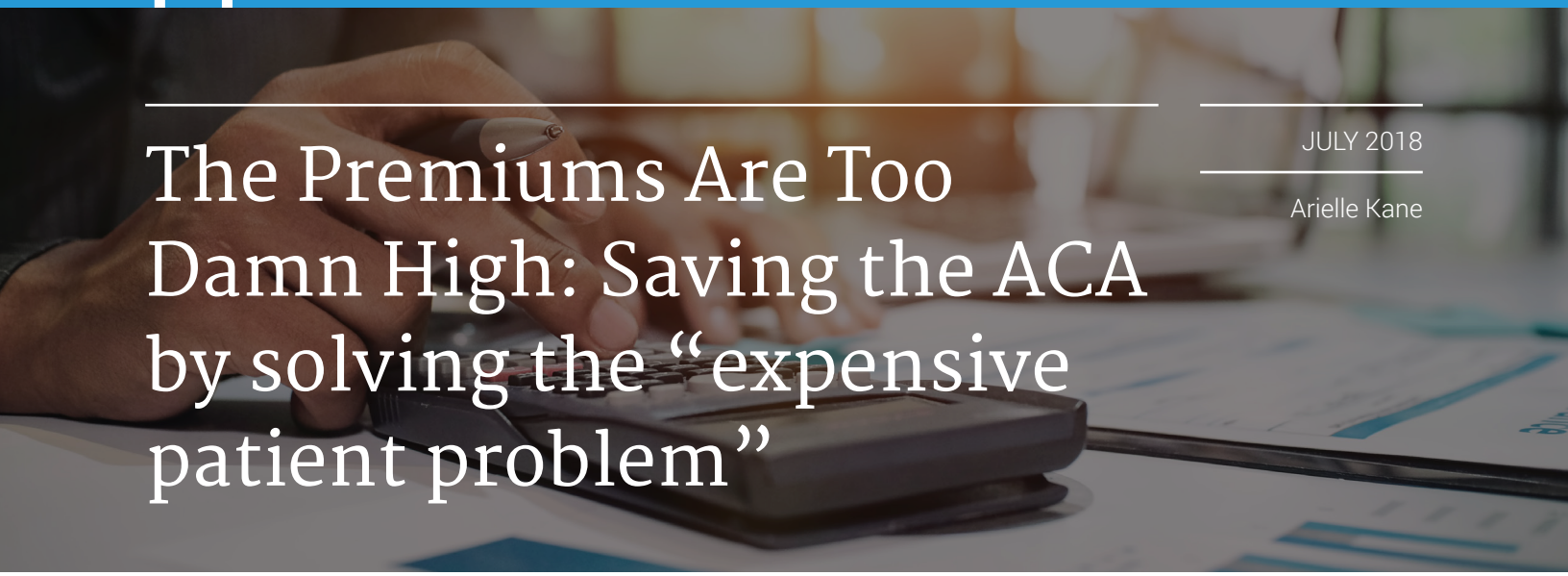
ppi radically pragmatic

The Premiums Are Too Damn High

Saving the ACA by solving the "expensive patient problem"

Arielle Kane
July 2018



The Premiums Are Too Damn High: Saving the ACA by solving the "expensive patient problem"

JULY 2018

Arielle Kane

INTRODUCTION

Americans who buy health insurance on the exchanges set up by the Affordable Care Act (ACA) are having sticker shock as preliminary rates are filed for the 2019 plan year

Healthcare analysts expect insurance premiums to skyrocket during the next open enrollment period, which inconveniently begins just before the 2018 midterm elections. These higher premiums will be the direct result of changes in the ACA pushed through Congress by the Trump administration and Republicans – changes explicitly intended to sabotage the ACA ("Obamacare") by destabilizing healthcare markets. A bipartisan solution, reinsurance, is needed to undo the damage inflicted on the individual market.

