



Potential Impacts of Graham-Cassidy-Heller-Johnson on Californians and the Individual Health Insurance Market

by John Bertko and Wesley Yin, Ph.D.

Introduction

The proposed amendment to the American Health Care Act of 2017, sponsored by Senators Graham, Cassidy, Heller and Johnson (commonly referred to as the Graham-Cassidy plan) and released on September 13, would represent an extraordinary and fundamental change both to the financial support and partnership that has expanded coverage through Affordable Care Act, and the 50 year partnership between states and the federal government in how low-income consumers' health coverage needs are met through the Medicaid program (Medi-Cal in California).

California has a history of seeking to assure low-income residents have access to coverage through its Medi-Cal program. The state has also been on the forefront nationally of efforts to regulate the individual insurance market and assure consumers have adequate protections in place. In the past five years, the state used the tools provided by the Affordable Care Act (ACA) to substantially expand enrollment in Medi-Cal and expand coverage by providing subsidies and protections to those with pre-existing conditions in the individual market through its state-based marketplace, Covered California. As a result, millions of Californians have gained health care coverage. California's individual market is robust and competitive, and California has reduced its uninsured rate, from 17.2 percent in 2012 to a historic low of 7.1 percent by the end of 2016.¹

The Graham-Cassidy plan would both substantially decrease the federal financial assistance to Californians who have benefited from the expansion of coverage under the Affordable Care Act, and it would also change the

Highlights:

- Graham-Cassidy's reduction in federal funding will result in the number of uninsured Californians increasing by one million in 2020, and over three million by 2026. This increase by 2026 would nearly return the uninsurance rate to pre-Affordable Care Act levels, sharply reversing the trend that saw the uninsurance rate reach historic lows under the ACA.
- In 2027, the loss of time-limited support in Graham-Cassidy would result in an additional 7.5 million uninsured, resulting in a total of over 10 million uninsured – or nearly one in four Californians under the age of 65 – far higher than the pre-ACA levels.
- If policy-makers marshal resources to protect low-income Californians in the state's Medicaid program from the funding reductions in Graham-Cassidy, the individual market would collapse as soon as 2021, where more than 2 million Californians currently receive coverage. Without a viable individual market, individuals with pre-existing conditions would be "protected" in name only and Californians with employer-based coverage would be locked into that coverage or face going without insurance.
- The impacts on Californians would be similar in most other states that, under Graham-Cassidy, would be provided inadequate resources to maintain viable individual markets and continue to provide financial support for low-income residents.

NOTE ON THE AUTHORS:

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long-standing structure under which the Medi-Cal program is a shared effort between the federal government and California. This report reflects Covered California's continued effort to examine health care reform proposals and their potential impact on our state.

Framework for Considering State Policy Options

The Graham-Cassidy plan provides great latitude to states in how or if they provide coverage support. It also gives states wide latitude with regard to the consumer protections that are currently part of the Affordable Care Act and protect consumers nationwide. While the scope and nature of the dramatic decrease in federal support for Californians and the residents of most other states is clear, the policies that a state would implement to minimize the negative impacts on consumers are left to each state.²

In the face of dramatic changes in federal support and changes in policy, each state would have five sets of actions it could consider to protect consumers and/or ameliorate the impact of funding reductions:

1. Decrease who is eligible for coverage/financial assistance;
2. Decrease the scope of benefits that are available to those covered;
3. Reduce payments to providers and/or health plans;
4. Provide significant additional state funding to make up for the decrease in federal support; or
5. Adopt state-level policies that seek to counter/off-set the changes in federal policy (such as implement a state-level penalty for non-coverage, or "individual mandate").

To model the potential impacts of Graham-Cassidy on Californians and provide a structure that could be used by other states, this report analyzes the potential impacts of two approaches:

- **Scenario 1 — Prioritize protections for lowest-income individuals in Medicaid:**

In the first scenario, federal and state resources are deployed first to protect lower income individuals. In this model, federal and state resources are used first to protect coverage for those on Medi-Cal, with any remaining funds being used to support financial assistance to those making over 138 percent of poverty and stabilizing the individual market.

