



# National Health Council

1730 M Street NW, Suite 500, Washington, DC 20036-4561 • 202-785-3910 • www.nationalhealthcouncil.org • info@nhcouncil.org

## Actuarial Analysis to Estimate Costs of a Model EHB Package August 2011

### Overview

The National Health Council (NHC) believes that existing employer-sponsored insurance benefits, such as the Federal Employee Health Benefits Plan (FEHBP), may inform the development of the essential health benefits package, as required by the Affordable Care Act (ACA). For this reason, the NHC commissioned an actuarial analysis to examine the cost of a comprehensive health benefits package, using an often mentioned benchmark standard for adequate coverage—the Blue Cross Blue Shield Standard Option (BCBS-SO) plan offered under the FEHBP.<sup>1</sup> All analysis was performed using 2011 data and assumes that all insurance reforms included in the ACA are effective in 2011.

A key finding of this analysis is the variability of cost-sharing structure within each actuarial category. Additionally, the richness of the model benefit led to difficulties developing potential plan structures with standard plan cost-sharing designs, especially for silver and bronze level plans.

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### Analysis and Results

The analysis proceeded through the following steps:

1. Create a baseline benefit package
2. Price the baseline benefit package
3. Calculate and adjust actuarial value

To begin this analysis, the NHC selected the FEHBP BCBS Standard Option to use as a model for a baseline benefit package, as this plan is an often mentioned benchmark standard for adequate health insurance coverage. Though they are covered under the BCBS Standard Option, this analysis excluded dental and vision benefits, as these benefits are not listed among the ten categories of services required by the ACA.

To price the baseline benefit package, the analysts estimated spending using 2011 National Health Accounts projections. They used these estimates to calculate the cost to pay for covered expenses following FEHBP BCBS Standard Option as a model. This analysis resulted in covered charges for an average person equaling \$4,659 per year.

This model plan has an actuarial value of 0.87 for in-network services, which is very near the platinum level of coverage (i.e., 90 percent). The analysts then adjusted the actuarial value of the model plan by creating different benefit design structures to accommodate the four levels defined by the ACA—Platinum at 90 percent; Gold at 80 percent; Silver at 70 percent; and Bronze at 60 percent.

Using standard plan designs, the analysts modified deductibles, coinsurance, out-of-pocket maximums, and set copayments to illustrate how benefits may differ within same actuarial value. Figure 1 illustrates different plan designs that may be used by plans, even within an established actuarial value category.

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<sup>1</sup> Actuarial analysis performed by Actuarial Research Corporation and Avalere Health

**Figure 1. Plan Designs, 2011, based on per capita covered expenses of \$4,659**

Plan	Target Actuarial Value	Calculated Actuarial Value	Deductible	Coinsurance	Out of Pocket Maximum	Hospital Copay (per admission)	Preventive Visit Copay	Physician Visit Copay (primary/specialist)	Prescription Drug Copay
BCBS Model		0.87	\$350	15%	\$5,000	\$250	\$0	\$20/\$30	\$10/\$70/\$70
Platinum 1	0.90	0.90	\$75	15%	\$1,500	\$250	\$0	\$20/\$30	\$10/\$70/\$70
Platinum 2	0.90	0.90	\$225	20%	\$1,500	N/A	\$0	N/A	N/A
Gold 1	0.80	0.80	\$2,250	20%	\$5,950	\$250	\$0	\$20/\$30	\$10/\$70/\$70
Gold 2	0.80	0.80	\$640	20%	\$5,950	N/A	\$0	N/A	N/A
Silver 1	0.70	0.70	\$3,250	20%	\$5,950	N/A	\$0	N/A	\$10/\$70/\$70
Silver 2	0.70	0.70	\$2,300	20%	\$5,950	N/A	\$0	N/A	N/A
Bronze	0.60	0.61	\$5,950	20%	\$5,950	N/A	\$0	N/A	N/A

For each actuarial value (except bronze), the analysts were able to create more than one benefit design that met the actuarial value requirements for that level. Some of these plans rely on copayments; the others utilize a coinsurance. For those plans that include the N/A marker, this indicator shows that plan members would pay coinsurance for these services rather than a copayment.

Notably, the analysts were unable to create a bronze plan to meet the 60 percent actuarial requirement of that level. The richness of the benefit package in addition to the limitations on costs (i.e., the ACA-established out-of-pocket maximum and \$0 cost sharing for preventive benefits) made such a plan design impossible. To achieve the actuarial requirement at this level, either fewer services must be offered by a plan or the plan must charge a coinsurance greater than 20 percent.

The analysts then predicted the premium for this model plan using standard administrative expenses (13.1 percent) and other assumptions. Assumptions included adjustments for in-network and out-of-network utilization patterns, provider networks, and coverage for dependents to age 26. This analysis resulted in an annual premium estimated at \$5,032 for an individual and \$12,418 for a family. Figure 2 illustrates the premiums for the different actuarial levels of the model plan.

**Figure 2. Plan Premiums, 2011**

Plan	Estimated Annual Premium—Individual	Estimated Annual Premium—Family
BCBS Model	\$5,032	\$12,418
Platinum	\$5,205	\$12,846
Gold	\$4,627	\$11,419
Silver	\$4,048	\$9,991
Bronze	\$3,470	\$8,564