

What Is Next For the Affordable Care Act's Cost-Sharing Reductions?

Understanding The Impact on Consumers and Insurance Markets

Monday, April 24th

1:30p.m.-2:15p.m. EDT



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What Is Next For the Affordable Care Act's Cost-Sharing Reductions? Understanding The Impact on Consumers and Insurance Markets

MODERATOR: **Sara Collins**

Vice President

Health Care Coverage and Access

The Commonwealth Fund



What are Cost-Sharing Reductions and Why Do They Matter?

Sara Collins

Vice President, Health Care Coverage and Access

Cost Exposure in Marketplace Plans

- Insurers that sell plans in the individual market must offer plans at four different levels of cost exposure, also known as “actuarial value.”
 - Bronze, covering an average 60% of medical costs;
 - Silver, covering 70%;
 - Gold, covering 80%;
 - Platinum, covering 90%.
- The ACA also stipulates out-of-pocket limits that rise with income. The limit cannot exceed \$7,150 for a single policy or \$14,300 for a family policy.

Cost-Sharing Reductions Provide Greater Protection for Low and Moderate Income Enrollees

- Insurers are required to provide silver marketplace plans with reduced cost-sharing for people with incomes between 100 – 250% of poverty.
- The lower one's income, the higher the % of costs covered:
 - 100 - 150% poverty: covering an average of 94% of medical costs;
 - 150 - <200% poverty: covering 87%;
 - 200 - <250% poverty: covering 73%.
- The U.S. Treasury reimburses health plans directly for these cost-sharing reductions.

Cost-Sharing Reductions Lower Deductibles, Co-Pays, Out-of-Pocket Limits

- In 2017, 58 percent of marketplace enrollees, 7.1 million people, selected plans with CSRs.
- These enrollees have lower deductibles, co-pays, and/or out-of-pocket limits than silver level plans without CSRs.

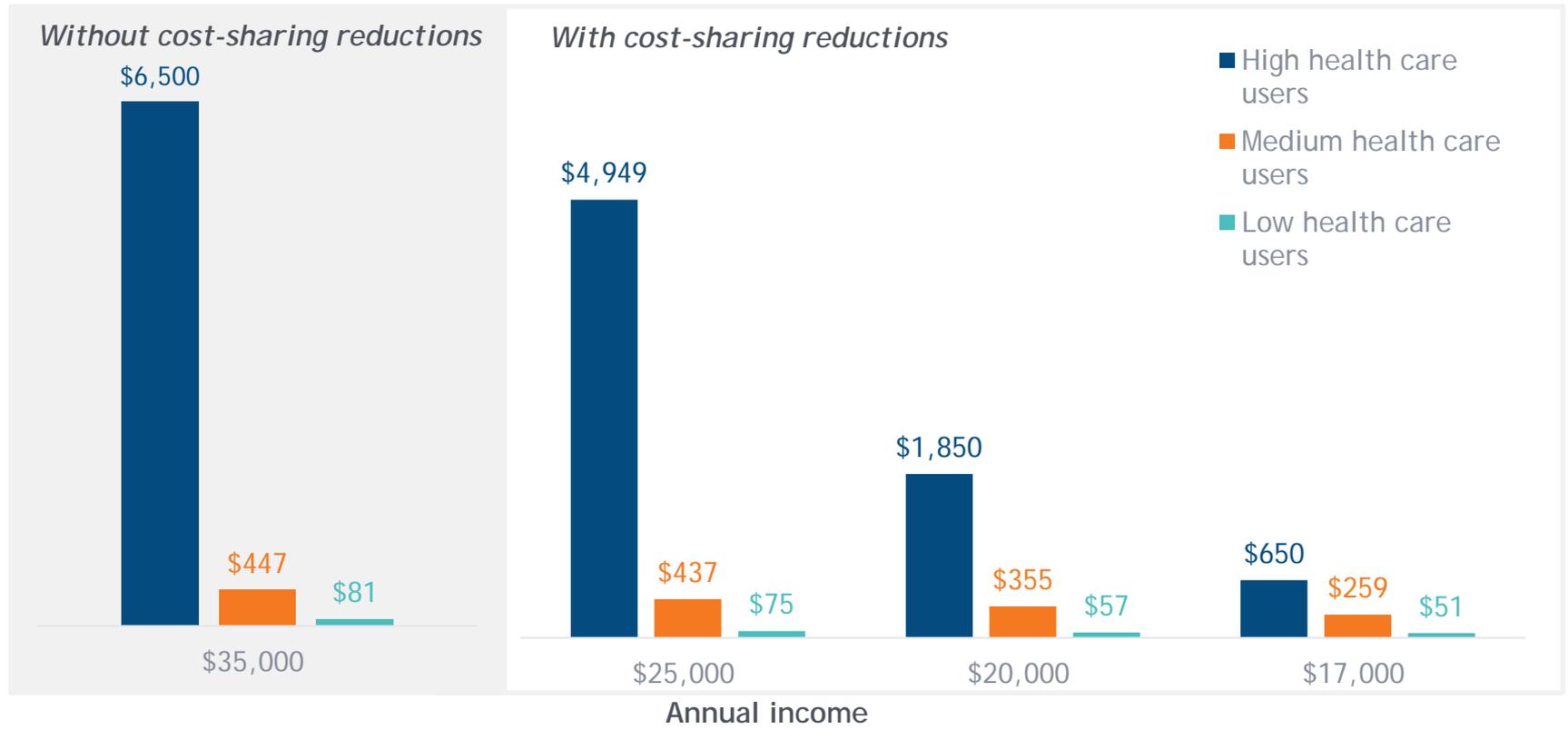
At lower incomes, enrollees have lower out-of-pocket limits and deductibles