- **Scenario 2 – Stabilize the individual market:**

Under the second scenario, resources are focused on first supporting individuals in the individual market and protecting the ability of unsubsidized individuals to purchase and keep insurance.

Under both models, the projections detail the impact on Californians as of 2026 and for 2027, modeling what would happen if the block-grant funding under Graham-Cassidy were not renewed. In the event that the block-grant were renewed, there would still be decreases in financial assistance due to the changes in the per-capita support for non-expansion Medi-Cal enrollees, but it would not be at the same level as projected in the two models.

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The modeling does not reflect additional impacts that would be highly likely to occur under either scenario, including:

- Large increases in uncompensated care costs for hospitals that would have the effect of raising employer-based health care costs;
- Substantial decreases in worker mobility as Californians stay in existing employment to protect insurance coverage (“job lock”);³
- Decreases in hospital revenue that would likely cause either some institutions to close or to significantly decrease hospital-based employment; and
- Decreases in future income tax revenues and public benefit program savings that would have accrued from higher lifetime wage earnings of children covered by Medicaid.⁴

Scenario 1. Protecting Low-Income Californians — Individual Market Meltdown by 2021

Based on the analysis done by the California Department of Health Care Services (DHCS), the Graham-Cassidy plan would result in California losing \$138.8 billion in federal funding between 2020 and 2027.⁵ The present analysis shows that if funds are marshaled to protect Medi-Cal enrollees first, then the reductions in federal funding would likely cause the collapse of California’s individual market by 2021, resulting in about 2 million Californians losing coverage as soon as 2021. By 2027, there would be 7.5 million more uninsured, due to additional loss of time-limited federal support.

Impact on the Individual Market

The Graham-Cassidy plan calls for dramatic changes in the two sources of financial assistance that help bring health care within reach for Californians: (1) support for individual market coverage, which includes the advanced premium tax credit (APTC) and the cost-sharing reductions (CSR); and (2) support for Medi-Cal. Covered California estimates that under current enrollment, the first of these two would require approximately \$6.9 billion in federal funding in 2020 and \$7.5 billion in 2021. Based on the DHCS analysis, Californians under Graham-Cassidy would be able to receive \$2.5 billion in federal financial help in the individual market in 2020 (leaving a \$4.4 billion shortfall) and \$838 million in 2021 (with a \$6.6 billion shortfall) and nothing thereafter.

The 77 percent cut in federal funding for 2020-2021 for the individual marketplace would force Covered California to reduce the number of consumers who could receive financial assistance. Currently 1.2 million Covered California consumers, who earn between 138 percent and 400 percent of the federal poverty level (FPL), receive some level of financial help that reduces their gross premium by an average of 70 percent per household. Under these proposed cuts, assuming Covered California used the remaining resources to limit the benefits to consumers based on their income level, only Californians who earn between 138 percent and 150 percent of the federal poverty level would receive financial help in 2020. In this scenario, we estimate that 780,000 Californians — or two-thirds of the subsidized market — would drop coverage due to loss of financial help. (See Table 1: Impact on Enrollment, Coverage and Insurance Premiums of Protecting Medi-Cal Beneficiaries First from Impacts of Graham-Cassidy plan).

