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Fact Sheet

Protecting Affordable Health Insurance for Older Adults: The Affordable Care Act's Limit on Age Rating

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The Affordable Care Act's 3:1 limit on age rating is a critical consumer protection that should be preserved and strengthened. Changes that weaken or eliminate this limit will increase costs for older adults and increase federal spending.

How the ACA Protects Affordable Premiums for Older Adults

The Affordable Care Act (ACA) established a 3:1 limit on age rating of health insurance premiums, meaning that insurance companies cannot charge older adults more than three times the amount younger adults are charged for the same coverage. This limit is a critical consumer protection that ensures older adults—specifically those ages 50 to 64 who are not yet eligible for Medicare—have access to affordable health insurance coverage.

Background: Why the ACA Limit Is an Important Consumer Protection

The ACA's limit on age-related premiums is part of a set of ACA market reforms that protect consumers from discriminatory insurance company practices in the individual (nongroup) and small group health insurance markets. The reforms, which include protections for people with preexisting conditions, ensure that insurance companies cannot charge significantly higher premiums or deny coverage based on a person's health or age.

Before the ACA, Older Adults Faced Trouble Obtaining Affordable Coverage

Prior to enactment of the ACA, many older adults ages 50–64 who were not old enough to be eligible for Medicare but who did not have coverage through an employer had difficulty obtaining health insurance coverage on their own in the individual market.[1] If coverage was available, older adults were often charged much higher premiums due to their age or a preexisting condition, making it unaffordable and out of reach.

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While a small number of states limited the insurer practice of age rating—which is the practice of varying premiums based on age—prior to the ACA, most states did not restrict this practice.[2] Consequently, insurance companies routinely charged older people much higher amounts than younger people for the same coverage in the individual health insurance market.

Prior to the ACA, average out-of-pocket premium and health care costs for older adults were found to be two and a half times higher in the individual market than for employer coverage in which premiums do not vary by age.[3] Differing age-rating policies from state to state resulted in wide variations in consumers' access to affordable coverage.

The 3:1 Limit on Age Rating Ensures Older Adults Can Access Coverage

The ACA's limit on age rating is one of the ACA consumer protections intended to prohibit discriminatory pricing of premiums. Insurance company practices that commonly charged older adults significantly higher amounts are no longer permitted.

The 3:1 limit on age rating means that a 64-year-old adult who is not yet eligible for Medicare cannot be charged any more than three times the premium of a 21-year-old adult for the same plan. States are permitted to enact rules that are even more protective of the consumer and require narrower age-rating limits.[4]

Concerns about Potential Changes to the Current Limit on Age Rating

Some recent health reform proposals weaken age-rating protections by either allowing insurers to vary premiums by a looser ratio of 5:1 instead of the current 3:1 limit, or by eliminating this federal consumer protection altogether.[5] Proponents argue these actions would lower costs for younger age groups and thereby encourage greater enrollment by younger adults. However, there are significant concerns associated with such changes.

Weaker Limits Will Increase Premiums for Older Adults

Weakening or eliminating the ACA's 3:1 limit on age rating will increase premiums for older adults, making coverage often unaffordable for this age group. Meanwhile, such a change would only marginally lower costs for younger people.[6]

Estimates show that changing the age-rating limit to 5:1 would increase yearly premiums for an average 64-year-old for a silver plan by $2,100 (from $8,500 to $10,600), while reducing premiums for a 21-year-old by only $700 (from $2,800 to $2,100).[7]

Weaker Limits Will Increase Financial Burdens on Older Consumers

Premiums are only part of the costs for health coverage. Older adults face higher out-of-pocket medical costs for cost sharing and deductibles. Even under a 3:1 age-rating ratio, average medical spending for older adults who don't qualify for subsidies was estimated by the Urban Institute to be $15,620 annually, compared with $5,820 for younger adults.[8] Costs for older families are even higher: $28,410 annually compared with $12,900 for younger families.