Median out-of-pocket (OOP) limits and median deductible in states that use HealthCare.gov



Cost-sharing reductions lower peoples' projected out-of-pocket costs, especially for those who use health care the most

Median out-of-pocket (OOP) limits and median deductible in states that use HealthCare.gov



Notes: Second-lowest-cost silver plans for 2016; 40-year-old male nonsmoker; largest city in state. The median includes 36 states that use the HealthCare.gov platform, excluding Alaska and Hawaii for the \$17,000 category; 37 states that use the HealthCare.gov platform for the \$20,000 category; and the 38 states that use the HealthCare.gov platform for the \$25,000 and \$35,000 categories. OOP costs is either the difference between total expected costs and the annual premium cost to the enrollee, or the plan's out-of-pocket limit, whichever is lower.

Data: HealthCare.gov. Source: S. R. Collins, M. Gunja, and S. Beutel, *How Will the Affordable Care Act's Cost-Sharing Reductions Affect Consumers' Out-of-Pocket Costs in 2016?* The Commonwealth Fund, March 2016.

What Is Next For the Affordable Care Act's Cost-Sharing Reductions? Understanding The Impact on Consumers and Insurance Markets

Timothy Stoltzfus Jost

Emeritus Professor

Washington and Lee University
School of Law



House v. Price (Burwell)

Timothy Stoltzfus Jost

Emeritus Professor, Washington and Lee University School of Law

House v. Price

- The House of Representatives sued the Obama administration challenging the payment of the CSRs without an appropriation.
- The district court refused to dismiss the case and ruled for the House.
- The district court enjoined the CSR payments until Congress enacted an appropriation, but stayed its order pending appeal.
- The case is now on appeal to the D.C. Circuit.
- The Court has put the appeal on hold indefinitely in response to a request from the House and the Trump administration.
- What happens next?

What Is Next For the Affordable Care Act's Cost-Sharing Reductions? Understanding The Impact on Consumers and Insurance Markets

John Bertko

Independent Actuarial Consultant

Covered California



THE POTENTIAL CONSEQUENCES OF TERMINATING DIRECT FEDERAL COST SAVING REDUCTION (CSR) FUNDING

John Bertko, FSA
Chief Actuary, Covered California

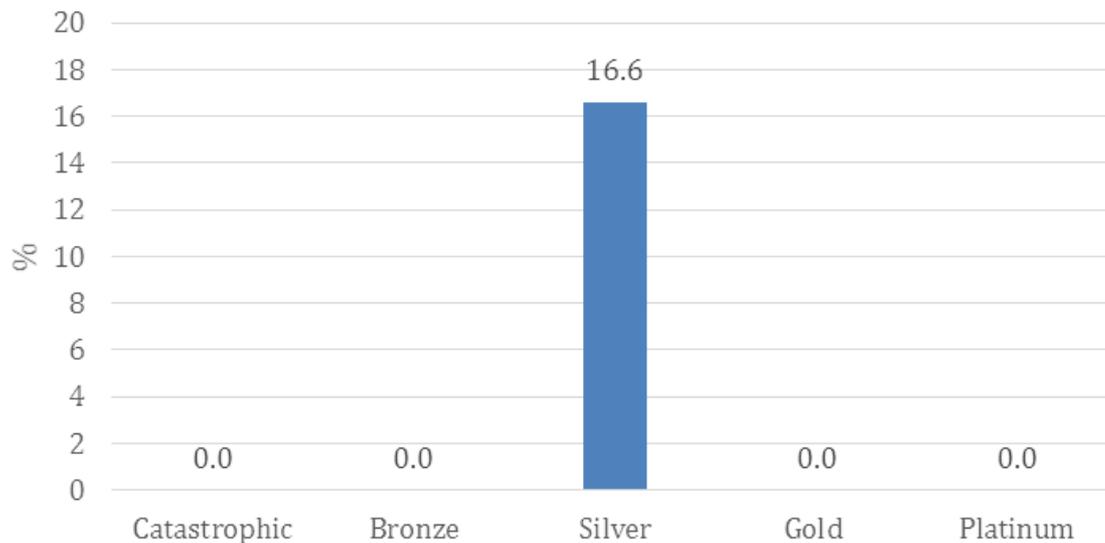
Study Prepared by:
Richard Domurat, University of California, Los Angeles
Wes Yin, University of California, Los Angeles

