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UHP Newsletter

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Update on ACA & Student Health Insurance

Now that President Obama has been reelected and the Affordable Care Act (ACA) has been upheld by the Supreme Court, it is time to focus again on how ACA affects Student Health Plans (SHPs).

The initial ACA requirements that were implemented for the 2012/13 policy year have required many SHPs to increase benefits. As predicted, the increased benefits have resulted in significant premium increases, some schools declining to offer programs due to increased premiums or mandates, and a few insurance companies ceasing to offer SHPs and leaving the student market.

MAXIMUM BENEFIT REQUIREMENTS

ACA requires all SHPs to provide a maximum benefit of at least $500,000 for policy year 2013/14, and unlimited maximums for policy year 2014/15 and beyond. The additional benefits will continue to put pressure on premiums, increase the probability of more schools ceasing to offer SHPs and pressure some of the smaller insurance companies to exit the market. Smaller insurance companies may be helped if they can include reinsurance costs as a claims expense.

MEDICAL LOSS RATIOS

The medical loss ratio (MLR) is calculated by dividing the claims paid by the premium earned. ACA requires the MLR for SHPs to be 80% or greater. If the MLR falls below 80%, the insurance company is required to rebate the difference between 80% and the actual MLR to the payer. We will discuss rebates further in the next section. The 80% MLR is calculated after all state and federal taxes/fees have been subtracted from the premium.

The MLR will be based upon the insurance company's national book of SHPs and calculated by calendar year, beginning January 1, 2013. SHPs will be allowed a slight modification in calculating the MLR for 2013, but there will be no modifications to the MLR calculation for SHPs after 2013.

Some of the questions that still need to be answered include:

- Can pooling or reinsurance charges be included as a claims expense?
- Can broker fees be charged as a separate administrative fee, not included in the MLR?
- Can website management fees be charged as a separate administrative fee?
- If the premium is paid through financial aid, or by the school, who gets the rebate?

Underwriting rationale will most definitely be conservative. The insurance companies would prefer to give premium back rather than underwrite at a loss.

REBATES

Unfortunately, the final rule requires insurers to issue rebates directly to the students, rather than to the college or university policyholder. Issuing rebates directly to students is administratively complex given the transient nature of the student population, and the unlikelihood of students who have graduated or left the school updating their mailing address with the school and/or insurer. In many instances, finding the correct address and actually getting the rebate checks to the students will likely cost more than the amount of the rebates. SHPs are underwritten on a policy year basis, generally August to August or September to September, the rebate is based upon calendar year calculations, further complicating the rebate process.

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ACA TAXES & FEES

ACA implementation will also impose additional taxes or fees on insurance premiums. Some of the fees will be allocated as a flat dollar amount and each company will be responsible for varying amounts based on market share. The largest burden will be on the more successful or larger companies. Estimates of the effect of the increased taxes and fees range from 4-8% in 2013/14 and could be higher in later years. The tax as a percentage of premium is less as the premium increases because a portion of the tax is based on a per subscriber fixed cost. These estimates are higher than the tax impact on employer benefit plans due to lower SHP premiums. State premium taxes, 2-4%, added to the new ACA taxes and fees may result in total government contributions eventually exceeding 6-10% of the SHP premium. The additional taxes/fees will increase SHP premiums proportionately, and provide incentive to self-insure.

COMPETITION

The National SHP market is really limited to Aetna, United HealthCare, Chartis/AIG, Nationwide, Combined, Ace, and some of the Anthem/Blue Cross Blue Shield plans. Locally, not all carriers participate in the SHP market, so there could be a choice of only a few. In addition, some of the smaller SHP insurers will not underwrite the large school market, further limiting competition. The potential tax burden on the larger health insurance companies may produce a competitive advantage for the "student only" carriers.

SELF-INSURING

Self-insuring SHPs becomes a more viable option as a result of the increased taxes and fees identified previously. Self-insuring a SHP can save 6-9% on insurance company retention expenses depending upon stop-loss levels purchased. Adding the potential 10% savings from eliminating the aforementioned taxes/fees results in a possible annual savings of 16-19%, more than enough to justify self-insuring.

Insurance companies will design new stop-loss programs to simplify this approach. In addition, by self-insuring, the individual rebate mandate may be avoided, leaving any excess premium in the claim reserve to be utilized to develop stop-loss options or provide premium subsidy.

There is still some uncertainty as to whether the flat tax mentioned above will be imposed on self-insured plans. Some of the insurance companies would prefer that tax to be included for self-insured plans and be equal for all.

We anticipate additional clarification of the SHP regulation and will keep you informed as the regulations are adjusted.

About Our Organization...

University Health Plans (UHP) is a leading benefit brokerage/consulting firm specializing in the design, brokerage, and service of College and University student health insurance programs.

Using a team approach, UHP currently manages the student health insurance programs for over sixty-five colleges and universities.

We specialize in managing student health insurance programs, in addition to offering ancillary programs such as sports and travel assistance. Student health insurance is our only line of business so we devote 100% of our energies and resources to ensure cost effective student health insurance with superior customer service.

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