Although they failed repeatedly to "repeal and replace" the ACA, President Donald Trump and his party did manage to eliminate the individual mandate penalty beginning in 2019. President Trump also used executive authority to allow health insurance companies to offer low-cost plans that do not meet the ACA's high level of protections. The Urban Institute predicts that the combined impact of these changes will increase premiums for individuals by 18.3 percent on average in 2019.[1]

The overall effect of the GOP efforts to sabotage the ACA is to stratify the individual market. Young people who do not anticipate significant medical expenses will opt out of purchasing insurance or buy cheap coverage that does not cover much. Those who have preexisting conditions or anticipate needing healthcare will buy coverage through the exchanges. Since they will be disproportionately older and sicker, their premiums will rise.

Hit hardest by the GOP assault on the ACA marketplace will be the very people President Trump promised to help: working, middle-class Americans. Roughly 11.8 million people buy coverage on the individual market, and, while many of them are eligible for tax credits and cost sharing discounts, 17 percent are not. Those 2 million people could be priced out of health coverage altogether.[2] Low-income people who purchase coverage through the exchanges will continue to receive discounts and subsidies, but middle-income households will get no support and be forced to either pay soaring premiums or go without coverage.[3]

> Roughly 11.8 million people buy coverage on the individual market, and, while many of them are eligible for tax credits and cost sharing discounts, 17 percent are not.

It's beginning to dawn on some Republicans that they have a major political problem on their hands. Some GOP Congressional leaders have joined Democrats in crafting bipartisan legislation to stabilize the individual market. For example, Sens. Lamar Alexander (R-Tenn.) and Patty Murray (D-Wa.) joined forces on a bill that would fund payments that help keep out-of-pocket expenses down for those below 200 percent of the federal poverty level. Sens. Susan Collins (R-Me) and Bill Nelson (D-Fla) offered a bill to offset the costs of exceptionally high-cost claims and bring down costs for all. Neither bill drew sufficient Republican support to advance.

In short, Congressional Republicans have blocked bipartisan attempts to shore up the ACA's individual healthcare marketplace. In political terms, that means Republicans now "own" soaring health insurance premiums – and have handed their political opponents a potent weapon in this fall's midterm elections.

Approaching the midterm elections, American voters say they're focused on healthcare more than any other issue, according to a HuffPost/YouGov poll.[4] With healthcare costs on voters' minds, in addition to reminding voters that Republicans are responsible for rising premiums, progressives should offer concrete ideas for action immediately after the election to stabilize the individual marketplace. As Senate Majority Leader Mitch McConnell (R-Ky.) announced that August recess would be cancelled – likely an effort to limit campaign time for vulnerable Democratic senators – Minority Leader Chuck Schumer (D-NY) said that Democrats would focus on healthcare. He said they would bring forward proposals that could bring down costs – and we think one of those should be a robust reinsurance program.

We believe that creating a permanent reinsurance program – essentially the Collins-Nelson approach – is the best short-term fix. In the absence of an individual mandate, it will put downward pressure on insurance premiums for middle-income families, attracting more people to the individual market and mitigating market stratification.

