Evaluating the Potential Consequences of Terminating Direct Federal Cost-Sharing Reduction (CSR) Funding

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EXECUTIVE SUMMARY

This study modeled the effects of an increase in premiums that would result if the federal CSR subsidy were defunded and health plans had the opportunity to build the costs of such subsidies into their rates. Based on actuarial value calculations, we calculate the required premium adjustment to be a 16.6% increase in the gross premiums across all Silver plans. We then modeled how consumer choice of plans responds to the premium adjustment, and report the resulting changes in enrollment, metal tier market shares, gross and net premiums and Advanced Premium Tax Credit (APTC), in both the exchange and off-exchange markets.

We find that loading the value of the CSR onto the premiums of Silver plans results in a significant increase in federal funding for consumers' APTC. This results in the net premiums of Silver plans on the exchange remaining constant, and a *decrease* in the net premiums of Bronze, Gold and Platinum plans. In response, consumers substitute away from Silver to Bronze plans (and to a lesser extent, Gold and Platinum plans). At the same time, the lower net premiums in these tiers induce an increase in subsidized exchange coverage by 1.4% (about 20,000 covered lives). In the unsubsidized off-exchange market, the increase in Silver premiums induces a decline in coverage by less than 1% (about 6,000 covered lives). In aggregate, if this premium adjustment policy were to have been applied in 2016, there would have been an increase in the total market APTC by $976 million/year, significantly greater than the approximately $750 million in CSR subsidies now directly paid by the federal government.

Summary of Findings:

- Eliminating direct federal funding for cost-sharing reductions for health plan enrollees would raise premiums by 16.6% in 2018 for Silver plan consumers.
- Modeling suggests consumers who benefit from subsidies would shift to non-Silver plans.
- Overall, the federal premium subsidy funding for enrollees would rise by an amount significantly above the current cost-sharing reduction funding.
- Enrollment in Covered California would rise slightly, while enrollment off-exchange would decrease slightly, increasing the federal cost by approximately 29% for the same benefit to consumers.

Introduction

Consumers eligible for subsidies through state-based or the federal exchange currently have the ability to obtain two kinds of subsidies from the federal government. Most observers know about the Advanced Premium Tax Credits (APTC) that reduce net premiums for about 85% of enrollees on Exchanges nationally. In California, approximately 90% of enrollees receive APTC and these premium credits on average lower net premiums of their recipients by $298 per month.

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This paper was commissioned by Covered California to assist with its ongoing planning and to inform policy-making in California and nationally.

In addition, low-income enrollees (those with incomes below 250% of the federal poverty level) qualify for additional subsidies that reduce their costs at the point of obtaining services. These cost-sharing reduction (CSR) subsidies are paid directly to insurers to cover reducing deductibles, coinsurance, copays and maximum out-of-pocket (MOOP) costs for Silver plan enrollees by increasing actuarial values to 73%, 87% or 94%. About 50% of Covered California enrollees choose these CSR Silver plan variants. The rationale behind the CSR subsidies is that the lower-income individuals will be deterred from seeking needed care if their cost-sharing is not adjusted to reflect their own finances. For example, in California for 2016 an individual with the "standard" cost-sharing for the Silver plan would be responsible to pay $45 for a primary care visit, while a consumer with the 94% actuarial value CSR (representing about 18% of Covered California's enrollees) would pay $5. The difference in those amounts is what has been funded by the direct CSR subsidies to health plans to reduce the consumer's cost at point of care.

A lawsuit initiated by U.S. House of Representative Republican members in 2014 sought to terminate direct CSR funding, alleging there has not been any direct authorization of these payments. If that were to happen, the Patient Protection and Affordable Care Act (ACA) would continue to require insurers to offer the Silver plan variants but there would no longer be any separate funding available.[1] As a consequence, some insurers may terminate their participation in the exchange markets while remaining insurers would need to "load" the Silver plan with an additional premium to require all Silver plan participants to cover the missing funding.[2] This load, which is likely to be between 15% and 20%, would increase APTC subsidies for those enrollees who qualify, and at the same time hold net premiums for those receiving subsidies for Silver plans constant, while lowering net premiums for Bronze, Gold and Platinum plans among APTC-qualifying consumers. For unsubsidized enrollees, this load would also raise premiums for Silver plans, both on-exchange and off-exchange.[3]

This study models the impact of loading the premiums of Silver plans in the exchange and the off-exchange market in California. To do this, we estimate a discrete choice model of plan choice using Covered California enrollment data, which permits estimation of own-plan price and cross-plan price elasticities. We use these estimates to simulate consumer plan choices given the premium adjustment. From the projected plan choices, we calculate enrollment, market share, APTC, gross and net premiums (for the total market, and per member, per month levels). We report results separately for both on- and off-exchange markets and for subsidized and unsubsidized individuals.

