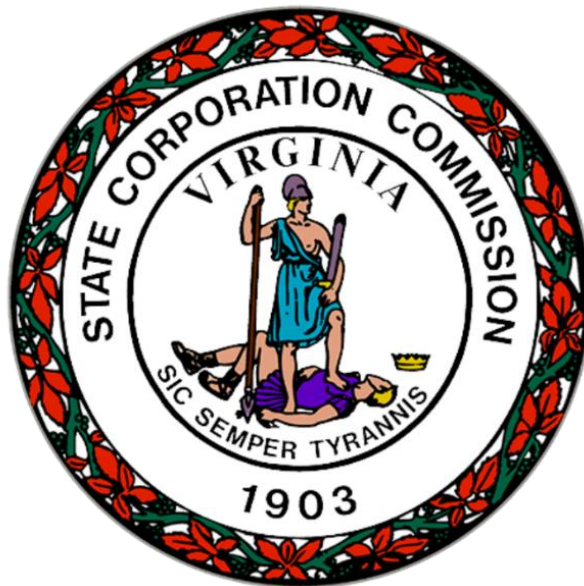


Report on the Effect of the Elimination of the Tobacco Surcharge on Health Insurance Affordability and Purchase

*A Report to the Governor of the Commonwealth of Virginia,
and the Chairs of the Senate Commerce and Labor Committee,
and the House Labor and Commerce Committee*



State Corporation Commission
Bureau Of Insurance

January 1, 2025

COMMONWEALTH OF VIRGINIA

**SCOTT A. WHITE
COMMISSIONER OF INSURANCE
STATE CORPORATION COMMISSION
BUREAU OF INSURANCE**



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January 1, 2025

The Honorable Glenn Youngkin
Governor
Commonwealth of Virginia

The Honorable R. Creigh Deeds
Chair, Committee on Commerce and Labor
Senate of Virginia

The Honorable Jeion A. Ward
Chair, Committee on Labor and Commerce
Virginia House of Delegates

Dear Governor Youngkin, Senator Deeds, and Delegate Ward:

On behalf of the State Corporation Commission, the Bureau of Insurance hereby submits this Report on the Effect of the Elimination of the Tobacco Surcharge on Health Insurance Affordability and Purchase pursuant to Chapters 682 and 683 of the 2023 Virginia Acts of Assembly.

Sincerely,

A handwritten signature in black ink, appearing to read 'Scott A. White', written in a cursive style.

Scott A. White
Commissioner of Insurance

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Executive Summary

This second annual report analyzes the effect of Virginia's 2023 legislation eliminating tobacco surcharges from health insurance premiums. Building on the initial premium analysis from the 2024 report, this second report focuses on enrollment patterns in the individual health insurance marketplace (i.e., Health Benefits Exchange) across Virginia's localities following the policy change.

The data demonstrates distinct enrollment patterns across different regions. While overall marketplace enrollment increased by 14% to 395,461 participants, new enrollments declined by 23.6% compared to 2023. This decline showed significant geographic variation correlated with local smoking rates. Of the 24 localities that experienced increases in new enrollment, 21 had above-average smoking rates, suggesting the policy may have improved marketplace accessibility in traditionally higher tobacco use areas.

However, the relationship between tobacco use rates and enrollment changes is not straightforward. Among localities with the highest smoking rates (25.7% to 27.0%), enrollment changes ranged from a 66.7% decrease to a 26.3% increase. Localities with the lowest smoking rates (8.4% to 10.9%) consistently showed significant declines in new enrollments, ranging from 16.6% to 59.3%.

These variations suggest that while the rate of tobacco use may influence enrollment patterns, other factors such as income levels, alternative coverage options, and local economic conditions may play substantial roles in marketplace participation. Additional years of data will be necessary to determine whether or not these changes represent a temporary market adjustment or a lasting shift in insurance enrollment patterns.

Background and Legislative Context

In 2023, the Virginia General Assembly enacted legislation¹ eliminating the ability of health insurance carriers to apply tobacco use surcharges, effective January 1, 2024. Prior to this, carriers could vary premium rates based on limited factors including:

- Whether the plan covers an individual or family;
- Rating area where the plan is offered;
- Enrollee's age (maximum variance of 3-to-1 based on a 21-year-old rate); and
- Tobacco use (maximum variance of 1.5-to-1 compared to non-tobacco users).

While the federal Patient Protection and Affordable Care Act² permits tobacco surcharges, states can impose stricter requirements, which Virginia restricted on January 1, 2024. Surcharges cannot be paid by Advanced Premium Tax Credits, potentially discouraging people from enrolling.

