Health Care Coverage Affordability in California: A Study of Policy Options

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AB1810 Working Group 2  
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Background

• AB 1810 requires Covered California to develop an Affordability Options Report to the Legislature, Governor, and the new Council on Health Care Delivery Systems

• Report due by February 1, 2019
  • Options for providing financial assistance to help low and middle-income Californians access health care coverage.
  • Include options to assist individuals paying a significant percentage of income on net premiums, and those with income of up to 600% FPL.
  • Consider maximizing all available federal funding.

• Model policy options
  • New enrollment, consumer spending, state and federal spending
  • Highlight how each addresses affordability challenges
Outline

• Affordability challenges
• Summary of 6 policy options
• Model
• Results
  • Enrollment, premium, spending (federal, state and consumer)
  • Comparing: Efficiency of spending vs equity/policy goals
• Discussion: next steps for the Working Group and modeling
Affordability and Other Challenges

• Premiums
  • Paying for plans remains a challenge for low- and middle-income individuals, even with federal APTC
  • People above cliff have difficulty paying for plans; premiums exceed contribution caps

• Cost-sharing
  • Low and middle-income individuals typically purchase lower AV plans. Studies show that high deductibles or low AV plans discourages medical care seeking (both high and lower value care)

• Penalty elimination will cause increased disenrollment and increased premiums
  • Rising premiums particularly impactful for unsubsidized consumers (off-ex + >400)
<table>
<thead>
<tr>
<th>Policy Option</th>
<th>What It Does</th>
<th>Affordability Goal</th>
<th>Budget</th>
</tr>
</thead>
</table>
| **Lower Cap**  | • <138: 0% cap  
• 138-250: Linear 0 to 8%  
• 250-400: 8%                     | -Makes premiums more affordable for people currently eligible for APTC               | Increased enrollment will increase fed APTC                                                |
| **Extend Cliff** | 2019 caps, but extend 9.86% cap to 700 FPL                                  | -Makes premiums more affordable for people right above current cliff                 | -No increase in fed APTC  
-Subsidizes people currently enrolled off-ex                                                  |
| **CSR Light** | Raising Silver AV  
• 200-400FPL: to AV 80                                                      | -Makes medical care more affordable at lower-middle incomes                          | Increased enrollment will increase APTC                                                    |
| **CSR Heavy**  | Raising Silver AV  
• 150-200: to AV 94  
• 200-300: to AV 87  
• 300-400: to AV 80                                    | -Makes medical care more affordable at lower and lower-middle incomes  
-Encourages new enrollment                                                                | Same as CSR Light, but heightened effects on enrollment and budget                    |
| **Reinstate Penalty** | Apply 2019 penalty at state level                                         | Improve risk mix and enrollment                                                     | No spending, and gain penalty revenue                                                     |
| **Reinsurance** | 5% cost reduction                                                          | -Lowers premiums for marketplace and off-ex  
-Makes premiums more affordable for the unsubsidized, including off-ex                | Lowers APTC, possible 1332                                                                |
Where to phase out premium subsidies?

<table>
<thead>
<tr>
<th>Family Size</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
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<tbody>
<tr>
<td>FPL</td>
<td>$12,140</td>
<td>$16,460</td>
<td>$20,780</td>
<td>$25,100</td>
<td>$29,420</td>
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<tr>
<td>400 FPL</td>
<td>$48,560</td>
<td>$65,840</td>
<td>$83,120</td>
<td>$100,400</td>
<td>$117,680</td>
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<tr>
<td>Fair share contribution @Cliff (400)</td>
<td>$399</td>
<td>$541</td>
<td>$683</td>
<td>$825</td>
<td>$967</td>
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<tr>
<td>Subsidy @ cliff 1 policy</td>
<td>81</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
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<tr>
<td>Subsidy @ cliff 2 policy</td>
<td>419</td>
<td>277</td>
<td>135</td>
<td>0</td>
<td>0</td>
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<tr>
<td>Subsidy @ cliff 3 policy</td>
<td>757</td>
<td>615</td>
<td>473</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Phase out FPL for 1 plan</td>
<td>4.81</td>
<td>3.55</td>
<td>2.81</td>
<td>2.33</td>
<td>1.99</td>
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<tr>
<td>Phase out FPL for 2 plan</td>
<td>7.10</td>
<td>5.62</td>
<td>4.65</td>
<td>3.97</td>
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</tr>
<tr>
<td>Phase out FPL for 3 plan</td>
<td>8.43</td>
<td>6.98</td>
<td>5.96</td>
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</table>
Microsimulation: overview

• We want to model the impacts of various policy proposals on
  • Total enrollment, premiums, CA spending, federal spending, consumer spending
  • By income, by on and off-ex

• Basics of the microsimulation model:
  • Use CC enrollment data from 2014-2018 and cutting-edge econometrics to estimate how consumers respond to past changes in premiums and subsidies
  • Estimate how premiums respond to past changes in subsidies, penalty and consumer choice
  • Use consumer and plan responses to forecast how consumers and plans would respond to each policy option (for now, separately).
Microsimulation: Deeper Dive

• Consumer model
  • Based on Covered California administrative data on plan offerings, premiums and consumer plan choice; and publicly available ACS data on individuals who do not enroll in a plan
  • Past changes in premiums and plan offerings allows us to identify how consumers respond to changes in a net-of-subsidy-premium, given what other plans are available. These responses are the “price elasticities” economists often estimate.

