Analysis of Impact to California's Individual Market If Federal Policy Changes Are Implemented

Effect on Premiums, Enrollment and Coverage in 2018

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Summary

- Urgent clarity is needed on federal policies related to the enforcement of the individual mandate and the funding for financial assistance to consumers in the form of cost-sharing reductions (CSR). Health plans must set their rates for 2018 by June 2017 and these potential changes in existing federal policies have significant impacts.
- Under current trends, assuming continued direct federal funding of cost-sharing reductions and enforcement of the individual mandate, enrollment in California's market for individual coverage is projected to stay strong and stable in 2018, maintaining or even decreasing the historically low rate of uninsured achieved over the past four years.
- Failure to directly fund cost-sharing reductions and enforce the mandate could result in an estimated premium rate increase of 42 percent on average in California for 2018, and as high as 49 percent for enrollees in Silver plans, with over 1.2 million on and off the exchange receiving no federal subsidy to soften the impact of the large increase.
- Failure to enforce the penalty for not having health insurance could result in total premium increases of more than 28 percent, and up to 350,000 consumers who would otherwise get coverage likely going uninsured in 2018.

Analyzing Impacts of Changes to Federal Policies on 2018 Premiums, Enrollment, and Coverage

Millions Affected by Uncertainty: There is great uncertainty about the federal policies that have been in place for the past four years and are critical to the stability of the nation's health care markets. Health plans across the country are making business decisions for 2018 that will affect the coverage of approximately 19 million Americans who get their insurance through these non-group markets.[1] California has about 2.4 million individuals in this market, with 1.3 million getting their insurance through Covered California and 1.1 million purchasing directly from insurers "off exchange."[2]

To assist health plans in developing initial premiums and to help policy makers understand the potential outcomes of changing federal policies without clearly articulating the approach for ongoing enforcement of the penalty, Covered California commissioned PricewaterhouseCoopers (PwC) to develop initial 2018 enrollment, premium and coverage estimates for California's individual market for the following scenarios:

1. Base estimate assuming no federal policy changes;
2. No direct federal funding for CSRs and non-enforcement of the individual mandate; and
3. Continued direct federal funding for CSRs but non-enforcement of the individual mandate.

Urgent Need for Clear Policy: Covered California health insurance carriers are actively developing their 2018 rate submissions and will submit preliminary proposals on May 1. Across the nation, carriers are also submitting initial premiums and in most cases those rates must be totally finalized by June. Carriers will ultimately propose rates that each believes are sufficient to cover the anticipated medical cost trend and changes to the risk mix of those they are covering:

[1] https://aspe.hhs.gov/system/files/pdf/208306/OffMarketplaceSubsidyeligible.pdf and https://www.cms.gov/Newsroom/MediaReleaseDatabase/Fact-sheets/2017-Fact-Sheet-items/2017-03-15.html

[2] Using the most recent publicly available administrative data (December 2015), we estimate that 800,000 off-exchange consumers are in Affordable Care Act-compliant plans and the remaining 300,000 are enrolled in grandfathered plans that are not available for purchase.

With a worse risk mix, the health plan will need to increase premiums. The scenarios that follow illustrate the importance of the individual mandate and of continued direct funding of CSRs to ensure a healthy risk mix for carriers and to keep premiums low.

All Individual Market Consumers Are Affected: All consumers in the individual market will be affected by these decisions. Many consumers in the market receive premium tax credits under the Patient Protection and Affordable Care Act that are based on their income. To a large extent, these credits will adapt to provide some financial relief from these increases. Those credits, however, phase out as income increases and are not available to consumers making more than 400 percent of the federal poverty level (about $48,000 annual income for an individual in 2018). Still, increases in tax credits due to premium increases will also result in unnecessary increased federal spending because the higher premiums will directly result in higher tax credits. The 1.1 million Californians in the non-group market who do not receive federal tax credits to help make their coverage more affordable must bear the full amount of any annual rate increase. They will be more negatively affected.

While this analysis assesses potential changes to premiums, enrollment and the number of uninsured, the broader implications of significant increases in the number of the uninsured are beyond the scope of this research (such as personal bankruptcies, the health care impacts of uninsured individuals not getting needed care and increases in uncompensated care by hospitals).

Summary of Potential Impacts[3]

The following are descriptions of each scenario's assumptions and modeling results, which are summarized in Table 1 below.