Commission Reporting Requirements

The legislation requires the State Corporation Commission to submit annual reports through January 1, 2026, addressing two elements: first, summarizing the premium reductions related to the elimination of the tobacco surcharge, and second, analyzing the percentage of new enrollees in localities with above-average rates of tobacco use. The premium impact analysis was completed in the initial report, which documented carrier-specific reductions in per member per month rates for tobacco users and the overall market premium adjustment. This report focuses on the second statutory requirement, examining enrollment patterns in localities based on their tobacco use rates, while providing context for understanding emerging patterns.

Previous Market Analysis and Projections

The 2021 Joint Commission on Health Care (JCHC) study examined health insurance affordability in the individual market, focusing on marketplace stability, affordability, and accessibility.³ The Urban Institute's Health Insurance Policy Simulation Model projected that eliminating the tobacco surcharge would:

- Reduce premiums by 3 to 4.5%;
- Increase individual market enrollment by up to 13,000; and
- Reduce the number of uninsured individuals by up to 14,000 for 2023.

¹ House Bill 1375 and Senate Bill 1011 (Chapters [682](#) and [683](#), 2023 Virginia Acts of Assembly).

² Public Law 111-148—Mar. 23, 2010.

³ "Health Insurance Affordability in the Individual Market," Joint Commission on Health Care, Report to the Governor and the General Assembly of Virginia, 2021.

Initial Market Impact

In 2023, eight of fifteen carriers in Virginia's individual health insurance market applied tobacco surcharges ranging from 5% to 20%. No carriers in the small group market applied these surcharges. The elimination of tobacco surcharges in 2024 resulted in an overall premium rate increase of less than 1% across all enrollees.

Current Enrollment Findings

Data from 2024 reveals counterintuitive enrollment patterns following the elimination of the tobacco surcharge in the individual health insurance market. While overall Health Benefits Exchange marketplace enrollment increased significantly by 14% (from 346,140 to 395,461 participants), new enrollments paradoxically declined by 23.6% compared to 2023 (from 76,683 to 58,557).

This decline in new enrollments was not uniform across Virginia. Areas with higher smoking rates generally showed better enrollment retention and growth. Twenty-four localities experienced increases in new enrollment, with 21 of those having above-average smoking rates. However, a closer examination of the data reveals a more nuanced picture.

Among the five localities with the highest smoking rates (25.7% to 27.0%), enrollment changes varied dramatically from a 66.7% decrease to a 26.3% increase. The five localities with the lowest smoking rates (8.4% to 10.9%) all experienced significant declines, ranging from 16.6% to 59.3%.

These wide variations in enrollment changes, even among areas with similar smoking rates, suggest that other factors beyond tobacco use such as income levels, alternative coverage options, and local economic conditions may influence enrollment decisions.

Analysis Limitations and Future Reporting

Additional years of data and more detailed demographic information would be needed to determine if these changes represent a temporary market adjustment or a shift in enrollment patterns. This broader context would be essential before drawing any definitive conclusions based on this initial two-year comparison.

The Commission will continue to monitor these patterns through 2025, as required by legislation.

The final comprehensive report will be issued by January 1, 2026, providing an additional year's data to the analysis of these emerging patterns and their implications for Virginia's health insurance market.

Conclusion

While early data shows clear geographic variations in enrollment patterns following the elimination of tobacco surcharges, the relationship between tobacco use rates and marketplace participation appears to be more complex than initially modeled. The dramatic range of enrollment changes – even among areas with similar smoking rates – suggests that tobacco use is just one of many factors influencing insurance enrollment decisions. As the Commission continues to monitor these patterns through 2025, additional data will be essential to determine whether these changes represent a temporary market adjustment or signal a shift in enrollment patterns across Virginia's diverse communities.

Appendix A - Virginia Tobacco Usage Rates by Locale

The Bureau previously identified the localities with above-average rates of tobacco use to employ in determining percentages of new enrollees in these areas compared to the statewide average tobacco usage rate. The source of this information was the same source cited in the Affordability Report.⁴

