The Individual Health Insurance Market: Where Does it Stand and Where is it Headed?

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Four Questions

What did the Affordable Care Act do?

Where was the individual market entering 2017?

What has the Trump Administration changed?

What will the new market equilibrium look like?

What Did the Affordable Care Act Do?

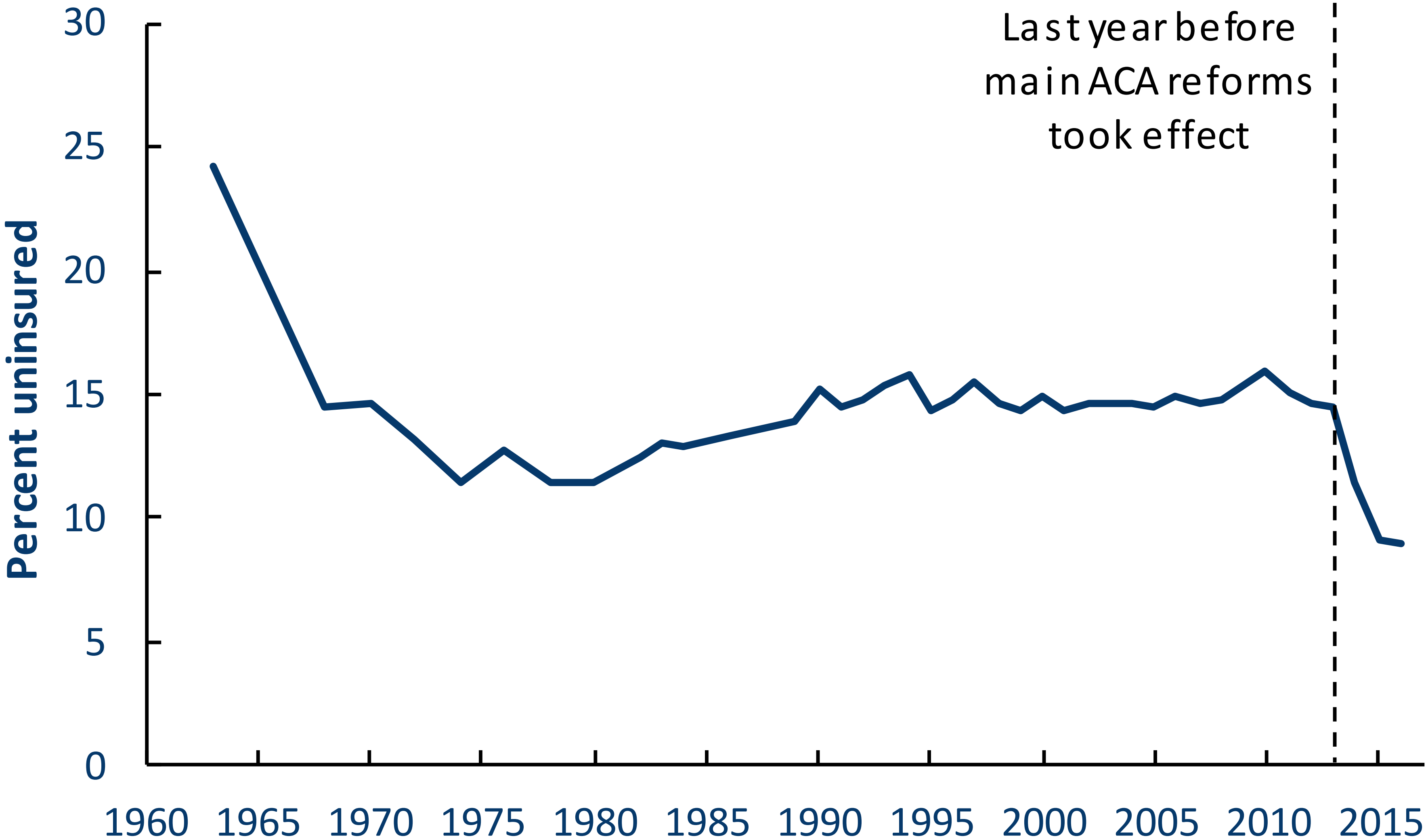
Two central changes affecting coverage:

1) **Medicaid expansion:** States permitted to expand Medicaid up to 138% of the poverty level

2) **Individual market reforms:**

- ***Regulatory changes:*** Insurers barred from denying coverage/varying coverage terms based on health status. Plan designs must meet certain standards.
- ***Subsidies:*** Premium tax credits up to 400% of the poverty level. Reduced cost sharing up to 250% of the poverty level.
- ***Individual mandate:*** Requirement to have coverage or pay a penalty. Penalty was greater of $695/person (half for kids) or 2.5% of household income.

