



Methodology for Estimating the Effect of the Affordable Care Act on the Average Premium for a Family of Four in 2011

The two provisions in the Affordable Care Act likely to have the greatest effect on the premiums for employer-sponsored health coverage in 2011 are allowing children up to age 26 to remain on their parents' plans and requiring plans that are not grandfathered to provide preventive services with no patient cost-sharing. Our analysis, based in part on estimates provided by federal agencies when regulations implementing these provisions were issued, suggests that these provisions are responsible for 1-2 percentage points of the 9% increase in family premiums in 2011.

Our methodology for these estimates is as follows:

Coverage of Preventive Services

The prevention requirement applies only to non-grandfathered plans (i.e., plans that were in existence prior to the health reform law passing and that have not made significant changes to coverage since that time). The economic impact analysis included in the regulation when issued by the federal government estimates that eliminating cost-sharing on preventive services already covered by employer plans would increase premiums by \$24 per year on average, or 0.6%. Adding new preventive services required under the regulation would result in an increase of 0.12% and increased utilization due to no patient cost-sharing would result in an increase of 0.44%. Therefore, the total projected increase for non-grandfathered plans is 1.16%. The 2011 Kaiser-HRET Employer Health Benefits Survey finds that 56% of workers are in grandfathered employer-based plans. Accounting for this estimate, the average premium increase across all employer-sponsored plans due to the prevention requirement would be about 0.5% in 2011.

Allowing Young Adults to Remain on Their Parents' Plans

The dependent coverage provision applies regardless of grandfather status, although employers with grandfathered plans do not have to offer eligibility to dependents up to age 26 who themselves have access to employer-sponsored coverage.

Increasing the age at which dependents can remain on their parents' policies has two effects on the cost of employer-sponsored coverage.

First, it shifts workers from lower cost coverage tiers to higher cost tiers. For example, a family consisting of two parents with one child age 24 might have enrolled in couple coverage under prior law but would now choose a plan covering two parents plus children. The premium paid for

this particular family would be higher, but the premium an employer pays for families in general shouldn't change materially.

Second, with respect to families who already have one or more children covered under the policy, adding additional dependents would increase the average family size overall in the relevant coverage tier and therefore increase the premium. For example, a family consisting of two parents with one child under age 18 and one child age 24 might already be enrolled in a plan covering two parents plus children. Adding another dependent would not change the coverage tier in which they enroll. But, it would change the average family size in that tier, and therefore the premium.

(Note that the effect of the provision will depend on the number and type of coverage tiers, which can vary from employer to employer. We assume that employers use four tiers: single worker, couple, single parent with children, and two parents with children. The 9% premium increase found in our 2011 employer survey is for coverage for a family of four, which under this assumption would be for a plan covering two parents with one or more children.)

Our estimate of the impact on the premium of an employer-sponsored policy covering a family of four in 2011 is based on the following:

- Our 2011 survey finds an estimated 2.3 million dependents up to age 26 were enrolled due to the new policy.
- Based on analysis of the family structure of people with employer coverage using the 2008 Medical Expenditure Panel Survey (MEPS), we estimate that 47% of children with employer coverage are in families with two or more children. We use this estimate to allocate dependents into the coverage tier for families with two parents plus children (about 1.1 million). Based on federal agency estimates, we assume that each new dependent costs \$3,220 in 2011. (Note that the analysis of MEPS looked at 19-23 year old children to most closely match the population covered by the new dependent coverage provision.)
- Our 2010 employer survey found that 34% of covered workers elect family coverage. With an estimated 71.8 million covered workers in 2011 and the cost of a policy covering a family of four of \$15,073, we estimate the average effect on a family of four premium of about 1%.