RISING COSTS ARE HURTING CONSUMERS

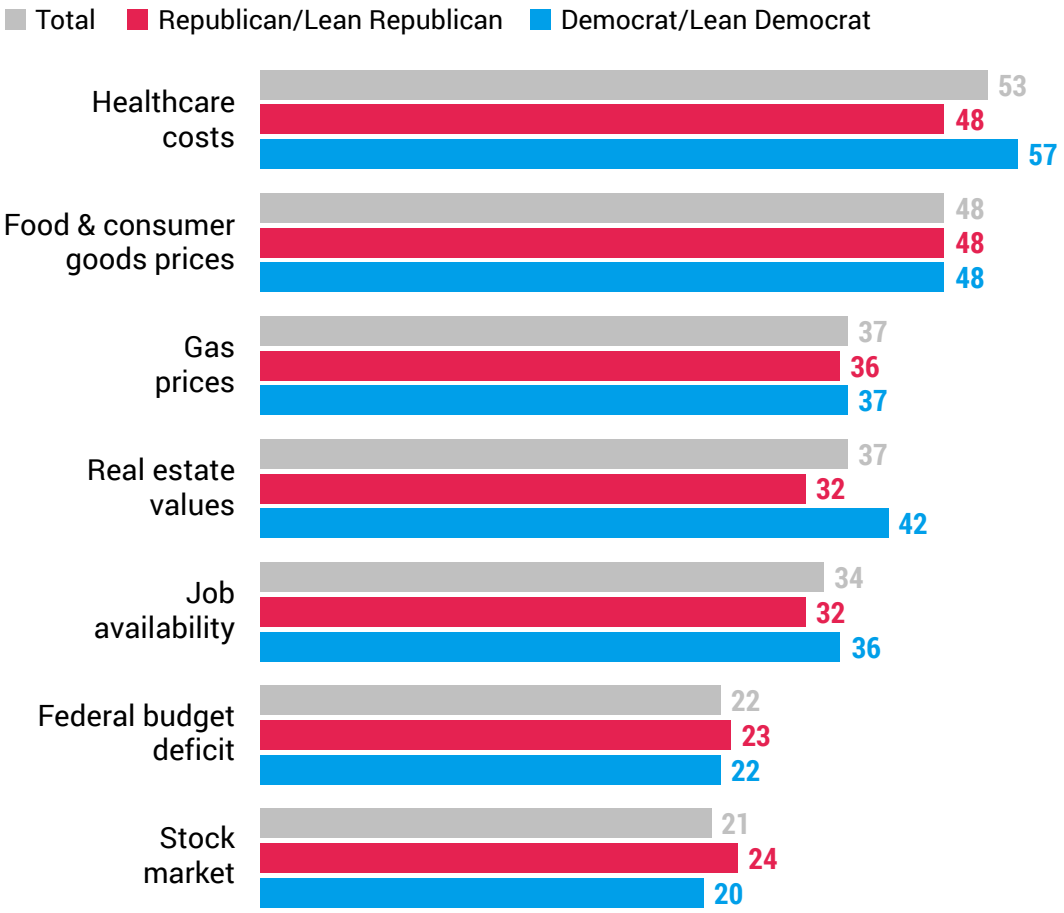
Healthcare costs are rising for those in both the individual and group markets. Though it is hard to directly compare the data in the individual market to the group market, it is clear the trends are the same. In the individual market, premiums increased 17 percent on average from the third quarter of 2016 to the third quarter of 2017.[5]

> In the individual market, premiums increased 17 percent on average from the third quarter of 2016 to the third quarter of 2017.

A survey from the Pew Charitable Trusts found that American consumers think the cost of healthcare affects their household finances more than the stock market, the job market, or anything else. It was the only factor where more than 50 percent of those surveyed said it affected their budgets "a lot."[6]

FIGURE 1: Percent who say each affects their household's financial situation "a lot"

In both parties, more see bigger financial impact from healthcare and food costs than from the stock market.



Source: Survey of U.S. adults conducted March 2-14, 2018, Pew Research Center

Many consumers in the individual market receive subsidies to help cover the costs of their premiums. That includes households making less than 400 percent of the federal poverty level and those who make less than 200 percent, who get subsidies for out-of-pocket costs. Households above 400 percent of poverty ($48,240 for an individual or $98,400 for a family of four) get no premium subsidies. In fact, these middle-income families are the *only* group that does not receive government assistance for their healthcare coverage. Those who receive employer-sponsored coverage essentially receive subsidized coverage because the government does not tax employer contributions. This results in a subsidy that covers roughly one-third of premium costs, in addition to the employer's contribution. Low-income people either qualify for Medicaid or can receive premium subsidies on the exchanges, and seniors receive coverage through Medicare.

The so-called "gig" economy – independent contractors and freelancers who use technology to connect to their customers – accounts for an increasing share of the workforce. However, if they make over $48,240 (or $98,400 for a family of four), they do not receive any assistance to purchase health insurance coverage. Progressives should be speaking to this group of people and looking for ways to make sure they can afford health insurance. For the 2018 plan coverage year, roughly 11.8 million people selected plans through the exchanges during the open enrollment period.[7] Though the administration has repealed the individual mandate beginning in 2019, as long as the gig economy continues to grow, it is likely that more people will need coverage through the individual market.

For the 2018 plan coverage year, roughly 11.8 million people selected plans through the exchanges during the open enrollment period.