BACKGROUND

- Two types of federal subsidies for marketplace coverage
 - Premium subsidy: 90% of enrollees in California receive some APTC
 - Cost-Sharing Reduction subsidy: 50% enrolled in CSR-eligible Silver plan
- US House lawsuit threatens CSR funding mechanism
 - Loss of \$750 million/year in direct federal CSR funding to California consumers
 - Under current law, insurers still required to offer the cost sharing reduction Silver plan variants
- Issuer responses
 - Some issuers may exit certain markets
 - Remaining issuers would need to “load” Silver plans with a higher premium to cover the lost funding
- **How would this affect consumer choice, spending, and federal budget?**

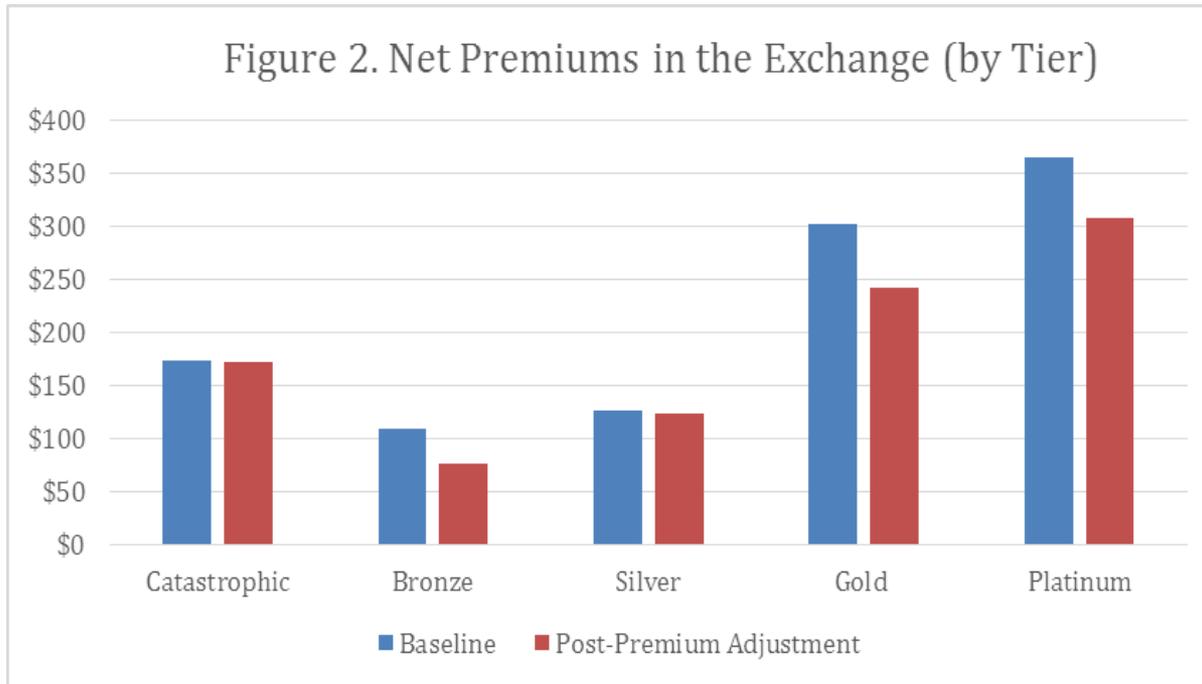
PREMIUM ADJUSTMENT

Figure 1. Change in Gross Premium to Offset Lost CSR Funding (%), by Metal Tier



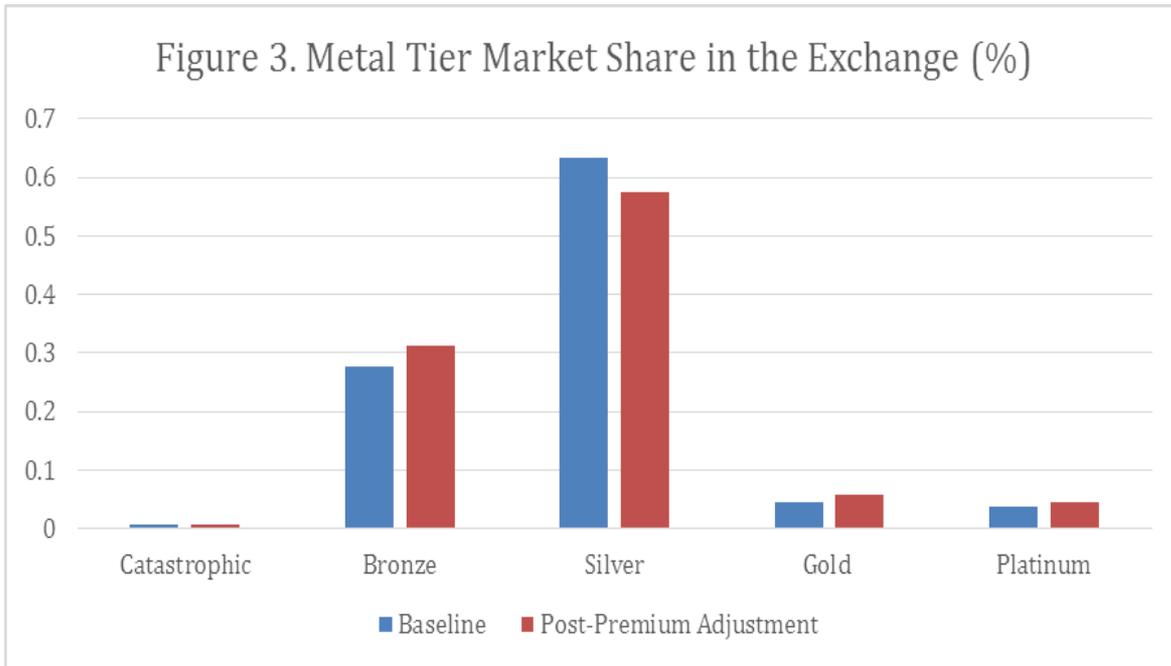
- Covered CA Silver plans both on and off of exchange need to rise 16.6% to offset the total lost direct federal CSR funding
- Premiums of all other plans remain constant

