpose of this analysis, an impact rate of 8% was used for individual plans mostly due to the addition of maternity coverage. No impact was calculated for the most popular small business products. Some other individual plans that consumers can currently purchase would have to be pulled from the market because benefits fall below the minimum standard.

#### Health Insurance Company Annual Tax, Pharmaceutical Tax and Medical Device Tax

Health care reform legislation introduces several new broad taxes and fees that will further increase monthly health insurance premiums:

- An annual fee on manufacturers and importers of branded drugs
- An annual fee on manufacturers and importers of medical devices
- An annual fee on health insurance companies



**BlueCross BlueShield  
of Nebraska**

An Independent Licensee of the Blue Cross and Blue Shield Association.

**One less thing to worry about.<sup>SM</sup>**  
**[www.bcbsne.com/brokenpromises](http://www.bcbsne.com/brokenpromises)**

*Statistics from Blue Cross and Blue Shield of Nebraska, 2009*