Team ACA Version 2.0

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Executive Summary

The state of the healthcare industry, specifically the individual insurance market, today is in flux. Cost and premium trends are still a major concern while the push to provide stability via the 3Rs programs creates chaos for issuers. In addition, push for maximum coverage in the market leads to subsidy programs that at times hurt rather than help. We would like to propose changes to the subsidy and risk adjustment programs. The subsidy proposal is to ease members from receiving subsidies to full self-sufficiency without incurring a financial cliff. Two risk adjustment proposals involve removing the administrative costs from the statewide average premium and reconsideration of plan liability risk scores to narrow the gap between metallic risk scores.

Risk Adjustment

The risk adjustment program, built to eliminate disparity in risk across issuers, introduced a significant level of uncertainty in terms of pricing, budgeting and forecasting. The large variance in risk scores leads to extreme payment levels for bronze and platinum tiers that have significant financial impact for issuers. Reconsideration of plan liability risk scores (PLRS) to narrow the gap between metallic risk scores and better reflect underlying cost of diagnoses would help with predictability and stability within the risk adjustment market by shrinking the variability in RA transfer between the metallic tiers.

In addition, using carrier-specific premiums, adjusted for target loss ratio to remove administrative expenses, would result in a more equitable risk adjustment program. Eliminating overhead allows the program to focus on the true cost of risk incurred by issuers while removing the penalty or unfair windfall experienced by issuers with low or high overhead compared to the market.

Capturing only the cost of care rather than overhead and profit as well as minimizing variability in risk scores will help focus RA transfers on true risk of care within the individual market. This will help provide better financial stability of issuers, which would then attract more issuers to the market, boosting competition and leading to better pricing stability and affordability for consumers.

Premium Subsidy

The premium subsidy program has been a safe haven for lower-income members, allowing them to attain coverage without exhausting all financial resources. However, members near 400% of the federal poverty level (FPL) find themselves in a precarious situation, where a slight increase in income (generally considered a good thing) can lead to a significant and unexpected increase in cost for insurance. We propose tempering the cliff by using a 3-pronged approach: set income qualifications based on local rather than federal poverty levels; extend the percent of poverty level limit for obtaining subsidies; and introduce a tempered subsidy near the limit. Setting income qualifications to a more local standard would assist families who cannot afford coverage due to local cost of living but whose income is too high versus the federal poverty level (FPL) to obtain a subsidy. Extending the income limit and tempering the subsidy near the limit is a 2-part approach. By extending the income limit, the burden of the member who is suddenly pushed into a new income bracket (say from 400% FPL to 401% FPL) with a modest

income increase is eliminated. But it's understood that increase in affordability is not linear after a certain point. Thus introducing a tempered subsidy level near the limit would allow for policyholders to ease off the subsidy without a drastic, financial shock to the wallet. Very modest reductions for subsidies at lower income levels would provide enough funding to allow extension of income subsidy levels and introduction of a gradual (but relatively rapid) reduction in subsidy at higher income levels without increase (or with minor increase) in government funding requirements.

The Solution

One of the biggest uncertainties in the ACA market is the risk adjustment program. The HHS-HCC risk adjustment (RA) program implements risk score coefficients derived from historical claims data and assumed enrollment behavior. Recent financial results have emerged that indicate the member cost sharing reflective within those coefficients is driving substantial volatility in payments or receipts and forcing some insurers to close their doors. Tightening the gap between metal tier risk factors for non-HCC members within the model is forecasted to reduce the magnitude of payments between insurers and prioritizes transfer payments for the cost of care. As a corollary, the recent iterations of the Massachusetts risk adjustment model have been developed to only compensate carriers for the HCC components and does not apply any consideration to non-scoring members, alleviating the issue identified. By reducing the volatility in financial results for the relatively more stable population of members, those without an HCC, the overall expense component for insurers would become more stable and hopefully result in increased affordability for all members.

We also propose removing administrative expenses from the statewide average premium used in risk adjustment calculations. The risk adjustment transfer formula currently uses statewide average premium to determine the dollar amount a carrier will either receive or pay into the risk adjustment program. Administrative expenses include overhead cost, taxes, and profit margin which are not associated with the risk level of the population, and should therefore not be included in the risk transfer amount. When risk adjustment transfers do not reflect the correct amount associated with risk, carriers with healthy populations are being penalized, and those with sicker populations are receiving more transfer dollars than they should receive based upon the risk of their populations. Including administrative expenses in the risk adjustment transfer formula over-inflates the amount of risk transfers, resulting in additional imbalance in the individual market.

Another solution that we propose is to help subsidized members whose income is close to 400% of the federal poverty level (FPL). These members find themselves in a precarious situation, where a small increase in income could send them over the 400% FPL level and increase their premiums significantly. To show an extreme example, the 2017 premium for the second lowest cost Silver plan in Avery County, NC is $2,113 for a couple, both age 57; this corresponds to $25,359 per year. Assuming this couple makes $64,000 (400% of FPL is $64,080 for two people), their percent of income cap is 9.69%, or $6,202. This results in an annual subsidy of $19,158. If this couple were to increase their income from $64,000 to $66,000, their subsidy is eliminated. An increase in income of $2,000 results in a decrease in take-home income (after insurance premiums) of $17,158. By increasing the subsidized income level, this helps alleviate the concern of hitting that financial cliff, but doing that alone would only delay the inevitable. Thus we would also introduce a gradual reduction in subsidy from the 400% FPL to the new income limit, 600% FPL, for example. So instead of delaying the financial cliff, we generate a financial *slope* that eases the policyholder back to a 0% subsidized premium.