Locality Name	% Smokers	2024 Total Enrollees	2024 New Enrollees	2023 Total Enrollees	2023 New Enrollees	Change in New Enrollees
Buchanan County	27.0%	431	59	346	67	-12%
Dickenson County	26.3%	359	48	264	38	26%
Lee County	26.1%	510	59	435	99	-40%
Emporia City	25.7%	190	13	188	39	-67%
Wise County	25.1%	809	130	724	143	-9%
Russell County	24.3%	742	100	648	134	-25%
Norton City	24.2%	88	15	82	14	7%
Galax City	24.1%	247	36	240	56	-36%
Hopewell City	23.9%	763	94	648	222	-58%
Henry County	23.8%	2,240	283	2,157	384	-26%
Charlotte County	23.7%	469	52	451	85	-39%
Buena Vista City	23.5%	185	27	147	31	-13%
Danville City	23.4%	1,997	190	1,559	396	-52%
Smyth County	23.2%	863	96	806	149	-36%
Bristol City	23.2%	610	71	548	150	-53%
Brunswick County	23.0%	669	79	603	110	-28%
Buckingham County	23.0%	607	83	562	128	-35%
Carroll County	22.9%	1,358	207	1,225	226	-8%
Greensville County	22.8%	331	50	317	95	-47%
Pittsylvania County	22.6%	2,873	380	2,755	523	-27%
Tazewell County	22.6%	1,070	134	995	183	-27%
Grayson County	22.5%	658	103	609	81	27%
Lunenburg County	22.5%	475	50	422	87	-43%
Scott County	22.5%	568	88	522	84	5%
Petersburg City	22.5%	1,141	131	935	299	-56%
Bath County	22.3%	255	31	231	29	7%
Richmond County	22.2%	353	52	399	73	-29%

⁴ TOBACCO USAGE SOURCE: University of Wisconsin – Robert Wood Johnson Foundation, County Health Rankings - [County Health Rankings & Roadmaps \(CHR&R\)](#) is a program of the University of Wisconsin Population Health Institute. The CHR&R program provides data, evidence, guidance, and examples to build awareness of the multiple factors that influence health and support leaders in growing community power to improve health equity. ENROLLMENT SOURCE: January 2023 and January 2024 Virginia Health Benefit Exchange Individual Enrollment Statics.

Locality Name	% Smokers	2024 Total Enrollees	2024 New Enrollees	2023 Total Enrollees	2023 New Enrollees	Change in New Enrollees
Alleghany County	22.1%	611	91	596	110	-17%
Nottoway County	22.1%	521	55	451	101	-46%
Page County	22.1%	1,059	143	886	191	-25%
Martinsville City	21.8%	572	97	563	87	11%
Sussex County	21.6%	302	33	242	62	-47%
Radford City	21.6%	450	98	406	62	58%
Essex County	21.5%	425	53	381	70	-24%
Halifax County	21.5%	1,250	172	1,167	228	-25%
Covington City	21.5%	180	18	228	16	13%
Mecklenburg County	21.4%	1,456	187	1,292	206	-9%
Patrick County	21.4%	758	112	701	128	-13%
Accomack County	21.3%	1,433	179	1,364	366	-51%
Bland County	21.2%	211	27	170	30	-10%
Charles City County	21.2%	565	38	454	117	-68%
Franklin City	21.0%	394	39	296	78	-50%
Roanoke City	21.0%	3,871	560	3,457	833	-33%
Westmoreland County	20.9%	602	97	561	116	-16%
Prince Edward County	20.7%	617	84	598	136	-38%
Wythe County	20.6%	1,047	205	886	178	15%
Amelia County	20.5%	636	92	601	91	1%
Pulaski County	20.3%	1,105	201	901	204	-1%
Surry County	20.3%	256	31	248	51	-39%
Campbell County	20.1%	2,211	327	2,035	462	-29%
Floyd County	20.1%	1,084	171	1,002	192	-11%
Shenandoah County	20.0%	1,746	267	1,610	282	-5%
Washington County	20.0%	2,055	276	2,038	393	-30%
Appomattox County	19.9%	806	95	680	137	-31%
Franklin County	19.9%	2,789	416	2,537	443	-6%
Amherst County	19.7%	1,358	223	1,219	221	1%
Augusta County	19.7%	3,513	540	3,096	621	-13%
Giles County	19.7%	572	89	549	90	-1%
Portsmouth City	19.5%	2,918	373	2,490	712	-48%
Cumberland County	19.4%	400	44	384	88	-50%
Dinwiddie County	19.4%	883	120	712	168	-29%
Harrisonburg City	19.4%	2,172	321	1,799	480	-33%
Norfolk City	19.4%	8,499	1,011	6,606	2,031	-50%
Louisa County	19.3%	1,602	245	1,457	310	-21%
Northampton County	19.3%	715	106	672	141	-25%
Warren County	19.3%	1,409	208	1,242	249	-16%

