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Kentucky health insurance market in death spiral

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Although on the chopping block during President Donald Trump's first 100 days in office, very little of the Affordable Care Act will change.

Despite ACA remaining intact, Kentucky's insurance market is getting weaker and will likely see dramatic premium hikes and fewer insurance options for Kentuckians in the future.

Welcome to the Kentucky death spiral. It is not a new rollercoaster but a reaction to individual incentives set up by ACA.

For example, you expect $3,000 in medical expenses and want full coverage. But the comprehensive plan that covers all of your expenses also attracts people with medical expenses of $10,000 or even $100,000.

To break even on the comprehensive plan, insurance companies set higher premiums, which are based on the insurance needs of the entire group — not just you. This means the comprehensive plan, the gold plan, costs too much relative to your anticipated expenses. So, you chose a plan with lower premiums and less coverage even though you'd prefer comprehensive coverage.

When you leave the comprehensive plan, the average medical expenses of that group increase. This free movement makes it difficult for insurers to accurately price premiums and causes private insurance companies to take losses. And losses force businesses to close up shop and leave the market or to ratchet up premiums. And when they do ratchet up premiums, even more people

Two primary features of ACA encourage the death spiral. First, all plans are available to applicants regardless of their health status. So, people who gamble and sign up for the bronze plan and then end up with a serious medical condition and large medical expenses can move up to the gold plan during the next open enrollment and pay the same premiums as others in that gold plan.

Second, most people purchasing insurance from the Marketplace get taxpayer subsidies. People pay the difference between the premium on the plan they choose and the fixed “voucher” amount the government provides toward health insurance.

If for example, the government provides a $2,500 voucher and the premiums on less comprehensive to more comprehensive plans varied from $2,000 to $3,000 to $5,500, the out-of-pocket costs would be $0, $500 and $3,000, respectively.

Such glaring differences would induce healthy individuals to choose the less comprehensive plans with higher deductibles and co-payments.

Despite these features, local policy advocate, the Kentucky Center for Economic Policy, has recently expressed skepticism on whether Kentucky faces a death spiral. KCEP’s own statistics demonstrate that this spiral is well underway. Since 2014 half of the companies participating in the Kentucky exchange have dropped out leaving an astonishing 68 percent of Kentuckians with only one or two insurers to choose from.

Additionally, Kentuckians overwhelmingly chose less comprehensive plans, bronze or silver — only 6 percent signed up for the more comprehensive gold plan. KCEP argues, “But since the vast majority of people choose lower ‘metal’ plans this means either they didn’t feel like they could afford plans with greater coverage, or they were healthy enough not to need them.” The statement about “not needing them” doesn’t hold water. Individuals would still purchase comprehensive insurance if the premiums reflected their expected use of the insurance.

The key reason that 93 percent of Kentuckians chose silver or bronze plans is that they didn’t want to pay premiums that cover severely sick individuals — the core ingredient for a death spiral. The current design of the ACA encourages individuals to move among the plans leading to negative revenue and either premium hikes or insurers leaving the market. Expect higher premiums and less choice in the future.

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