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Table 1 Impact on Enrollment, Coverage and Insurance Premiums of Protecting Medi-Cal Beneficiaries First from Impacts of Graham-Cassidy plan					
		2020	2021	2026	2027
Baseline — Projections Under Current Law					
Medi-Cal	Non-Expansion	9,190,000	9,470,000	10,920,000	11,380,000
	Expansion	3,840,000	3,870,000	4,070,000	4,110,000
	Total Medi-Cal	13,030,000	13,340,000	14,990,000	15,490,000
Individual Market	On-Exchange	510,000	620,000	650,000	650,000
	Unsubsidized enrollees (on- and off-exchange)	850,000	850,000	850,000	850,000
	Total Individual Market	2,050,000	2,050,000	2,050,000	2,050,000
Projected Enrollment Under Graham-Cassidy					
Medi-Cal ⁶	Non-Expansion	9,190,000	9,470,000	10,920,000	11,380,000
	Expansion	3,840,000	3,870,000	2,700,000	—
	Total Medi-Cal	13,030,000	13,340,000	13,620,000	10,000,000
Individual Market	On-Exchange enrollees under 400% of FPL ⁷	420,000	130,000	0	0
	Unsubsidized (on- and off-Exchange)	340,000	230,000	0	0
	Total Market	760,000	130,000	0	0
Projected Change in Enrollment (or Premium) Under Graham-Cassidy Compared to Baseline					
Medi-Cal	Change in Enrollment	0	0	(1,370,000)	(5,480,000)
Individual Market	Change in Individual market premiums relative to 2019 ⁸	71% higher	100% higher if plans were to remain in the individual market	N/A	N/A
	Change in Enrollment	(1,480,000)	(2,050,000)	(2,050,000)	(2,050,000)
Change In Number of Uninsured		1,290,000	1,920,000	3,540,000	7,530,000
Uninsured rate ⁹	17.2% (2012) 7.1% (2016)	9.4%	10.2%	13.7%	24.0%

* Cells may not add due to rounding.

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California's aggressive efforts to implement the Affordable Care Act have led to the state's individual market having the healthiest consumer pool in the nation in both 2014 and 2015, and the second-healthiest in 2016. However, with nearly 800,000 fewer subsidy-eligible consumers enrolled in 2020, those who remained enrolled would primarily fall into one of two categories - those still eligible for financial assistance and those with chronic or other known health needs meaning they have major incentives to maintain coverage.

The analysis for this scenario estimates that the deterioration of the risk mix would drive premiums both on- and off-exchange 71 percent higher in 2020 due to the Single Risk Pool regulations that would continue with Graham-Cassidy (relative to what rates would have been under the ACA). This model makes the very conservative assumption that enrollment remains constant in 2019 and health plans continue to compete in the marketplace through 2020.

With the sharp increase in premiums, the number of insured unsubsidized consumers in California, both on- and off-exchange, would fall from 850,000 to 340,000. The combination of fewer Californians enrolled – in what would essentially be high-risk pools both on- and off-exchange without financial support for consumers – and higher premiums would lead to a market collapse. In the absence of funding to support consumer enrollment, we estimate that the state's individual market would collapse by the year 2021 in what is commonly referred to as a “death spiral.”

For 2021, the scenario estimates that health plans would be required to impose a premium increase of 100 percent (relative to what rates would have been under the ACA) to cover the costs of claims due the substantially worse risk mix. While the scenario modeled the premium increase and potential enrollment for 2021, given the rapidly deteriorating risk mix and uncertainties for health plans, it is highly unlikely any health plans would remain in the individual market in 2021 and the scenario finds no individual market in that year. In the absence of an individual market and resources to assist consumers, Covered California would close and some individuals would seek employer-based coverage (which is not reflected in the modeling), possibly dealing a blow to start-up firms in California. Under this scenario, protections of individuals with pre-existing conditions would be in name only, as there would be no coverage for anyone available in the individual market, and any plan offerings that existed before the total collapse market would be unaffordable to most Californians.

It is important to note that this analysis assumes that health insurance companies remain in the market until that time and do not exit any earlier despite the changing health care environment. It is conceivable that carriers may exit the market prior to 2020 in an effort to avoid risk and exposure to an uncertain market.

Impact on Medi-Cal Enrollment

While this scenario projects the impact of funding reductions being felt first by those receiving tax credits through Covered California to make care affordable and relatively higher income Californians in the individual market, effective 2022 the resources available to maintain Medi-Cal enrollment would start decreasing — with a rapid decline in the amount of resources available. Assuming that benefits are held constant, this model finds that by 2026 there would be 1.4 million fewer Medi-Cal beneficiaries, and that number would grow to 4.1 million in 2027 if there is not subsequent federal action to extend the block grant mechanism adopted by Graham-Cassidy.

