

Recommended Actions to Ensure Stability in the Individual Health Insurance Market for 2018 and 2019

Whether the individual markets throughout the nation are relatively stable in 2018 and 2019 or are fraught with substantial rate increases and the potential exodus of plans leaving no options at all for some consumers will depend largely on actions that the Trump Administration and Congress take between now and early June 2017. There is a very limited amount of time during the upcoming weeks, when health plans are making their business decisions on whether to participate and how to price for 2018.

This document outlines several actions that are needed to ensure stability in the individual market in the immediate and near-term. Implemented in tandem, these policies will improve competition, consumer choice and affordability for individuals and families who rely on individual market coverage during life transitions or as an ongoing source of coverage. The individual market serves about 20 million Americans, with only about half receiving financial help through the current tax credit structure.¹ In the absence of the policies described below, not only will 2018 be a potentially catastrophic year for millions of individuals, instability in the individual market will continue for years to come.

Below are five policies that could greatly stabilize the market if enacted within the next two months, so they can be considered by health plans for their 2018 participation and pricing decisions:

1. **Fund Cost Sharing Reductions** — Cost sharing reductions are required benefits to be offered by health plans and failing to provide direct, ongoing federal funding would actually increase federal costs by hundreds of millions of dollars each year and result in dramatically higher premiums for consumers, especially for those who do not receive any financial assistance.
2. **Enforce the Individual Mandate** — This element of the current law helps ensure a healthy pool of consumers and lower premiums. Without enforcement of the penalty, the average premiums in 2018 and 2019 are projected to be 15 to 20 percent higher than they would be otherwise.
3. **Establish 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. A \$15 billion Stability Fund, if used for reinsurance, would reduce 2018 premiums by on average 15 percent but the cost to the federal government would be less than \$4 billion because the fund would lead to a reduction in tax credit payments.
4. **Aggressively Market** — Marketing campaigns are always needed in high-turnover industries like health insurance. Health plans need to know they can rely on robust marketing by the federal and state-based marketplaces to promote enrollment and build a good risk mix, which will lead to stable premiums.
5. **Bring Choice to Underserved/Unserviced Markets** — The Administration should explore ways to actively engage carriers to expand their coverage to underserved areas

In addition to these policies, there are other actions that could foster additional consumer choice and cost moderation, such as expanding the flexibility of states to offer greater diversity of plans in terms of their actuarial value and covered benefits or state innovation options to support reinsurance and other localized solutions.

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>

Fund the Cost Sharing Reductions

In order to prevent increased federal expenditures, minimize rate impacts for unsubsidized consumers, and to prevent further issuer withdrawal from the market, Cost Sharing Reductions must be funded through the same mechanism as are the Advanced Premium Tax Credits, with provisions that they sunset when Tax Credits are ended or substantially modified.

Uncertainty about the availability of federal funding for cost sharing reductions (CSRs) must be addressed immediately to prevent premium hikes in 2018 and uncertainty about federal support in future years. Studies by the federal Office of the Assistant Secretary for Planning and Evaluation (ASPE) and Covered California concluded that defunding CSRs would actually *substantially increase* federal costs because the increase in plan premiums required to fund the CSRs would lead to increased payments of Advanced Premium Tax Credits. Under law, issuers *must* offer silver variant plans with defined CSRs, and they would be required to increase premiums to cover this cost. This increased premium would ultimately lead to increased federal expenditures on premium tax credits. The ASPE [study](#) found that the total federal cost of marketplace subsidies would be billions of dollars higher annually if CSRs were not funded and premium tax credits rose to cover the necessary premium increases.² Covered California's [study](#) showed that the resulting rise in federal spending on premium tax credits would exceed the cost to the federal government of direct funding for the CSRs by 29 percent, which would equate to approximately \$225 million in additional federal funding in California.³ A recent [review](#) of the implications of the CSR funding decision shows that the ten year cost to the federal government would be between \$47 and \$80 billion higher than the current budget baseline due to the higher spending required to pay for the CSRs through the mechanism of raising premiums.⁴ To prevent the future year financial impact of not funding CSRs directly, a mandatory appropriation for CSRs is needed that is linked to the existing appropriation for APTC.

In addition to the impacts on federal spending and the pricing uncertainty for health plans, the Covered California study also found that consumers purchasing *unsubsidized* coverage, who would be exposed to the full premium increase and not benefit from an increased premium tax credit, and thus would be less likely to enroll or maintain their coverage in the unsubsidized market. This decrease in enrollment would mean many thousands of more Americans "priced out" of coverage.

Continue to Enforce the Individual Mandate

Until such time as there is a comparable replacement policy in place, it is critically important that the individual mandate continue to be enforced to prevent premium spikes and additional issuer departures.