Furthermore, Trumpcare will uniquely hurt this population. Repealing the individual mandate and allowing for the sale of association health plans (AHPs) and short-term health plans will stratify the individual market into two groups: those who need robust health coverage and the protections the ACA provides, and those who do not. This will drive up costs on the exchange – and those who aren't eligible for premium subsidies will bear the full brunt of those costs.

Ironically, these are the very people President Trump claims to be helping: working-class people who generally lack college degrees. Trump won 50 percent of the vote of people who made between $50,000 and $99,999, while Hillary Clinton received only 46 percent.[8] Progressives need to drive home to these voters why their premiums are set to rise – namely, Republican efforts to sabotage the ACA exchanges will increase premiums by 15 percent on average according to the Congressional Budget Office (CBO) — and propose concrete actions to stabilize the individual market and keep health coverage within reach.[9]

HOW WE GOT HERE

Throughout his first year in office, President Trump and the GOP-controlled Congress sought to repeal ACA. When their efforts failed to attract enough Republican votes to pass they looked for other ways to undermine the law:

- The Trump administration announced it would no longer reimburse plans for cost sharing reduction (CSR) payments — payments from the federal government to

insurers to cover the cost of required out-of-pocket discounts to people with incomes below 200 percent of the federal poverty level

- The administration announced it would extend the use of short-term and association health plans that don't meet ACA benefit requirements
- Congress repealed the individual mandate penalty beginning in 2019

When the administration announced it would no longer reimburse plans for CSR discounts, health plans increased premiums to cover the cost of those discounts. While low-income households benefitted from the continuation of the discounts, they mean higher premiums for middle-income families.

Extending the use of short-term health plans that do not have to meet many ACA requirements, such as medical loss ratio rules, will drive up costs for those who need comprehensive coverage. Short-term insurance policies tend to have very low loss ratios, often 55-60 percent, in contrast to the 80 percent required by the ACA.[10] That means almost as much of the premium people pay goes to overhead and profit as goes to paying for healthcare for members. While this may make the premiums cheaper for certain people, these plans will not benefit people who need healthcare coverage for large expenses. Therefore, only healthy people – less likely (though good health is no guarantee) to use the benefits will purchase these plans – leaving only people who need comprehensive coverage in the exchange pool.

AHPs allow similar types of businesses or businesses in a similar geography to form together to buy their employees coverage without meeting many ACA regulations. This could lead to further market stratification by enticing healthier individuals from the traditional individual and small group markets with lower premiums and skimpier benefits.

These changes, compounded with the repeal of the individual mandate penalty, have the potential to send premiums skyrocketing. The Urban Institute predicts average premiums in the ACA-compliant individual insurance market would increase 18 percent in states that do not have laws to limit the use of short-term or AHP plans.[11] However, the impact varies across states. For example, Massachusetts has its own individual mandate that protects its individual market from these changes. Alaska and Minnesota have reinsurance programs that keep estimated premium increases down to 8.5 and 11.1 percent, respectively. Other states, like Rhode Island, West Virginia and Wisconsin, could see premium increases of 21 percent or more.

Minnesota
The Minnesotan individual market faced premium increases of 50 percent or more in 2017. To limit the growth, the Republican-led legislature approved a reinsurance program. As a result of that program, prices for the coming year will hold steady as four of the five insurers selling individual policies in Minnesota posted decreases ranging from 7 to 12 percent.[12]

BIPARTISAN PACKAGES: ALEXANDER-MURRAY AND COLLINS-NELSON

Senators Lamar Alexander and Patty Murray, leaders of the Senate Health Education Labor and Pensions (HELP) Committee, introduced a

bipartisan deal in October of last year. Initially it was intended to shore up the individual market for the 2018 plan year; however, it failed to pass. The proposal focused on restoring CSR payments to insurers. The Trump administration ended CSR payments weeks before the 2018 open enrollment period began. This package would allocate funding for three years to be made to insurers. Nearly 6 million were eligible for these reductions for their out-of-pocket costs in 2017.

> The Trump administration ended CSR payments weeks before the 2018 open enrollment period began.

