RUPRI Center for Rural Health Policy Analysis
Rural Policy Brief

Health Insurance Marketplaces: Early Findings on Changes in Plan Availability and Premiums in Rural Places, 2014-2015

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Purpose

The Patient Protection and Affordable Care Act established Health Insurance Marketplaces (HIMs) in all 50 states and the District of Columbia. This policy brief assesses the changes in HIMs from 2014 to 2015 in terms of choices offered and premiums charged, with emphasis on how these measures vary across rural and urban places.

Key Findings

- In 74 percent of HIM rating areas, the number of firms operating increased by at least one, while the number of firms decreased in only about 6 percent of rating areas. Further, 64 percent of rating areas with fewer than 50 persons per square mile gained at least one firm.

- There was no consistent pattern of premium increases with respect to rating area population density (used as a proxy here for the degree of "ruralness" of the rating areas). Nationally, rural areas are not experiencing higher premium increases than their urban counterparts. In fact, the lowest increases in second-lowest cost silver plan premiums occurred in the medium-density population rating areas of 51 to 300 persons per square mile.

- Average adjusted premiums increased from 2014 to 2015 by 6.7 percent in Federally-Facilitated Marketplaces (FFMs) compared to just 1.4 percent in State-Based Marketplaces (SBMs). Regardless of SBM or FFM status, premium increases across the United States were negatively correlated with the number of firms entering the market.

- Analysis of the most rural states, in terms of percentage of the population classified as nonmetropolitan, shows that, in general, premiums fell significantly in rural places where they had been rather high, and they increased in rural places where they had been rather low. The five rural states with the lowest premium increases had an average of 0.17 firms entering the market, while the five with the highest premium increases had an average of 0.50 firms *exiting* the market.

Background and Methods

In 2015, 16 states and the District of Columbia are operating SBMs, and 34 states are utilizing FFMs (7 of which are partnerships with states). In this brief, analysis of changes is by insurance rating areas (determined by states within federal guidelines), which are the most relevant geographic unit in the operation of HIMs because by definition, qualified health plans must charge uniform premiums within a rating area. Designs vary considerably by size across states, from as large as the state to as small as a county. Many rating areas are a contiguous mixture of metropolitan, micropolitan, and noncore counties, making it difficult to systematically characterize them as "rural" or "urban." For this analysis, we use population density as a measure of population dispersion that could be related to decisions to set premiums, and also as a proxy indicator of "ruralness" of the rating area. A comprehensive file on available FFM plans and premiums by rating areas in 2015 was released in October 2014 by the Department of Health and Human Services and is supplemented by comparable data for the SBMs and merged with equivalent data for the previous year.[1] Our data are used to assess firm entry and exit and changes in premiums across rating areas.

Entry into Marketplaces

The marketplace concept relies heavily upon the notion that competition will help keep premiums in check. While the first year of HIMs was an extremely uncertain environment for health insurance firms, the second year has brought substantial increases in firm participation. Table 1 breaks these changes down by population density. The number of firms increased or stayed the same in all but 33 (6 percent) of the rating areas, a total of 74 percent gained at least one firm, and 64 percent of rating areas with fewer than 50 persons per square mile gained at least one firm. These findings provide evidence that in rating areas with the lowest population density, firm entry is not happening at quite the same rate as in other rating areas, but at the same time, activity in many of these markets is growing.

Table 1. Distribution of Rating Areas by Change in Number of Firms and Population Density, 2014-2015

