ISSUE BRIEF
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How Would Americans' Out-of-Pocket Costs Change If Insurance Plans Were Allowed to Exclude Coverage for Preexisting Conditions?

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ABSTRACT

ISSUE: A current Republican legislative proposal would permit insurers to offer plans that exclude coverage of treatment for preexisting health conditions, even while the bill would maintain the Affordable Care Act's rule prohibiting denial of coverage to people with a preexisting condition.

GOAL: Estimate patients' out-of-pocket costs for five common preexisting conditions if the bill were to become law and assess any additional impact on out-of-pocket expenditures if spending on care for preexisting conditions no longer counted against plan deductibles.

METHODS: Analysis of 2014–2016 Medical Expenditure Panel Survey data for the privately insured adult population under age 65; and the proposed Ensuring Coverage for Patients with Pre-Existing Conditions Act (S. 3388).

FINDINGS AND CONCLUSION: If preexisting conditions were excluded from coverage, nearly all people with these conditions would see increased out-of-pocket costs. Average out-of-pocket costs for those with cancer or diabetes would triple, while costs for arthritis, asthma, and hypertension care would rise by 27 percent to 39 percent. Some individuals would see much larger increases: for example, 10 percent of diabetes patients could expect to incur over $9,200 annually in out-of-pocket costs. Many with preexisting conditions also would spend more on conditions that are not excluded, since out-of-pocket spending on their preexisting conditions would no longer count toward the deductible and out-of-pocket maximum.

TOPLINES

- **Under a Republican bill that would allow insurers to exclude coverage for preexisting conditions, annual out-of-pocket spending could triple for patients with cancer and diabetes.**
- **Annual out-of-pocket spending under proposed legislation allowing insurers to exclude preexisting-condition coverage could exceed $4,900 for cancer and $9,200 for diabetes.**

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INTRODUCTION

A majority of Americans favor retaining the provisions of the Affordable Care Act (ACA) that prohibit insurers from denying coverage or charging more to people with preexisting health conditions.[1] In fact, a proposed Senate bill, the Republican-backed Ensuring Coverage for Patients with Pre-Existing Conditions Act, would maintain certain provisions under the Affordable Care Act (ACA) that prevent insurers from refusing coverage to people or varying premiums based on whether they have a preexisting condition.[2]

However, in contrast with the ACA, the proposed legislation would permit insurers to sell plans that entirely exclude coverage for treatment of an enrolled individual's preexisting condition (Exhibit 1).[3] Prior to the ACA's implementation in 2014, plans sold in the individual market often incorporated such coverage exclusions.[4]

Exhibit 1. Comparing the Affordable Care Act with Proposed Senate Legislation

	Affordable Care Act	Proposed Republican bill
No denials of coverage based on health status	Yes	Yes
No adjustments of premium based on health status	Yes	Yes
No exclusions or waiting periods based on health conditions or treatments	Yes	No

The new bill follows in the wake of earlier Republican-led efforts to repeal and replace the ACA, which would have significantly increased financial burdens for people with preexisting conditions — either because they would have been charged higher premiums based on their health status or denied coverage altogether. These measures, like the proposed exclusion of preexisting conditions from coverage, would have reduced premiums for healthier people at the expense of those with higher anticipated expenditures.

The availability of coverage for people with preexisting conditions has gained renewed attention because an ongoing legal case, *Texas v. Azar*, could invalidate these protections, depending on the court's decision. The Trump administration and some state attorneys general argue that, because of Congress's recent repeal of the ACA's individual mandate penalties, the mandate itself is no longer constitutional.[5] In the plaintiffs' view, such a finding should lead the court to declare the entire health law unconstitutional or lead the court to also declare invalid the law's protections against insurer coverage denials and underwriting of people with preexisting conditions. This could lead to denials of coverage or higher premiums for those with preexisting conditions. A decision in the case is expected any day.