IMPACT ON NET-OF-SUBSIDY PREMIUMS (EXCHANGE)



- APTC pegged to premium of the Second Lowest Silver plan
- Higher Silver premiums results in an equal increase in APTC
- Net premiums for Silver remains constant
- Net premiums *fall* for all other plans

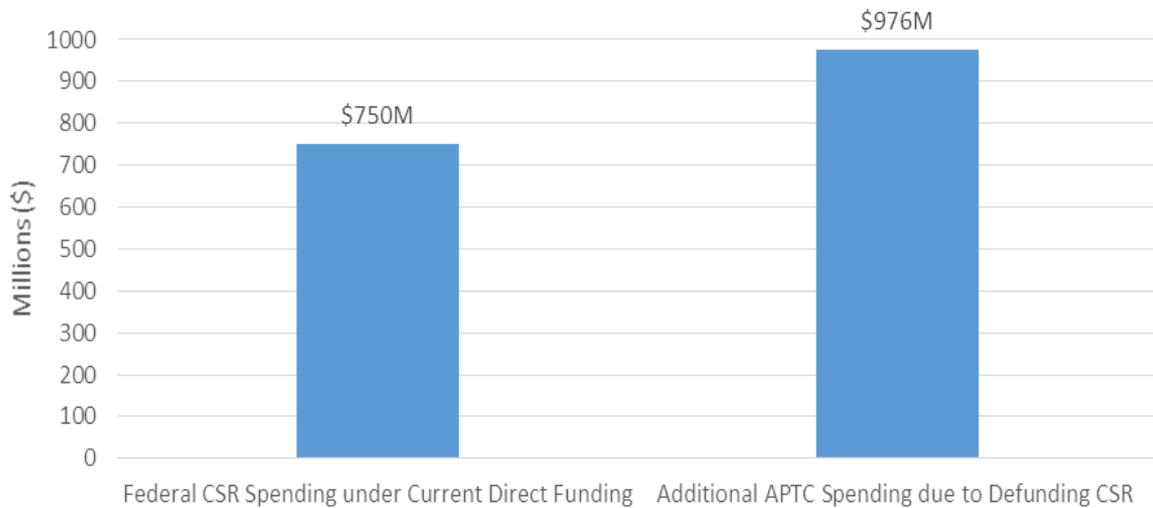
IMPACT ON CHOICE OF METAL TIER (EXCHANGE)



- Small shift away from Silver towards Bronze
- To a lesser extent towards Gold and Platinum
- Lower net premiums induces ~1.4% increase in coverage