We also include a Results Appendix, which reports the projected enrollment and budgetary impact of an alternative premium adjustment policy, in which the CSR load is spread across all plans. Additional details about the model are discussed in the Model Appendix which can be found at:
http://coveredca.com/news/pdfs/Appendix-Consequences_of_Terminating_CSR.pdf

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[1] This analysis looks only at the prospective impact on health plans and consumers if the direct CSR funding were eliminated and health plans had the opportunity to build the costs for such subsidies into premiums. For 2017, health plans developed their rates and pricing based on the assumption that there would be direct federal support for CSR. This analysis does not examine the potential impact on health plans or consumers if direct CSR funding were removed *for 2017*. If health plans in California were to operate through the full year on the same terms on which they offered coverage, they would face unplanned losses/expenses of approximately $750 million.

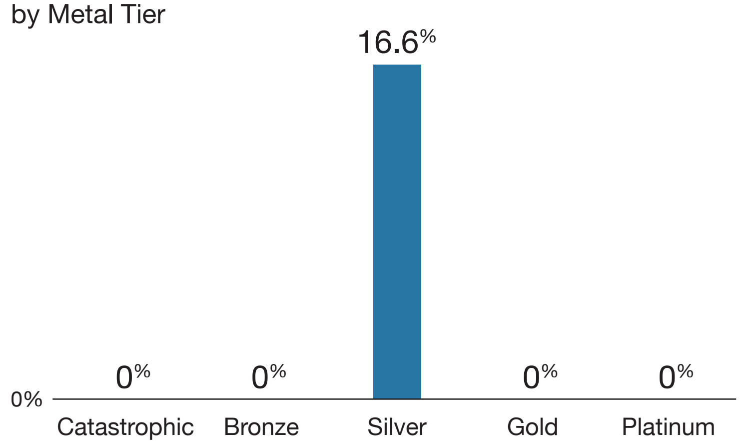
[2] In a different interpretation of the ACA, insurers might load all tiers of plans (Bronze, Silver, Gold and Platinum). In a separate model, we assumed the load is spread across all Exchange and Off-Exchange individual plans. The projected enrollment and budgetary impacts of this scenario are reported in the Results Appendix of this report.

[3] The requirement that insurers continue to offer the Silver plan variants on the Exchange, but without CSR funding, would apply to all state marketplaces. Hence, the effects of premium adjustments in the Exchange modeled in this report offer guidance on the potential effects of defunding the CSR in other states.

Main Findings

We modeled the plan choice of the approximately 1,368,000 consumers in the exchange, applying a 16.6% increase in the gross premium of Silver plans, while holding the gross premiums of all other plans unchanged. The 16.6% was determined as the increase in the premiums of Silver plans on the exchange required to offset the lost CSR funding. The change in gross premiums, by tier, required to offset the lost CSR subsidy is shown in Figure 1. The model accounted for changes in the premium credit, which is anchored to the premium of the second-lowest Silver plan in each rating region. Separately, we modeled the plan choice of the approximately 750,000 consumers in the off-exchange market, where we assumed premiums of Silver plans also increase 16.6%, given the requirement in California that health plans offer the same products on- and off-exchange at the same prices.

Figure 1
Change in Gross Premium to Offset Lost CSR Funding (%), by Metal Tier



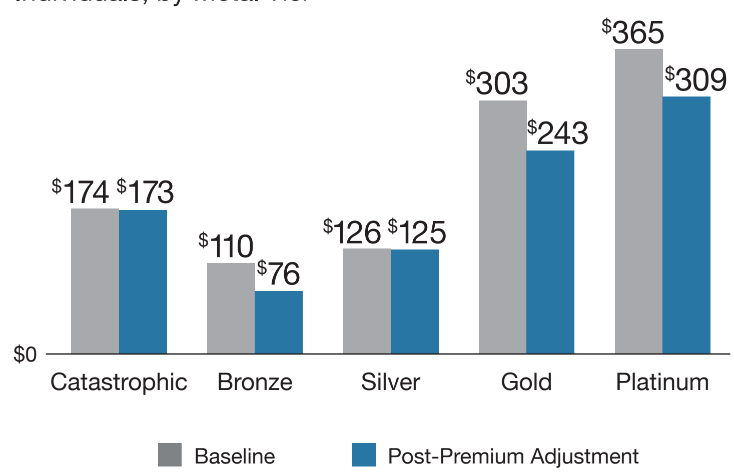
The impact of the 16.6% increase in Silver premiums in the exchange is summarized in Figure 2. We find that:

- The APTC for subsidized enrollees is calculated based on the price of the second-lowest Silver plan. Therefore, an increase in Silver premiums results in an approximately equal increase in the APTC. For subsidized enrollees, this leaves Silver net-of-subsidy premiums unchanged (henceforth "net subsidy"), but the higher levels of APTC — on average $60 more per subsidy-eligible member per month — *reduces* net premiums across Bronze, Gold and Platinum plans (Figure 2).

- In response to the relative changes in net premiums across the metal tiers, the overall market share of Silver plans in the exchange drops from 63% to 57%. Enrollment primarily shifts to Bronze, whose market share rises to 31% from 28%, and to a lesser extent to Gold and Platinum, whose combined market share rises to 11% from 9% (see Figure 3).