Share of People Without Health Insurance



Source: Council of Economic Advisers (2014); National Health Interview Survey.

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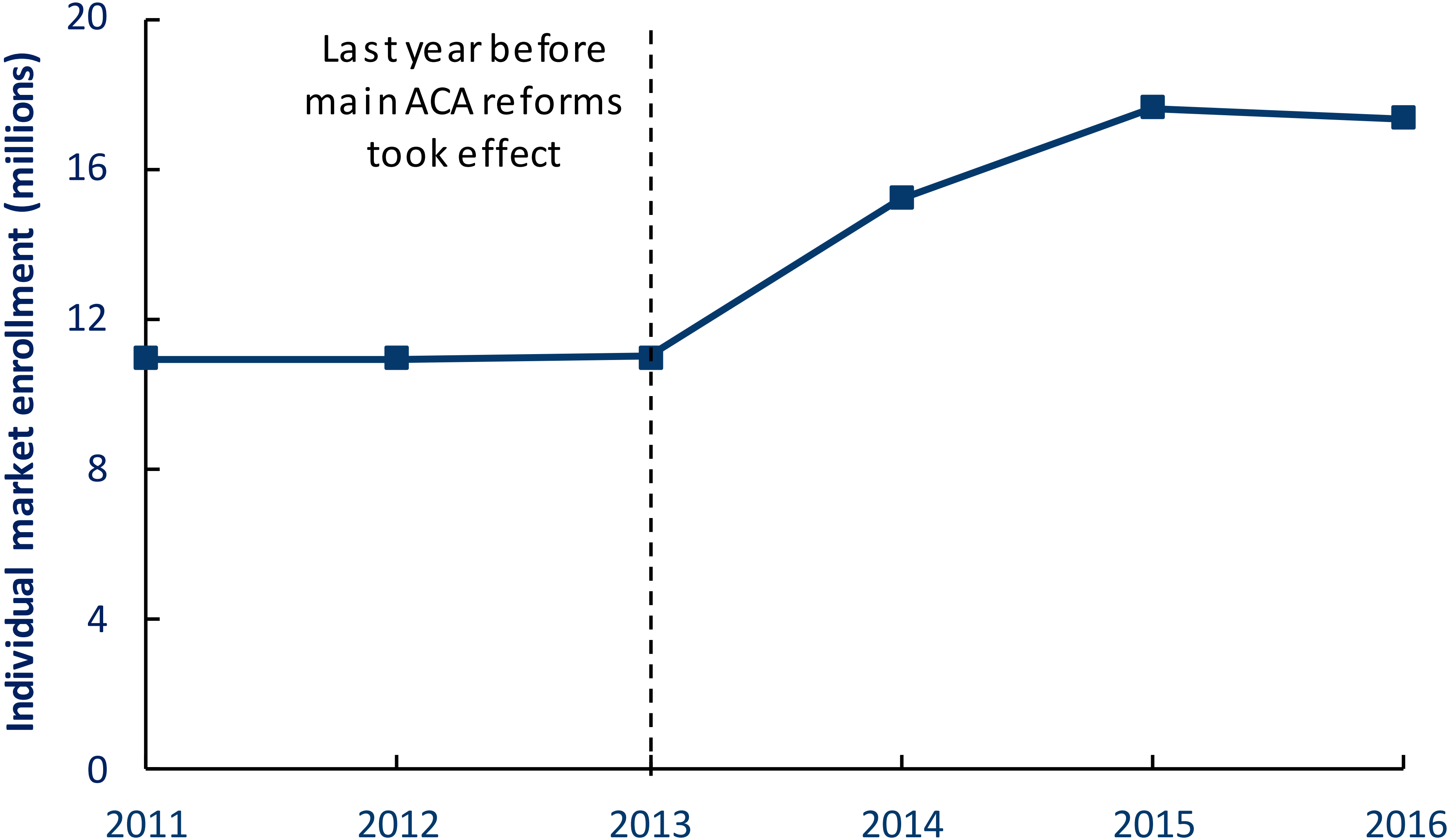
Individual Market Enrollment



Source: Medical Loss Ratio public use file; author's calculations.