In this brief, we estimate the effect that excluding coverage of preexisting conditions would have on patients' out-of-pocket expenses. Depending on the definition used, between 20 percent and 61 percent of nonelderly adults currently have a preexisting condition.[6] Among those with any preexisting condition under the broader definition, about two in three people have arthritis, asthma, cancer, diabetes, or hypertension — the five conditions that are the focus of our study. Expenses associated with these five conditions account for about one-fifth of all health spending in the privately insured adult population under age 65.[7]

To develop our projections of out-of-pocket expenses for people with preexisting conditions under the proposed Republican bill, we used data from the Medical Expenditure Panel Survey (MEPS) for 2014, 2015, and 2016. We developed a sample of adults ages 25 to 64 who held private insurance all year and who had ever been diagnosed with one of the five common preexisting conditions.[8] We classified expenditures as associated with a preexisting condition if the medical service or procedure generating the expenditure had been classified by the treating physicians as associated with that condition.

STUDY FINDINGS

Substantial Increases Expected in Out-of-Pocket Costs Under Proposed Legislation

Our findings show substantial increases in out-of-pocket costs if insurers were permitted to exclude coverage for preexisting conditions, as would be permitted under the proposed Ensuring Coverage for Patients with Pre-Existing Conditions Act. Exhibit 2 shows the mean percentage of total health care expenditures, whether paid out of pocket or by insurance, related to each the five common preexisting conditions.

Because private insurance often includes deductibles and caps on out-of-pocket costs, the shares of expenditures reported in Exhibit 2 cannot alone be used to project the effects of excluding each condition from coverage. Therefore, to generate those estimates we directly calculated the out-of-pocket spending and private insurance spending on medical care that had been coded as related to each preexisting condition.

Even under current law, people with preexisting conditions face high out-of-pocket burdens. For each of the five conditions, the mean out-of-pocket burden among those with year-round private coverage ranges from $950 to $1,270 (Exhibit 3). If care associated with preexisting conditions were no longer covered, increases in mean annual out-of-pocket spending would range from about $260 for people with high blood pressure to $2,520 for those with diabetes.

The mean changes in out-of-pocket spending shown in Exhibit 3 mask variations in patients' insurance coverage (for example, different out-of-pocket spending maximums) and severity of illness. For some individuals, out-of-pocket spending is likely to be much higher.

To see the range of potential effects, in Exhibit 4 we show the distribution of out-of-pocket spending — the 10th, 25th, 50th, 75th, and 90th percentiles — both under current law and under insurance policies that would, under the proposed bill, be permitted to exclude preexisting conditions. Under current law, those with the lowest 25 percent of spending (25th percentile) generally

Exhibit 2. Mean Percentage of Total Annual Expenditures Related to Each Preexisting Condition

Preexisting condition	Mean percentage of total annual expenditures related to condition
Arthritis	4%
Asthma	11%
Cancer	14%
Diabetes	38%
High blood pressure	14%

Data: Analysis of 25-to-64-year-old adults with full-year private insurance in the 2014–2016 Medical Expenditure Panel Survey. Figures do not sum, as some people may have multiple overlapping conditions.

Exhibit 3. Mean Annual Out-of-Pocket Spending for Preexisting Conditions Under Current Law and Under Proposed Republican Senate Bill

Preexisting condition	Mean annual out-of-pocket spending under current law	Mean annual out-of-pocket spending under proposed bill	Increase in mean annual out-of-pocket spending
Arthritis	$1,160	$1,610	$450
Asthma	$1,050	$1,420	$370
Cancer	$1,190	$3,560	$2,370
Diabetes	$1,270	$3,790	$2,520
High blood pressure	$950	$1,210	$260

