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# Assessing Policy Options for the Non-Group Health Insurance Market:

# Simulation of the Impact of Modified Community Rating in the New Jersey Individual Health Coverage Program

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these changes alter the demographic composition of the IHCP market and of the uninsured population.

More details of the methods employed to simulate responses to premium changes are provided in the Technical Appendix that appears at the end of this report.

## Assumptions Underlying Modeling Scenarios

The policy scenarios addressed by our simulations are based upon two key assumptions. First, we make assumptions regarding plausible rates of health insurance participation for the individual insurance market. The literature generally has found that participation elasticities range of approximately 0.2 to 0.4 (see for example, Marquis and Long 1995 and Marquis et al., 2004). The most recent work on participation suggests elasticities near the top of this range. Thus, our basic simulations are based on a 0.4 elasticity assumption, although we also test the effect of lowering the elasticity assumption to 0.2.

Second, because our simulation method does not explicitly take into account income available to pay premiums, we apply an "affordability constraint". Specifically, we assume that individuals who face premiums in excess of 10% of family income will not purchase coverage regardless of their predicted reservation price. Again, we relax this assumption to test the sensitivity of our findings to applying the affordability constraint.

We consider three specific policy scenarios employing modified community rating. The first policy scenario reflects comparatively narrow rate bands (3.5 to 1) within age and gender rating groups, the second scenario also employs a 3.5:1 rate band but restricts premium variation to age groups, and the third scenario uses a wider rate band (5 to1) with age/gender rating. Each of these scenarios employs an affordability constraint of 10% of income and price elasticity of 0.4, assumptions that we judged to be most realistic and supported in previous studies. To test the implication of these assumptions for our findings, we examined the first policy scenario without the affordability constraint and assuming a lower price elasticity of 0.2.   Below we provide an overview of our findings, describe detailed results of the base case scenario, then we turn to an analysis of the sensitivity of our findings to alternative assumptions.

## Results

Several findings emerge consistently across all of the scenarios, illustrating the impact of shifting from pure to modified community rating. First, the models all predict that modified

community rating would substantially lower the premiums faced by younger individuals. Second, as a consequence of lower premiums, a large number of previously uninsured younger adults would enroll in coverage, especially young men. Young women would also enter the market to varying degrees, depending on specific simulation assumptions. Third, older IHCP enrollees will experience increased premiums. While the impact on premiums for older groups varies across the simulation scenarios, the increase would be roughly equivalent to one or two typical years of health insurance premium inflation. Finally, despite premium increases, very few older IHCP insured would exit the market. One reason for this modest enrollment impact is that over time the IHCP has shifted toward an older demographic with commensurately high premiums (Monheit et al. 2004). Those older individuals who have remained in the IHCP have a high willingness to pay for this coverage.

### *Impact on Premiums*

Figures 1 to 3 illustrate the expected impact on premiums of shifting from pure to modified community rating under the three policy scenarios.[2] Under the first scenario (3.5 to1 rate bands with age-gender rating), women age 40 or older and men age 50 or more would face premiums under modified community rating approximately 14% higher than they did under pure community rating (Figure 1). Women in their 30s would experience a very small premium increase, and the remaining demographic groups would all experience premium reductions. Men under age thirty, the group with the greatest premium decline, would experience a price reduction of about 67%.

The range of predicted premiums under age-only rating is similar to that under age-gender rating. Scenario 2 (3.5 to1 rate bands with age-only rating) would increase premiums for the oldest groups (those age 45 to 64) by about 13%. Premiums for those below age 45 would decline by as much as 66% (in the age 21 to 24 rating group). Not permitting variation by gender eliminates premium disparities between young men and young women.

Compared to 3.5 to 1 rate band with age-gender rating, wider rate bands of 5 to 1 (scenario 3) have little impact on premiums for men age 40 to 64 or women age 50 to 64. The maximum increase in premiums is 15%, compared to 14% for narrower rate bands. The model predicts modestly greater impact on premiums of moving to wider rate bands among younger IHCP enrollees, with predicted premiums for men age 21 to 29 declining by about 77% (compared to 67% for 3.5 to 1 rating).