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The Commonwealth Fund

Analysis of Alternative Policy Decisions in Iowa's Individual Market

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Executive Summary

The Commonwealth Fund ("Commonwealth") retained Wakely Consulting Group, LLC ("Wakely") to analyze the potential effects of having included non-group enrollees that were not subject to the Affordable Care Act's (ACA) market reform rules into Iowa's ACA risk pool for the 2015 benefit year. This report includes a brief summary of Iowa's ACA market in 2015, Iowa's non-ACA market, and what effect shifting of non-ACA enrollees (e.g., transitional and grandfather enrollees) into Iowa's ACA risk pool might have had on enrollment and premiums.

As part of the analysis, Wakely considered three scenarios:

- What if the state of Iowa had not allowed transitional plans and that some of those enrollees had instead shifted to coverage in the ACA market in 2015?
- What if the Iowa's issuers had discontinued grandfather plans and some of those enrollees had shifted to coverage in the ACA market in 2015?
- What if both the state of Iowa had not allowed transitional plans and Iowa's issuers had discontinued grandfather plans and some of enrollees from both cohorts had shifted to coverage in the ACA market in 2015

This document has been prepared for the sole use of The Commonwealth Fund. This document contains the results, data, assumptions, and methods used in our analyses and satisfies the Actuarial Standard of Practice (ASOP) 41 reporting requirements. Using the information in this report for other purposes may not be appropriate.

Table 1 summarizes the results of our estimates. Data, methodology, and assumptions are included later in this report. These estimates are inherently uncertain and actual results might have varied, potentially materially. Our analysis estimated the impact of these changes on the relative health of the ACA insurance market risk pool, which we have presented as an impact on premiums. Actual premium changes are difficult to model under theoretical conditions and depend on many factors outside the scope of our analysis, including which issuers choose to offer insurance products, what products they offer and their pricing strategy.

Table 1. Estimated Effects of Different Scenarios on Iowa's 2015 ACA Individual Market

Scenario	Change in Premium	Change in Enrollment
Inclusion of Transitional Enrollees into ACA Risk Pool	-5% to -12%	+30,000 to +45,000
Inclusion of Grandfather Enrollees into ACA Risk Pool	-5% to -12%	+25,000 to +40,000
Inclusion of Transitional and Grandfather Enrollees into ACA Risk Pool	-8% to -18%	+55,000 to +85,000

Iowa's Individual Market

Iowa's individual ACA market has experienced dramatic deterioration in recent years. For example, the 2018 benchmark premium in the individual ACA market increased an estimated 88% from 2017.[1] One question raised is if different policy decisions had been made, what impact would they have had on premiums and enrollment? Iowa's Department of Insurance reported that the ACA individual market had an average enrollment of approximately 70,000 enrollees in 2015.[2] This includes individuals that were part of Iowa's Medicaid expansion that were enrolled in ACA products. However, ACA individual market enrollment only accounts for approximately one-third of Iowa's total non-group market.

Iowa had a relatively large number of enrollees in non-ACA products, namely transitional plans and grandfather plans. As part of the ACA, individuals enrolled in plans whose coverage started before 2010 were allowed to keep their coverage (which became known as grandfather coverage), even after the market reform rules (e.g., guaranteed issue, rating rule restrictions, etc.) came into effect. Grandfather plans did not have to conform to the ACA's market reform rules. According to Iowa's Department of Insurance (DOI), in 2015 there were approximately 50,000 grandfather plan enrollees. Furthermore, a second tranche of plans also did not have to comply with ACA. In November of 2013, HHS announced that certain health care coverage that were out of compliance with 2014 market reform rules, would be allowed to be renewed in 2014. These plans were termed "transitional plans". Each state had the option of allowing transitional plans to continue into 2014 and beyond. Iowa choose to allow transitional plans to continue in the individual market. Iowa's DOI notes that in 2015 there were approximately 55,000 enrollees in transitional plans in Iowa. Since both grandfather and transitional enrollees gained coverage during a time of underwriting, they were generally healthier than ACA enrollees. The Brookings Institute estimated that in 2014, non-ACA non-group enrollees (i.e., transitional and grandfather

[1] https://aspe.hhs.gov/system/files/pdf/258456/Landscape_Master2018_1.pdf

[2] https://iid.iowa.gov

enrollees) had claims cost approximately 55% of ACA enrollees.[3] In essence, healthy individuals that otherwise may have joined the ACA risk pool, were given the option to remain outside of the ACA risk pool. Our analysis is an effort to answer the question of what impact inclusion of enrollees from the non-ACA non-group segments could have had on the ACA risk pool, if their plans had been discontinued. Table 2 shows estimated enrollments for different enrollment groups and average ACA premiums. Publically available data was obtained from Iowa's Department of Insurance.