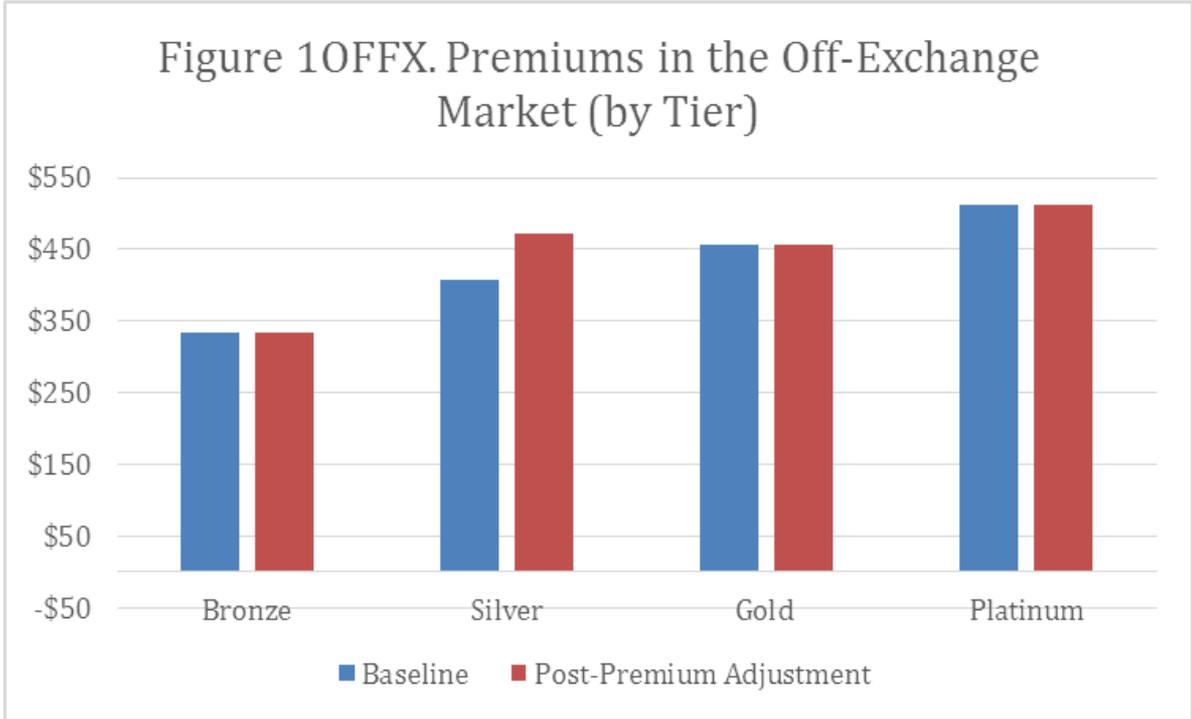
IMPACT ON TOTAL MARKET FEDERAL SPENDING

Figure 4. Comparing Current CSR Funding with New APTC Funding Levels due to Loss of CSR



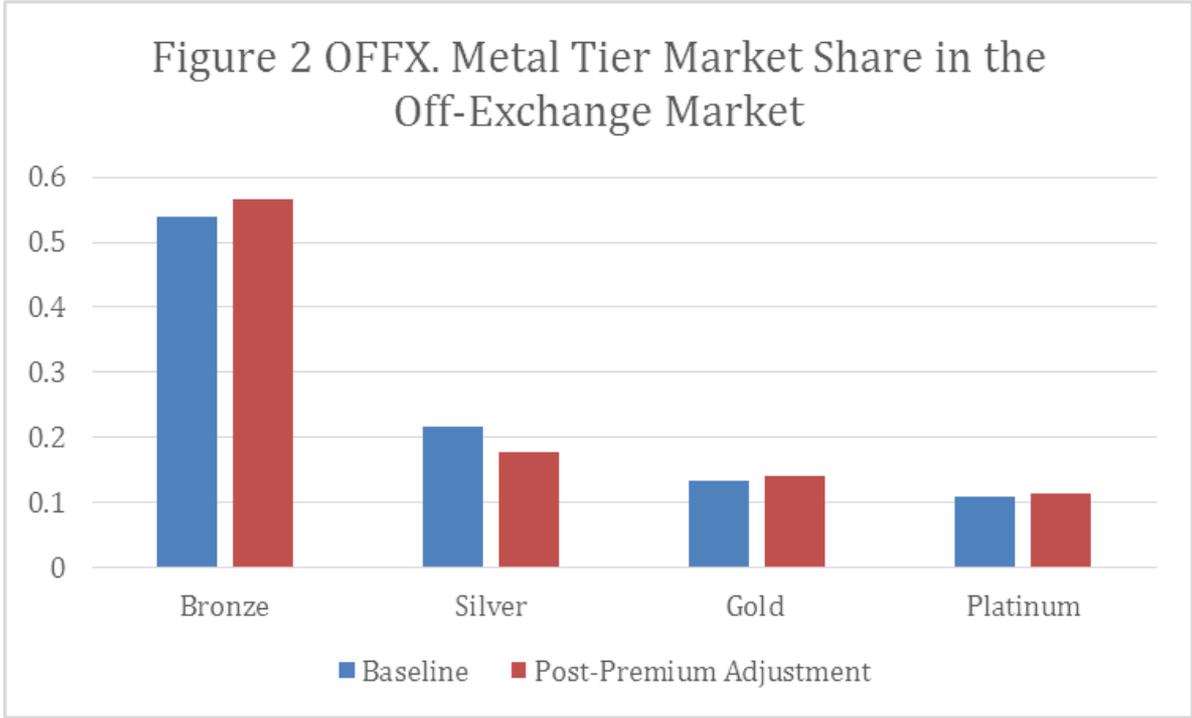
- Lost CSR funding is \$750 million/year
- Increase in APTC is \$976 million/year
- Consumers receive over \$200 million/year *more* in federal subsidies
- Accounts for the \$195 million in subsidies forgone (“lost”) by Bronze enrollees when APTC > Bronze prem

IMPACT ON GROSS PREMIUMS (OFF-EXCHANGE)