Scenario One: Covered California Base Estimate

California currently has a stable and actively competitive market of roughly 2.4 million consumers in the individual market. The state has seen an average three-year premium trend of approximately 7 percent since 2014. Under the base estimate for 2018, the premium rate increase is anticipated to be 9 percent, which reflects an increase in medical costs of 7 percent, based on current national averages, plus an additional one-time 2 percent increase reflecting the expiration of the health insurer tax "holiday."[4] Premium increases will naturally vary by issuer depending on their enrollee risk mix, their medical trend and related experience.

Based on the past four years' experience and the base premium increase, PwC projects stable enrollment both on- and off-Covered California. Enrollment in the individual market is projected to be about 2.4 million at the end of 2018, with about half receiving subsidies and the other half benefiting from the competitive market forces, but not directly receiving a subsidy. This estimate assumes no major changes in federal policy or funding, and is based on Covered California's "medium" 2018 projection of 1.3 million enrollees, informed by four years of enrollment, renewal and sign-ups during both the open-enrollment and special-enrollment periods. Given the natural

[3] All estimates are presented as rounded point estimates: there is considerable uncertainty about various drivers in the premium and take-up modeling, so these estimates should be taken as the mid-point in a range of possible impacts identified in the course of the modeling.

[4] The health insurer tax ("Health Insurance Providers Fee") is scheduled to total $14.3 billion nationally in 2018. It is allocated based on each insurer's share of aggregate net premiums (among other factors), and is estimated by the CBO to increase premiums by 2 to 2.5 percent. See summary from Internal Revenue Service at https://www.irs.gov/businesses/corporations/affordable-care-act-provision-9010. See also the Congressional Budget Office and Joint Committee on Taxation discussion on page 17 of "Private Health Insurance Premiums and Federal Policy" (February 2016): https://www.cbo.gov/sites/default/files/114th-congress-2015-2016/reports/51130-Health_Insurance_Premiums.pdf.

substantial movement of consumers into and out of the individual market — with consumers leaving to get job-based or other coverage and joining the market as they lose other coverage — and maintaining the "same" total enrollment still reflects large new enrollment through the year. Under the base estimate, across the open-enrollment and special-enrollment periods, approximately 600,000 Californians would newly enroll in coverage through Covered California in 2018 as a result of extensive marketing and outreach efforts.

One key factor in developing the base estimate is California's relative success at expanding coverage and reducing the uninsured, both through Covered California and the expansion of the state's Medicaid program ("Medi-Cal"). As of fall 2016, the uninsured rate in California had fallen to a historic low of 7.1 percent. The "eligible uninsured" rate, however, is only about 3.6 percent when those not eligible for subsidized coverage are excluded.[5] This means the opportunity for dramatic expansions in coverage is limited.

Scenario Two: No Direct Cost-Sharing Reduction Funding and Non-Enforcement of the Individual Mandate

In the event that CSRs are not directly funded and the penalty for not purchasing affordable coverage is not enforced, the number of Californians with insurance coverage in the individual market would fall from 2.4 million to 2.07 million, or a drop of around 14 percent, leading to an estimated increase in the uninsured of approximately 330,000. For Californians receiving help purchasing coverage with a federal premium tax credit through Covered California, enrollment in 2018 would fall by approximately 260,000, or 22 percent compared to the base estimate. For Californians who do not receive a subsidy, enrollment would fall by approximately 70,000 individuals. Under this scenario, premiums would rise by an estimated 30 percent over the base premium assumption of 9 percent, for a total potential premium increase of 42 percent. Covered California and PwC project potential premium increases of 17.5 percent due to adverse selection associated with non-enforcement of the individual mandate.[6]

Additionally, because health plans must provide enhanced benefits of cost-sharing reduction subsidies to low-income consumers enrolled in Silver plan by law, if the CSR payment are not funded by the federal government, health plans would be forced to raise premiums on Silver-tier consumers to cover the value of the richer coverage consumers receive with CSR. We estimate that the Silver premiums would need to increase by 16.6 percent to account for the loss of CSR funding.[7] On average, across all enrollees in all metal tiers, the loss of CSR funding would represent an additional 11 percent premium increase required for health plans to fund CSR absent direct federal funding.

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[5] Based on Covered California's analysis of the American Communities Survey 2015 data on the source of coverage for Californians, and estimates of eligibility for coverage among the uninsured by CalSIM and the Kaiser Family Foundation: http://kff.org/health-reform/issue-brief/estimates-of-eligibility-for-aca-coverage-among-the-uninsured-in-2016/ http://laborcenter.berkeley.edu/pdf/2016/Preliminary-CalSIM-20-Regional-Remaining-Uninsured-2017.pdf.

