

Improving the Health Insurance Marketplace

Modified community rating

The AMA supports the replacement of strict community rating with modified community rating, risk bands or risk corridors. The affordability of coverage, particularly for high-risk patients, has previously been addressed with regulations such as strict community rating of premiums, which requires everyone in the same health plan to pay the same premium regardless of health risk. To ensure that modified community rating is effective in helping to make health insurance affordable, individuals must be required to obtain health insurance coverage. An effective individual responsibility requirement helps to ensure that there is a balance of risk in health insurance risk pools—a balance between individuals who are sick and healthy, young and old, and high risk and low risk.

The American Medical Association (AMA) supports modified community rating, risk bands and risk corridors as methods to balance risk in the health insurance marketplace and ensure the affordability of health insurance coverage. Ultimately, the lower average level of risk in the health insurance marketplace, the more affordable health insurance can be.

Strict community rating vs. modified: The difference

- As outlined in the ACA, eligible individuals and families with incomes between 100 and 400 percent of the federal poverty level (FPL) are being provided with refundable and advanceable premium credits to purchase insurance through health insurance exchanges (see “Health insurance exchanges” in this series). Eligible individuals and families include those with incomes between 100 percent and 133 percent FPL who reside in states that do not implement the Medicaid expansion outlined in the ACA.
- Strict community rating means that everyone enrolling in the same health plan pays the same premium regardless of health risk, so that the cost of covering care for expensive enrollees is spread across the community of people buying insurance.
- Modified community rating allows some degree of premium variation based on individual risk factors, but limits premium differences within specified rate bands. Therefore, under modified community rating, premiums can vary based on age, for example, by a specified ratio (i.e., 2:1, 3:1, 4:1).

- Modified community rating, therefore, strikes a balance between protecting high-risk individuals and the rest of the population.
- Allowing premium variation based on age limits the extent to which younger adults, as part of their premiums, subsidize the medical expenses of older adults.
- Tobacco use is also a common indicator upon which to base premium differences under modified community rating. Allowing premium variation based on tobacco use means that smokers will pay more for their health insurance premiums than nonsmokers.

Patient Protection and Affordable Care Act provisions

The Patient Protection and Affordable Care Act (ACA), Public Law 111-148, contained provisions in support of allowing modified community rating in the individual and small group markets and health insurance exchanges (see “Health insurance exchanges” in this series). The ACA only allows premiums to vary based on:

- Age (with rates being allowed to vary by a 3 to 1 ratio)
- Tobacco use (with rates being allowed to vary by a 1.5 to 1 ratio)
- Geographic area
- Family size (i.e., premiums can vary by individual vs. family coverage)

The ACA also prohibits rating or coverage restrictions or discrimination based on health status, medical condition, medical history, genetic information and evidence of insurability.

Strategies to foster healthy markets

AMA policy supports the replacement of strict community rating with modified community rating, risk bands or risk corridors. Although some degree of age rating is acceptable, the AMA believes an individual's genetic information should not be used to determine his or her premium. The success of modified community rating in keeping health insurance affordable is linked to the maximum number of individuals being insured, which can be assured by an individual responsibility requirement (see "Individual responsibility" in this series).

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