

**Private Health Insurance: The Basics**

Health insurance is a contract between an individual, or group, and a health insurance company. To obtain private health insurance coverage, an individual or group purchases a plan (also called a policy) from the insurer, paying a set amount of money each month, in exchange for the insurer covering some, or all, of the individual’s or group’s health care costs.<sup>1</sup>

Three broad categories of private health insurance exist: small group, large group, and non-group.<sup>2,3</sup> Insurers provide small- and large-group coverage to groups, such as employers, unions, or other organizations. Individuals and families who do not receive coverage through a group or the government (e.g. through Medicaid or Medicare) can purchase non-group (individual) health insurance coverage from an insurance agent or through an insurance

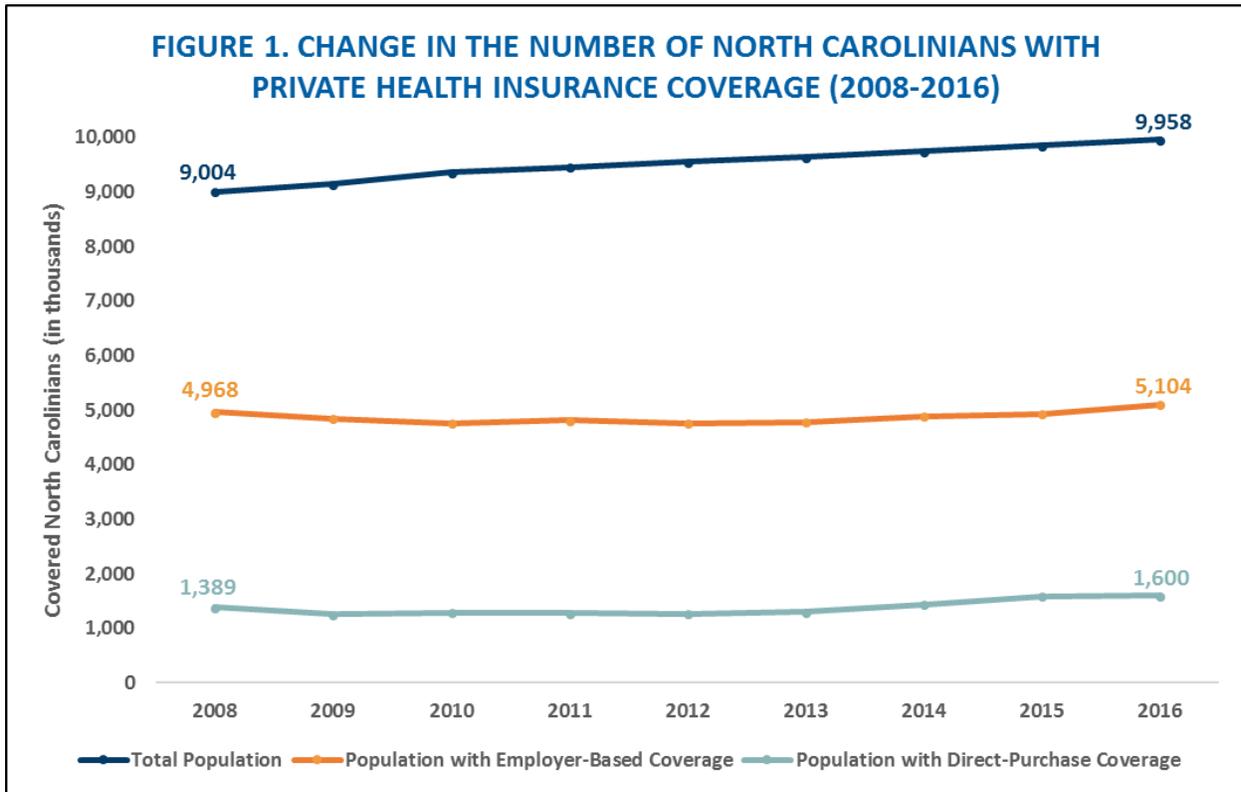
**Why Have Health Insurance?**

Health insurance reduces the risk of sustaining large financial losses associated with illness and injury.<sup>3</sup>

marketplace (also known as an exchange) (See *Understanding Private Health Insurance: Individual Coverage & The Marketplace*).