[6] Using Congressional Budget Office estimate of the impact on non-enforcement of the mandate in 2018, from "Cost Estimate of the American Health Care Act" (March 13, 2017), on page three: https://www.cbo.gov/system/files/115th-congress-2017-2018/costestimate/americanhealthcareact.pdf.

[7] For impacts of not funding CSRs, see Yin and Domurat (2017): http://www.coveredca.com/news/pdfs/CoveredCA_Consequences_of_Terminating_CSR.pdf and technical appendix at http://www.coveredca.com/news/pdfs/Appendix-Consequences_of_Terminating_CSR.pdf
Note that the Yin and Domurat analysis assumed that health plans loaded the entire cost of funding the CSRs on the Silver Tier plans, for an increase of 16.6 percent to Silver plans and no change to Bronze, Gold or Platinum. Based on Silver tier's share of total enrollment, PwC and Covered California use an estimated premium impact of 11 percent after averaging across all tiers. However, as noted in Yin and Domurat, the impact to consumers will vary depending on whether the value of CSR premium impact is concentrated only on Silver tier or spread across all metal tiers evenly.

Taken together, compounding the existing medical trend and health insurance tax impacts from Scenario 1 with the combination of non-enforcement of the individual mandate and the loss of CSR funding would increase premiums in 2018 by an average of 42 percent, with Silver enrollees facing a total premium increase of roughly 49 percent, while non-silver enrollees would face increases of roughly 28 percent. The premium increase caused by these policy changes would result in a worse risk mix and higher premiums for those not receiving subsidies as healthier, lower-risk consumers are "priced out" of coverage. See "Related Research" for analysis of the impact of requiring health plans to pay for CSR by raising premiums and the likely significant increases in federal spending.

Scenario Three: Non-Enforcement of the Individual Mandate

In the event that the federal penalty for not purchasing affordable coverage is not enforced, the number of Californians with insurance coverage in the individual market would fall from 2.4 million to approximately 2.06 million, a 14 percent drop, leading to an increase in the uninsured of approximately 340,000. For Californians receiving help purchasing coverage with a federal premium tax credit through Covered California, enrollment in 2018 would fall approximately 280,000, or 24 percent, compared to the base estimate. For Californians who do not receive a subsidy, enrollment would fall by approximately 60,000 individuals.

Covered California and PwC project potential premium increases of 28 percent, with an increase of 17.5 percent over the Covered California base premium estimate due to adverse selection associated with non-enforcement of the individual mandate. Similar to Scenario Two, this would result in a worse risk mix and higher premiums for those not receiving subsidies, as healthier, lower-risk consumers drop coverage.

Table 1. **Summary of Potential 2018 Premium and Enrollment in California Based on Key Federal Policies**

	Scenario 1: Covered California Base Estimate	**Scenario 2:** No CSR Funding, Non-Enforcement of the Individual Mandate	**Scenario 3:** Non-Enforcement of the Individual Mandate
Estimated Premium Increase for 2018	9%	42%*	28%
Change From Base Estimate		*30%*	*17.5%*
Projected Enrollment			
On Exchange (Covered California)	1,300,000	1,020,000	1,000,000
Exchange Subsidized	*1,170,000*	*910,000*	*890,000*
Exchange Unsubsidized	*130,000*	*110,000*	*110,000*
Off Exchange	1,100,000	1,050,000	1,060,000
California Total Enrollment	**2,400,000**	**2,070,000**	**2,060,000**
Projected Enrollment, by Subsidy Status			
Total Subsidized	*1,170,000*	*910,000*	*890,000*
Total Unsubsidized	*1,230,000*	*1,160,000*	*1,170,000*
California Total Enrollment	**2,400,000**	**2,070,000**	**2,060,000**

* Premium increase for 2018 for Silver enrollees estimated to be 49 percent total under Scenario 2, or 40 percent higher than base estimate.