Table 2: 2015 Baseline Average Enrollment and Premium Data / Estimates

Baseline	2015
Total Non-Group Market	177,306
Average ACA Individual Market Enrollment	72,000
Average Transitional Plan Enrollment	55,000
Average Grandfather Plan Enrollment	50,000
Average ACA Individual Premiums	$348.63

Alternative Outcomes for the 2015 Benefit Year

One question is what the impact would have been for including some of these non-ACA enrollees in the ACA risk pool. Since non-ACA enrollees are, on average, relatively healthier than ACA enrollees, the greater the number of enrollee movement from non-ACA products to ACA products, the lower ACA premiums would have been. This could have happened if Iowa had not extended transitional policies into 2015 or if Iowa's issuers had decided to not continue offering grandfather plans[4]. In such a scenario, enrollees in these non-ACA products could have transitioned to ACA individual markets rather than taken up other coverage or gone uninsured and therefore been subject to the mandate penalty.

There are two sources of uncertainty related to the addition of these non-ACA enrollees. The first source of uncertainty is how many non-ACA enrollees would take up coverage in 2015 in ACA products. The second source of uncertainty is the cost difference between the non-ACA enrollees that take-up ACA coverage and those enrollees already in ACA coverage. Brookings Institute estimated, using national level data, that non-ACA enrollees had costs that were approximately

[3] https://www.brookings.edu/wp-content/uploads/2017/10/individualmarketprofitability.pdf

[4] In a competitive market, it is unusual for some issuers to voluntarily take actions that will likely hurt their profitability such as discontinuing grandfather plans.

55% of ACA costs in 2014.[5] However, this cost differential does not include additional costs that would occur from having broader benefits (i.e., Essential Health Benefits) nor does it account for potential adverse selection among those in the non-ACA plans that take up coverage in the ACA risk pool. Presumably, non-ACA individuals that have higher costs are more likely to take-up ACA coverage, and those that are healthy may decide to drop coverage altogether rather than pay the higher ACA premiums (ACA premiums are higher because of richer benefits and a generally less healthy risk pool, among other factors). As a result, the difference in claims cost between those non-ACA enrollees estimated to choose to select ACA products will likely be less than the 45% indicated by the other analysis referenced.

For this analysis, Wakely assumed that between 50% and 75%[6] of transitional and grandfather enrollees would shift from non-ACA coverage to ACA coverage. Wakely further estimated that among these enrolls average claims cost would be between 67.3% and 83% of the actual 2015 ACA enrollees. Wakely also estimated that the resulting lower premium would induce take-up among the uninsured. The cycle of lower premiums and more enrollees was iterated twice to reach a general equilibrium of estimated premiums and enrollment. Table 3 presents Wakely's estimated effects on the ACA individual market risk if transitional plans had been disallowed and grandfather plans were closed.

Table 3. Estimated Effects of Non-ACA Enrollment Inclusion into 2015 Iowa Individual ACA Market

Enrollment	Baseline Enrollment	Baseline Premium	Post – Inclusion Enrollment	Post – Inclusion Premium	Difference In Average Premium
Low Scenario					
Inclusion Only Transitional Enrollees	73,000	$348.63	101,328	$331.08	**-5.0%**
Inclusion Only Grandfather Enrollees	73,000	$348.63	98,658	$332.30	**-4.7%**
Inclusion of Both Transitional and Grandfather Enrollees	73,000	$348.63	127,204	$321.84	**-7.7%**
High Scenario					
Inclusion Only Transitional Enrollees	73,000	$348.63	117,191	$305.34	**-12.4%**
Inclusion Only Grandfather Enrollees	73,000	$348.63	113,030	$307.95	**-11.7%**
Inclusion of Both Transitional and Grandfather Enrollees	73,000	$348.63	157,609	$286.47	**-17.8%**

[5] https://www.brookings.edu/wp-content/uploads/2017/10/individualmarketprofitability.pdf

[6] For further details, please see the Methods section.