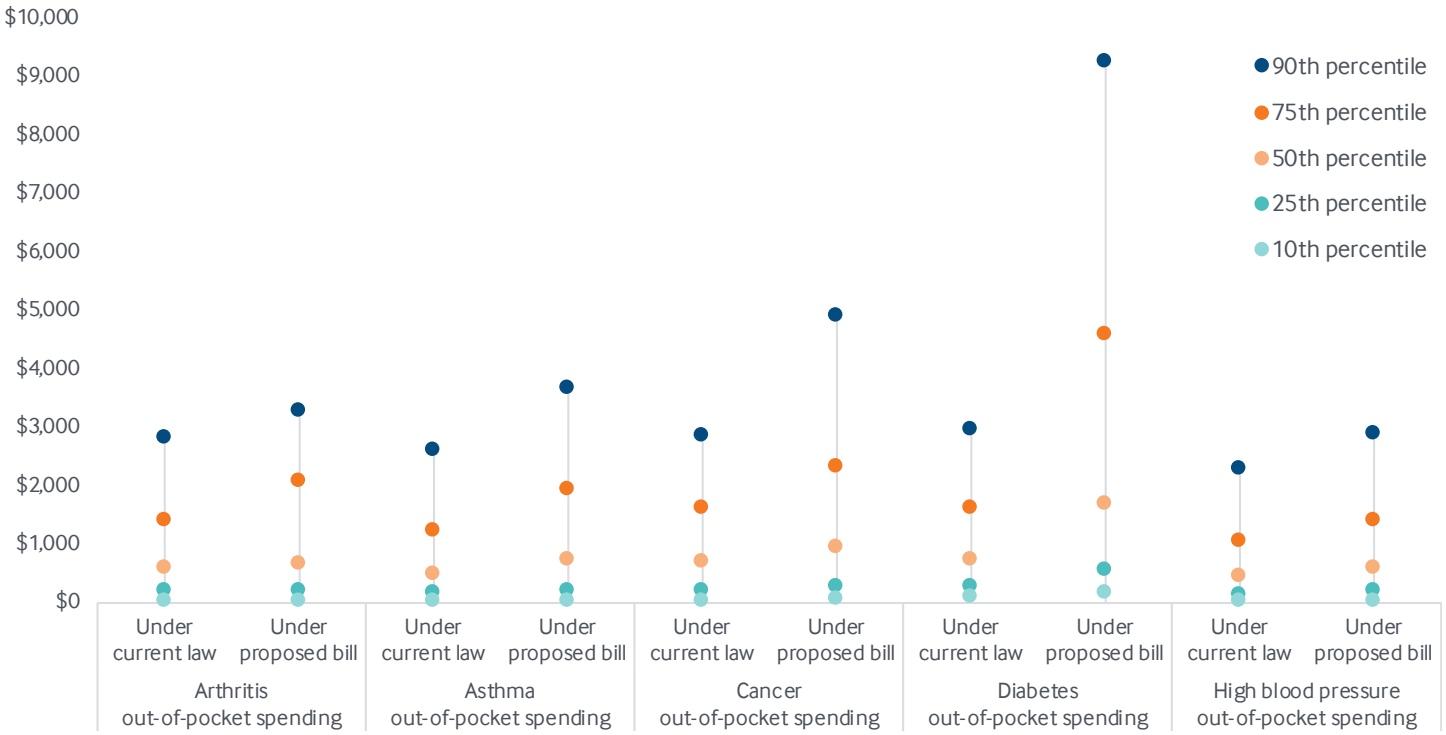
Data: Analysis of 25-to-64-year-old adults with full-year private insurance in the 2014–2016 Medical Expenditure Panel Survey; and Ensuring Coverage for Patients with Pre-Existing Conditions Act, S. 3388, 115th Cong. (2018).

have out-of-pocket expenditures of about $200 annually. (Many people in this low-spending group likely do not meet their insurance deductibles and therefore pay for all their chronic condition care out of pocket.) Under current law, even the highest spenders, those at the 90th percentile of the out-of-pocket spending distribution, have annual out-of-pocket expenditures below $3,000. Comprehensive coverage and out-of-pocket maximums in insurance plans protect these patients from the highest risks.

Under the proposed legislation, out-of-pocket spending amounts would rise, particularly for those whose conditions were most serious. For the lowest 25 percent of spenders, out-of-pocket spending increases would range between $14 and $254, depending on the condition. These figures are relatively low because so much of lower-cost care is already paid out of pocket. For the highest 10 percent of spenders, however, expected out-of-pocket spending increases would range above current levels by between $471, for those with arthritis, and $6,308, for those with diabetes. In total out-of-pocket spending, the highest 10 percent of spenders with cancer would have average out-of-pocket costs of nearly $5,000, while those with diabetes would face average out-of-pocket costs of $9,250. The effects would be even more dramatic for those at the highest extremes of the spending distribution.