Older adults are not necessarily better able to afford these costs than younger adults. Analysis of income data prior to adoption of the ACA found that average family income for uninsured older adults was only marginally greater than that of younger uninsured adults.[9]

Weaker Limits Will Cause Older Adults to Lose Coverage and Higher Federal Spending

Looser age-rating limits will have a harmful impact on coverage for older adults. Changing the current 3:1 limit to 5:1 would raise costs for older adults so much that an estimated 400,000 older adults would no longer be able to afford to purchase a health plan and would lose their coverage, according to a Commonwealth Fund study.[10]

Furthermore, the study found that such a policy change would increase federal spending by $9.3 billion, due primarily to the increased number of older adults becoming eligible for greater federal financial assistance (subsidies).

Conclusion

The ACA's limit on age rating of health insurance premiums is critical to ensuring that millions of older adults can afford health coverage so they receive care when they need it. Changes to weaken the current 3:1 limit on age rating to 5:1, or changes to eliminate this federal protection should be strongly opposed due to their harmful impact on older adults. **The ACA's federal age-rating protection should be maintained and strengthened—not weakened or eliminated.**

1 Gerry Smolka, Leigh Purvis, and Carlos Figueiredo, "Health Care Reform: What's at Stake for 50- to 64-Year-Olds," AARP Public Policy Institute, Insight on the Issues #I24, March 2009.

2 Justin Giovannelli, Kevin W. Lucia, and Sabrina Corlette, "Implementing the Affordable Care Act: State Approaches in the Individual Health Insurance Market," The Commonwealth Fund, December 2014. Available at: http://www.commonwealthfund.org/~/media/files/publications/issue-brief/2014/dec/1795_giovannelli_implementing_aca_state_premium_rate_reforms_rb_v2.pdf. See also National Association of Insurance Commissioners, "Rate Regulation," July 1, 2009. Available at: http://www.naic.org/documents/topics_health_insurance_rate_regulation_brief.pdf.

3 Gerry Smolka, Megan Multack, and Carlos Figueiredo, "Health Insurance Coverage for 50- to 64-Year Olds," AARP Public Policy Institute, Insight on the Issues #I59, February 2012.

4 Massachusetts, New York, and Vermont have adopted age-rating limits that are narrower than the federal requirement. See, Giovannelli et al., *Implementing the Affordable Care Act*.

5 House Speaker Paul Ryan, "A Better Way: Health Care", June 22, 2016. Available at: https://abetterway.speaker.gov/_assets/pdf/ABetterWay-HealthCare-PolicyPaper.pdf. See also Senator Richard Burr et al., Patient Choice, Affordability, Responsibility and Empowerment (CARE) Act, February 2015. Available at: http://energycommerce.house.gov/sites/republicans.energycommerce.house.gov/files/114/20150205-PCARE-Act-Plan.pdf

6 Linda Blumberg and Matthew Buettgens, "Why the ACA's Limits on Age-Rating Will Not Cause "Rate Shock": Distributional Implications of Limited Age Bands in Nongroup Health Insurance," The Urban Institute, Washington DC, March 2013. Available at: http://www.urban.org/sites/default/files/alfresco/publication-pdfs/412757-Why-the-ACA-s-Limits-on-Age-Rating-Will-Not-Cause-quot-Rate-Shock-quot-Distributional-Implications-of-Limited-Age-Bands-in-Nongroup-Health-Insurance.PDF

7 Christine Eibner and Evan Saltzman, "Technical Appendix: Rate Banding Analysis," in *Charging Older Adults Higher Premiums Could Cost Taxpayers* (Washington DC: Commonwealth Fund, September 15, 2015). Available at: http://www.commonwealthfund.org/~/media/files/publications/blog/2015/eibner_rate_banding_tech_append_090215_clean_pf.pdf

8 Blumberg and Buettgens, *ACA's Limits on Age-Rating*.

9 Analysis of March 2008 Current Population Survey data found that the median family income for uninsured 18–24-year-olds was $28,461, while the median family income for uninsured 50–64-year-olds was $30,000. See Lynn Nonnemaker, "Beyond Age Rating: Spreading Risk in Health Insurance Markets," Insight on the Issues, AARP Public Policy Institute, Insight on the Issues #I35, October 2009.

10 Eibner and Saltzman, *Technical Appendix*.

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