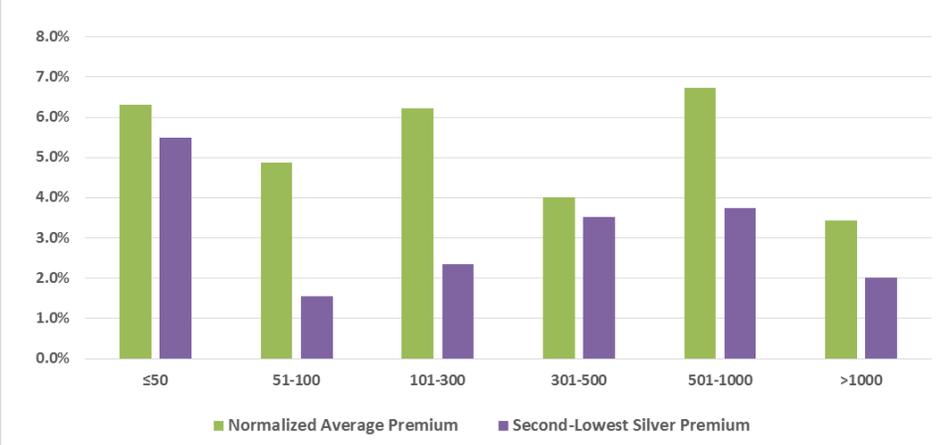| Net Change in Number of Firms	Number of Rating Areas by Population Density (Persons per Square Mile)						
	ALL	≤50	51-100	101-300	301-500	501-1000	>1000
-2	1	1	0	0	0	0	0
-1	32	9	10	10	1	0	2
+0	95	35	19	19	5	7	10
+1	198	49	48	60	25	6	10
+2	98	25	23	31	9	8	2
+3	41	2	8	16	5	2	8
+4	25	4	2	10	5	3	1
+5	8	0	1	2	0	3	2
+6	1	0	0	1	0	0	0
TOTAL	500	126	111	149	50	29	35

Data for 500 rating areas shown. Colorado collapsed four of its 2014 rating areas into two in 2015; data were unavailable for Hawaii.

Changes in Adjusted Premiums by Population Density of Rating Area

Across the 500 rating areas for which data have been collected,[2] average adjusted premiums[3] in 2015 increased as much as 30.5 percent and decreased as much as 27.8 percent. However, the more typical increases were a modest 5-6 percent. The average adjusted premium (the "normalized average") tended to increase at a lower rate as more firms entered the marketplace (Figure 1), providing evidence that increased competition is tempering the rate of premium increases. Of note, the second-lowest cost silver premium (also adjusted) increased significantly less than the average in 2015. This is not surprising for two reasons. First, new firms are particularly likely to enter a given HIM if they believe they can compete with the prevailing second-lowest cost silver premium since the federal premium subsidies are linked to this value, making it an attractive option for many consumers.[4] Second, adding more firms to a marketplace increases the distribution of values, increasing the likelihood of both high and low outliers, which statistically may not affect the average much but will decrease the second-lowest value. Figure 1 also shows that there is no consistent pattern of premium increases with respect to rating area population density. In fact, the lowest increases in second-lowest cost silver premiums occurred in medium-density rating areas. A deeper look at the data in these rating areas shows that they were most likely to have experienced an increase from just one firm to two: 19 of the 22 instances in which a second firm joined a one-firm market occurred in a rating area with a population density between 51 and 300 people per square mile (data not shown here). This observation suggests that ensuring adequate firm participation in each rating area is an important policy goal since this does appear to help contain second-lowest cost silver premiums in particular.

