Oral Testimony given August 27, 2014 before the Sub-Committee on Health, Employment, Labor, and Pensions at a hearing entitled "*Health Care Challenges Facing Kentucky's Workers and Job Creators*"

I would like to thank Chairman Roe, Ranking Member Andrews and Congressmen Barr, Guthrie and Yarmuth, for the opportunity to testify about the challenges that many employers in Kentucky will face in the coming months as the Affordable Care Act is fully implemented. My name is John Humkey. I am the president and founder of a benefits insurance agency here in Lexington. My clients are made up of individuals, small employers and large employers. I have held a Life and Health Insurance license in Kentucky since 1977. I am also a member of the National Association of Health Underwriters and I am a Past-President of our local chapter – The Central Kentucky Association of Health Underwriters.

Today I would like to address the impact of the Patient Protection and Affordable Care Act (ACA) and in particular "Modified Community Rating" on Small employer groups (my clients) in Central Kentucky.

For those not familiar with Modified Community Rating this part of the Affordable Care Act impacts individual and small group (50 employees or less) health plans. This rating model only allows for an insured members age (3:1), tobacco use (1.5:1), family composition and geographic regions (defined by each state) to be used in establishing premiums. It eliminates traditional underwriting considerations such as health status, gender & industry code if you are a group.

So let me expand on some of these considerations. **Age** – Currently an insurer may allow for a spread in premiums using a 5:1 ratio. To simplify, a male, age 25 may have a premium of $100 per month and a male age 64 would be charged $500 per month. Thus a 5 to 1 ratio, from the highest to lowest premium charged. The ACA compresses this to a 3 to 1 ratio thus forcing younger insured's to subsidize a premium reduction for older insured members. Currently there is a bill before congress – HR 544, a piece of bipartisan legislation introduced by Representatives Phil Gingrey (R-GA) and Jim Matheson (D-UT) that seeks to address the impact that the ACA's age-rating rules have on young Americans. Forty-two states nationwide now have in place a 5:1 age-band. This bill will change the 3 to 1 ratio that begins on January 1st and instead allow states the flexibility to determine their own age-band or default to a 5 to 1 ratio. I would encourage you to support this bill. **Gender** – with the elimination of gender in Modified Community Rating the load for maternity traditionally charged to younger females will now be shared with males. So young males can expect their rates to increase significantly in Modified Community Rating. **Health Status** – The elimination of health status in Modified Community Rating may have the greatest impact on individuals and small employer groups purchasing health insurance. In a nut shell healthy individuals and groups will pay more in premium to subsidize the unhealthy. Individuals will lose a significant motivation to live a healthier lifestyle **or** for an employer to implement wellness programs within their company. Why invest company dollars to implement a wellness program for your employees when healthier employees (i.e. lower claims) will not have an impact on their premiums. Admittedly there are other motivations and considerations to implement wellness programs but it does take away a significant factor in calculating a return on investment (ROI) when deciding to spend money on implementing a company wellness program.

In addition to Modified Community Rating for individuals and small employer groups the ACA mandates certain "Essential Benefits" be included in health plans. There are ten Essential Benefits in all. One that stands out that is not currently included in most health plans is coverage for Pediatric Dental & Vision. As noble and attractive as mandated benefits are each mandate adds to the cost of claims and thus increases the premiums insurers must charge their customers.

So let me paint you a picture …. The young, young males and the healthy will be required to pay significantly higher premiums under the ACA. The older, young females and those with significant health conditions may pay less in premium. In other words this law in my opinion picks winner and losers. This may force many young adults and healthy individuals to drop coverage as premiums under the ACA double. As the young and healthy leave these insured pools the less healthy will enroll for coverage and as a result claims and premiums <u>will go up</u>.

As we move with the full implementation of the ACA on January 1, 2014 let me share with you some facts and the impact of the ACA upon some of my small employer groups. Insurance Carriers here in Kentucky have already begun to notify agents and brokers, as well as our clients directly that many of them will be looking a significant premium increases when their plans renew in 2014. It is not necessary to name the insurance companies because this trend is universal among carriers. I have clients that have been notified of an increase from 11% to a high of 110%. The great majority of these increases are in the range of 50% to 90%.

I have great clients that provide good benefit packages to attract and retain skilled employees. Most pay a significant portion of these premiums. Many treat their employees as family. But next year many employers in Kentucky as around this country will face significant premium increases that will force them to radically change the way they provide benefits to their employees or in extreme cases like my client that is facing a 110% increase, may be forced to drop health insurance altogether and send their employees into the exchanges. In speaking with my client that is facing the 110% increase in his health insurance premiums next year this small employer had some very colorful words to express his dismay that I will not repeat in my testimony today. He is now faced with significantly changing the benefits he now provides his employees or worst dropping coverage altogether.

Let me end my testimony with this thought: “No matter how fair a market reform idea might seem on its surface, it's not at all fair if it also prices people out of coverage options”. This is what the Affordable Care Act will do to thousands of Kentuckians on January 1st.