In total, this analysis finds that the Graham-Cassidy plan would increase California's uninsured by 7.5 million by 2027, which is far greater than the total of Californians who have gained coverage through the passage of the Affordable Care Act, and could leave California with an uninsured rate of 24 percent — almost one-in-four Californians.

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Scenario 2. Protecting the Individual Market at the Expense of Lower Income Californians

Covered California's analysis shows that if funds are marshalled to protect the individual market, by providing subsidies at the current level, the reductions in funding would largely maintain the individual market through 2026, but lead to large reductions in coverage in the Medi-Cal program. In the event there is not new funding for the block grants effective 2027, there would be no resources available for subsidies in the individual market, leading to market collapse, and substantial decreases in Medi-Cal enrollment, with 7.5 million more uninsured. (See Table 2: Impact on Enrollment, Coverage and Insurance Premiums of Protecting the Individual Market First from Impacts of Graham-Cassidy Plan].

Impact on the Individual Market

In addition to the large decreases in financial support for those in the individual market, the Graham-Cassidy plan calls for an elimination of the penalty for not maintaining individual insurance coverage for those for whom coverage is deemed "affordable." Graham-Cassidy calls for an immediate removal of the penalty effective 2016. For the purpose of this modelling, the scenario builds in a premium increase of 17.5 percent in 2020 to reflect the worse risk mix and a drop of unsubsidized enrollment of 160,000 (reducing the baseline unsubsidized enrollment from 850,000 to 690,000). These assumptions are conservative as the impact of penalty elimination would likely impact enrollment in 2018 and 2019, as well as impact premiums in 2019.

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Table 2 Impact on Enrollment, Coverage and Insurance Premiums of Protecting the Individual Market First from Impacts of Graham-Cassidy Plan*					
		2020	2021	2026	2027
Baseline — Projections Under Current Law					
Medi-Cal	Non-Expansion	9,190,000	9,470,000	10,920,000	11,380,000
	Expansion	3,840,000	3,870,000	4,070,000	4,110,000
	Total Medi-Cal	13,030,000	13,340,000	14,990,000	15,490,000
Individual Market	On-Exchange Subsidized enrollees	1,200,000	1,200,000	1,200,000	1,200,000
	Unsubsidized enrollees (on- and off-exchange)	850,000	850,000	850,000	850,000
	Total Individual Market	2,050,000	2,050,000	2,050,000	2,050,000
Projected Enrollment Under Graham-Cassidy					
Medi-Cal ¹⁰	Non-Expansion	9,190,000	9,470,000	10,920,000	10,004,907
	Expansion	2,940,000	2,630,000	1,060,000	0
	Total Medi-Cal	12,130,000	12,100,000	11,980,000	10,000,000
Individual Market	On-Exchange enrollees under 400% of FPL	1,200,000	1,200,000	1,200,000	0
	Unsubsidized (on- and off-Exchange)	690,000	690,000	690,000	0
	Total Market	1,890,000	1,890,000	1,890,000	0
Projected Change in Enrollment (or Premium) Under Graham-Cassidy Compared to Baseline					
Medi-Cal	Change in Enrollment	(900,000)	(1,240,000)	(2,890,000)	(5,480,000)
Individual Market	Individual market premiums relative to 2019	17.5% higher	7% higher due to medical trend	7% higher due to medical trend	N/A
	Change in Enrollment	(160,000)	(160,000)	(160,000)	(2,050,000)
Change in number of uninsured		1,070,000	1,400,000	3,050,000	7,530,000
Uninsured rate ¹¹	17.2% (2012) 7.1% (2016)	10.0%	11.5%	14.9%	24.0%

* Cells may not add due to rounding.

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Since under this model, with the subsidies of Californians making from 138 percent to 400 percent of the federal poverty level protected – this scenario projects that there would continue to be a robust individual market through 2026. This scenario assumes that Covered California continues its marketing and outreach efforts to foster a continued positive risk mix. In 2027, however, in the absence of new federal funding to replace the time-limited block grant, the scenario projects the collapse of the individual market in the absence of financial assistance to support the enrollment of a balanced risk mix.