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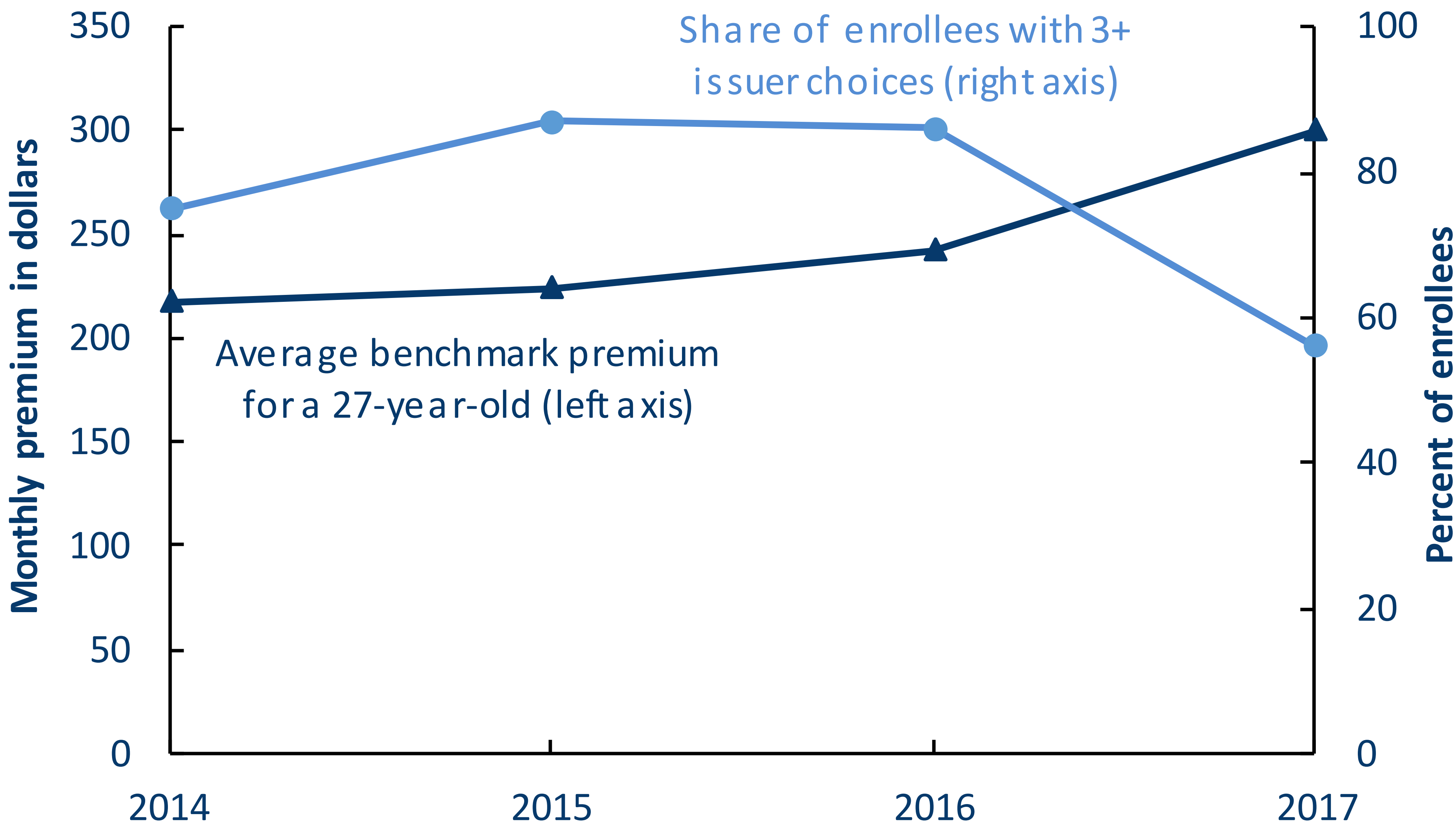
Trends in Marketplace Premiums and Competition



Source: Department of Health and Human Services.

