

Affordable Care Act (ACA) Shifts Wealth From Millennials to Baby Boomers

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Abstract

One of the purposes of the Affordable Care Act is to expand health insurance coverage to uninsured Americans, both millennials, baby boomers, and other age groups. The goal of the act - to expand health insurance coverage - appears to be achieved as indicated by the increased number of insured individuals and portion of individuals using health care services. However, this paper addresses the question concerning the economic costs of the ACA. This research suggests a shift in resources from millennials to baby boomers as indicated by the larger increase in health insurance premiums for millennials compared to baby boomers in combination with the increased amount of health care services utilized by baby boomers. The current study concludes that millennials are paying a larger increased amount of health care coverage—as indicated by a 21% increase in out of pocket premiums between 2004 and 2012 - while baby boomers are consuming a larger amount of health care expenditure - on average five times the amount compared to millennials. As a result, the cost implications of the Affordable Care Act are that it shifts wealth from millennials to baby boomers.

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Introduction

The Affordable Care Act (hereafter ACA) changes the landscape of America's health care. Signed into law by President Obama in early 2010, the act was enacted to decrease the number of individuals uninsured by requiring all U.S citizens to have health insurance coverage through an individual mandate. As quoted by the American Medical Association in its approval of the ACA, the "law expands coverage to millions of uninsured who live sicker and die younger than those with insurance."¹ While the ACA dramatically expands health care access to Americans, it is the hypothesis of this paper that it shifts wealth from millennials to baby boomers.

By analyzing the age dimensions of the current population, the amount of premiums paid per individual, and the amount of health care expenditure by age, this research aims to understand whether there are hidden costs of the ACA. This paper will begin by defining the demographic population and outlining the benefits and costs relevant to each age group. After explaining how the ACA is working, with regard to out of pocket cost of premiums, a comparative analysis will determine the allocation of resources between the amount of premiums paid and health care expenditure between millennials and baby boomers.

Demographic Population

For the purposes of this paper, the term baby boomers refers to United States citizens born between 1946 and 1964 inclusive, while millennials refer to United States citizens born between 1980 and 2000. According to data collected by the U.S Census Bureau in 2012, 26.5 percent of the population was accounted for by baby boomers while 20.8 percent of the population was classified as millennials.²

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Age Dimensions of the Affordable Care Act

Millennia: In response to a growing number of uninsured individuals between the ages of 19 and 29, the ACA provides new protections for millennials. By allowing individuals under the age of 26 to remain covered on their parents' insurance, 600,000 young adults are eligible to receive coverage that otherwise would not have been insured or left to obtain coverage with

¹ Lazarus, Jeremy A. "AMA to Wall Street Journal." Wall Street Journal. 6 July. 2012.

²United States Census Bureau. "Current Population Survey, Annual Social and Economic Supplement, 2012. Census.gov. 2013. Web. Data was gathered in reference to the age and sex composition in the United States.

their own resources. However, the benefit of this provision is dependent on a family's ability to afford health insurance coverage through a family plan. The ACA also requires college health plans to uphold its coverage standards and expands the eligibility of Medicaid for individuals with incomes below 133 percent of the FPL.³

Baby Boomers: The ACA has implemented specific provisions that will improve the coverage for individuals between 50 and 68. These provisions involving offering coverage plans for uninsured individuals that ban lifetime coverage limits, include preventative services, and expand Medicaid eligibility. According to a study conducted by the Commonwealth Fund, "of the 8.6 million 50-to-64 year olds who were uninsured in 2009, up to 6.8 million would gain subsidized coverage once all the law's provisions go into effect in 2014." The act also guarantees coverage for individuals who lose their employer health benefits via long-term or retiree reinsurance programs. Under the ACA, the Community Living Assistance Service and Support (CLASS) Program provides baby boomers a new way to finance long-term support. Overall, the ACA promises to offer increased coverage by prohibiting companies from denying coverage on the basis of age or preexisting health conditions.⁴

The Affordable Care Act in Action

The adjustments made by the ACA have increased the accessibility of insurance markets to all individuals. The Act "prohibits insurers from denying coverage, excluding pre-existing conditions, or varying premiums based on an individual's health status."⁵ Through the use of premium subsidies and an individual mandate, the provisions made by the ACA aim to increase participation in the health care insurance market. The ACA relies on three methods for risk sharing: risk adjustment, reinsurance, and risk corridors.