Separately, Senators Susan Collins and Bill Nelson unveiled a bill that would have provided $4.5 billion in federal reinsurance funding to help lower insurance premiums by compensating insurers for their costliest patients. With all the recent changes to the individual market, a reinsurance program is likely a better path forward. However, to reduce premiums in the individual market, it would need much more funding. More recently, the Senators have circulated drafts that include up to $30 billion over three years for reinsurance. This amount is close to what is needed to make a difference in consumers' out-of-pocket costs.

Progressives should focus less on restoring CSRs and more on funding a permanent reinsurance program that can reduce premiums for all consumers – bringing relief to those who are ineligible for subsidies.

CONGRESS FAILS TO ACT

Earlier this year, the Collins-Nelson bill, including $30 billion over three years for a reinsurance program, failed to gain traction in the Senate and was not included in the 2018 fiscal year budget bill.[13] That was unfortunate, because reinsurance is generally not a controversial or partisan idea. In fact, it's already a key component of both Medicare Advantage and Part D.

Nonetheless, The White House Office of Management and Budget (OMB) pushed back against the bipartisan reinsurance plan. Instead, it called on Congress to fund the Cost Sharing Reduction (CSR) payments. The agency said it would lower premiums by 15-20 percent and be more cost-effective than a reinsurance program.[14]

However, the ACA does not need CSR payments to survive. Insurers can raise premiums to cover the cost of the discounts. Reinsurance, however, is needed to protect those who do not receive subsidies on the individual market. As premiums have increased, so have the subsidies available to those under 400 percent of the federal poverty level (as it is pinned to the cost of silver plans); however, consumers who don't qualify for financial assistance have borne the full weight of those increases.

Abortion

The most recent effort to pass a stabilization package fell apart over disagreements in abortion policy. The ACA requires individual market plans covering abortion to separate private premiums from federal funding, so that federal subsidies don't go toward funding abortion. Republicans insisted on adding "Hyde Amendment" language to the bill to ban coverage of abortion on the individual market entirely. Democrats refused to go along with the ban, and funding was not included in the Omnibus budget package.

REINSURANCE

Last year we heard the story about how a single hemophilia patient in Iowa, whose treatment cost over $1 million a month, prompted all insurance companies in the state to initially back out of the individual market. While the truth is more complicated, it is true that even one extreme case can cause premiums to skyrocket.[15]

The first three years of the ACA included a temporary reinsurance program. It provided funding to plans that paid for the higher-cost individuals. Funding came from fees assessed on plans both on and off the exchanges. The reinsurance program operated from 2014-2016 even though, in other programs, such as Medicare Part D, it is permanent.

Medicare Part D Prescription Drug Program reinsurance

Medicare uses a permanent reinsurance program to encourage drug companies to sell prescription drug plans to seniors under Medicare's Part D program. For enrollees with very high drug spending, Medicare covers 80 percent of spending above Part D's catastrophic threshold (roughly $8,000 in total drug spending in 2018). Republicans championed Medicare Part D and included this provision to make sure insurers would be protected from high-cost patients. Progressives should remind them that reinsurance supports the market and encourages competition. Greater participation in the individual market can help bring down costs in the long run by fostering competition and innovation.[16]

Progressives should push for a broad and permanent risk adjustment program to help reduce premiums in the individual market – particularly for those who do not qualify for subsidies. Like the Medicare Part D program, it would have permanent funding for costs incurred above a certain threshold.

Funding

A general rule of thumb is that a reinsurance program in the individual market needs roughly $10 billion annually to bring premiums down roughly 10 percent. The program could be structured a number of ways. Funding could be provided through a combination of an assessment on plans and discretionary funding. Additionally, reducing premiums limits the amount the federal government spends on premium subsidies. The Congressional Budget Office projected that about 60 percent of the costs of a reinsurance program funded entirely by the federal government would be offset by savings – mainly premium subsidy reductions.[17] However, this could be even less if the program was partially funded by an assessment.