**North Carolina: A Snapshot**

In 2016, approximately two-thirds of people in the United States had private health insurance.<sup>4</sup> In North Carolina, approximately 67% of the civilian noninstitutionalized population had private health insurance, with the majority covered by employer-sponsored insurance (see Figure 1) (See *Understanding Private Health Insurance: Employer-Sponsored Insurance*).<sup>5</sup>



Note: Based on civilian, noninstitutionalized population. Data from Health Insurance Historical Tables – HIC ACS: HIC-4 “Health Insurance Coverage Status and Type of Coverage by State – All Persons: 2008 to 2016.” The United States Census Bureau. Available at <https://www.census.gov/library/publications/2017/demo/p60-260.html>. Accessed February 18, 2018.

## What Does Private Health Insurance Cover?

Although many private health insurance plans must cover specific services (also known as essential benefits), plans differ in their coverage of certain non-essential benefits.<sup>3</sup>

Plans also differ by what providers are “in-network.” Providers that contract with a plan to accept payment are included in the plan’s network of providers.<sup>6</sup> Providers the plan contracts with (in-network providers) typically can be seen by consumers at a lower cost than providers the plan does not contract with (out-of-network providers).

## Paying For Health Care (With Health Insurance)

Consumers must pay a premium, a monthly payment to the insurer, in exchange for health care coverage. Consumers must also pay out-of-pocket expenses (also referred to as cost-sharing), which are the portion of the cost of health care services consumers must pay.<sup>3</sup>

The cost of health insurance can differ based on the type of insurance plan, level of coverage, location, demographic characteristics of the person purchasing the plan, and the insurer offering the plan.

## How To Compare Plans

Comparing health insurance plans can be difficult. A comparison of plans’ premiums, or deductibles, will not provide an accurate comparison of the percentage of the costs the insured individual will have to pay. However, comparison between plans can be made using plans’ actuarial values.

The higher the actuarial value, the less an insured individual has to pay in health care costs.

<sup>3</sup> For a list of benefits that must be covered under certain types of health insurance plans in North Carolina, see

## Key Cost-Sharing Terms

**Coinsurance:** the percentage of the cost of a covered health care service an insured individual pays after the individual has paid the deductible.<sup>8</sup>

**Copayment:** a set amount an insured individual pays for a covered health care service after the individual has paid the deductible.<sup>9</sup>

**Deductible:** the amount an insured individual must pay for covered health care services before the insurer starts to pay.<sup>10</sup>

**Out-of-pocket limit/maximum:** the maximum amount an insured individual has to pay for covered health care services each year. The out-of-pocket limit does not include the monthly premium.<sup>11</sup>

*A health insurance plan’s actuarial value is an estimate of the percentage of health care expenses the plan will cover on average.<sup>3</sup>*

## Health Insurance Regulation In North Carolina

The North Carolina Department of Insurance (NCDOI) regulates insurance plans, reviewing and approving rates (the base prices for health insurance), and ensuring that the plans offered meet the requirements of the federal and state governments.<sup>11</sup> The NCDOI also reviews complaints filed by consumers.<sup>12</sup>

[https://downloads.cms.gov/ccio/State%20Required%20Benefits\\_NC.PDF](https://downloads.cms.gov/ccio/State%20Required%20Benefits_NC.PDF).

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Employer-Sponsored Health Insurance: An Overview

The majority of North Carolinians with private health insurance plans have employer-sponsored insurance (ESI) (also known as group coverage).

In 2016, over 5 million people in North Carolina had employer-based coverage.<sup>1</sup>

Employers offer health insurance to employees, their spouses, and their dependents as part of benefits packages used to attract and keep employees.