These estimated increases in out-of-pocket spending under the proposed Senate bill are likely understated for two reasons. First, patients without coverage for a preexisting condition might lose the benefits of insurer-negotiated payment rates for care associated with these conditions. If patients had to pay for care based on provider charges rather than negotiated prices, out-of-pocket burdens would be about twice as high as estimated here.[9]

Exhibit 4. The 10th, 25th, 50th, 75th, and 90th Percentiles of Out-of-Pocket Spending Under Current Law and Under the Proposed Republican Senate Bill



Data: Agency for Healthcare Research and Quality, *MEPS HC-171: 2014 Full Year Consolidated Data File* (AHRQ, Sept. 2016); Agency for Healthcare Research and Quality, *MEPS HC-181: 2015 Full Year Consolidated Data File* (AHRQ, Aug. 2017); Agency for Healthcare Research and Quality, *MEPS HC-192: 2016 Full Year Consolidated Data File* (AHRQ, Aug. 2018); and Ensuring Coverage for Patients with Pre-Existing Conditions Act, S. 3388, 115th Cong. (2018).

Second, we classified expenditures as related to each health condition only if the condition was explicitly associated with a health event in our data. However, a policy that excluded care for preexisting conditions would likely also exclude coverage *for any health consequences* of these conditions, such as the strokes or heart attacks that might result from hypertension. Adding in these expenses would further increase our spending estimates.

SPENDING ON OTHER CONDITIONS UNDER PROPOSED LEGISLATION

The cost implications of excluding coverage for preexisting conditions are not limited to spending for these conditions alone. Once these conditions are excluded, out-of-pocket spending for them no longer counts toward the plan deductible or out-of-pocket spending maximums. That means more spending by the patient on other services is required to reach the deductible or out-of-pocket maximum.

For purposes of illustration, we constructed rough estimates of the proportion of people with preexisting conditions who would face this problem. Assuming that everyone faced a deductible of $1,000, we computed the share of the privately insured adult population with full-year insurance coverage and preexisting conditions whose total expenditures exceeded $1,000 but whose out-of-pocket expenditures on treatments unrelated to their conditions fell below $1,000. We found that, on average, about 5 percent of our sample fell into this category. Under the proposed legislation, this group would incur higher out-of-pocket costs for expenditures unrelated to their preexisting conditions. By condition category, this group would comprise about 2 percent of people with arthritis, 4 percent of those with asthma, 5 percent of people with cancer, 12 percent of those with diabetes, and 3 percent of those with high blood pressure.[10]

This is a conservative estimate, because it does not consider the effects of coverage exclusions on out-of-pocket maximums. If out-of-pocket spending on a preexisting condition no longer counted toward a person's out-of-pocket maximum, some people who would meet those maximums under current law would no longer do so. Thus, they would have to pay out of pocket for services that would otherwise have been covered before reaching the maximum.

CONCLUSION

Excluding preexisting conditions from insurance coverage would raise out-of-pocket financial burdens for nearly everyone with such coverage. Those with cancer and diabetes are at greatest risk: on average, people with these conditions would see out-of-pocket spending triple. Within preexisting condition categories, the 10 percent of people with the highest out-of-pocket expenditures would see the largest out-of-pocket spending increases, ranging from increases of just under $500 to over $6,000 annually. While the Ensuring Coverage for Patients with Pre-Existing Conditions Act maintains the ACA's provisions that require insurers to enroll individuals with preexisting conditions, the proposed bill would not require that the conditions themselves be covered. Accordingly, spending for excluded conditions would not count toward the policy's deductible or out-of-pocket spending maximum, thereby leading patients to spend more out of pocket than under current law.

HOW WE CONDUCTED THIS STUDY

We used the 2014–2016 Medical Expenditure Panel Survey (MEPS) to calculate out-of-pocket spending, private insurance spending, and total expenditures related to five chronic preexisting conditions: arthritis, asthma, cancer, diabetes, and high blood pressure. MEPS respondents were asked whether they "had ever been diagnosed" with each of these conditions. Our population included 25-to-64-year-olds with private insurance all year round.

We used the MEPS event files (inpatient, outpatient, pharmacy, emergency room, and office-based medical provider visits), which include diagnostic codes for each spending event, to identify spending associated with the MEPS Clinical Classification Codes for the five conditions we studied. Each event is associated with either three or four classification codes (depending on the dataset). Inpatient, outpatient, and emergency room files report four codes, and pharmacy and office-based medical provider visit files report three. If an event was associated with the codes for more than one of our studied diseases, its expenditures were counted towards both diseases. This is consistent with likely insurer practice — if a condition is excluded from coverage, an event associated with that condition is excluded, even if other conditions are also present.

