

Factors Influencing 2023 Individual Market Premiums





Key Takeaways

- Nearly 20 million Americans buy health insurance coverage through the individual market.
- Health insurance providers are finalizing 2023 plan year premiums. Individual market premiums are expected to increase in 2023 in certain markets.
- Most (89%) consumers enrolled through the Affordable Care Act's (ACA) health insurance marketplaces receive financial assistance to lower their monthly premiums.¹
- The American Rescue Plan Act (ARPA) enhanced and expanded financial assistance for low- and middle-income Americans, resulting in all-time high enrollment through the marketplaces.
- The leading factors impacting 2023 premiums are medical cost trend, COVID-19, pending expiration of the ARPA subsidies, and other policy changes impacting the individual market risk pool.

The individual market is an essential source of comprehensive coverage for Americans who are not eligible for government programs or do not have an offer of coverage through their employer. Many people in this market sign up for coverage through the Affordable Care Act's (ACA) health insurance marketplaces. Most of these marketplace consumers are eligible for financial assistance to lower their monthly premiums and out-of-pocket costs when they seek care.

The individual market has seen significant growth, increasing stability, and expanded competition since the implementation of the ACA. According to the Centers for Medicare & Medicaid Services (CMS), 19.6 million Americans signed up for coverage through the individual market for plan year 2022.² Of those, 14.5 million Americans are enrolled in coverage through the ACA's marketplaces, with nearly 13 million receiving advance payments of premium tax credits (APTC) to lower their monthly premiums.^{3, 4}

The passage of the American Rescue Plan Act (ARPA) in 2021 allowed more Americans to access affordable premiums through enhanced and expanded eligibility for APTCs and resulted in record-high marketplace enrollment. But unless Congress takes action to extend these subsidies, they will expire at the end of 2022. This will be the most significant factor impacting affordability of out-of-pocket premiums in plan year 2023. Expiration of ARPA subsidies and other policy changes impacting the individual market risk pool will impact underlying rates as well as factors related to health care costs, including increases in underlying costs of care, inflation, and COVID-19.

1 CMS. 2022 Open Enrollment Report. January 15, 2022. <https://www.cms.gov/files/document/health-insurance-exchanges-2022-open-enrollment-report-final.pdf>

2 ASPE. Projected Coverage and Subsidy Impacts if the American Rescue Plan's Marketplace Provisions Sunset in 2023. March 23, 2022. <https://aspe.hhs.gov/reports/impacts-ending-american-rescue-plan-marketplace-provisions>

3 CMS. Marketplace 2022 Open Enrollment Period Report: Final National Snapshot. January 27, 2022. <https://www.cms.gov/newsroom/fact-sheets/marketplace-2022-open-enrollment-period-report-final-national-snapshot>

4 Kaiser Family Foundation. Marketplace Plan Selections with Financial Assistance. 2022. <https://www.kff.org/health-reform/state-indicator/marketplace-plan-selections-by-financial-assistance-status-2/?currentTimeframe=0&sortModel=%7B%22collId%22:%22Location%22,%22sort%22:%22asc%22%7D>

Individual Market Risk Pool

ARPA Subsidies

ARPA temporarily enhanced and expanded eligibility for ACA premium subsidies for marketplace coverage in 2021 and 2022 by providing:

- \$0 premiums for low-income individuals with incomes up to 150% of the federal poverty level (FPL) who are not eligible for Medicaid.
- Enhanced premium subsidies for individuals with incomes between 150% and 400% FPL.
- Expanded eligibility for premium subsidies for individuals with incomes above 400% FPL.

Enhanced premium assistance substantially lowered out-of-pocket premiums for low- and middle-income Americans, resulting in record-high enrollment in the ACA's marketplaces. From January 2021 through January 2022, 5.8 million people newly enrolled in subsidized coverage.⁵

If ARPA subsidies expire at the end of 2022, millions of Americans will see substantial increases in out-of-pocket premiums, and the number of uninsured Americans will likely increase significantly. This could result in a decrease in enrollment among healthier individuals with fewer health needs. Absent certainty around Congressional action, health insurance providers must file rates that reflect current law and the expiration of these subsidies. If healthy people are expected to drop coverage because their premiums go up, the remaining individual market risk pool may comprise fewer healthy enrollees, which could increase premiums for those who remain covered.

Medicaid Eligibility Redeterminations

At the end of the PHE, states will redetermine eligibility for 85 million Americans currently enrolled in Medicaid and CHIP. It is estimated approximately 15 million people will lose Medicaid eligibility during this process.⁶ Of those, approximately one-third of adults losing Medicaid and just under 10% of children losing Medicaid are estimated to be eligible for APTCs for marketplace coverage in 2022. However, if enhanced APTCs under ARPA expire at the end of the year, many of these

people would lose eligibility beginning in 2023, leaving just 28% of adults and 5% of children eligible for APTCs.

Because Medicaid enrollees have access to no- or low-cost services, the population transitioning to the individual market may be relatively healthy with little pent-up demand for health care services. However, if there are barriers to transitioning to marketplace coverage—such as insufficient communications and education, challenging or time-consuming enrollment processes, or insufficient enrollment assistance—the individual market could face adverse selection, with only people with significant health needs enrolling. The exact timing and processes are uncertain, which impacts health insurance providers' planning.

Special Enrollment Periods

In Fall 2021, CMS adopted a new special enrollment period (SEP) for low-income individuals with incomes under 150% of the federal poverty level (FPL) who are eligible for APTCs. Eligible individuals may newly enroll in coverage or change plans on a monthly basis. Issuers anticipate this policy will result in churn, with eligible individuals moving in and out of individual market coverage, especially when they need health care. While this SEP was implemented in March 2022, the policy was adopted after 2022 rates had been finalized. Thus, this new SEP could impact 2023 premiums due to the potential increase in partial year enrollments.