• Plan premium setting model
  • The model assumes plans set premiums to maximize profits, factoring in consumer price elasticities and plan competition in the region. We use past premiums, estimated elasticities, and plan competition to estimate each insurer’s “optimal” premiums.

• Forecasting
  • With consumer and plan behavior fully characterized, we can simulate how premiums and consumers will respond to hypothetical policies
  • Because the model is based on “micro” data on individual consumers, outcomes can be characterized in aggregate, or separately by consumer type (e.g. income groups, age, risk).
  • Distinct from “macro” data, which can only look at aggregates (e.g. overall enrollment)
Model Assumptions

• Forecasts for plan year 2021
• Premiums rise 7% per year until 2021
• Penalty elimination effective in 2019
  • Estimates of disenrollment range from 15% to 25%;
  • Results shown today take mid-point estimates (20%) (consistent with Covered California budget projections)
Results
(Main)
<table>
<thead>
<tr>
<th>Policy Option</th>
<th>What It Does</th>
<th>Enrollment &amp; Premium Impacts</th>
<th>Budget Impacts</th>
</tr>
</thead>
</table>
| **Lower Cap**     | • <138: 0% cap  
• 138-250: Linear 0 to 8%  
• 250-400: 8%  | • Net Premiums fall $25-$35 <400FPL  
• 12.5% enrollment CC increase (160,000) | •-$560M in CA  
•-$810M in new APTC |
| **Extend Cliff**  | 2019 caps, but extend 9.86% cap to 700 FPL                                   | • Net Premiums fall $180-$200 >400FPL  
• 63% enrollment CC increase >400 (44,000) | •-$616M in CA  
• Of which $290M crowds out existing off-ex enrollees |
| **CSR Light**     | Raising Silver AV  
• 200-400FPL: to AV 80                                                      | • Net Premiums flat (slightly higher silver load)  
• 2.2% enrollment CC increase (28,000) | •-$207M in CA  
•-$176M in new APTC |
| **CSR Heavy**     | Raising Silver AV  
• 150-200: to AV 94  
• 200-300: to AV 87  
• 300-400: to AV 80                                                      | • Net Premiums flat (slightly higher silver load)  
• 5.8% enrollment CC increase (75,000) | •-$512M in CA  
•-$539M in new APTC |
| **Reinstate Penalty** | Apply 2019 penalty at state level                                          | • Net Premiums flat (fall for unsub)  
• 25% enrollment overall increase (500,000) | •-$800M in CA revenue  
•-$1.4B in new APTC |
| **Reinsurance**   | 5% cost reduction                                                           | • Net Premiums flat <400FPL  
• Premiums fall 5% or $35 (unsub/off-ex)  
• 8% unsub/off-ex enrollment increase (65,000) | •-$745M in CA  
•-$513M in 1332 APTC (69%) |
## Lower Cap

<table>
<thead>
<tr>
<th>Metal Tier</th>
<th>Enrollment</th>
<th>Market Share</th>
<th>Premium PMPM</th>
<th>Avg Net Prem</th>
<th>APTC+Prem Sub/m</th>
<th>New Prem Sub/m</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Baseline</td>
<td>Model 5</td>
<td>Baseline</td>
<td>Model 5</td>
<td>Baseline</td>
<td>Model 5</td>
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<tr>
<td>Catastrophic</td>
<td>10,315</td>
<td>9,811</td>
<td>0.01</td>
<td>0.01</td>
<td>242.94</td>
<td>243.12</td>
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<tr>
<td>Bronze</td>
<td>379,608</td>
<td>377,072</td>
<td>0.30</td>
<td>0.26</td>
<td>514.13</td>
<td>508.86</td>
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<tr>
<td>Silver</td>
<td>765,391</td>
<td>906,291</td>
<td>0.60</td>
<td>0.63</td>
<td>742.53</td>
<td>722.41</td>
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<tr>
<td>Gold</td>
<td>85,507</td>
<td>101,586</td>
<td>0.07</td>
<td>0.07</td>
<td>778.31</td>
<td>764.19</td>
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<tr>
<td>Platinum</td>
<td>38,456</td>
<td>43,529</td>
<td>0.03</td>
<td>0.03</td>
<td>974.78</td>
<td>950.25</td>
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<tr>
<td>Overall</td>
<td>1,279,277</td>
<td>1,438,289</td>
<td>1.00</td>
<td>1.00</td>
<td>704,885,769</td>
<td>819,497,734</td>
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</table>