Notes:

1. *The values in the table above include rounded "mid-point" of potential enrollment impact. See the technical appendix for more details.*
2. *Covered California base estimate is the average effectuated enrollment for 2018. At the close of the open-enrollment period for 2017, the total exchange population is 1.4 million.*
3. *The total population of consumers with unsubsidized coverage includes those enrolling both through Covered California and "off exchange." Roughly 10 percent of exchange enrollment is unsubsidized. Off-exchange enrollment primarily means those enrolled in Covered California mirrored products, which reflect the prices negotiated by Covered California and have identical benefit designs, provider networks and other features.*
4. *The figures here reflect changes in coverage: decreases in coverage that are very likely to mean individuals become uninsured. Some may maintain insurance from other sources, such as COBRA. The scenarios analyzed suggest that failing to enforce the mandate, or failure to fund financial help for consumers in the form of CSRs, would lead to an increase in the uninsured. This could lead the ranks of the uninsured (yet eligible for coverage) to grow by 25 percent or more in California in 2018 alone (based on Covered California's estimate of approximately 1.2 million uninsured yet eligible for coverage).*

Similar or Worse Impacts Are Likely in Markets Across the Nation

The modeling results summarized here focus on California's individual insurance market, but similar or worse results should be expected nationwide. Because health care is local, the magnitude of the impacts in other states is likely to vary significantly, but the *directional* effects should be consistent with the analysis for California.

Basic dynamics are the same across the country: The subsidy structure for premium tax credits, cost-sharing reductions, and the rules relating to health plan ratings are spelled out in federal law and are the same across the nation. Thus, it is reasonable to expect impacts in other states that are *directionally* similar to the analysis about California provided here.

California has a stable market — impacts could be more severe in other states: California has established a robust and competitive insurance market, with a three-year average rate increase from 2014 to 2017 of about 7 percent. It is likely that in most other states the impacts would be far more significant — with larger premium increases that would drive even more substantial reductions in the number of people covered by insurance.

For example, California has robust competition, with 11 health plans competing across the state as of 2017 and 92 percent of consumers having the choice of at least three carriers. Two out of three consumers in California have more than five carriers on their local market, and no consumer has fewer than two carriers to choose from. This is not the reality in many other health care markets, where over 30 percent of counties in the U.S. have only one carrier available.[8] In those areas, the potential implication of near-term federal policy decisions is not just one of changes in premiums and enrollment, but the danger that if the single carrier leaves, there could be broad areas of the country with no carriers participating in the individual market.

A critical ingredient of success for California is the intensity of the marketing and outreach used to promote enrollment, and the steps taken to improve consumer choice that drives value in health coverage (such as the use of patient-centered benefit designs). The intensity of marketing and outreach varies widely for other state marketplaces and for those states whose exchanges are run by the federal government (known as "federally facilitated marketplaces").

Differences in these aspects of marketplace implementation have created variation around the nation in the mix of health plans' participation in marketplaces and the health status of those who are enrolled in coverage. These variations in turn would impact the magnitude of premium increases observed under these same federal policy scenarios.

Related Research

The premium and enrollment estimates above build on and complement recent Covered California analyses of the potential premium, enrollment, coverage and federal budget impacts of key policy decisions which are highlighted below.

1. **Funding for Cost-Sharing Reductions** — Health plans are required by federal law to offer CSRs. Analyses developed by Covered California, and updated on April 26, show that not only will federal spending on premium tax credits increase if CSRs are not funded, but consumers purchasing unsubsidized coverage would be less likely to enroll or maintain coverage due to the significant premium increases that would be required to fund

[8] See http://www.vox.com/science-and-health/2016/10/26/13407610/obamacare-counties-one-insurer and http://healthaffairs.org/blog/2017/03/30/aca-round-up-bill-would-allow-use-of-tax-credits-for-off-marketplace-plans-and-more/

CSRs absent federal funding.[9] In particular, the analyses find that not directly funding CSRs would cost the federal government $4 billion more in 2018 due to the increased tax credit spending that far exceeds the reduction in direct CSR payments. The estimated increased cost over 10 years is $80 billion.

2. **Enforcement of the Individual Mandate** — This element of the current law helps ensure a healthy pool of consumers and lower premiums, particularly for those who do not receive subsidies. Without enforcement of the penalty, the Congressional Budget Office (CBO) and the Joint Committee on Taxation (JCT) estimate that average premiums in 2018 and 2019 would be 15 to 20 percent higher than they would be otherwise.[10] Covered California commissioned an analysis by PwC in 2016 to quantify the enrollment impact of non-enforcement of the individual mandate.

