



January 11, 2010

Honorable Olympia Snowe
United States Senate
Washington, DC 20510

Dear Senator:

In late November, the Congressional Budget Office (CBO) and the staff of the Joint Committee on Taxation (JCT) released an analysis of average premiums for health insurance under the Patient Protection and Affordable Care Act (PPACA) as introduced.¹ That analysis compared the estimates of average premiums in 2016 under the proposal to those that would prevail under current law and distinguished the effects among the markets for individually purchased (nongroup) coverage, for small-group coverage, and for large-group coverage.

This letter responds to your request for additional information about expected premiums under that proposal for policies that would meet the minimum requirements necessary to avoid paying a penalty for not having insurance. As a rule, individuals would be required to have a policy covering the “essential benefits” specified in the legislation and having an actuarial value of at least 60 percent in order to avoid such a penalty. (A plan’s actuarial value is the share of costs for covered services that it would pay, on average, with a broadly representative group of people enrolled.) That minimum level of coverage is designated as a “Bronze” plan.

Several caveats apply to this analysis of Bronze premiums. First, it draws on the calculations of premiums that were done for the PPACA as originally introduced; as indicated in CBO’s cost estimate for the PPACA incorporating the manager’s amendment, the effects of the Senate-passed legislation on premiums are likely to be quite similar to those estimates but may not be identical.² Second, CBO has not analyzed premiums for Bronze

¹ Congressional Budget Office, “An Analysis of Health Insurance Premiums Under the Patient Protection and Affordable Care Act,” attachment to a letter to the Honorable Evan Bayh (November 30, 2009).

² Congressional Budget Office, *cost estimate for the Patient Protection and Affordable Care Act, incorporating the manager’s amendment* (December 19, 2009).

plans as closely as the overall average of premiums discussed in that earlier analysis—in part because, under the proposal, federal subsidies would be tied to the premiums of “Silver” plans (which would cover the same benefits but would have an actuarial value of 70 percent). In particular, the figures for Bronze premiums presented below reflect an assumption that the average age, family characteristics, and other factors associated with health care costs of enrollees in Bronze plans would be similar to those of enrollees in Silver plans (or that any impact on premiums of differences in those characteristics would be effectively offset by the risk-adjustment system and other such mechanisms that would be established under the proposal). Third, these figures do not reflect any subsidies provided by the government for the purchase of insurance (either currently or under the proposal). Finally, as in the previous analysis of premiums, the figures presented here represent national averages; premiums for specific individuals would differ on the basis of their age, average spending on health care in their area of the country, and the specific plan they chose.

Overall, CBO estimates that premiums for Bronze plans purchased individually in 2016 would probably average between \$4,500 and \$5,000 for single policies and between \$12,000 and \$12,500 for family policies. For comparison, the previous analysis of the PPACA as introduced found that average premiums among all types of plans in 2016 would be about \$5,800 for single policies and about \$15,200 for family policies. Average premiums for Bronze plans would be lower than average premiums for all plans because the actuarial value of Bronze plans would be 60 percent, compared with an estimated average actuarial value for all individually purchased plans of roughly 72 percent. That lower actuarial value would reduce premiums for Bronze plans directly, because the policy would pay for a smaller share of enrollees’ costs for covered services, and indirectly, because enrollees would use slightly fewer or less-expensive services when faced with the higher cost-sharing requirements included in Bronze plans.

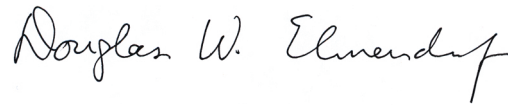
You also asked about the premiums that small employers would have to pay for the Bronze level of coverage. Under the legislation, small employers would be allowed to purchase coverage for their employees through the new insurance exchanges. More generally, the premiums that insurers charged to small employers for new policies, whether or not they were purchased through the exchanges, would be subject to the same rules on pricing that applied in the exchanges and would also be subject to risk adjustment (to offset the effects that having sicker-than-average or healthier-than-average enrollees would have on a plan’s premiums). Even so, the premiums for coverage purchased by a small employer would depend on the ages of the workers and dependents covered by the policy. If those employees had the same characteristics as the average individual

purchaser of Bronze plans, then the premiums for the employer's Bronze plan would be equivalent to the figures cited above.

In general, however, small employers would provide plans with a greater amount of coverage than Bronze plans, as they do under current law. The average premiums in 2016 for plans provided by small employers cited in the recent analysis by CBO and JCT—about \$7,800 for single policies and \$19,200 for family policies—differ from the amounts cited above for individual Bronze policies primarily because the average actuarial value of coverage purchased by small employers would be substantially higher than the Bronze level (about 85 percent, CBO estimates, rather than 60 percent). The premiums for specific employers could deviate significantly from those averages for various reasons.

I hope this information is helpful to you. If you have any further questions, please contact me or the CBO staff. The primary staff contact for this analysis is Philip Ellis.

Sincerely,



Douglas W. Elmendorf
Director

cc: Honorable Harry Reid
Majority Leader

Honorable Mitch McConnell
Republican Leader