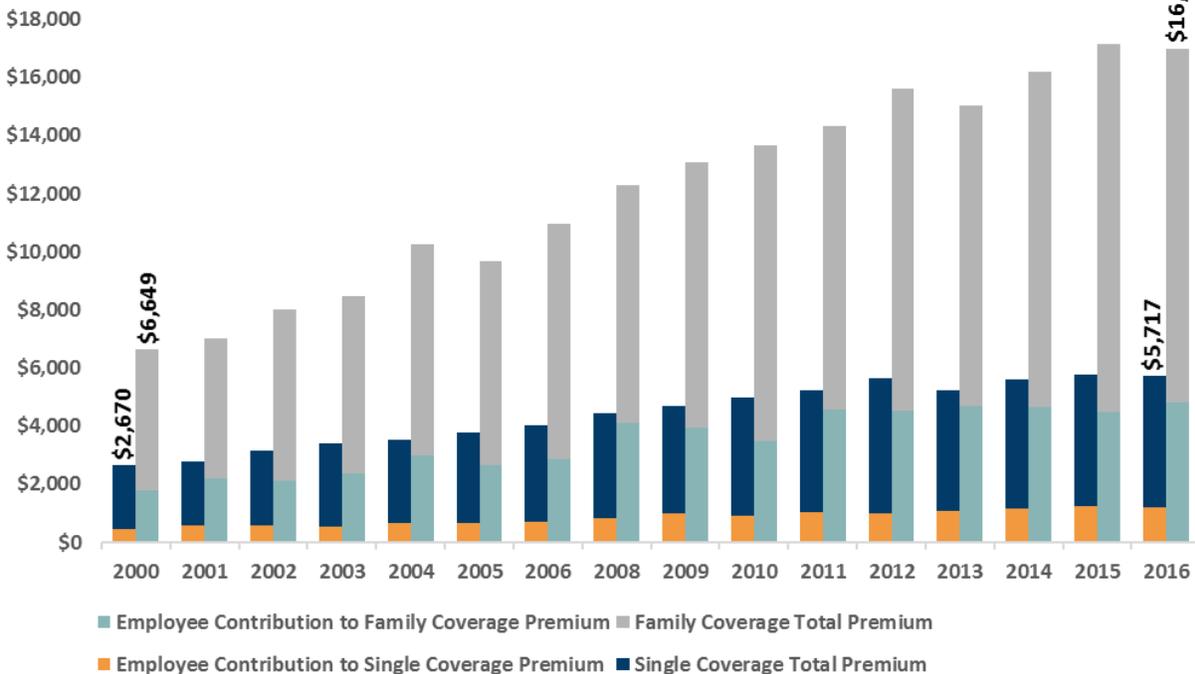
Advantages And Disadvantages Of ESI

A tax exclusion, employer contributions, and the benefits of group insurance reduce the cost of ESI for individuals, making it the most common form of health insurance for the non-elderly.

Employer contributions (and most employee contributions) to ESI are not taxed as income.<sup>2</sup> Employers offering health insurance, and their employees covered under ESI, may pay reduced income and employment taxes.

Employers pay a significant portion of their employees' premiums. In 2016, employers in North Carolina paid, on average, almost 80% of

FIGURE 1. AVERAGE TOTAL PREMIUM AND EMPLOYEE CONTRIBUTION FOR SINGLE AND FAMILY COVERAGE IN NORTH CAROLINA (2000-2016)



Note: Data from the Medical Expenditure Panel Survey Insurance Component State and Metro Area Tables: Table II.C.1, Table II.C.2, Table II.D.1, and Table II.D.2 (2000-2016). Agency for Healthcare Research and Quality. Available at [https://meps.ahrq.gov/data\\_stats/quick\\_tables\\_search.jsp?component=2&subcomponent=2&year=-1&tableSeries=2&tableSubSeries=&searchText=&searchMethod=3](https://meps.ahrq.gov/data_stats/quick_tables_search.jsp?component=2&subcomponent=2&year=-1&tableSeries=2&tableSubSeries=&searchText=&searchMethod=3). Accessed May 9, 2018.

the premium for individual coverage and just over 70% of the premium for family coverage (see Figure 1).