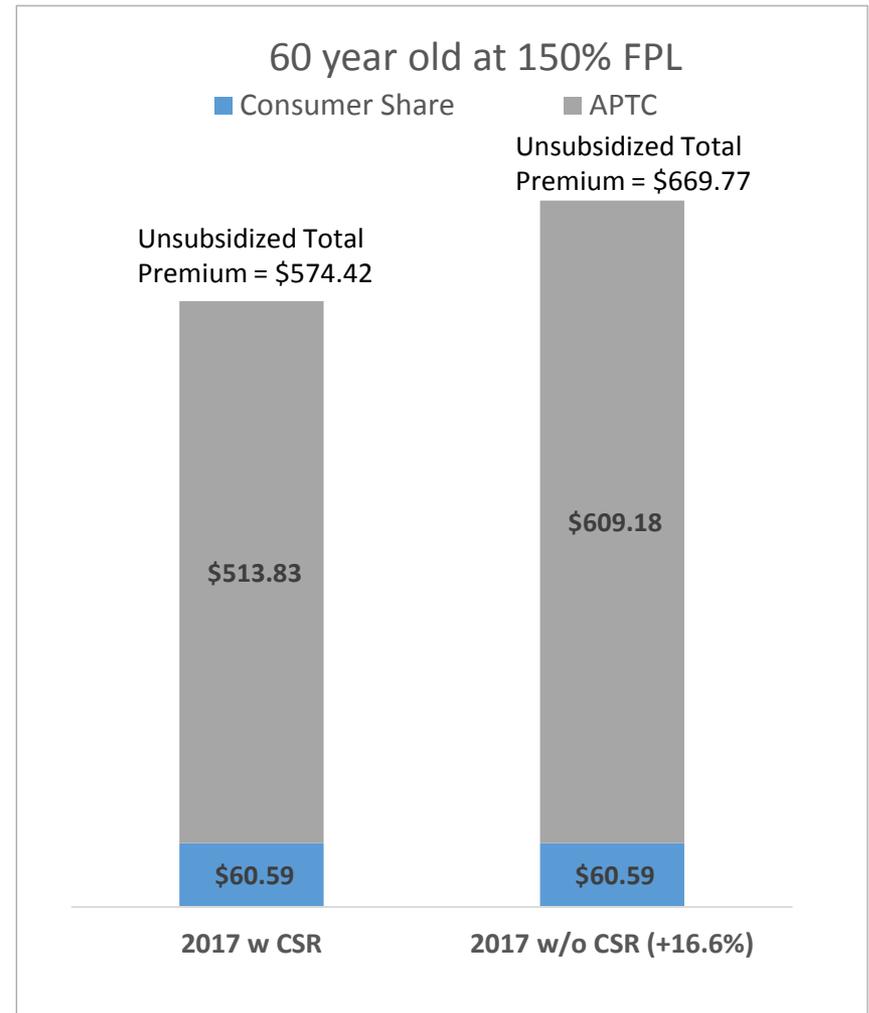
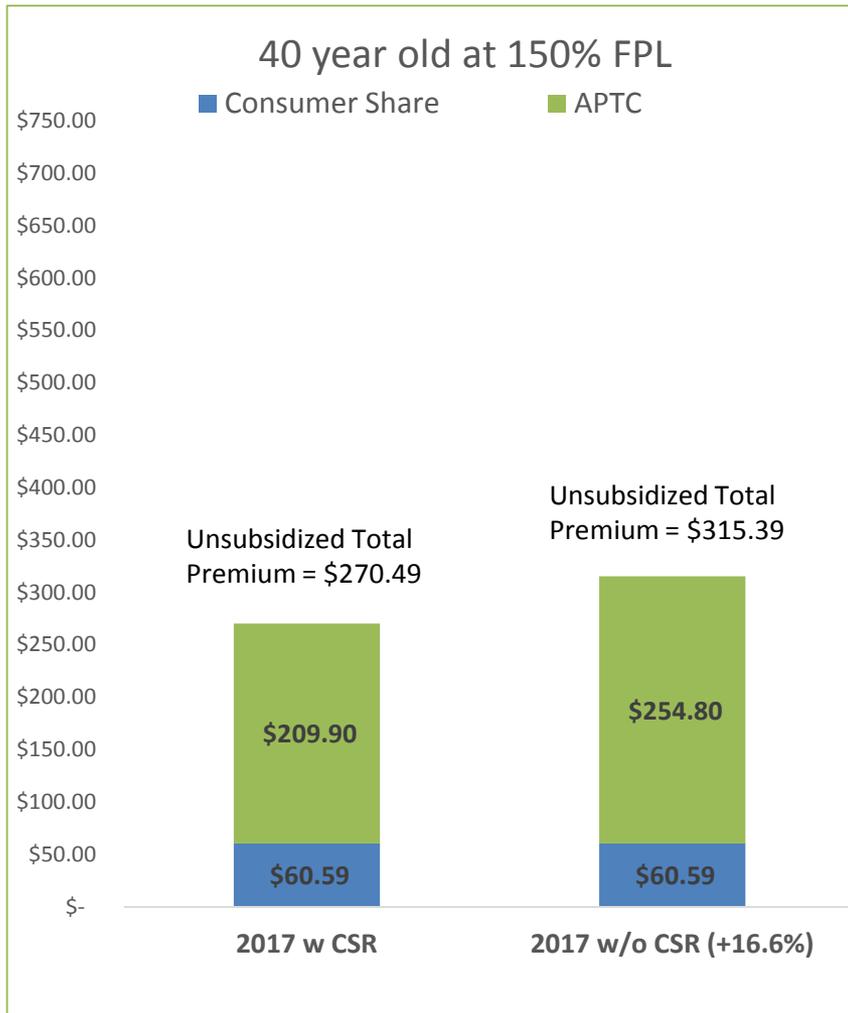
- 16.6% increase in Silver premiums
- No offsetting APTC

