Written by **Michael Tennant** on April 19, 2016

ObamaCare Losses Bring Rate Hikes and Insurer Exits

The ObamaCare exchanges are driving health insurers deeply into the red, and unless insurers are allowed to raise premiums significantly this year, they may well bid the exchanges farewell, companies and analysts alike are warning — and Democrats, in an election year, are fearing.

Affordable Care Act (ACA) critics have long predicted that the law's incentives — guaranteed coverage regardless of pre-existing conditions, rates disconnected from risk — would lead to an increasingly sick pool of beneficiaries and, ultimately, a "death spiral" of skyrocketing premiums and a dwindling customer base. Insurers, not wanting to be caught in the vortex, are hinting that big rate increases will be necessary to keep their exchange plans solvent. At least one major insurer has already announced that it is likely to leave the exchanges and has, in fact, done so in a few states.

"Something has to give," the Kaiser Family Foundation's Larry Levitt told *The Hill*. "Either insurers will drop out or insurers will raise premiums." Kaiser has long been one of ObamaCare's biggest boosters.

FaegreBD Consulting Senior Director Michael Adelberg, who touts his "20 years of progressive experience with Medicare, Medicaid, and the Health Insurance Exchanges," including a stint at the Centers for Medicare and Medicaid Services (CMS) under President Barack Obama, voiced similar concerns in an interview with the D.C. newspaper.

"Given that most carriers have experienced losses in the exchanges, often large losses, it only makes sense that most exchange insurers will request significant rate increases for 2017," he said. "Market exits are not out of the question if an insurer is looking at consecutive years of losses and regulators are unable to approve rates that get the insurer to break-even."

That insurers have been losing money on the exchanges is not even debatable. A February McKinsey and Company study found that in 2014, insurance plans on the individual market, which includes the exchanges, were in the red in 41 states and the District of Columbia. Blue Cross Blue Shield issued a report the next month stating that its new individual-market enrollees under ObamaCare "received significantly more medical care" than prior enrollees, and in 2015 they cost the insurer 22 percent more on average than those who got coverage through their employers.

Aetna CEO Mark Bertolini said in February, "We continue to have serious concerns about the sustainability of the public exchanges," pointing in particular to the risk pool skewed toward those who use the most healthcare.

There is only one way for an insurer to continue to offer exchange coverage without losing his shirt: jack up rates.

"The industry is clearly setting the stage for bigger premium increases in 2017," Levitt told *The Hill.*

Of course, in the highly regulated insurance market, insurers can't simply raise their rates at will. They have to get the permission of state insurance regulators, who are generally loath to approve major increases. Those who are Democrats will be even more reluctant to do so in a year when their party, which bears sole responsibility for the ACA, hopes to retain control of the presidency and perhaps make some gains in Congress.

What happens if the needed rate hikes are denied or severely curtailed? Insurers may well decide to cut their losses by hightailing it out of the exchanges.

UnitedHealth Group, the nation's largest health insurer, announced last November that it might withdraw from the exchanges after 2016. The company said it lost $700 million on the exchanges last year and expected to drop another $200 million or more this year (some of this year's expected losses were included in last year's). The insurance giant has already decided that it will bolt the exchanges in Arkansas, Michigan, and Georgia.

The Obama administration, naturally, dismisses fears of a death spiral. Mandy Cohen, CMS' chief operating officer, told *The Hill* there is "absolutely not" a risk of an exchange collapse. The administration says UnitedHealth's departure is of minimal importance because it is "actually a fairly small player in the marketplaces," the paper wrote.

However, as Kaiser noted in a new report, the exchanges' loss of UnitedHealth reduces competition and will almost certainly harm consumers. Although it will have a "modest" effect on premiums nationwide — perhaps an increase of about one percent on the benchmark "silver" plans — in some counties the effect could be much more significant, the report said. "Without UnitedHealth's participation in 2016, monthly benchmark premiums for the second lowest cost silver plan for a 40 year-old would have been $25 to $100 higher in 304 of 3,142 counties in the U.S. and more than $100 higher in 13 counties," wrote the foundation. In addition, UnitedHealth's exit will reduce the number of plans from which enrollees can choose, adding 1.1 million people to the rolls of those with just one exchange plan option.

Moreover, UnitedHealth isn't the only insurer considering abandoning the exchanges. According to *The Hill*,

> There have been some rumblings of discontent from Blue Cross plans. The plan in New Mexico already dropped off the marketplace there last year after it lost money and state regulators rejected a proposed 51.6 percent premium increase. Now, Blue Cross Blue Shield of North Carolina says that it might drop out of the marketplace because of its losses.
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> Blue Cross of North Carolina CEO Brad Wilson said in an interview that the company had lost $400 million due to its ObamaCare business.
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> "We're not alone, and I think that that also is evidence to suggest that there are systemic and fundamental challenges that we all need to have a civilized conversation about," Wilson said.

Wilson told the paper he's not expecting a death spiral "tomorrow" but thinks one is possible if changes aren't made, such as reducing special enrollment periods that insurers say allow people to game the system and repealing the ACA's tax on health insurance.

Likewise, S&P Dow Jones Indices consultant Michael Taggart, whose company confirmed that insurers' costs on the exchanges are spiking, said, "We made a significant change in the rules with the ACA, and we're still working through the process to see how that market stabilizes. Is [a death spiral] a possibility? Sure it's a possibility. I wouldn't attempt to put a probability on it, because I think there are a lot of things going on."

Levitt, still trying to put a good face on things, told *The Hill*, "What we're likely to see is more of a market correction than any kind of death spiral. There are enough people enrolled at this point that the market is sustainable. The premiums were just too low."

In other words, the already-high exchange premiums will have to be allowed to rise to something approaching market levels in order to avoid a death spiral. Even with the ACA's generous subsidies, that is hardly likely to make healthcare any more affordable for the people who need it most.