Locality Name	% Smokers	2024 Total Enrollees	2024 New Enrollees	2023 Total Enrollees	2023 New Enrollees	Change in New Enrollees
Waynesboro City	19.2%	855	160	746	185	-14%
Rockbridge County	19.1%	1,062	177	1,023	158	12%
Southampton County	19.1%	531	68	465	87	-22%
Madison County	18.8%	757	108	695	123	-12%
Craig County	18.5%	165	23	168	28	-18%
Caroline County	18.4%	1,190	146	1,042	240	-39%
Hampton City	18.4%	4,292	506	4,024	1,009	-50%
Middlesex County	18.3%	584	109	523	96	14%
Orange County	18.3%	1,511	263	1,428	289	-9%
Lexington City	18.2%	234	39	242	38	3%
Staunton City	18.2%	1,040	160	974	168	-5%
Highland County	18.1%	171	13	169	23	-43%
Lynchburg City	18.0%	3,040	482	2,796	587	-18%
King and Queen County	17.9%	293	31	287	65	-52%
Nelson County	17.9%	777	141	714	120	18%
Newport News City	17.9%	6,456	851	5,323	1,525	-44%
Culpeper County	17.6%	2,408	329	2,174	426	-23%
Gloucester County	17.6%	1,552	247	1,489	280	-12%
Colonial Heights City	17.6%	747	127	621	126	1%
Greene County	17.5%	828	133	772	139	-4%
Prince George County	17.5%	905	144	780	179	-20%
Bedford County	17.4%	4,420	668	4,076	687	-3%
King William County	17.4%	869	138	797	161	-14%
Winchester City	17.4%	1,030	158	891	232	-32%
Isle of Wight County	17.3%	1,297	197	1,134	258	-24%
Lancaster County	17.3%	639	91	590	109	-17%
Botetourt County	17.2%	1,792	221	1,681	318	-31%
Richmond City	17.2%	11,098	1,833	9,250	2,268	-19%
Frederick County	17.0%	3,840	622	3,322	687	-9%
Montgomery County	16.9%	2,953	543	2,785	498	9%
Northumberland County	16.9%	536	64	532	83	-23%
Rockingham County	16.9%	4,089	659	3,654	656	0%
Salem City	16.9%	974	145	968	158	-8%
Mathews County	16.4%	380	58	359	54	7%
Powhatan County	16.4%	1,388	222	1,328	225	-1%
Rappahannock County	16.4%	439	70	407	57	23%

Locality Name	% Smokers	2024 Total Enrollees	2024 New Enrollees	2023 Total Enrollees	2023 New Enrollees	Change in New Enrollees
Roanoke County	16.3%	4,458	659	4,350	837	-21%
Suffolk City	16.3%	2,915	397	2,694	652	-39%
New Kent County	15.9%	821	112	789	137	-18%
Charlottesville City	15.9%	1,873	295	1,672	315	-6%
Manassas Park City	15.8%	1,529	190	1,123	387	-51%
Williamsburg City	15.6%	626	114	410	129	-12%
Clarke County	15.5%	743	111	635	134	-17%
King George County	15.3%	711	128	595	149	-14%
Spotsylvania County	15.2%	5,152	827	4,575	1,036	-20%
Fredericksburg City	15.1%	1,402	182	1,284	384	-53%
Fluvanna County	14.9%	1,124	166	1,036	232	-28%
Chesapeake City	14.9%	8,117	1,152	7,262	1,760	-35%
Fauquier County	14.8%	3,244	550	2,876	524	5%
Chesterfield County	14.7%	16,621	2,599	14,134	3,076	-16%
Manassas City	14.7%	3,367	424	2,455	630	-33%
Virginia Beach City	14.5%	18,429	2,732	17,483	3,849	-29%
Hanover County	14.3%	4,814	817	4,324	842	-3%
Henrico County	14.3%	17,127	2,651	15,023	3,329	-20%
Stafford County	14.1%	5,499	980	4,652	1,152	-15%
Goochland County	14.0%	1,438	224	1,232	246	-9%
Poquoson City	13.9%	363	60	309	50	20%
York County	13.3%	2,270	406	2,075	397	2%
James City County	12.7%	3,042	538	2,719	527	2%
Prince William County	12.7%	31,943	4,745	26,140	6,390	-26%
Albemarle County	12.3%	5,316	854	4,891	1,040	-18%
Fairfax City	11.1%	1,329	187	1,293	242	-23%
Alexandria City	10.9%	9,676	1,411	7,671	2,144	-34%
Loudoun County	9.5%	22,469	3,424	19,440	4,129	-17%
Fairfax County	9.4%	68,520	9,736	59,725	12,883	-24%
Arlington County	9.0%	10,344	1,730	8,728	2,075	-17%
Falls Church City	8.4%	1,123	105	921	258	-59%
Grand Totals		395,461	58,557	346,140	76,683	-24%