IMPACTS ON PLAN CHOICE (OFF-EXCHANGE)



- Smaller shift from Silver towards Bronze
- <1% decline in total off-Exchange enrollment

Illustration: 2nd Lowest Silver in Region 16 (West LA)



*Off-Exchange consumers pay the Unsubsidized Total Premium

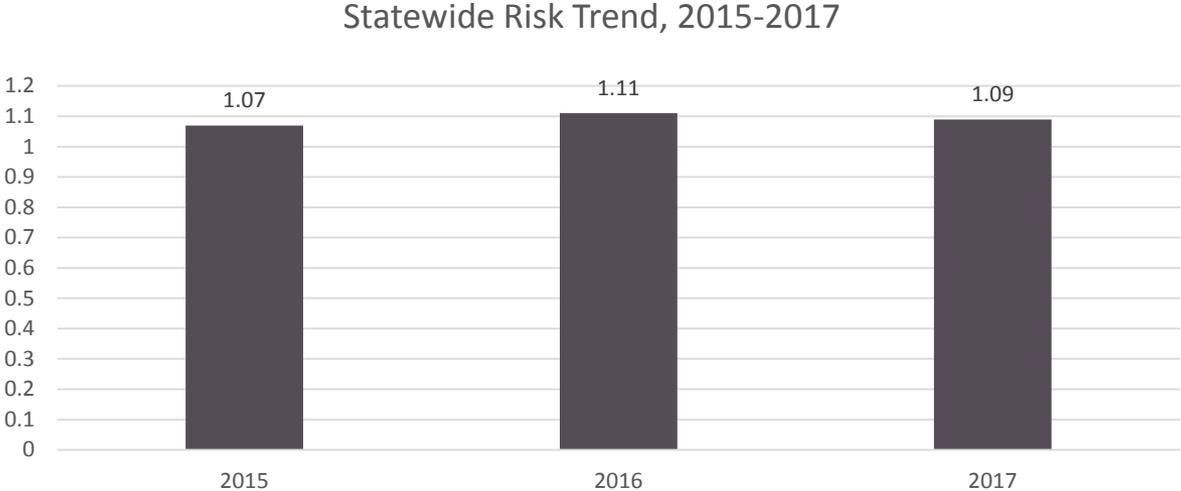
Early Look at Risk Scoring for Covered CA OEP 2017

- Utilizing the State of CA's OSHPD data on emergency department and hospitalization discharges, CDPS Concurrent Risk Score were calculated and normalized within each enrollment year.
- Each year's risk scores utilize OSHPD encounters from 2015 OSHPD dataset: e.g. 2017 enrollees are scored using the admissions data from 2015.
- For those individuals without a CDPS condition, risk was modeled using age (during the enrollment year) & gender. Multi-year comparisons here use the year-specific risk scores from each run of the model in 2015, 2016, and 2017.
- For 2017, of the 149,594 matched encounters, 56% had a CDPS chronic condition and were risk scored using age/gender model. For comparison, in 2016, of the 139,241 matched encounters, 58% had a CDPS chronic condition. This suggests slightly healthier enrollment in 2017 with fewer chronic conditions, even though more discharges/ER visits
- All summary statistics of risk scores have been restricted to *only* those individuals who matched to OSHPD encounters.