As Table 3 shows, the inclusion of non-ACA enrollees into the ACA risk pool could have had a significant impact on the market. We estimate that the premiums would have likely been nearly 5% to 12% lower than they otherwise would have been in 2015 had transitional policies not been allowed to renew in 2014. Furthermore, we estimate enrollment in ACA plans could have been 30,000 to 45,000 greater. If Iowa's issuer had decided to discontinue grandfather enrollees, Wakely estimates premiums in Iowa could have been 5% to 12% lower and enrollment 30,000 to 40,000 higher than it otherwise would have been. If Iowa had not allowed transitional plans to renew in 2014 and Iowa's issuers had also discontinued grandfather plans in 2014, we estimate that premiums would have been approximately 8% to 18% lower and enrollment approximately 55,000 to 85,000 higher than it otherwise would have been.

Conclusion

Iowa's ACA individual market in 2015 represented approximately 40% of the total non-group market. Individuals in transitional and grandfather plans represented the remaining portion of the non-group. Non-ACA individual plan enrollees tend to have lower claims cost, on average, relative to ACA enrollees. We believe that not every non-ACA enrollee would have moved from a non-ACA plan to ACA plan, given the difference in premiums. However, if only a portion of non-ACA enrollees did shift it would have decreased premiums in the ACA premiums. Lower premiums would have attracted new enrollees, which could have further improved the risk pool. While the exact effects are uncertain, the shifting of non-ACA enrollees would have directionally improved Iowa's ACA risk pool in 2015.

Summary of Plan Types

Product Type	Definition
ACA Compliant Individual Market Plans	These are plans created starting in January 1st that followed the ACA market reform rules including: guaranteed issue, adjusted community rating, essential health benefits, etc.
Grandfather Plans	These are plans that were in effect before March of 2010. These plans do not have follow ACA market reform rules. States do not have the legal authority to discontinue them but individual issuers could
Transitional (grandmother) plans	These are plans that were issued after March 2010 but before Jan 2014. These plans do not have to follow ACA market reform rules. States were given the flexibility whether to continue them or not.

Data and Methodology

1. Baseline

    a. To estimate average ACA Individual Market enrollment Wakely relied on Iowa's Department of Insurance report on the Iowa's Individual Market (https://iid.iowa.gov).

    b. To estimate the 2015 state average ACA premiums Wakely relied on CMS' June 30th Report for Risk Adjustment and Reinsurance for the 2015 benefit year.

    c. To estimate Transitional and Grandfather Enrollment, Wakely relied on data from on Iowa's Department of Insurance report on the Iowa's Individual Market.

2. Inclusion of Non-ACA Enrollees into Risk Pool

    a. Wakely estimated that between that 50% and 75% of non-ACA enrollees would have taken up ACA coverage. John Graves and Syeh Nikpay's research7 on dynamics of coverage churn found that 60% of non-group enrollees in 2013 still had non-group coverage in 2014. Wakely used a slightly lower take-up rate given uncertainties.

    b. Morbidity – Morbidity of the non-ACA enrollees was estimated using Wakely's proprietary claims cost data set. The data set includes claims costs for ACA individual enrollees in 2015. For this analysis, we began with the claims distribution for enrollees in bronze plans. The claims cost distribution was adjusted to model the assumption that transitional and grandfather enrollees are healthier than ACA Bronze enrollees. This is both because these enrollees were healthier on average, since they had obtained coverage during a time of underwriting, and because they had decided not to shift to ACA coverage in 2014. However, since it is likely that not every transitional and grandfather enrollee would take up coverage in ACA plans, the claims distribution was adjusted to be sicker than the initial modeled transitional/grandfather enrollee distribution. The cost distribution was then adjusted further to account for the risk selection among those that took up coverage in 2015. Presumably, less healthy non-ACA enrollees would take up coverage the following year. This was done by applying different take-up rates to different cost deciles with take-up increasing at higher cost deciles. The resulting estimated morbidity was between 67% and 83% of ACA claims cost.