Impact on Medi-Cal Enrollment

Under a scenario in which resources are used first to assure that the individual market remains viable, it would need to protect \$6.9 billion in federal funding in 2020 and that amount would grow to \$11 billion by 2026, and \$11.8 billion by 2027. If federal funding were used first for this purpose, the individual market could be stabilized through 2026, but at the direct expense of lowering financial support for Californians receiving coverage under the Medi-Cal program.

Based on our analysis, an estimated 900,000 fewer Californians would be supported by Medi-Cal in 2020, and that number would grow to more than 2.8 million in 2026. Very similar to the first scenario, this analysis finds that by 2027 the Graham-Cassidy plan would increase California’s uninsured by 7.5 million—almost one-in-four Californians—far greater than the rate of uninsurance prior to the passage of the ACA.

Conclusion

The Graham-Cassidy plan represents a dramatic change in the nature of the federal-state partnership and a reduction in support for insurance coverage that would directly impact millions of Californians that would destabilize the state’s individual market.

The combination of sicker risk mix and higher premiums, coupled with the elimination of the individual mandate and the significant financial cuts to Medi-Cal, would lead to a dramatic increase in the number of Californians who would be uninsured. Under one scenario the individual market will collapse in short order, likely as soon as 2021. However, under virtually any scenario there are not the resources required to sustain a viable individual market AND protect low income Californians. With likely funding reductions in 2027 under the Graham-Cassidy plan, the days of a viable individual market are numbered under any implementation approach.

This analysis does not model potential impacts on employer-based coverage in California. Some of the impacts that would both require complex modeling and would be very difficult to quantify include:

- Increases in premiums in the employer market resulting from large increases in uncompensated care in hospitals;
- Increase in uninsured and uncompensated care due to a drop in employer-based offers of coverage or scope of benefits for smaller employers that are required to offer coverage that meets national standards under the ACA;
- Reduction in options for employer coverage with the likely closure of Covered California for Small Business; and
- Uncertain impacts of offer and benefits as employers face pressures of employees seeking to remain employed to keep insurance coverage or pre-Medicare benefits for early-retirees.

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While under Graham-Cassidy states would be given “significant latitude” over how dollars are used to best take care of unique health needs of its residents, the large decreases in federal support mean that virtually every states would be given a Hobson’s choice — protect enrollment in Medicaid for their most vulnerable patients, but allow the individual market to collapse for those who buy their own insurance; or support a successful marketplace, but greatly reduce the health care coverage for those who become sick and can least afford care.