ESI also groups (or pools) individuals, reducing adverse selection and administrative costs.<sup>a,3</sup>

However, individuals with ESI are unable to keep their health insurance when they change jobs and potentially have fewer insurance plan options than through the individual market.

### SHOP Marketplace

Employers may be able to purchase health insurance for their employees through the Small Business Health Options Program (SHOP). SHOP, an online portal, allows employers with 50 or fewer employees to search for and purchase health insurance for their employees.<sup>b,4</sup>

### Small Business Health Care Tax Credit

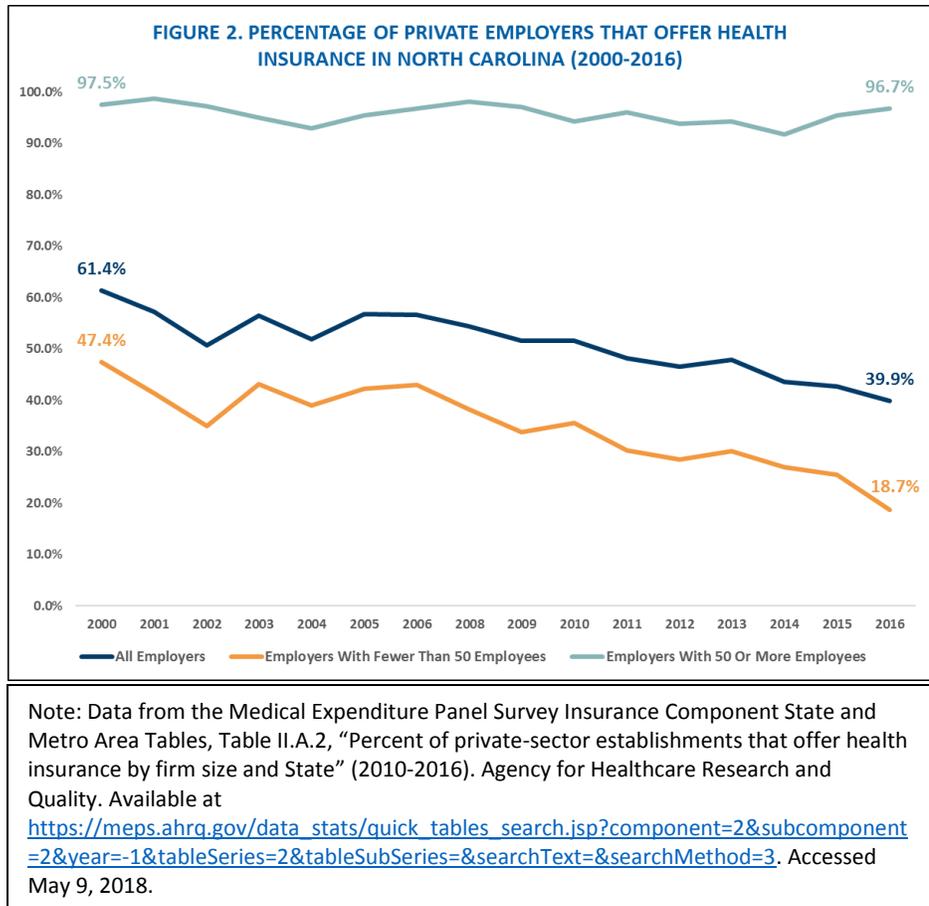
An employer with fewer than 25 full-time equivalent (FTE) staff may qualify to receive a Small Business Health Care Tax Credit, which can be used to lower the cost of their premiums.<sup>c,4</sup>

<sup>a</sup> Adverse selection occurs when sicker people, and those who expect to use greater amounts of health care, choose to obtain health insurance at a greater rate than healthy people. This discrepancy can lead to insurance risk pools comprised of people more likely to use more healthcare services.

<sup>b</sup> Employers can access SHOP at <https://www.healthcare.gov/small-businesses/employers/>.

<sup>c</sup> To qualify, the average yearly income of employees must be approximately \$50,000 or less and the employer must pay 50% or more of employee health insurance premiums.<sup>5</sup>

<sup>d</sup> The Employer Shared Responsibility Provision in the ACA requires certain employers with at least 50 full-time employees to offer ESI to their employees or pay a shared responsibility payment.<sup>6</sup> The ESI coverage these larger employers offer must meet affordability and minimum value requirements.