As a result, one would expect an older individual to pay premiums that do not fully cover their medical expenses in comparison to a younger individual who would pay premiums that more than cover their expenses.

According to the ACA, premiums cannot vary based on health status or gender and variations based on age are limited to a three-to-one ratio. As a result, one would expect an older individual to pay premiums that do not fully cover their medical expenses in comparison to a younger individual who would pay premiums that more than cover their expenses.

³Collins, S.R. "How the Affordable Care Act is Helping Young Adults Stay Covered." The Commonwealth Fund Blog, May 2011.

⁴Collins, Sara R. "Realizing Health Reform's Potential: Adults Ages 5-64 and the Affordable Care Act of 2010". The Commonwealth Fund. Dec 2010. http://www.commonwealthfund.org/~media/Files/Publications/Issue%20Brief/2010/Dec/EMBARGOED_1460_Collins_adults_50_to_64_ACA_reform_brief.pdf

⁵American Academy of Actuaries. "Risk Adjustment and Other Risk-Sharing Provisions in the Affordable Care Act." June 2011. Web. Media.khi.org/news/documents.

Risk sharing requires insurers to accurately determine the distribution of enrollees to properly allocate premiums. To determine premiums from a single risk pool, it is important to precisely determine the demographic composition of enrollment. Table 1 compares the expected portion of individuals based on age entering into the individual market compared to the actual percentage of enrollees as of December 28, 2013.

Table 1: Expected vs. Actual Distribution of Individual Enrollment⁶

Age	Expected Portion of Enrollees	Actual Percentage of Enrollees as of December 28, 2013
Under 18	6%	6%
18-34	40%	24%
35-54	37%	37%
55 and Older	17%	33%
Total	100%	100%

As indicated in Table 1, there was a 16 percentage point decrease in actual enrollees aged 18-34 compared to expected and a 16 percentage point increase in actual enrollees over the age of 55 compared to expected. Due to the inaccurate prediction of the portion of enrollees, the risk pool will not accurately cover health care expenditure within the current market.

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The Kaiser Family Foundation performed a study that supported the expected increase in premiums due to the inaccurate prediction of the individual market.⁷ The premiums in the individual market increased **27.4 percent** between 2012 and 2014 and are expected to increase another **5.4 percent** between 2014 and 2016. Family plan premiums increased **14.6 percent** between 2012 and 2014 and are expected to increase an additional **16.0 percent** between 2014 and 2016. These trends are expected due to the decreased enrollment from millennials and increased enrollment from baby boomers.⁸

⁶The data regarding the age distribution of the marketplace was released on January 13, 2014. The January health insurance enrollment report was released by the U.S Department of Health and Human Services.

⁷Kaiser Family Foundation. "Analysis of 2015 Premium Changes in the Affordable Care Act's Health Insurance Marketplaces." kff.org/health-reform. Web. 5 Sept 2014.

⁸Levitt, Larry, et al. "The Numbers Behind 'Young Invincibles' and the Affordable Care Act." The Kaiser Family Foundation. 17 Dec 2013. <http://kff.org/health-reform/perspective/the-numbers-behind-young-invincibles-and-the-affordable-care-act/>

Table 2: Age Demographic of Patients for Medical Services⁹

	2011	2012	2013	2011- 2013 Percent Change
Total Patients	20,224,757	21,102,391	21,726,965	7.4%
Age (Percent of Total Patients)				
Children (< 18 years)	32.0%	31.6%	31.7%	-0.9%
Adult (18-64)	61.1%	61.3%	60.9%	-0.3%
Older Adults (>65)	6.9%	7.2%	7.4%	7.3%

Between 2011 and 2013, there was a **7.4 percent** increase in total patients for medical services. As indicated, the increase in total patients is largely attributed to the baby boomer population. While there was a decrease in the percentage of individuals aged 0-64, there was a 7.3 percent increase in patients over the age of 65 after the enactment of the ACA.

Estimation of the Shift: By analyzing the changes in premiums and health care expenditure by age, one can estimate the shift in resources from millennials to baby boomers.

Graph 1 illustrates the average out of pocket premiums paid by a 25 year old and a 65 year old. Between 2004 and 2012, there was a 21 percent increase in out of pocket premiums paid by an individual at the age of 25. In comparison, there was only a 1.6 percent increase in out of pocket premiums paid by an individual at the age of 65.