Figure 1. Premium Increases by Rating Area Population Density, 2014-2015

Table 2. Average Premium Changes by State

STATE	Number of rating areas	Average % change in second lowest cost silver plan premium	Rural (nonmetropolitan) as a percent of population
NY	8	-17.3%	7.3%
MS	6	-17.1%	55.3%
NH	1	-13.0%	37.8%
RI	1	-11.6%	0.0%
NM	5	-8.3%	33.4%
SD	4	-7.9%	53.7%
KY	8	-6.9%	42.4%
OR	7	-5.6%	17.0%
MT	4	-5.5%	64.7%
AR	7	-3.4%	39.9%
MA	8	-3.0%	1.5%
WA	5	-2.9%	10.5%
NJ	1	-2.7%	0.0%
GA	16	-2.1%	18.3%
NV	4	-1.4%	9.9%
MI	16	-0.8%	18.4%
ME	4	-0.7%	41.6%
DC	1	-0.4%	0.0%
SC	46	0.4%	16.5%
OH	17	0.7%	20.8%
WI	16	0.8%	26.5%
IN	17	0.9%	22.8%
CT	8	1.3%	5.3%
CO	9*	2.0%	13.7%
IL	13	3.1%	11.9%
LA	8	3.2%	17.1%
VA	12	3.5%	13.4%
ID	7	3.5%	34.7%
CA	19	3.5%	2.3%
AL	13	3.6%	24.5%
DE	1	4.0%	0.0%
KS	7	4.3%	33.5%
WY	3	5.0%	70.3%
AZ	7	5.1%	5.4%
UT	6	5.5%	10.9%
MD	4	5.5%	2.7%
VT	1	5.7%	66.2%
PA	9	5.8%	11.9%
TN	8	5.9%	23.4%
ND	4	5.9%	50.7%
TX	26	6.7%	12.0%
OK	5	7.7%	35.7%
MO	10	7.9%	26.1%
NC	16	8.6%	23.1%
WV	11	9.0%	38.9%
MN	9	9.1%	23.4%
IA	7	9.3%	42.7%
NE	4	10.1%	36.9%
FL	67	11.0%	3.8%
AK	3	28.2%	32.6%

*CO reduced from 11 to 9 rating areas in 2015.

Premium Increases in States with Large Nonmetropolitan Populations

Another way to determine how rural places are affected by the changes in HIMs in 2015 is to aggregate rating areas to the state level. This state-level analysis shows that, in general, premiums fell significantly in places where they had previously been rather high and increased in places where they had previously been rather low (a phenomenon sometimes described as "regression to the mean"). Table 2 reports the average change in the second-lowest cost silver plan premiums available in each state, from an average decrease of 17 percent in New York to an average increase of 28 percent in Alaska. Focusing on the "most rural" states, here classified as those with above 30% nonmetropolitan population, we compare the five lowest- to the five highest-increase states. Second-lowest cost silver premiums dropped substantially in Mississippi, New Hampshire, New Mexico, South Dakota, and Kentucky. These are the five "lowest increase" rural states. Eight additional rural states, Montana, Arkansas, Maine, Idaho, Kansas, Wyoming, Vermont, and North Dakota, experienced smaller decreases or average increases. However, the five highest-increase states, Oklahoma, West Virginia, Iowa, Nebraska, and Alaska, experienced average increases of almost 8 percent to more than 28 percent.

How do the five "lowest-increase" and five "highest-increase" rural states differ? Table 3 shows that the most startling difference is in the 2014 normalized average premium ($272 v. $241). In addition, the average increase in the number of firms per rating area in low-increase states was 0.17, while in high-increase states this number declined by 0.50 firms on average. Furthermore, the average land area is 57 percent larger in high-increase states than in low-increase states, reinforcing the above conclusions that HIMs may be less effective in delivering a variety of affordable options in more remote rural places. This may reflect more costly network formation over larger physical spaces, the lesser degree of competition in some of those places, or a combination of these factors.[5]

Table 3. Lowest-Increase and Highest-Increase Rural States

Variable	Lowest Increase (Rural)	All States	Highest Increase (Rural)
Normalized average premium, 2014	$272.20	$252.44	$241.18
Normalized average premium, 2015	$243.46	$265.40	$274.09
Percent increase in normalized average premium	-8.96%	5.56%	13.37%
Percent increase in second lowest cost silver plan premium	-10.18%	3.14%	10.90%
Increase in number of firms	0.17	1.26	-0.50
Average population	479,021	616,300	373,095
Average land area	12,186	6,612	19,197