Alaska

After 40 percent premium increases (year over year) in 2014 and 2015, the Alaska legislature passed a reinsurance bill to help stabilize the market. The 2016 statute allocated $55 million of the $64 million collected (for 2015) through an existing 2.7 percent premium tax on Alaskan insurers to subsidize high cost claims. It led to a smaller premium hike in 2017 and a decrease in premiums of more than

20 percent in 2018.[18] Additionally, the legislation authorized the Alaskan Division of Insurance to apply for a waiver to garner federal funds for the program. The waiver outlined how the federal government would generate savings from reduced ACA premium tax credits if they helped fund the reinsurance program. The federal government recently announced it would give Alaska $58.5 million for 2018, and $322.6 over five years. The funding will bring down premium costs for those 18,000 Alaskans who purchase insurance in the individual market.[19]

In the individual market, each $1 billion spent on reinsurance can bring down premiums by roughly 1 percent: Here is how the math works:
If an insurer has 100,000 members who pay $500 a month, its total revenue is $500 million. As we know, the most expensive 1 percent account for the majority of the costs. So, if 1,000 of those members account for 30 percent of claims costs, they use $150 million of the $500 million, or $150,000 each. If the federal government funded a reinsurance program, it would cover some of those costs. For simplicity's sake, say the government pays for 90 percent of costs for claims above $50,000 per patient per year, $90,000 per patient or $90 million total. This means the federal government absorbs 18 percent of the total $500 million budget. But, because the ACA requires insurers to spend 80 percent of premiums on healthcare costs, they would then drop the cost of premiums or return the additional amount to members. However, the cost to the federal government is actually less than $90 million. If premiums drop 18 percent, it reduces the amount the federal government pays in subsidies.

The original ACA reinsurance program was funded entirely through an assessment on the enrollees of all plans. In 2014, the program collected only about $9.7 billion – less than its $10 billion goal. However, the funding covered reinsurance for all claims exceeding $45,000 up to $250,000 at 100 percent, with $1.7 billion left over. It's reasonable to assume that a program funded partly through an assessment – and that lowers the cost of federal premium subsidies – will not need additional funding from the federal government. In Part D, the reinsurance program is structured a little differently. The reinsurance program kicks in after drug spending for an individual patient passes a "catastrophic" level. After that threshold, the federal government pays 80 percent of costs, plans pay 15 percent and patients pay 5 percent.

TABLE 1: Proposed reinsurance program funding structure

FEDERAL GOVERNMENT CONTRIBUTION	COVERAGE	FUNDING
50 percent	Claims between $50,000 and $250,000	$50 Per-member per-month assessments on all individual, group and self-insured enrollees
100 percent	Claims over $250,000	From federal funding

CONCLUSION

Even without the premium spikes caused by the Trump/GOP attempt to sabotage the ACA, healthcare continues to cost too much. Until we decide how to transition away from the fee-for-service payment system, rising healthcare costs will continue to plague consumers – particularly those in the individual and small group markets. Using reinsurance to lower their premiums is a crucial stopgap while our leaders summon the will and courage to adopt structural remedies to America's high healthcare costs. Without immediate action, many middle-class Americans will not be able to afford meaningful healthcare coverage. They either will be forced to forgo treatment or pile up big debts to hold onto expensive health plans. That's why progressives should make a generous reinsurance plan a centerpiece of their midterm campaign agenda.

References

1 Blumberg, Linda J., et al. "The Potential Impact of Short-Term Limited-Duration Policies on Insurance Coverage, Premiums, and Federal Spending." 2018, Urban Institute, www.urban.org/research/publication/updated-potential-impact-short-term-limited-duration-policies-insurance-coverage-premiums-and-federal-spending.

2 "Health insurance exchanges 2018 open enrollment period final report," CMS.gov Centers for Medicare & Medicaid Services, 3 Apr. 2018, www.cms.gov/Newsroom/MediaReleaseDatabase/Fact-sheets/2018-Fact-sheets-items/2018-04-03.html.

3 "Poverty Guidelines." ASPE, 12 Jan. 2018, aspe.hhs.gov/poverty-guidelines.

4 YouGov, HuffPost poll: Midterm elections, March 23-26, 2018 – 1000 U.S. Adults

5 Cynthia Cox, et al. The Henry J. Kaiser Family Foundation. 2018, The Henry J. Kaiser Family Foundation, www.kff.org/health-reform/issue-brief/individual-insurance-market-performance-in-late-2017/.