Graph 1: Out of Pocket Premiums by Age¹⁰

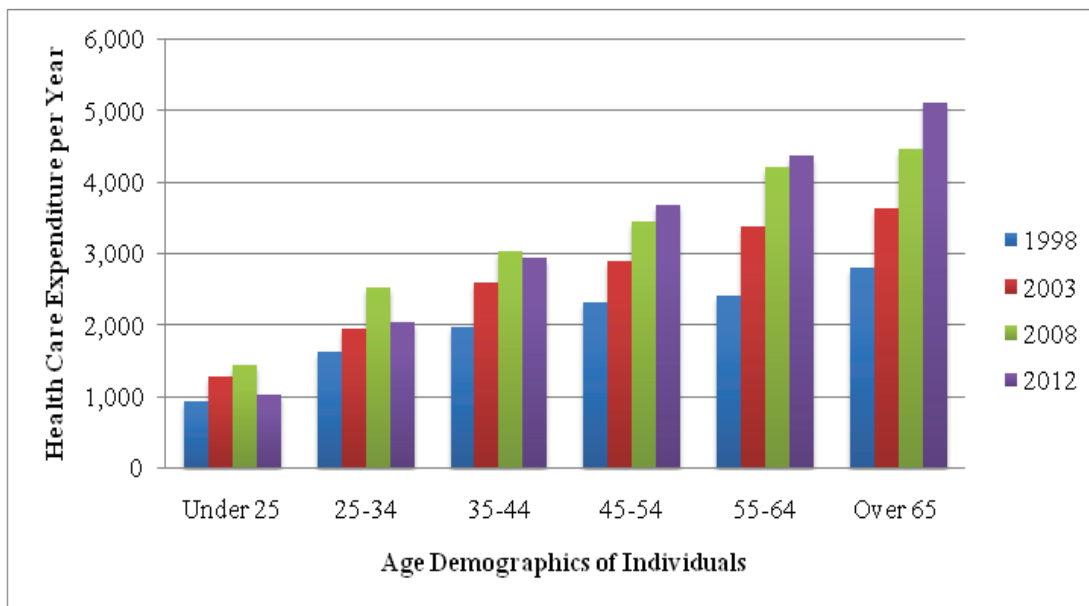


⁹U.S Department of Health and Human Services. "2013 Health Center Data." bphc.hrsa.gov.

¹⁰Integrated Health Interview Survey. Compared out of pocket premiums by age.

Graph 2 compares the amount of health care expenditure for various ages by year. The general trend indicates that individuals over the age of 65 use more health care, on average, than individuals at the age of 25.

Graph 2: Health Care Costs by Age¹¹



In 2012, individuals over the age of 65 were using five times the amount of medical related services compared to individuals at the age of 25 as measured by health expenditures. Between 1998 and 2012, individuals between the ages of 25 and 34 had an increase health care consumption of 11 percent, while individuals over the age of 65 had an increase health care consumption of 82 percent.

Graphs 1 and 2 show that millennials have experienced a greater increase in out-of-pocket premiums, while consuming a significantly lower portion of health care expenditure, whereas baby boomers have experienced a smaller increase in out-of-pocket premiums, while consuming a significantly higher portion of health care expenditure. Not only have baby boomers experienced a lower increase in out of cost premiums and use a significant greater portion of health care expenditure, they are accounting for a greater increase in total patients, as indicated by Table 2, which will result in an increased national cost of health care.

¹¹United States Department of Labor. Consumer Expenditures in 2012. Average Annual Expenditures and Characteristics March 2014. Web.

Conclusions

The variables studied in this paper indicate that the implementation of the ACA produced a shift in resources from millennials to baby boomers. As premiums are dramatically increasing for individuals at the age of 25 compared to individuals over the age of 65, their health care consumption is considerably less than individuals over the age of 65. Between 2004, individuals at the age of 25 have experienced a 21 percent increase in out of pocket premiums paid, while individuals at the age of 65 have only experienced a 1.6 percent increase in out of pocket premiums paid. With regards to consumption, between 1998 and 2012, individuals at the age of 25 have had an increase health care consumption of 11 percent, while individuals at the age of 65 have had an increase health care consumption of 82 percent. Since the ACA has been signed into legislation, the demographics of patients utilizing medical service patients have shifted towards baby boomers. Between 2011 and 2013, health care services have experienced a 7.3 percent increase in patients over the age of 65. The increased demand of medical services by a demographic population that on average consumes five times more health care expenditure will result in a financial burden to millennials. Overall, the increased amount of premiums for millennials is covering the increased consumption of health care by baby boomers.