How Does Enrollment of Young Invincibles Affect Premiums in the ACA Individual Market?
Reduced young adult enrollment is associated with only modest premium increases

The individual health insurance market involves people buying coverage directly from an insurance company. The ACA established online marketplaces (also known as exchanges) for people to buy insurance in this market. Collectively, the individual market includes non-employer plans offered both on and off of the exchanges.

To keep health insurance affordable in this market, insurers need to spread risk across a broad pool of enrollees, including younger, healthier people, to offset the costs of older, sicker people. Some have theorized that low enrollment among younger, healthier populations could cause insurers to raise premiums, which in turn could price increasing numbers of buyers out of the market, leading ultimately to a market collapse. Does the affordability of premiums in the individual market under the Affordable Care Act (ACA) depend on a given level of young adult enrollment? Will premiums spike if young adult enrollment declines?

To address these questions, a RAND team used the COMPARE microsimulation model to estimate the effects of changes in young adult enrollment in the individual market on premium prices.

The term young invincibles refers to young adults who believe they will not get sick or injured and are, therefore, less likely to purchase health insurance than older adults.
The ACA cushions against the effect of lower-than-expected enrollment among young adults

RAND’s baseline 2015 scenario estimates that approximately 27.2 percent of individual market enrollees will be young adults. This includes enrollees in Marketplace plans and individual plans that adhere to the ACA’s rating rules.

If the level of enrollment among 18-to-34-year-olds turns out to be lower, premiums will increase, but not by much: A one percentage point reduction in the share of young adult enrollees in the individual market is associated with a 0.4 percent increase in premiums (see figure below). So, for example, if young adult enrollment were only 20 percent instead of 27 percent, premiums would increase by approximately 3 percent.

This limited effect is partly driven by the ACA’s subsidies—tax credits that insulate eligible enrollees from premium increases and thus encourage lower-income young people to stay enrolled, even if other young adults who are not subsidy-eligible drop out of the market. The effect is also partly driven by the fact that many older people can be “good risks” (that is, individuals who contribute more through premiums than they spend on health care). Because older adults can be charged up to three times as much as younger adults, RAND estimates that over 80 percent of 55-to-64-year-olds spend less than premiums (net of administrative costs). The fact that there is a sizable fraction of good risks across all age groups acts to stabilize premiums and reduces the impact when younger adults drop out of the market.

<table>
<thead>
<tr>
<th>Percent of enrollees between ages 18 and 34</th>
<th>Change in Premiums Is Only 0.4% Up or Down for Every 1 Percentage Point Change in Young Adult Enrollment</th>
<th>Baseline COMPARE enrollment estimate, 2015</th>
<th>Percent change in premiums</th>
</tr>
</thead>
<tbody>
<tr>
<td>20%</td>
<td>-6%</td>
<td>27.2%</td>
<td>0</td>
</tr>
<tr>
<td>30%</td>
<td>-3%</td>
<td></td>
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<tr>
<td>40%</td>
<td>+3%</td>
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</tbody>
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1

There is no specific level of young adult enrollment required to stabilize premiums in the individual market.

2

Younger individuals do not bear the full burden of older individuals’ spending, in part because the ACA allows insurers to charge older enrollees up to three times more than they charge younger ones, thus reducing the risk posed by older enrollees.

3

The ACA’s tax credits encourage healthy people of all ages to enroll in coverage, which stabilizes premiums for everyone.