Testimony of DFR Commissioner Kaj Samsom, H.585, 1/28/26

In Vermont age plays no factor in your premium for VT health connect (exchange) insurance premium. A wise and laudable policy 35 years ago has become extremely unfair, regressive and counter-productive given the double whammy of our aging demographics and high cost of care. We seek to very modestly introduce some age factor into VT's health insurance premiums.

48 states allow age-based rating in health insurance. We do not and are arguably the most expensive state for health insurance, and undoubtedly among the top.

Medical underwriting is disallowed by the ACA. You are guaranteed access to a health plan regardless of your medical history. Basing premium on age is generally understood to be a fair approach to pricing that preserves spreading of risk within an age band, without making insurance unaffordable for those with pre-existing medical conditions. It also aligns price with cost more accurately. Paying more for health insurance as we grow older is supported by the clear trend of claims increasing consistently with age.

The ACA allows a 3:1 age rating ratio, so unless state law says otherwise, insurance premium for a 64 year-old can be up to 3X that of a 24-year-old. And that difference in price is generally consistent with the increase in average medical costs as we get older.

Let's call the one rate for everyone the community rate. Vermont law allows the DFR Commissioner, by regulation, to allow up to a 20% deviation from this community rate based on age, nowhere close to the 3:1 allowed by the ACA. But our current reg. only allows one community rate for all ages. Our proposal is to change our current reg to allow very limited deviation from the community rate based on age, so that no insured would pay more than 5% over the community rate. This is a very subtle change. The goal is to allow a better alignment between cost and price, and provide relief to younger insured, who also have lower incomes as a group. We will work with MVP and BCBSVT actuaries, or our own, to optimize this very subtle age banding to maximize retention and recapture of younger healthier lives. To the extent we are successful in doing so, the long range favorable impact on the risk pool could offset some or all of the modest increase in premium of older insureds

Why do this? A ban or limitation on age-rating can make sense. It prevents people from dropping insurance as they get older as their premiums go up, and <u>as long as it is reasonably affordable</u>, keeps younger people paying into the pool, either by mandate or because it is affordable. Neither a mandate or affordability exist anymore. Affordability is hurting everyone paying for health insurance right now, but in terms of value for your dollar, the younger cohorts are bearing the brunt of our affordability crisis.

On average, the 19-26 year olds have less than half the medical costs of the 45-64 age group. Tax Dept. data shows that average income for 55-65 year-old joint filers is more than triple that of 25-35 year olds, and more than double for individual filers. So, from an affordability and value perspective, on average, as you grow older, you will get more for you premium dollar and pay less of your income for insurance. Unfortunately, the opposite is then true as well, the younger on average are less able to afford the premium and are getting far less benefit from the product. This invites arguments against community rating similar to the criticisms of a flat tax. It's regressive.

Making all these dynamics worse is the changing demographics since 1992, when Act 160 solidified community rating. The median age then was around 34, in 2024 it is 44. That is a big difference when it comes to the average claims per person in that risk pool, and therefore the cost of the community rate. Just that change in demographics is expected to account for 25% of the increase in community rated premiums in a stable cost environment. Probably significantly more due to our high cost of care in VT. That means that the "subsidy" that young Vermonters are paying into the community rate today is significantly greater than what it was 35 years ago. As ACA enhanced subsidies expire, and we are among the highest cost states in the nation, we have to take reasonable steps to keep young people on the exchange. This modest change is designed to calibrate our age rating to provide some relief where it is sorely needed and restore some fairness to our insurance rates.

How can we allow rates to go up for a cohort of our insureds? Isn't that bad policy? Sustaining an inequitable system that punishes those receiving the least value and having the lowest average income, in order to avoid a (no greater than) 5% increase is no longer justifiable.

Some Data from VDOL VT Median age over the last 45 years:

1980: 29.4

1989: 32.8

2000: 38.8

2002: 41.5

2010: 41.5

2024: 43.6

Additional resources submitted include

- a 2016 HHS Bulletin re: age curves in the ACA
- Extract from VT DVHA Health Coverage Map showing age distribution in QHP