[7] https://www.healthaffairs.org/doi/abs/10.1377/hlthaff.2016.1165

c. To estimate new enrollees resulting from lower premiums, Wakely used a take-up function estimated by the Council of Economic Advisors8. These enrollees had an estimated morbidity factor of 73%, aligned with the CEA analysis.9 A second iteration was used to estimate how many more people might take-up ACA coverage due to the lower premiums as a result of the improved morbidity due to the new enrollees.

d. The final premium differences were calculated as a result of both inclusion of the non-ACA enrollees AND increased marginal enrollees due to the lower premium.

Reliances and Caveats

The following is a list of the data Wakely relied on for the analysis:

- CMS' June 30th Risk Adjustment and Reinsurance Report[10]
- Iowa's Department of Insurance.[11]
- Non-group claims costs in 2014 as calculated by the Brookings Institute[12]
- Wakely Claims Cost Data

The following are additional reliances and caveats that could have an impact on results:

- Data Limitations. Wakely relied on 2014 and 2015 data. Currently, there is not exact enrollment of transitional, grandfather, and ACA enrollment in December of 2014 and January of 2015. If the enrollment numbers vary from Wakely's estimate, the overall results of this analysis may vary. In addition, as described throughout the report, there are significant limitations, uncertainty, and variances in reports discussing shifting of non-ACA enrollees to ACA coverage.

- Enrollment Uncertainty. Additionally, there is enrollment uncertainty. Beyond changes to potential rates and policy, individual enrollee responses to these changes also has

[8]https://obamawhitehouse.archives.gov/sites/default/files/page/files/201701_individual_health_insurance_market_cea_issue_brief.pdf

[9] ibid

[10] https://www.cms.gov/CCIIO/Programs-and-Initiatives/Premium-Stabilization-Programs/Downloads/DDC_RevisedJune30thReport_v2_5CR_120516.pdf

[11] https://iid.iowa.gov

[12] https://www.brookings.edu/wp-content/uploads/2017/10/individualmarketprofitability.pdf

uncertainty. All of these uncertainties result in limitations in providing point estimates on uninsured rates.

- Premium Uncertainty. There is uncertainty in how carriers may have responded in their 2015 premium rates to the different scenarios.

Disclosures and Limitations

Responsible Actuaries. Julie Andrews and Al Bingham are the actuaries responsible for this communication. They are Members of the American Academy of Actuaries and Fellows of the Society of Actuaries. They meet the Qualification Standards of the American Academy of Actuaries to issue this report.

Intended Users. This information has been prepared for the sole use of Commonwealth. Distribution to parties should be made in its entirety and should be evaluated only by qualified users. The parties receiving this report should retain their own actuarial experts in interpreting results.

Risks and Uncertainties. The assumptions and resulting estimates included in this report and produced by the modeling are inherently uncertain. Users of the results should be qualified to use it and understand the results and the inherent uncertainty. Actual results could have varied, potentially materially, from our estimates. Wakely does not warrant or guarantee that the Commonwealth Fund would have attained the estimated values included in the report. It is the responsibility of those receiving this output to review the assumptions carefully and notify Wakely of any potential concerns.

Conflict of Interest. The responsible actuaries are financially independent and free from conflict concerning all matters related to performing the actuarial services underlying these analyses. In addition, Wakely is organizationally and financially independent of the Commonwealth Fund.

Data and Reliance. We have relied on others for data and assumptions used in the assignment. We have reviewed the data for reasonableness, but have not performed any independent audit or otherwise verified the accuracy of the data / information. If the underlying information is incomplete or inaccurate, our estimates may be impacted, potentially significantly. The information included in the 'Data and Methodology' and 'Reliances and Caveats' sections identifies the key data and reliances.

Contents of Actuarial Report. This document constitutes the entirety of actuarial report and supersede any previous communications on the project.

Deviations from ASOPs. Wakely completed the analyses using sound actuarial practice. To the best of our knowledge, the report and methods used in the analyses are in compliance with the appropriate ASOPs with no known deviations. A summary of ASOP compliance is listed below:

ASOP No. 23, Data Quality

ASOP No. 41, Actuarial Communication