In their [analysis](#) of the American Health Care Act (AHCA), the Congressional Budget Office (CBO) and Joint Committee on Taxation (JCT) estimated that average premiums in 2018 and 2019 in the individual market would be 15 percent to 20 percent higher than they would otherwise be mainly because of the proposed elimination of the individual mandate penalty.⁵ During Congressional testimony on March 29, Health and Human Services (HHS) Secretary Tom Price noted that as long as the individual mandate is law, HHS is obliged to uphold it, providing some assurance to carriers. Failing to enforce the individual mandate would worsen the risk mix which would make the individual market less attractive to issuers and significantly diminish the rate-stabilizing impact of short-term stability funding. Health plans'

² https://aspe.hhs.gov/system/files/pdf/156571/ASPE_IB_CSRs.pdf

³ http://www.coveredca.com/news/pdfs/CoveredCA_Consequences_of_Terminating_CSR.pdf

⁴ http://hbex.coveredca.com/data-research/library/Federal%20Budget%20Impact%20of%20Not%20Funding%20CSRs-04-14-17%20Final_.pdf

⁵ <https://www.cbo.gov/system/files/115th-congress-2017-2018/costestimate/americanhealthcareact.pdf>

actuaries will price for the uncertainty of the enforcement of this policy absent a clear and credible basis to believe the penalty will be enforced.

Establish Short-Term Stability Funding for 2018 and 2019

Establish support for high-cost patients through a Stability Fund, administered nationally in 2018 and 2019 as reinsurance to lower premiums for consumers while reducing the fiscal impact to tax payers by substantially defraying the cost of the program through reduced federal tax credit payments.

The AHCA recognized the need for additional stabilization funding for 2018 and 2019 to mitigate the impact of projected rate hikes and to encourage health plan participation. The best estimates are that a *\$15 billion Stability Fund used for a reinsurance program in 2018 could reduce premiums nationally by about 15 percent, but the cost to the federal government of such a program would be less than \$4 billion* because the reinsurance would lead to a significant reduction in Advanced Premium Tax Credit payments (the \$11 billion in reduced APTC should be considered as part of the federal budgeting process). Even funding of “only” \$10 billion for reinsurance – with net federal expenditure of about \$2.7 billion – would translate into an average premium reduction of 10% while greatly mitigating the uncertainty of health plans considering their participation. This funding is especially critical if the individual mandate is not enforced and the CSR payments are not made for 2018, requiring health plans to price for the costs of these subsidies. Reinsurance funding will further ensure stability in the marketplace and avoid creating pockets of areas of the country that do not have any plans.

Aggressively Market to Maintain Enrollment and Ensure a Good Risk Mix

For the individual market to have a sustainable risk mix, sufficient resources must be devoted to it by federal and state marketplaces in marketing and outreach activities that are in line with other high turnover industries.

Selling insurance in the individual market, which has always been a high-churn market, requires ongoing and significant investments in marketing and outreach to promote retention of current enrollees and new enrollment. In the absence of effective marketing, there cannot be a balanced risk pool. Individuals with current health care needs will always be more likely to enroll in coverage, while healthier individuals must be “sold” on the concept. In the proposed Market Stabilization Rules, HHS notes that increased outreach will be needed if the open enrollment period is shortened. While this is true, increased marketing and outreach is needed under ANY enrollment period. In 2016, Covered California spent approximately \$121 million on marketing and outreach activities — over one-third of its total budget, which is entirely funded by health plan assessments. An independent [analysis](#) performed by PwC found that this level of expenditure was “in line” with other high turn-over industries and with this spending California has achieved one of the best risk mixes of any state in the nation — with an overall risk mix in the individual market that is substantially lower than the national average — meaning premiums are lower for both those who receive and do not receive subsidies. The federal marketplace has increased marketing expenditures over the past three years. While it remains significantly less than the \$660 million that Covered California estimated to be appropriate, health plans need to know that there will be efforts to promote enrollment and foster a healthy risk mix⁶.

⁶ http://hbex.coveredca.com/regulations/CoveredCA_comments_9934-P_User_Fee_100616.pdf

Provide Incentives to Bring Choice to Underserved/Unserved Markets

Temporary, targeted incentives should be used over the next two to three years to rebuild issuer competition in underserved areas.

In 2017, over 25 percent of counties that use Healthcare.gov are limited to just one insurer. Many of these counties are at risk of having no issuer participation in 2018. Policies should be considered to incentivize issuers to remain in or enter underserved counties. These issues are complex and many of the potential policies could not be ready to be implemented for 2018, but the Administration demonstrating engagement with carriers and showing a path forward would help assure participation in 2018. Policies that should be considered include:

- Active engagement and discussions with carriers serving these regions — or potentially serving these regions — to understand and then develop specific responses to their concerns.
- Provide for plans serving or newly entering designated underserved areas emergency tax relief from the health insurance tax as it relates to all lines of the carrier's business or an exemption from the marketplace issuer participation fee — either of which should be proportional to the share of individual market consumers they serve who are in defined underserved markets.