

Tobacco Rating: Issues for Consumers

What You Need To Know about Tobacco Rating

Under the Affordable Care Act, insurers can charge tobacco users higher premiums for health coverage, a practice known as tobacco rating.

- Tobacco rating could make health coverage unaffordable for many Americans.
- Tobacco rating will not help tobacco users quit.
- Tobacco rating will disproportionately harm certain populations.

Starting in 2014, the Affordable Care Act will prevent health insurance companies from charging people higher premiums for coverage based on gender or health status. However, insurers will still be able to charge tobacco users up to 50 percent more for premiums. This practice of charging higher premiums based on tobacco use is called tobacco rating.

Under the health care law and federal rules, premiums for health plans sold directly to individuals and small businesses can cost up to 50 percent more for a person who has used tobacco an average of four or more times per week within the past six months. However, under the law, states can help protect consumers by defining a tobacco user differently or by restricting tobacco rating or prohibiting it altogether.¹

Why is tobacco rating a concern for consumers?

Tobacco rating could make health coverage unaffordable for many Americans.

Starting in 2014, most people with low and moderate incomes will be eligible for premium tax credits to help pay for coverage in the new health insurance marketplaces. However, these tax credits will not help pay for the added cost of tobacco rating. Therefore, tobacco users will have to pay the entire tobacco rating surcharge out of pocket, regardless of income. For low- and moderate-income individuals, the 50 percent surcharge could price them out of coverage altogether, completely undermining the assistance provided by premium tax credits.

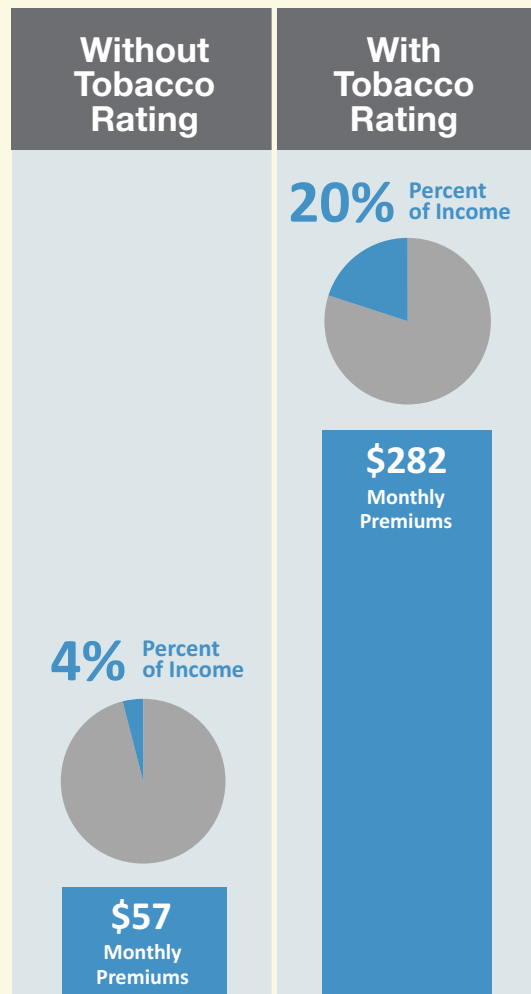
An Example of Tobacco Rating

How Tobacco Surcharges Make Coverage Unaffordable

Jim is a 50-year-old tobacco user who earns \$17,235 per year (150 percent of the federal poverty level for an individual). He is eligible for premium tax credits and enrolls in a health plan with premiums that cost \$449 a month for a non-tobacco user.

Premium tax credits are designed to make sure Jim spends only 4 percent of his income, or \$57 a month, on health coverage. However, because Jim uses tobacco, he must pay an additional 50 percent surcharge on the full premium. For Jim, that surcharge costs \$225 a month.

As a result of tobacco rating, Jim would have to pay \$282 a month, or 20 percent of his income, for health coverage (\$57 per month + \$225 per month = \$282 per month).



Note: This example is based on 2014 premium estimates for the second-lowest cost silver plan under the Affordable Care Act, which, on average, covers 70 percent of the costs of covered benefits for enrollees. The premium for this plan is used to calculate an enrollee's premium tax credit and is adjusted for age and family type.²

Source: Kaiser Family Foundation, *Health Reform Subsidy Calculator* (Washington: Kaiser Family Foundation, May 2013), available online at <http://kff.org/interactive/subsidy-calculator.aspx>.

Tobacco rating will not help tobacco users quit.

There is no evidence that charging tobacco users more for health coverage will motivate them to quit. There is evidence, however, that making cessation programs accessible to tobacco users can help them quit. Under the Affordable Care Act, health plans must provide evidence-based tobacco cessation services to their enrollees free of charge. But if tobacco rating makes health insurance unaffordable for low- and moderate-income tobacco users, then they won't be able to obtain the coverage needed to access these services that are proven to help them quit.

Tobacco rating will disproportionately harm certain populations.

- **Low-income Americans:** 29.0 percent of adults whose incomes are below the federal poverty level (\$11,490 for an individual) smoke, compared to 17.9 percent of adults whose incomes are at or above the poverty level.³
- **People with less education:** 25.5 percent of people without a high school diploma smoke, compared to 19.3 percent of those with an associate degree and 9.3 percent of those with a bachelor's degree.⁴
- **People with mental health conditions:** 36.1 percent of people with mental health conditions reported smoking within the last month, compared to 21.4 percent of those without mental health conditions.⁵

What can states do to protect consumers?

Federal regulations make it clear that states have the authority to enact policies that are more consumer-friendly to ensure that tobacco rating does not make coverage unaffordable.

States can pursue the following policies, among others, to protect consumers:

- Eliminate or limit the use of tobacco rating in the individual and small business insurance markets
- Eliminate tobacco rating for people who enter cessation programs
- Reduce the length of time individuals can be tobacco rated after they quit smoking

For more information on what your state can do, see *Tobacco Rating: State Solutions*, available online at <http://familiesusa2.org/assets/pdfs/Tobacco-Rating-in-Health-Insurance.pdf>.

Endnotes

¹ Patient Protection and Affordable Care Act; Health Insurance Market Rules; Rate Review; Final Rule, *Federal Register*, 45 CFR Parts 144, 147, 150, *et al.*, February 27, 2013, available online at <http://www.gpo.gov/fdsys/pkg/FR-2013-02-27/pdf/2013-04335.pdf>.

² Kaiser Family Foundation, *Health Reform Subsidy Calculator* (Washington: Kaiser Family Foundation, June 2010), available online at <http://kff.org/interactive/subsidy-calculator.aspx>.

³ Centers for Disease Control and Prevention, "Current Cigarette Smoking among Adults—United States, 2011," *MMWR* 61(44):889–894, November 9, 2012, available online at <http://www.cdc.gov/mmwr/preview/mmwrhtml/mm6144a2.htm>.

⁴ *Ibid.*

⁵ Center for Behavioral Health Statistics and Quality, *The NSDUH Report: Smoking and Mental Illness* (Rockville, MD: Substance Abuse and Mental Health Services Administration, February 5, 2013), available online at <http://www.samhsa.gov/data/2k13/NSDUH093/sr093-smoking-mental-illness.htm>.

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