- ¹ National Health Interview Survey estimates for Californians of all ages. See Cohen and Martinez (2013). “Health Insurance Coverage: Early Release of Estimates From the National Health Interview Survey, 2012,” Centers for Disease Control and Prevention’s (CDC) National Center for Health Statistics (June 2013): <https://www.cdc.gov/nchs/data/nhis/earlyrelease/insur201306.pdf>; and Cohen, Zammitti, and Martinez (2013). “Health Insurance Coverage: Early Release of Estimates From the National Health Interview Survey, 2016,” Centers for Disease Control and Prevention’s (CDC) National Center for Health Statistics (May 2017): <https://www.cdc.gov/nchs/data/nhis/earlyrelease/insur201705.pdf>.
- ² Carpenter and Sloan (2017). “Graham-Cassidy-Heller-Johnson Bill Would Reduce Federal Funding to States by \$215 Billion,” Avalere (Sept. 20, 2017): <http://avalere.com/expertise/managed-care/insights/graham-cassidy-heller-johnson-bill-would-reduce-federal-funding-to-sta>; and Kaiser Family Foundation (2017). “Graham-Cassidy-Heller-Johnson Plan to Replace ACA Funding With a New Block Grant and Cap Medicaid Would Decrease Federal Funding for States by \$160 Billion from 2020-2026; Then a \$240 Billion Loss in 2027 if the Law is Not Reauthorized,” (Sept 21, 2017): <http://www.kff.org/health-reform/press-release/graham-cassidy-heller-johnson-plan-to-replace-aca-funding-with-a-new-block-grant-and-cap-medicaid-would-decrease-federal-funding-for-states-by-160-billion-from-2020-2026-then-a-240-billion-loss-in/>; and Boozang, Grady, Guyer (2017). “Impacts of New Graham-Cassidy Repeal and Replace Proposal,” Manatt analysis for Robert Wood Johnson Foundation (Sept. 21, 2017): <https://www.manatt.com/insights/white-papers/2017/impacts-of-new-graham-cassidy-repeal-and-replace-proposal>.
- ³ Dean Baker (2015). “Job Lock and Employer-Provided Health Insurance: Evidence from the Literature,” AARP Public Policy Institute (March 2015): <http://www.aarp.org/content/dam/aarp/ppi/2015-03/JobLock-Report.pdf>.
- ⁴ Brown, Kowalski and Lurie (2015). “Medicaid as an Investment in Children: What is the Long-Term Impact on Tax Receipts?” NBER Working Paper No. 20835: <https://www.nber.org/papers/w20835>.
- ⁵ California Department of Health Care Services (2017). “Summary and Preliminary Fiscal Analysis of the Combined Medicaid and Health Benefit Exchange Provisions in the Graham-Cassidy-Heller-Johnson Amendment” (memo dated Sept. 21, 2017): http://www.dhcs.ca.gov/Documents/Graham_Cassidy_Impact_Memo_DHCS_092217.pdf.
- ⁶ Notes on the Medi-Cal estimate: For purposes of this analysis, enrollment is calculated by dividing dollars available by average cost per beneficiary. While this provides a rough estimate of enrollment that could be supported under the Graham Cassidy plan, in practice California would have to make changes to eligibility rules in order to operate within the funding reductions which would change the enrollment projections. Non-expansion refers to populations subject to the per capita cap. There is a funding shortfall in 2026–27 for non-expansion population.
- ⁷ Individual market enrollment figures for 2021 project what enrollment likely would have been if health plans were willing to participate in the individual market. However, given the high uncertainty for 2021 and subsequent years with only 130,000 consumers eligible for subsidy this model assumes health plans exit the market.
- ⁸ Projected premium increase for 2021 is for what health plans would need to charge given risk mix of the population. However, given the high uncertainty for 2021 and subsequent years with only 130,000 consumers eligible for subsidy this model assumes health plans exit the market.
- ⁹ Uninsured estimate combines the change in uninsured due to Graham Cassidy plus estimate of existing baseline uninsured population using National Health Interview Survey estimate of uninsured population under 65 in California in 2016 as applied to state population, divided by entire projected population under 65 for years 2020-2027 (using projections developed by the California Department of Finance for the population under 65: <http://www.dof.ca.gov/Forecasting/Demographics/projections/>).
- ¹⁰ Notes on the Medi-Cal estimate: For purposes of this analysis, enrollment is calculated by dividing dollars available by average cost per beneficiary. While this provides a rough estimate of enrollment that could be supported under the Graham Cassidy plan, in practice California would have to make changes to eligibility rules in order to operate within the funding reductions which would change the enrollment projections. Non-expansion refers to populations subject to the per capita cap.
- ¹¹ Uninsured estimate combines the change in uninsured due to Graham Cassidy plus estimate of existing baseline uninsured population using National Health Interview Survey estimate of uninsured population under 65 in California in 2016 as applied to state population, divided by entire projected population under 65 for years 2020-2027 (using projections developed by the California Department of Finance for the population under 65: <http://www.dof.ca.gov/Forecasting/Demographics/projections/>).

About Covered California

Covered California is an independent part of the state government whose job is to make the health insurance marketplace work for California’s consumers. It is overseen by a five-member board appointed by the governor and the Legislature. For more information about Covered California, please visit CoveredCA.com.