6 Jones, Bradley. "Positive Views of Economy Surge, Driven by Major Shifts Among Republicans." Pew Research Center for the People and the Press, 22 Mar. 2018, www.people-press.org/2018/03/22/positive-views-of-economy-surge-driven-by-major-shifts-among-republicans/.

7 "Health insurance exchanges 2018 open enrollment period final report," CMS.gov Centers for Medicare & Medicaid Services, 3 Apr. 2018, www.cms.gov/Newsroom/MediaReleaseDatabase/Fact-sheets/2018-Fact-sheets-items/2018-04-03.html.

8 Huang, Produced Jon, et al. "Election 2016: Exit Polls." The New York Times, www.nytimes.com/interactive/2016/11/08/us/politics/election-exit-polls.html.

9 Federal Subsidies for Health Insurance Coverage for People Under Age 65: 2018 to 2028 May 23, 2018

10 Everest Reinsurance Company, Group Short Term Health Insurance, Actuarial Memorandum, Indiana, Effective December 1, 2015.

11 Blumberg, Linda J., et al. "The Potential Impact of Short-Term Limited-Duration Policies on Insurance Coverage, Premiums, and Federal Spending." 2018, Urban Institute, www.urban.org/research/publication/updated-potential-impact-short-term-limited-duration-policies-insurance-coverage-premiums-and-federal-spending.

12 Christopher Snowbeck, "Minnesota health insurers propose lower premiums," Star Tribune, June 15, 2018.

13 Luthi, Susannah. "CSRs, Reinsurance Face Abortion Language Hurdle." Modern Healthcare, 15 Mar. 2018, www.modernhealthcare.com/article/20180315/NEWS/180319933.

14 Owens, Caitlin, and Jonathan Swan. "OMB: Funding Insurer Subsidies Will Lower ACA Premiums 15-20%." Axios, 5 Mar. 2018, www.axios.com/white-house-aca-subsidies-lower-premiums-1520352713-cf2b15f9-9d5e-4e1b-b736-23cfc15cef67.html.

15 Leys, Tony. "Iowa Teen's $1 Million-per-Month Illness Is No Longer a Secret." Des Moines Register, Des Moines Register, 31 May 2017, www.desmoinesregister.com/story/news/health/2017/05/31/hemophilia-patient-costing-iowa-insurer-1-million-per-month/356179001/.

16 Medicare Payment Advisory Commission June 2015 Report to Congress, Chapter 6, Sharing risk in Medicare Part D

17 Congressional Budget Office Cost Estimate, Bipartisan Healthcare Stabilization Act of 2018
As provided to CBO on March 19, 2018 (version TAM18347), March 19, 2018.

18 Jost, Tim. "Alaska Reinsurance Plan Could Be Model For ACA Reform, Plus Other ACA Developments." Health Affairs, 16 June 2016, www.healthaffairs.org/do/10.1377/hblog20160616.055420/full/.

19 "Federal Government to Distribute $58 Million to Alaska Reinsurance Program in 2018." State of Reform, 12 Feb. 2018, stateofreform.com/featured/2018/02/federal-government-distribute-58-million-alaska-reinsurance-program-2018/.

ppi

The Progressive Policy Institute is a catalyst for policy innovation and political reform based in Washington, D.C. Its mission is to create radically pragmatic ideas for moving America beyond ideological and partisan deadlock.

Founded in 1989, PPI started as the intellectual home of the New Democrats and earned a reputation as President Bill Clinton's "idea mill." Many of its mold-breaking ideas have been translated into public policy and law and have influenced international efforts to modernize progressive politics.

Today, PPI is developing fresh proposals for stimulating U.S. economic innovation and growth; equipping all Americans with the skills and assets that social mobility in the knowledge economy requires; modernizing an overly bureaucratic and centralized public sector; and defending liberal democracy in a dangerous world.

Progressive Policy Institute
1200 New Hampshire Ave NW,
Suite 575
Washington, DC 20036

Tel 202.525.3926
Fax 202.525.3941

info@ppionline.org
progressivepolicy.org