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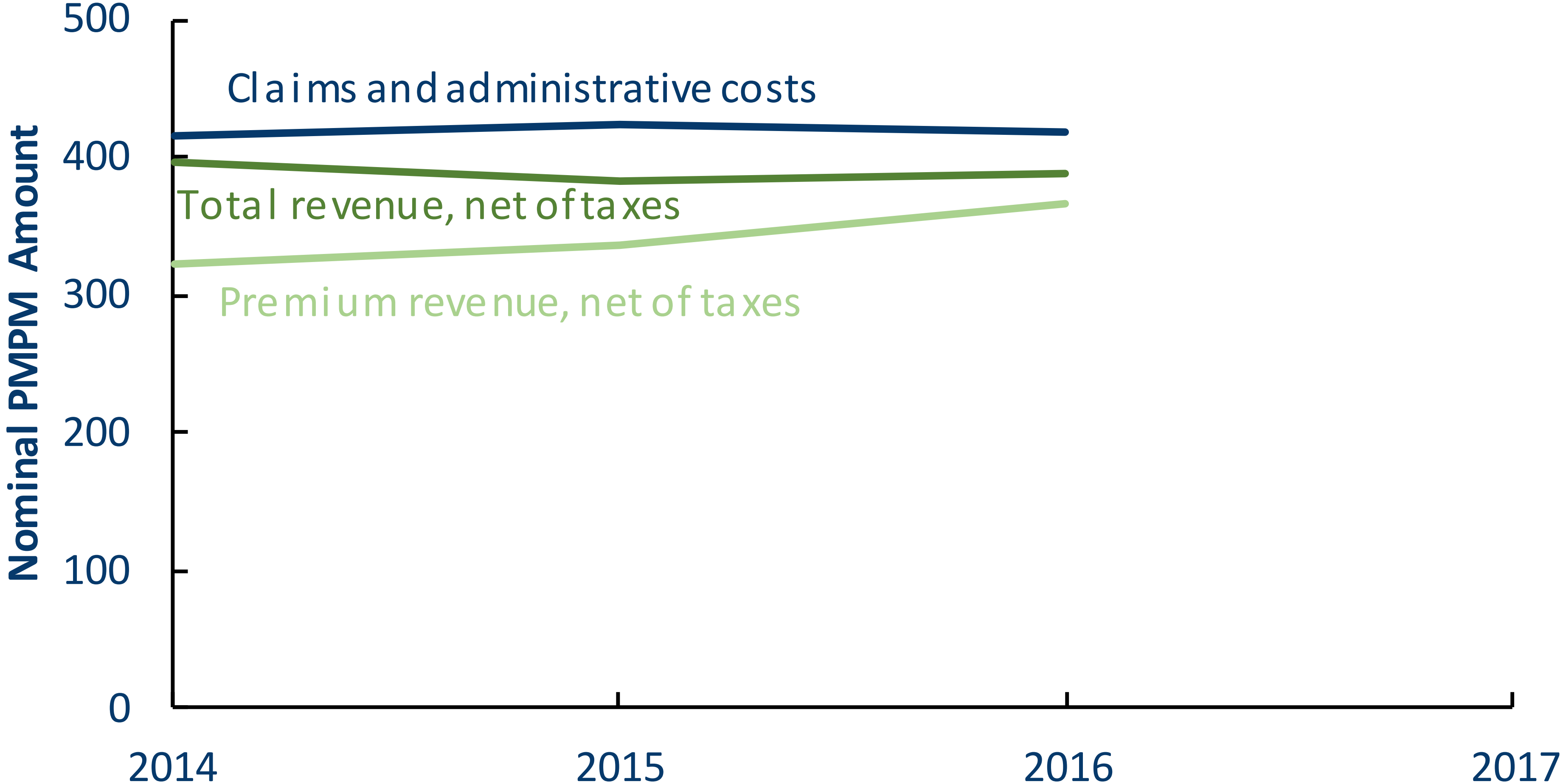
Per Member Per Month Revenue and Costs in the ACA-Compliant Individual Market



Source: CMS data; Mark Farrah Associates analysis of NAIC data; author's calculations.
Note: Claims are net of cost-sharing reduction payments.