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Marketplace Structure

Yet another way to compare premium changes is by calculating differences between rating areas operating in FFMs and SBMs. Previous work on 2014 premiums showed, on average, a $20 savings in adjusted premiums for a 27-year-old individual in an SBM compared to an FFM.[6] Given the tendency shown in Table 3 for premium differentials to even out in 2015, it is interesting to note that the SBM/FFM premium differential did not dissipate. In fact, the average adjusted premium increase in the 395 FFM rating areas was 6.7 percent, compared to 1.4 percent in the 105 SBM rating areas (Table 4).[2] Considering second-lowest cost silver premiums, FFM rating areas experienced an average increase of 4.2 percent, whereas SBM rating areas averaged a 0.9 percent decrease. While most SBMs operate in states with low nonmetropolitan populations, and therefore it is not a definitive conclusion that this policy choice would deliver the same benefit in highly rural states, it is worth noting that one SBM, Kentucky's, operates successfully in a very rural environment.

Table 4. Premium Changes by Marketplace Type

	Average Change in Premium from 2014 to 2015	
	Normalized average premium	Second-lowest cost silver plan premium
Federally-Facilitated Marketplaces	+6.7%	+4.2%
State-Based Marketplaces	+1.4%	-0.9%

Discussion

Evidence presented in this brief suggests that participation of health insurance firms in HIMs has increased in most rating areas in the United States, and that, in general, this increase has helped restrain average premium increases, especially second-lowest cost silver plan premium increases. The observed effect is present even in many low-density rating areas, although it is not systematic. Undoubtedly many other factors, including 2014 enrollment, play a role in firms' entry and premium decisions, and this brief does not explore all of these possible factors.

It is difficult to characterize the impact of these findings on rural people and places, because the impact differs depending upon where exactly people live. The fact that some states with high nonmetropolitan populations actually fared very well in terms of premium changes in 2015 suggests that HIMs are functioning as intended and providing value in many rural areas. There is no single "rural" characterization of the HIMs that applies nationally.

The analysis also indicates that part of the variability in premiums in 2015 compared to 2014 illustrates the "regression to the mean" phenomenon. The highest increases in rural states occurred when premiums were well below average to begin with. If these increases are indeed part of the adjustment process that occurs with the introduction of a new marketplace structure, they are unlikely to be repeated and should not be a policy focus. However, the premium differential between FFMs and SBMs has so far not dissipated, making it a potentially useful policy focus.

The evidence presented here, suggesting that firm entry keeps premiums lower, indicates the need for outreach in certain rural areas that still have many potential subsidy-eligible consumers, because this creates more demand to which firms may respond. Consumers also need to be aware of the consequences of annual premium changes, as they affect the "buying power" of subsidies when the premium for the second-lowest cost silver plan changes. The evidence suggests that the cost of this plan—as well as the identity of the issuer offering it in a given rating area—is likely to change from year to year, and it may change more dramatically in rural places with fewer firms participating.

Notes

[1] SBM data were obtained via PDFs from state websites when possible; otherwise, we shopped the online marketplaces in each county of each SBM for plan availability and premiums.

[2] We were not able to obtain data for Hawaii in 2014, so results are reported here for 500 of the 501 rating areas defined in 2014. In 2015, two pairs of Colorado rating areas were combined, so the 2015 total is actually 499.

[3] See http://cph.uiowa.edu/rupri/publications/policybriefs/2014/Rural%20HIM.pdf for a discussion of the adjustment methodology. In particular, note that the premiums are normalized so that all are comparable to silver plans and are adjusted for cost-of-living differences.

[4] U.S. Department of Health and Human Services, Office of the Assistant Secretary for Planning and Evaluation (ASPE) analysis of 2014 enrollment found that 65% of plans selected were Silver, although it did not specify how many of these were second-lowest cost. See http://aspe.hhs.gov/health/reports/2014/MarketPlaceEnrollment/Apr2014/ib_2014Apr_enrollment.pdf.

[5] The network effect may be more likely to manifest in plans omitting counties from their service areas rather than increasing premiums. In many states, plans do not have to serve the entire rating area if they state that they cannot form a network.
[6] See http://www.public-health.uiowa.edu/rupri/publications/policybriefs/2014/Geographic%20Variation%20in%20Premiums%20in%20Health%20Insurance%20Marketplaces.pdf.