For all our findings, we frequency weighted the data using the MEPS' included person weights.

In sensitivity analyses, we repeated the analysis using the two-year files for 2013–14, 2014–15, and 2015–16, using diagnoses in the first year and expenditures from the second. We also repeated the analyses using a sample of those with chronic condition–related expenditures in the survey years. There were no substantial differences in the results using these alternative classifications.

NOTES

1. Rakesh Singh and Chris Lee, "Poll: The ACA's Pre-Existing Condition Protections Remain Popular with the Public, Including Republicans, as Legal Challenge Looms This Week," news release, Kaiser Family Foundation, Sept. 5, 2018.

2. Ensuring Coverage for Patients with Pre-Existing Conditions Act, S. 3388, 115th Cong. (2018).

3. Larry Levitt, "What Does it Mean to Protect People with Preexisting Conditions?," *JAMA Forum* (blog), Oct. 17, 2018.

4. Karen Pollitz, Richard Sorian, and Kathy Thomas, *How Accessible Is Individual Health Insurance for Consumers in Less-than-Perfect Health?* (Henry J. Kaiser Family Foundation, June 2001).

5. Timothy S. Jost, "Trump Administration Court Filing Threatens Coverage for Preexisting Conditions," *To the Point* (blog), Commonwealth Fund, June 8, 2018.

6. Based on the authors' previous analysis of the Behavioral Risk Factor Surveillance System. See Sherry A. Glied and Adlan Jackson, *Access to Coverage and Care for People with Preexisting Conditions: How Has It Changed Under the ACA?* (Commonwealth Fund, June 2017).

7. We use the broader definition of people with preexisting conditions in this study. In sensitivity analyses, we used a narrower definition. Under the narrower definition, fewer people were affected, but the magnitude of out-of-pocket exposures for the narrower group was substantially larger.

8. Agency for Healthcare Research and Quality, *MEPS HC-192: 2016 Full Year Consolidated Data File* (AHRQ, Aug. 2018).

9. Zack Cooper et al., *The Price Ain't Right? Hospital Prices and Health Spending on the Privately Insured* (Health Care Pricing Project, Dec. 2015).

10. Note that many people had multiple preexisting conditions.

Appendix. The 10th, 25th, 50th, 75th, and 90th Percentiles of Out-of-Pocket Spending Under Current Law and Under Proposed Republican Senate Bill

		10th percentile	25th percentile	50th percentile	75th percentile	90th percentile
Arthritis	Out-of-pocket expenses under current law	$40	$194	$609	$1,395	$2,813
	Out-of-pocket expenses under proposed bill	$43	$208	$659	$2,067	$3,284
Asthma	Out-of-pocket expenses under current law	$28	$154	$496	$1,235	$2,616
	Out-of-pocket expenses under proposed bill	$29	$197	$718	$1,925	$3,688
Cancer	Out-of-pocket expenses under current law	$38	$216	$693	$1,621	$2,849
	Out-of-pocket expenses under proposed bill	$50	$265	$941	$2,313	$4,922
Diabetes	Out-of-pocket expenses under current law	$100	$287	$723	$1,619	$2,948
	Out-of-pocket expenses under proposed bill	$161	$541	$1,686	$4,580	$9,256
High blood pressure	Out-of-pocket expenses under current law	$27	$146	$450	$1,065	$2,278
	Out-of-pocket expenses under proposed bill	$32	$207	$597	$1,420	$2,895

Data: Agency for Healthcare Research and Quality, *MEPS HC-171: 2014 Full Year Consolidated Data File* (AHRQ, Sept. 2016); Agency for Healthcare Research and Quality, *MEPS HC-181: 2015 Full Year Consolidated Data File* (AHRQ, Aug. 2017); Agency for Healthcare Research and Quality, *MEPS HC-192: 2016 Full Year Consolidated Data File* (AHRQ, Aug. 2018); and Ensuring Coverage for Patients with Pre-Existing Conditions Act, S. 3388, 115th Cong. (2018).

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