Health Care Cost Drivers

Medical cost trend is a key driver of premium growth, reflecting both rising prices and utilization. According to national health expenditure projections from CMS for 2021-2030, private health insurance spending growth for 2023 is projected to be around 7.1%.⁷ This remains elevated compared to pre-pandemic growth but is down somewhat from accelerated growth in 2022.

Inflation

The United States is experiencing record high inflation—9.1% as of publication of this brief—which already has or will soon impact most sectors of the economy. While health care prices typically grow faster than other areas of the economy, there could be a lag before high inflation rates are fully reflected in

5 Biden-Harris Administration Announces 14.5 Million Americans Signed Up for Affordable Health Care During Historic Open Enrollment Period. HHS Press Office. January 27, 2022. <https://www.hhs.gov/about/news/2022/01/27/biden-harris-administration-announces-14-5-million-americans-signed-affordable-health-care-during-historic-open-enrollment-period.html>

6 Urban Institute. What Will Happen to Unprecedented High Medicaid Enrollment after the Public Health Emergency?. September 2021. https://www.urban.org/sites/default/files/publication/104785/what-will-happen-to-unprecedented-high-medicaid-enrollment-after-the-public-health-emergency_0.pdf

7 Poisal, John A., et. al. Centers for Medicare and Medicaid Services. National Health Expenditure Projections, 2021-2030: Growth to Moderate as COVID-19 Impacts Wane. Health Affairs. April 2022. <https://www.healthaffairs.org/doi/epdf/10.1377/hlthaff.2022.00113>

prices for medical care in part because reimbursement rates are contractually set in advance. The American Academy of Actuaries estimates inflationary impacts to health care supply chain and labor costs will flow through to contracted rates in late 2022 and early 2023.⁸

COVID-19

In accounting for potential COVID-19 related costs for plan year 2023, health insurance providers will estimate projected vaccination, testing, and treatment costs as COVID-19 shifts to a more predictable phase. Overall, non-COVID health care utilization is projected to return to pre-pandemic levels, but deferred care from earlier phases of the pandemic could drive utilization and costs upward as patients are now seeking care with more severe disease burden.

Provider Costs

Hospital and provider costs comprise more than half, or 54 cents, of every premium dollar.⁹ Recent trends, including COVID-related health care workforce shortages and hospital consolidation, are poised to place upward pressure on 2023 premiums. As health insurance providers are in the final stages of negotiating provider and hospital contracts for 2023, some hospitals are seeking to increase rates by up to 15%—significantly more than the typical 4-6% increases hospitals typically seek.^{10, 11} These rate increases, in addition to recent trends in hospital consolidation, will increase health insurance premiums. Hospital concentration has been linked to average annual marketplace insurance premiums that are 5% higher than those in less concentrated areas.

Other Policy Considerations

The 2023 Notice of Benefit and Payment Parameters adopted several significant new policies for health insurance providers participating in the ACA's marketplaces for plan year 2023.¹² Most notable among these policy changes are the new requirements for federal review of network adequacy, which will require issuers to add new providers to their networks to meet new time and distance standards. Developing provider networks is one of the core tools available to issuers to create innovative products, control costs, and provide options and

value to consumers. Issuers contract with preferred providers or health care systems by negotiating favorable rates to ensure consumers have access to quality care at a lower cost, minimize premium increases, and incentivize value-based care. However, requiring health insurance providers to add new providers to their networks in areas with hospital and provider consolidation and in this short timeframe will result in higher premiums.

Policy Recommendations for 2023 and Beyond

Congress, the Administration, and states can reduce uncertainty and promote a more stable individual market for plan years 2023 and beyond:

- Congress should act quickly to extend APRA subsidies, providing certainty to health insurance providers and consumers prior to the 2023 plan year.
- [Action](#) is needed to address rising health care costs; promote stable, competitive markets; and expand access to affordable, high-quality care.
- States and the Administration should continue their work to prepare for Medicaid redeterminations at the end of the PHE, including ensuring processes and resources are in place to help Americans complete redeterminations or make a smooth transition to new coverage. Federal and state plans should be transparent so health insurance providers can align their planning and prepare for redeterminations and transitions.
- Generally, policy changes should be finalized well in advance of state and federal filing deadlines to provide health insurance providers sufficient time to develop products, networks, and rates in response to new policies.

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8 American Academy of Actuaries. Drivers of 2023 Health Insurance Premium Changes. June 2022.

<https://www.actuary.org/sites/default/files/2022-06/PremiumDrivers2023.pdf>

9 Where does your Health Care Dollar Go? AHIP. November 12, 2020. <https://www.ahip.org/resources/where-does-your-health-care-dollar-go>.

10 The Hill. Hospitals push for higher prices while hiding real rates from consumers. May 14, 2022. <https://thehill.com/opinion/healthcare/3488399-hospitals-push-for-higher-prices-while-hiding-real-rates-from-consumers/#:~:text=American%20hospitals%20are%20reportedly%20looking,into%20bankruptcy%20and%20financial%20ruin>

11 The Wall Street Journal. Hospitals Look to Raise Treatment Costs as Nurses' Salaries Increase. May 8, 2022. <https://www.wsj.com/articles/hospitals-look-to-raise-treatment-costs-as-nurses-salaries-increase-11652007602>

12 HHS Notice of Benefit and Payment Parameters for 2023. May 6, 2022. <https://www.federalregister.gov/documents/2022/05/06/2022-09438/patient-protection-and-affordable-care-act-hhs-notice-of-benefit-and-payment-parameters-for-2023>