### Annual Budget Impact

<table>
<thead>
<tr>
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<th>Value</th>
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<tr>
<td>New Prem Subsidy</td>
<td>565,653,495</td>
</tr>
<tr>
<td>New CSR</td>
<td>0</td>
</tr>
<tr>
<td>New Reins</td>
<td>0</td>
</tr>
<tr>
<td>Change in APTC $</td>
<td>809,690,087</td>
</tr>
</tbody>
</table>
Results
(Comparing Options)
Enrollment Impacts, By Market Segment

- <400:
  - Reins: [Count]
  - CSR Light: [Count]
  - CSR Heavy: [Count]
  - Lower Cap: [Count]
  - Extend Cliff: [Count]
  - Pen Reinst: [Count]

- >400:
  - Reins: [Count]
  - CSR Light: [Count]
  - CSR Heavy: [Count]
  - Lower Cap: [Count]
  - Extend Cliff: [Count]
  - Pen Reinst: [Count]

- Off Exch:
  - Reins: [Count]
  - CSR Light: [Count]
  - CSR Heavy: [Count]
  - Lower Cap: [Count]
  - Extend Cliff: [Count]
  - Pen Reinst: [Count]

- Total:
  - Reins: [Count]
  - CSR Light: [Count]
  - CSR Heavy: [Count]
  - Lower Cap: [Count]
  - Extend Cliff: [Count]
  - Pen Reinst: [Count]
## CA Spending and Federal Leveraging

<table>
<thead>
<tr>
<th></th>
<th>Reins (1332)</th>
<th>CSR Light</th>
<th>CSR Heavy</th>
<th>Lower Cap</th>
<th>Extend Cliff</th>
<th>Pen Reinst</th>
</tr>
</thead>
<tbody>
<tr>
<td>$\Delta CA$</td>
<td>$232$</td>
<td>$207$</td>
<td>$512$</td>
<td>$566$</td>
<td>$616$</td>
<td>-$810</td>
</tr>
<tr>
<td>$\Delta Federal$</td>
<td>$0$</td>
<td>$176$</td>
<td>$539$</td>
<td>$810$</td>
<td>$0$</td>
<td>$1,444$</td>
</tr>
<tr>
<td>$\Delta Enrollee Ben$</td>
<td>$232$</td>
<td>$383$</td>
<td>$1,052$</td>
<td>$1,375$</td>
<td>$616$</td>
<td>$1,444$</td>
</tr>
<tr>
<td>$CA/\text{New enrollee}$</td>
<td>$3,551$</td>
<td>$7,210$</td>
<td>$6,868$</td>
<td>$3,557$</td>
<td>$9,141$</td>
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</tr>
<tr>
<td>New $\text{Fed}/CA$</td>
<td>$0.00$</td>
<td>$0.85$</td>
<td>$1.05$</td>
<td>$1.43$</td>
<td>$0.00$</td>
<td></td>
</tr>
<tr>
<td>$\text{Enrollee Ben}/CA$</td>
<td>$1.00$</td>
<td>$1.85$</td>
<td>$2.05$</td>
<td>$2.43$</td>
<td>$1.00$</td>
<td></td>
</tr>
</tbody>
</table>

In $\text{Millions/year}$
Two Measures of Efficiency of $CA

• $CA per new enrollee

• $ CA enrollee benefit (AV) per $CA
Efficiency: $CA/ New Enrollee

$CA Spending/New Enrollee

- Reins
- Reins (1332)
- CSR Light
- CSR Heavy
- Lower Cap
- Extend Cliff
Efficiency: $Benefit to Enrollees/$CA

$Enrollee Ben/$ CA

Reins | Reins (1332) | CSR Light | CSR Heavy | Lower Cap | Extend Cliff

1.00 | 1.50 | 2.00 | 2.50 | 3.00

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Two Measures of Efficiency of $CA

• $CA per new enrollee
  • Reinsurance (1332) is most efficient because $CA does not crowd out federal or private spending
  • Cliff Extend is worse because a lot of $CA spending goes towards crowding out premiums of current off-ex enrollees
  • CSR policies don’t look favorable, despite federal leverage, because AV benefit not as salient for enrollment

• $ CA enrollee benefit (AV) per $CA
  • No $CA wasted, as CSR policies go to AV boost
  • Best is Lower Cap, because of APTC leverage
  • Extended Cliff and reinsurance is low: no APTC leverage
Equity or Policy Goals

- Lower Cap and CSR Heavy focus new spending at lower incomes
- Cliff Extend only benefits consumers above 400 FPL
Take-aways

• “Dominant” Policies
  • Reinstating penalty induces **largest enrollment effects and generates income**
  • Supplement with strategies to make enrollment easier

• Two types of efficiency
  • $/Enrollment is narrower measure
  • Total (AV) benefit/$CA more robust (Lower Cap and CSR policies), driven by APTC leverage

• Given AV efficiency, there are policy goals
  • Redistribution (Lower Cap and CSR policies)
  • Help to people just above cliff (Cliff Extend)
  • Off-exchange stability (Reinsurance)
Next Steps

• Policy Options
  • With awareness of budgets, dial up/down policy parameters
  • Combination policies

• Forecasts (modeling)
  • 2021-2026
  • Macro effects in out years
  • Equilibrium premium effects