### Trends In ESI

Despite a requirement in the Patient Protection and Affordable Care Act (ACA) for some employers to offer health insurance to employees, since 2000, the number of employers offering insurance in North Carolina has declined from just over 60% to just under 40% (see Figure 2).<sup>d,7,8</sup> Fewer employers are offering ESI, in part, due to the rising cost of insurance (see Figure 1).

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## Individual Insurance Coverage: The Basics

Health insurance purchased by an individual is called individual coverage.<sup>a</sup> Individual (non-group) insurance coverage is private health insurance that is purchased by individuals (and families) who do not have employer-based or public health insurance coverage.

Individuals can purchase individual health insurance coverage from insurance agents or through an insurance marketplace. Approximately 16% of North Carolinians purchase insurance through an insurance marketplace or through an insurance agent.<sup>1</sup>

## Affordable Care Act (ACA) Changes To Individual Health Insurance

Prior to the implementation of the ACA, consumers faced challenges when purchasing individual insurance coverage. Insurers could charge different prices (based on an individual's health status, age, gender, geographic location, job, or length of time with insurance) for the same insurance coverage.<sup>2</sup> Individuals could also be denied coverage based on a pre-existing condition.

The ACA's consumer protections, such as guaranteed issue and community rating, prevent insurers from denying coverage and

### Snapshot Of North Carolina's Marketplace (PY 2017)<sup>4</sup>

Average Premium for Second-Lowest Cost Silver Plan: **\$445<sup>b</sup>**

Advance Premium Tax Credit (APTC): **\$304<sup>c</sup>**

Insurers Participating in NC Marketplace: **2**

Average Marketplace Qualified Health Plans Per County: **10**

charging different prices based on the aforementioned criteria.<sup>2,b,c</sup> Additionally, the subsidies in the ACA help many consumers who previously may not have been able to pay full costs of their insurance premiums.<sup>3</sup>

## Overview Of North Carolina's Health Insurance Marketplace

In North Carolina, most individual health insurance plans are sold through the state's health insurance marketplace.

Each state must have a health insurance marketplace with private health insurance options. North Carolina's marketplace, operating since 2014, is run by the federal government.<sup>d,6</sup> Individuals, families, and businesses can enroll in marketplace plans online (through [healthcare.gov](http://healthcare.gov)), over the phone, in-person, or with a paper application.<sup>e,8</sup> Enrollment occurs during annual Open Enrollment Periods, which begin on November 1<sup>st</sup> and last for six to twelve weeks, as determined by the federal government.<sup>f</sup>

<sup>a</sup> As opposed to health insurance provided to employees by an employer or association, which is called employer (or group) coverage, and public coverage (Medicaid, Medicare, or TRICARE).

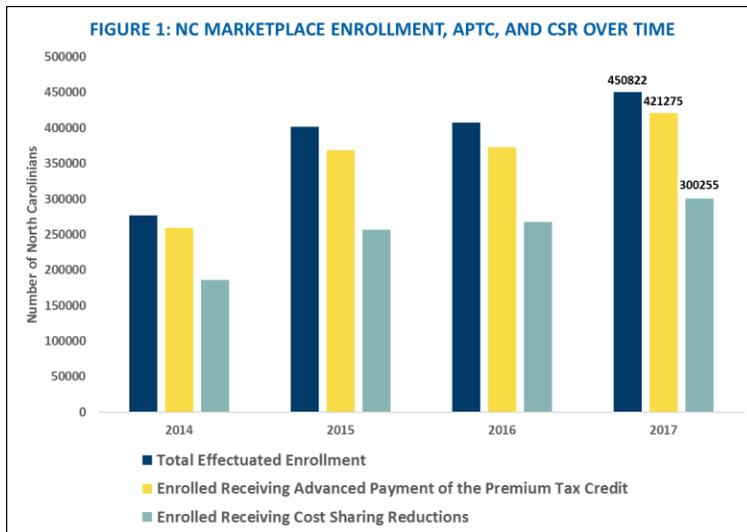
<sup>b</sup> The average premium is for a 27-year-old. The second lowest cost silver plan is the benchmark plan.