Even with the extension and gradual reduction, the disparity from region to region could lead to some policyholders whose higher income is still insufficient in terms of health insurance affordability due to higher, local cost of living. Our final proposal is to adjust the FPL used to set the subsidy limits by state to better capture the impact of local cost of living on affordability.

Consumer Impact

The impact of uncertainty in the risk adjustment program is higher premium. There is concern for the financial stability of the insurers due to high financial risk under the RA program. This leads to high rate increases and unaffordable premiums for policyholders. If we can bring the vast swing in RA transfers under control, we would reduce the financial risk to the insurers, which results in lower rate increases and premiums.

Eliminating or reducing the financial cliff that individuals may see will remove an adverse incentive for those in the workforce to earn less. Additionally, those who currently encounter the cliff and can no longer afford coverage will be able to remain covered under expanded subsidy levels. This will improve affordability especially for those who are older and living in high cost areas. Redefining poverty levels using state rather than federal thresholds will also help in ensuring that high cost areas are not disproportionately affected by the subsidy cliff. Because some states have significant variances in cost of living from one area to the next, using statewide poverty levels would not completely solve the issue. However, increasing the percent of income thresholds beyond 400% could help address affordability in higher cost areas without negatively impacting lower cost areas. Federal poverty levels as well as state poverty statistics from the US Census could be used to redefine poverty levels by state.

Insurance Impact

As noted previously, the effect of reducing variability in risk scores and removing admin costs would be lower rate increases in the market. This in turn would provide more stability in the market as large numbers of consumers would not shift from one issuer to another in search of the better deal. Of course there is always movement in the market, but this tends to be exacerbated by high rate increases. A more stable market provides more stable forecasts as which would lead to more stable premiums, etc, creating a win-win for issuers and consumers.

The combined effect of reducing variability in risk scores and removing administrative expenses from the statewide average premium will add accuracy in transferring dollars associated with risk. When risk adjustment transfers reflect the correct measurement of risk, carriers can more accurately forecast the financial expenses, and price the insurance product appropriately. Additionally, shrinking the gap in risk coefficients between the various metal tiers will help reduce large swings in risk adjustment transfers that can result from small changes in plan selection of a health plan's population. Because these changes will help with predictability for insurers, they will also help address affordability issues. Any improvement to accessibility and affordability of coverage should assist in expanding coverage, stabilizing risk pools, ultimately leading to wider carrier participation and pricing stability. These risk adjustment modifications are anticipated to the improve stability of the risk pool.

Because the subsidy program already exists, and we are merely proposing an extension and change of the percent of income caps, the subsidy program changes should not have adverse administrative effects or additional regulatory burden on either the exchanges or insurers. Additionally, because it will help address affordability issues for those currently above 400% of FPL, it should improve access and therefore stability of the risk pool. Any improvement to accessibility and affordability of coverage should assist in expanding coverage, stabilizing risk pools, ultimately leading to wider carrier

participation and pricing stability. Removing the subsidy cliff alone will not result in full market stability, but it is one of many steps that can be taken to improve stability.

Healthcare Provider Impact

One of the current favorites in cost containment strategies is narrow networks. Despite the requirements for sufficient coverage, this actually significantly restricts consumers when they are in need of any services beyond some basic services. But this strategy is favored by some to provide more affordable products in the market. Introducing these proposed solutions would not eliminate narrow networks, but it would serve to perhaps minimize the need to build more of them. Financial stability, affordability and carrier participation all lead to tempered cost increases that would help ease the need for narrow networks. Few networks means better accessibility for the consumer.

Elimination of subsidy cliff would also decrease the level of uninsured. This brings income to the providers in the form of higher volume via the market while reducing the number of uncompensated services.

Government Responsibilities

Because the risk adjustment program already exists, these modifications to the risk score coefficients and statewide premium multipliers should have minimal adverse administrative effects on either the federal government or insurers. The program is administered by the federal government, but these changes would not require significant overhaul of the program. Also, because the program is revenue neutral (the receipts to carriers with higher risk are entirely funded by the payments from carriers with lower risk) there will be no fiscal impact to the federal government.

Additionally, the increase in subsidies that would be seen in high cost areas would be offset by the decrease in subsidies in low cost areas. If additional savings are needed in order to fund expanded subsidies beyond 400% of poverty level, the percent of income thresholds could be minimally increased in the 300-400% of poverty level section. The overall goal would be to expand the subsidies and remove the cliff for those significantly impacted by it while only reducing subsidies a minimal amount for those who currently receive them. This would result in minimal fiscal impact for the federal government while also reducing affordability concerns for individuals.

Conclusion

One of the main goals of the ACA as enacted was to increase coverage in the market. To a large extent, this has happened. However, cost and premium trends continue to increase and threaten the viability of the individual market. The changes being proposed here are meant to increase predictability and financial stability for insurers as well as increase affordability for consumers. By adjusting for the subsidy cliff, we can eliminate surprises for consumers that threaten their ability to maintain coverage. By making improvements to the risk adjustment program, we can reduce volatility that threatens predictability for insurers, thereby leading to increased carrier participation and competition. These

changes are meant to improve the stability of the individual market and further the goal of increased coverage.