Top Cost Drivers of 2023 Health Plan Premiums

California Association of Health Plans

California's Health Plan premium costs in 2023 will be driven by several factors across the individual and small group marketplaces, particularly the return of normal pre-pandemic medical trends, continued COVID-19 uncertainty, inflation, increased mental health and telehealth utilization, and other factors. Covered California's preliminary rate increase for 2023 of six percent was influenced most significantly by the potential expiration of American Rescue Plan subsidies, which is currently being debated in Congress and if extended, will quell the doubling of premiums for nearly one million Californians currently participating in the exchange, and the departure of 220,000 more consumers from having coverage.

Here are the top factors expected to contribute to premium increases in the individual and small group markets:

1. **Expiration of American Rescue Plan Enhanced Premium Subsidies:** The possibility of American Rescue Plan subsidies expiring at the end of 2022 is expected to have a negative effect on enrollment with the youngest and healthiest most likely to forgo coverage. The uncertainty surrounding this potential change in the risk pool is expected to impact premiums.

2. **Return of Normal Pre-Pandemic Medical Trends:** After more than two years of below normal medical utilization due to the pandemic, people are returning to doctor offices and utilization is now back to near pre-pandemic levels.

3. **Uncertainty Surrounding COVID-19 Variants:** Despite being more than two years into the pandemic, COVID-19 still has the potential to cause a wide array of effects on 2023 premiums. There is uncertainty about whether new variants and the impact of "long COVID" will result in serious health problems for enrollees. While insurers should see a stabilization in treatment costs, there is still uncertainty as rapidly evolving variants continue to cause health concerns.

4. **Increased Mental Health and Telehealth Utilization:** Mental health utilization has grown during the COVID-19 pandemic with many people also seeking mental health counseling through telehealth services. According to a Kaiser Family Foundation report, from March to August 2021, 39 percent of telehealth outpatient visits were for a mental health or substance use diagnosis. Among all outpatient visits, the share with a mental health or substance use diagnosis grew from 4 percent in 2019 to 8 percent during the pandemic. Increased demand for mental health services, limited supply of mental health care providers, and uncertainty over telehealth regulation will likely have an impact on costs in 2023.

5. **Misusing the Special Enrollment Period:**
   - Californians are eligible to get coverage outside of the open enrollment window if they have a qualifying life event like losing employer coverage, moving, or a change in family status. There is evidence that some are using the special enrollment period to forgo coverage and then enroll later in order to get medical care.
   - This practice drives up costs for everyone.
   - According to a Harvard study, people who enroll during the special enrollment period (SEP) have 34% higher health care costs than those who enroll during open enrollment. Those who enrolled during SEP had inpatient health care costs between 69% and 114% higher and emergency care costs that were between 11% and 19% higher.
   - Enforcement of the special enrollment period through documentation and verification is necessary to ensure premiums remain fair and affordable for everyone.

6. **Inflation:** Higher inflation is likely to lead to an increase in reimbursements. Broadly drivers of inflation impact the entire health care supply chain and will be reflected in higher costs. Energy and higher labor costs are also expected to impact medical providers next year.

Other Factors Contributing to premium Increases: The ever-increasing prices of prescription drugs continue to place upward pressure on premiums. In 2020, health plans paid more than $10 BILLION for prescription drugs, nearly $500 MILLION more than in 2019. California also continues to be plagued by ongoing issues surrounding third party payer abuse where some providers will pay commercial premiums for enrollees so they can receive higher reimbursement rates for treatments than they would in public programs. This is particularly problematic with some drug rehabilitation centers and should be looked at more closely by policymakers. Finally, some hospitals are looking to increase rates in contracts for 2023 by as much as 15% to cover the costs of rising nurses' salaries. Such increases on rates are also expected to affect health insurance premiums.

● *Applies to Covered CA Only* ● *Applies to Covered CA plus the individual and small group markets*

Sources: American Academy of Actuaries Issue Brief: Drivers of 2023 Health Insurance Premium Changes | Kaiser Family Foundation Analysis, March 2022 | Harvard study, August 2020