<sup>c</sup> APTC is based on the benchmark plan premium.

<sup>d</sup> Each state marketplace is either facilitated by the federal government, state-operated, or operated through a federal-state partnership. Currently 28 state marketplaces are federally-facilitated, 17 are state-operated, and the remaining 6 are operated through some form of partnership.<sup>5</sup>

<sup>e</sup> Employers may be able to purchase health insurance through the Small Business Health Options Program (SHOP). SHOP allows employers with 50 or fewer employees to search for and purchase health insurance for their employees.<sup>7</sup> Employers with fewer than 25 full-time equivalent employees, with an average income of \$50,000 or less, may qualify for the Small Business Health Care Tax Credit.

<sup>f</sup> If individuals experience a change in personal circumstances, they may qualify to enroll during a Special Enrollment Period, outside of the Open Enrollment Period.<sup>9</sup>



Note: Enrollment data for 2014 – 2016 are from December of each year and for 2017 from February. Data from the Centers for Medicare & Medicaid Services. Data for 2017 available at <https://www.cms.gov/CCIIO/Programs-and-Initiatives/Health-Insurance-Marketplaces/Downloads/2017-12-13-2017-Effectuated-Enrollment-Data.pdf>. Data for 2016 available at <https://downloads.cms.gov/files/effectuated-enrollment-snapshot-report-06-12-17.pdf>. Data for 2015 available at <https://www.cms.gov/Newsroom/MediaReleaseDatabase/Fact-sheets/2016-Fact-sheets-items/2016-03-11.html?DLPage=1&DLEntries=10&DLFilter=effect&DLSort=0&DLSortDir=descending>. Data for 2014 available at <https://www.cms.gov/newsroom/mediareleasedatabase/fact-sheets/2015-fact-sheets-items/Table-4-widget.html>. Accessed February 18, 2018.

plans (QHPs). Qualified health plans must provide essential health benefits, follow established limits on cost sharing, and be offered by a licensed health insurance issuer.<sup>10,11</sup> Federally-mandated essential health benefits (EHB) fall into 10 categories, including hospitalization, emergency services, prescription drugs, and preventive and wellness services.<sup>8</sup> Each year, North Carolina sets a benchmark plan that covers all essential health benefits.

The North Carolina Department of Insurance reviews and regulates health insurance plans issued in the state.<sup>12</sup>

### Marketplace Subsidies

When purchasing health insurance coverage through the state’s marketplace, individuals may be eligible for premium tax credits and cost-sharing reductions (CSRs).

*Over 90% of North Carolinians who purchase a health insurance plan through the marketplace receive a premium tax credit.*

### Marketplace Plans

Marketplace plans fall into one of four tiers: bronze, silver, gold, and platinum. Plans in these tiers differ by actuarial value (the percentage of health care expenses the health insurance plan will cover). Insured individuals pay less of their health care costs under plans with higher actuarial values.<sup>9</sup> Bronze tier plans have the lowest actuarial value, while platinum tier plans have the highest.

Health insurance plans sold through North Carolina’s marketplace are qualified health

The premium tax credit helps individuals with household income between 100% and 400% of the federal poverty limit (FPL) pay for their insurance premiums.<sup>h,14</sup> Individuals who qualify can receive the credit each month to pay their monthly premiums.

Cost-sharing reductions help reduce out-of-pocket expenses for health care by reducing annual cost-sharing limits.

<sup>8</sup> For a full list of essential health benefits, see <https://www.cms.gov/cciio/resources/data-resources/ehb.html>.

<sup>h</sup> Individuals also must file federal income tax returns and be ineligible for minimum essential coverage.<sup>13</sup> Regardless

of the amount of income tax assessed by the federal government, individuals may claim the full premium tax credit when filing their taxes.<sup>13</sup>

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