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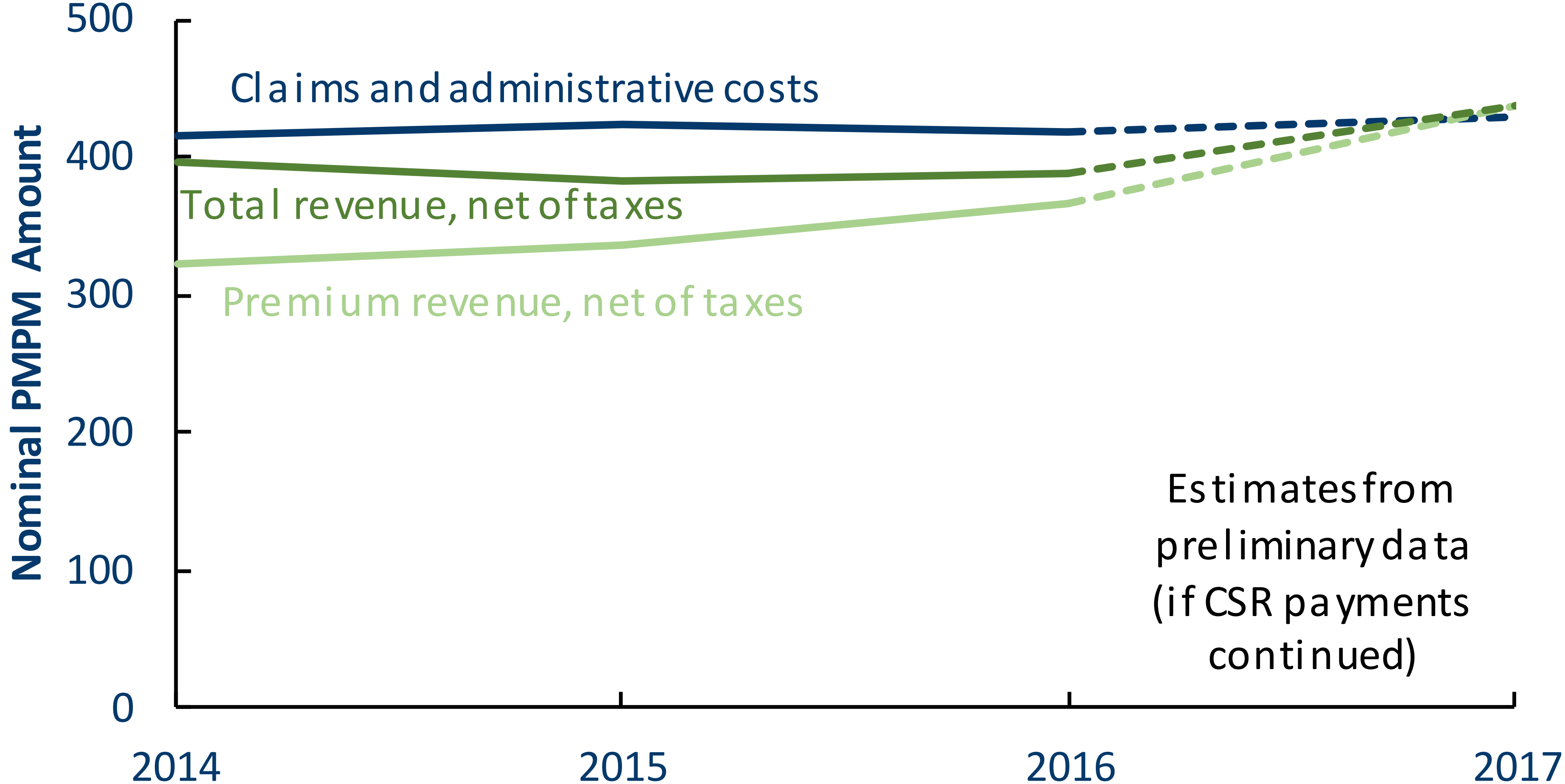

Source: CMS data; Mark Farrah Associates analysis of NAIC data; author's calculations.
Note: Claims are net of cost-sharing reduction payments.