Statewide Trend, 2015-2017—Raw Scores using the CDPS Methodology

2017 is a Slightly Healthier Year Than 2016

- 2017 shows an improvement in the risk mix



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Deep Banerjee

Director and Sector Lead

S&P Global



Insurers and the Individual Health Insurance Market

Brief Overview of Our Recent Study on the ACA Individual Market

Deep Banerjee
Director and Sector Lead
North America Life and Health Insurance

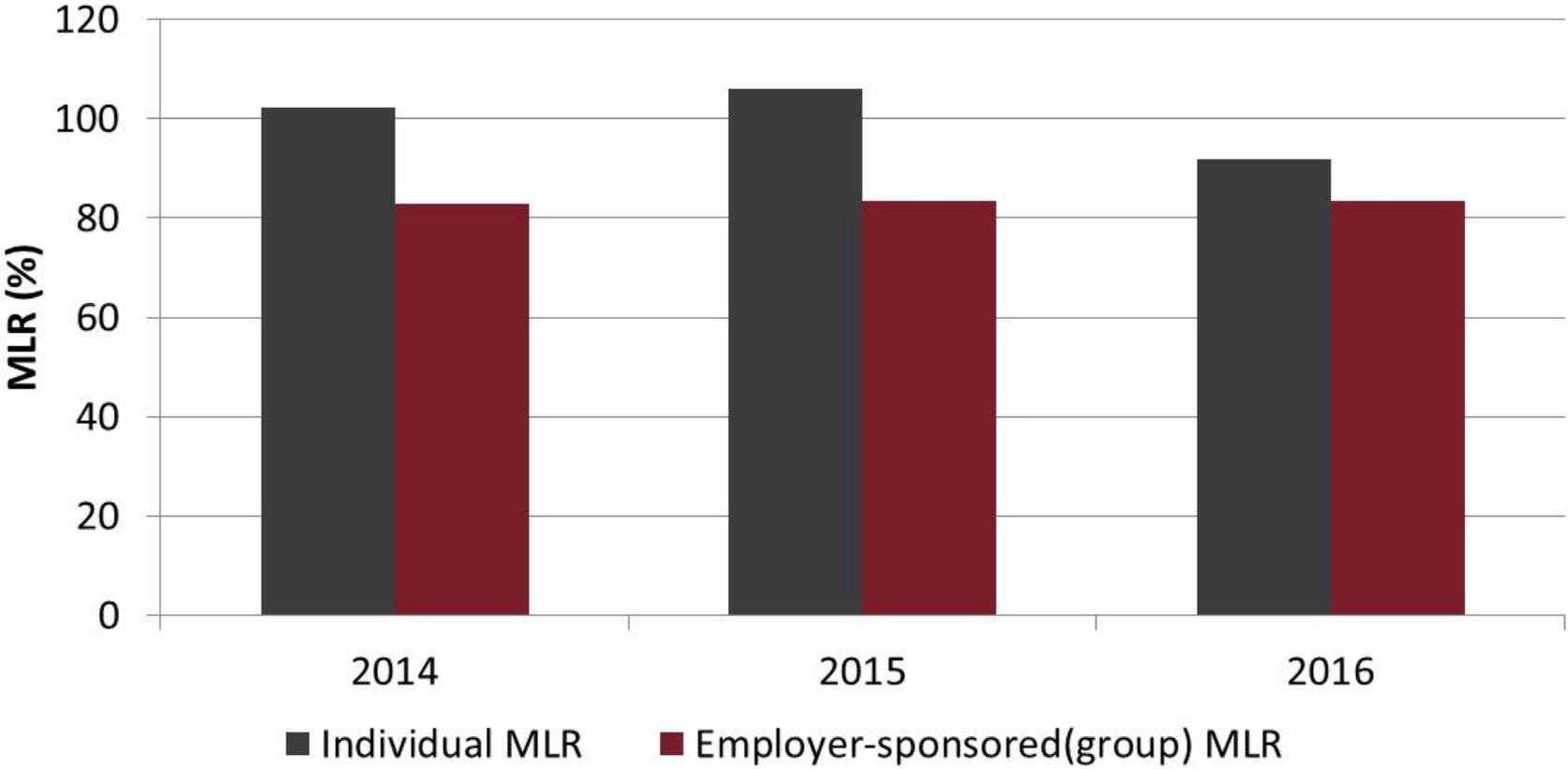
April 24, 2017

S&P Global
Ratings

Individual Market: Fragile But Signs of Improvement

- **2014 underwriting performance was bad, but 2015 was worse**
 - Higher-than-priced claims trend
 - Use of networks more aligned with the commercial group market
 - Late start to enrollment on healthcare.gov
 - After-the-fact rule changes related to “grand-mothered” plans and risk corridor
- **2016 saw marked improvement for most, but target profitability remains a couple of years away**
 - Year 3 of the new market provided additional data on the underlying risk pool
 - Some pricing and network correction by insurers
 - Lesser amount of underwriting losses than 2015
 - First signs that this market could be manageable for most insurers

Blues' Medical Loss Ratios Improved in 2016



MLR calculated as incurred claims/premiums written. Source: NAIC Annual Statutory Filings; S&P Global Ratings Research; Note: Represents weighted average data of Blue Cross Blue Shield Plans; Excludes Anthem Blue Plans and California Blue;

Business As Usual* Forecast For Individual Market

- **2017: Insurers, on average, will likely report close to break-even margins**
 - Sharp pricing correction and continued product design changes
 - Pricing no longer reliant on ACA premium stabilization features (reinsurance)
 - Overall lower y/y enrollment, as market adjusts to this new price level
 - On-exchange insurer participation becomes a key issue for consideration
- **2018: More Insurers will likely report positive (low-single digit) margins**
 - Continued pricing correction, but far less than was witnessed in 2017
 - Another year of market information and maturity of risk pool
 - 2018 market stabilization rules will generally support the improving trend
 - Insurer participation issues to persist
- **Fragile Market Needs Time to Stabilize**

* Business As Usual: Continued maturity of the current ACA market with a few possible fixes, but not a complete overhaul

Pricing and Participation Uncertainty In 2018

- **Pricing With An “Uncertainty Buffer”**
 - Lack of clarity over cost savings reduction (CSR) may result in higher-than-expected premium increases
- **Potential for insurers being more selective in terms of on-exchange participation, if uncertainty continues**
 - Some counties may have one or zero insurers on the exchange
- **Enforcement of special enrollment periods, individual mandate, and enrollment outreach will also be top of the agenda**

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