3. **Establishing Stability Funding for 2018 and 2019** — The American Health Care Act (AHCA) recognized the need to help stabilize the health insurance market, mitigate rate increases and encourage enrollment. An estimate by Covered California showed that a $15 billion appropriation, if used for reinsurance, would reduce 2018 premiums by 12 to 18 percent depending on the market, but the cost to the federal government would be less than $4 billion because the funds would lead to a reduction in tax credit payments.[11]

[9] http://hbex.coveredca.com/data-research/library/Federal Budget Impact of Not Funding CSRs-04-14-17 Final .pdf and http://www.coveredca.com/news/pdfs/CoveredCA_Consequences_of_Terminating_CSR.pdf

[10] https://www.cbo.gov/system/files/115th-congress-2017-2018/costestimate/americanhealthcareact.pdf

[11] http://hbex.coveredca.com/data-research/library/RiskStabilization-FederalSpendingImpact-04-14-17-Final.pdf

TECHNICAL APPENDIX

This appendix summarizes the assumptions and enrollment outputs from modeling in two scenarios (Scenarios 2 and 3) of federal policy related to the individual market for 2018.

Scenario 2: No Direct CSR Funding and Non-Enforcement of the Individual Mandate

Impact	Assumptions	Additional Rationale/Notes
Premiums + 42 percent	+7% base net premium increase	• Assuming average Coverage California premium growth 2014-17 for following years
	+2% increase from Health Insurance Fee	• One-time effect in 2018 only
	+11% increase from not funding CSR credits	• Premium increase due to CSR elimination is anticipated to be 16.6% for Silver and 0% for all other tiers, resulting in an estimated 11% increase on average. • Approximately 50% of individuals choose Silver CSR plans, and 65% overall choose Silver plans.
	+17.5% increase from non-enforcement of Individual mandate	• CBO estimates 15 to 20% (mid-point: 17.5%) increase in premiums due to rollback/non-enforcement of individual mandate penalty • Approximately 50% of the enrollees in the individual market are eligible for CSR credits, and are likely to be affected by both the individual mandate and CSR credit repeals.
Enrollment On Exchange: (265K to 300K) decrease	(270K to 300K) decrease in subsidized individuals from individual mandate	• CalSIM/PwC analysis presented at May 2016 board meeting
	(15K to 20K) decrease in unsubsidized individuals from individual mandate	• Based on elasticity estimates for unsubsidized population due to a 17.5% increase in premiums
	+20K increase in subsidized individuals from CSR credits	• Per Covered CA/UCLA analysis, payors will make up reduction in CSR largely through premium increases, raising the levels of Advanced Premium Tac Credits (APTC) across all plans
	(1K) decrease in unsubsidized individuals from CSR credits	
On Exchange: Projected 2017 Enrollment		**On Exchange: Projected 2017 Enrollment**
On Exchange: Enrollment Decrease		**On Exchange: Enrollment Decrease**
On Exchange: Projected 2017 Scenario Enrollment		**On Exchange: Projected 2017 Scenario Enrollment**
Enrollment Off Exchange: (45K to 55K) decrease	(40K to 50K) decrease in unsubsidized individuals from individual mandate	• Based on elasticity estimates for unsubsidized population due to a 17.5% increase in premiums
	(6K) decrease in unsubsidized individuals from CSR credits	• Increase in premiums will lead to a moderate decrease in Individuals off exchange
Total Enrollment Decrease (On and Off Exchange)		**(310K to 355K)**

Scenario 3: Non-Enforcement of the Individual Mandate Only

Impact	Assumptions	Additional Rationale/Notes
Premiums +28% increase in premiums	+7% baseline net premium increase	• Assuming average Covered California premium growth 2014-17 for following years
	+2% increase from Health Insurance Fee	• One-time effect in 2018 only
	+17.5% increase from non-enforcement of individual mandate	• CBO estimates 15% to 20% (mid-point: 17.5%) increase in premiums due to rollback/non-enforcement of individual mandate penalty
Enrollment On-Exchange: (285K to 320K) decrease	(270K to 300K) Subsidized impact	• CalSIM/PwC analysis presented at May 2016 board meeting
	+7% baseline net premium increase	• Assuming average Covered California premium growth 2014-17 for following years
On Exchange: Projected 2017 Enrollment		**1.29M**
On Exchange: Enrollment Decrease		**(285K to 320K)** *(22% to 25%)*
On Exchange: Projected 2017 Scenario Enrollment		**0.97M to 1.00M**
Enrollment Off-Exchange: (40K to 50K) decrease	(40K to 50K) from repeal of mandate	• Based on elasticity estimates for unsubsidized population due to a 17.5% increase in premiums
Total Enrollment Decrease (On and Off Exchange)		**(325K to 370K)**