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Why Was Damage from Higher Premiums Limited?

Three mitigating factors:

- **Most enrollees protected by tax credits:** 57% of ACA-compliant enrollees received tax credits in 2016
- **Enrollment only moderately sensitive to premiums:** A 10% premium increase should have translated to a roughly 7% enrollment decline among the unsubsidized
- **Marginal enrollees only moderately healthier**: People driven out by higher premiums expected to be ~30% cheaper

Bottom line: Premium increases in 2017 should have been expected to increase claims 1-2%

What Might the Equilibrium Have Looked Like?

Plausible sketch:

- **Enrollment:** ~16 million, ~60% subsidized
- **Premiums:** Similar to employer plans on average
- **Networks:** Lowest-cost plans have narrow networks, but broader networks often available
- **Insurer participation:** More uncertain. Profitability spurs some insurers to expand/re-enter, but offset by exits by less successful issuers

Policy Shifts Under the Trump Administration

Three largest changes:

- End of cost-sharing reduction payments
- Repeal of individual mandate
- Proposed expansion of short-term plans

Other important changes:

- Proposed essential health benefit changes
- Shorter open enrollment period
- Reduced outreach spending
- Association health plans

How Did Ending CSR Payments Affect the Market?

Structure of cost-sharing reduction program:

- Insurers legally required to reduce cost sharing for <u>silver plan</u> enrollees < 250% of the poverty level
- Federal government reimbursed issuers until the Administration ended payments in October 2017

In most states, insurers only raised premiums for silver plans, known as "silver loading"

- About 9 in 10 enrollees live in "silver loading" states
- About 7 in 10 enrollees live in states that confined premium increases to <u>on-Marketplace</u> silver plans

Illustrative Monthly Premiums for a 27-Year-Old at 250 Percent of the Federal Poverty Level in a "Silver Loading" State

	Benchmark Silver Plan		Illustrative Gold Plan	
	w/ CSR funding	w/o CSR funding	w/ CSR funding	w/o CSR funding
Total premium	$320	$400	$371	$371
Premium tax credit	$116	$196	$116	$196
Enrollee net premium	$204	$204	$254	$174

Ultimate Effects of CSR Cutoff

Many subsidized enrollees better off

- Two groups win: (1) people already in bronze/gold; and (2) people w/ incomes 200-400% of poverty line
- Around 1 in 3 Marketplace enrollees in 2017

Unsubsidized enrollees largely unaffected

- Most purchase off-Marketplace or non-silver plans
- Unsubsidized enrollees in on-Marketplace silver can generally switch to off-Marketplace silver

Federal government spends more on net

What Happens When the Mandate Ends in 2019?

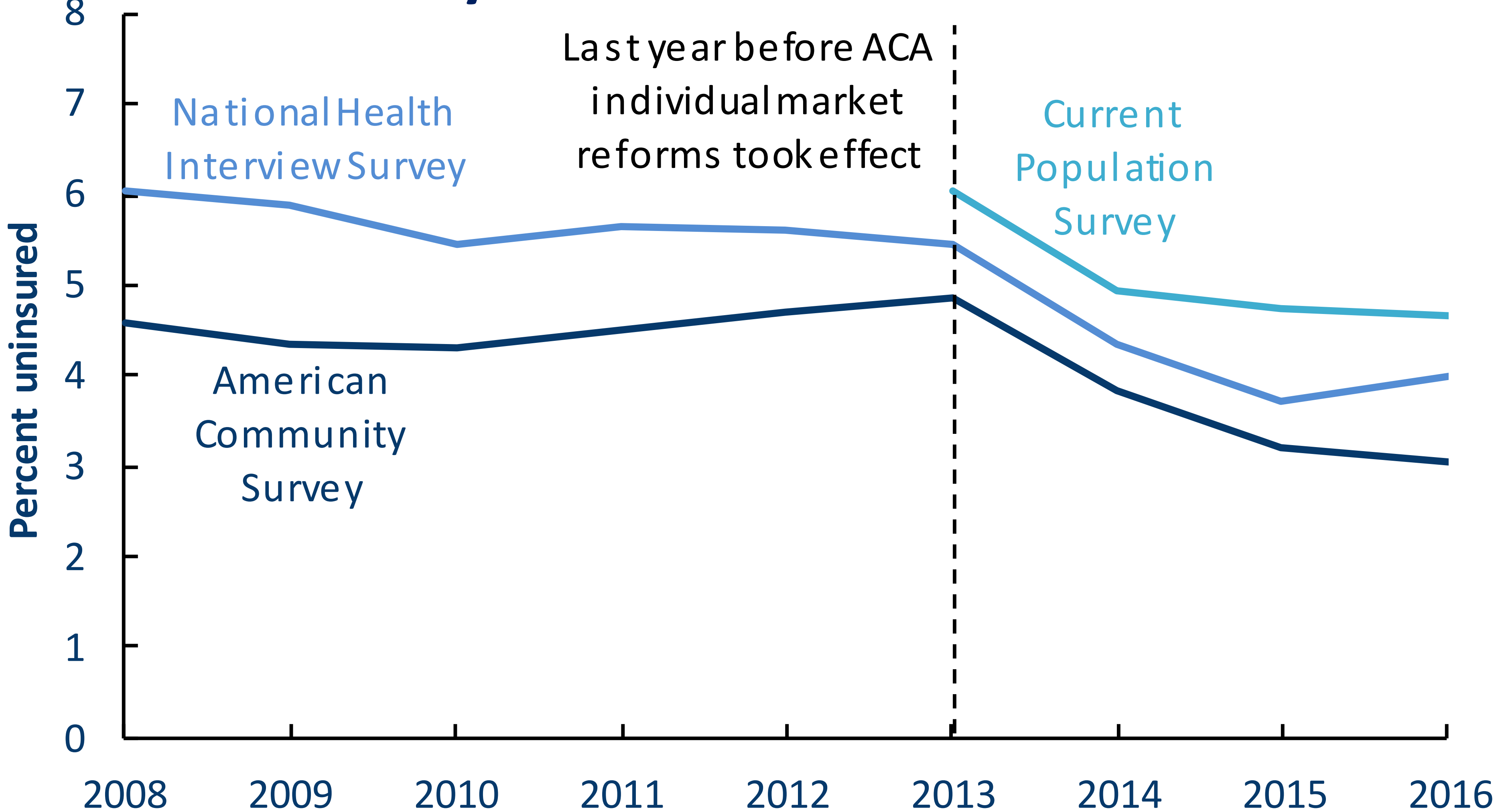
Some people, largely healthy, drop coverage

- People dropping out better off – if fully rational
- Remaining unsubsidized enrollees pay more, while providers bear greater uncompensated care

Precise magnitude of effects uncertain

- CBO estimates 13 million fewer covered in long run, with individual market premiums rising 10%
- Surveys suggest smaller, still meaningful effects

Uninsured Rate for People Ages 26 to 64 with Family Income > 400% of the FPL



Source: NHIS; CPS; ACS; author's calculations.

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What Would Expanding Short-Term Plans Do?

"Short-term, limited duration" plans exempt from federal individual market rules

- Current definition: < 3 months, no renewals
- New proposal: < 12 months, renewals permitted

Effects of creating a parallel market:

- Many healthy unsubsidized shift to short-term plans
  - Premiums for compliant plans rise, raising costs for the sick and federal government
  - Short-term plans (generally) offer less coverage
- Some healthy uninsured purchase short-term plans

What is the Outlook for the Individual Market?

Market will find a new equilibrium

- Large subsidy-eligible population anchors market
- Transition could be rocky at times, given challenges in forecasting the new risk pool

How will the new equilibrium differ?

- Fewer covered, particularly accounting for quality
- Less pooling of risk between healthy and sick
- Lower premiums for some subsidized enrollees