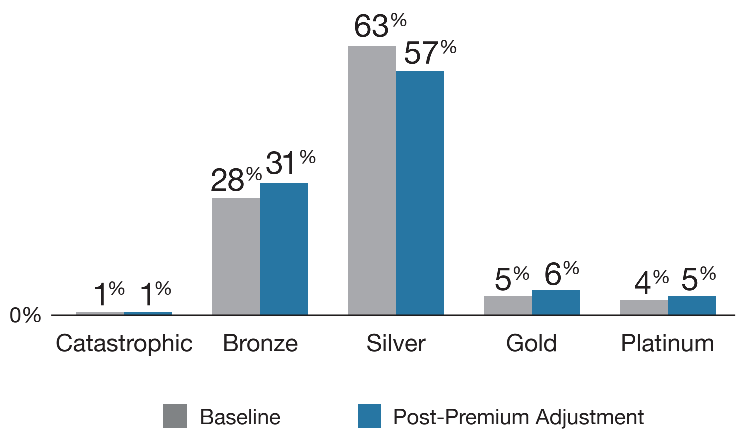
- These effects vary by federal poverty level (FPL) group, with larger shifts from Silver among higher-income consumers. At the highest incomes — above 400% FPL — 21% of Silver plan enrollees (7% of enrollees in this income bracket) switch from Silver to Bronze (and to a lesser extent, Gold and Platinum).

Figure 2
Average Net Premiums in the Exchange for Subsidized Individuals, by Metal Tier



- In addition to plan *switching*, the model accounts for *entry and exit* from the exchange, in response to changes in net premiums. As an upper bound, we estimate that 0.5% of enrollees in the unsubsidized >400% FPL income bracket will exit the market, all among Silver plan enrollees (or new enrollees who would have purchased Silver plans). This amounts to less than 0.1% of the entire on-exchange market.

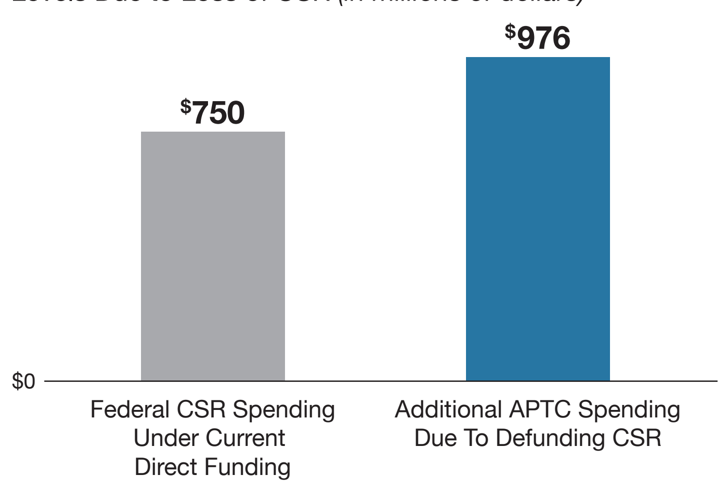
Figure 3
Metal Tier Market Share in the Exchange (%)



- Due to the increased APTC, and the resulting decreases in net premiums for Bronze, Gold and Platinum plans, overall enrollment in the exchange is estimated to *increase* by 1.4% (approximately 20,000 covered lives). At low incomes, both the existing large subsidies, and the subsidy cap on Bronze plans, mute the impact of the increased APTC on new coverage. At higher subsidized income brackets, e.g. 250%–400% FPL, the increase in APTC induces a 3% increase in enrollment.

- Overall, we find that total market APTC increases by $976 million/year, which is significantly larger than the approximately $750 million in lost subsidies due to the defunding of the CSR (Figure 4). This additional federal expense of approximately $226 million would reflect an increase of over 29% for the same benefit. Note that the $976 million in additional APTC already factors in the $195 million/year in APTC forfeited by Bronze plan enrollees whose subsidies are limited by having reached the minimum net premium.[4]

Figure 4
Comparing Current CSR Funding with New APTC Funding Levels Due to Loss of CSR *(in millions of dollars)*



[4] The actual federal costs would be substantially higher than those presented in this modeling, which uses 2016 premiums. On average, premiums in California increased 13.2% from 2016 to 2017. If premiums increased an average 4% in 2018 and also reflected the 2017 increases, with the same number of consumers selecting the same plans in 2018, the potential APTC increase for 2018 would be ($976 x 1.132 x 1.04) = $1.149 billion/year, which is significantly larger than the approximately ($750 x 1.132 x 1.04) = $883 million/year in lost subsidies due to the defunding of the CSR. This would reflect approximately $266 million/year in additional federal subsidy funding for 2018.

Effects of CSR Premium Adjustments for Unsubsidized Individuals

The estimated impacts in the off-exchange market and for individuals on-exchange who do not receive subsidies are reported in Figure 5.

- The Silver plan premium increases are not accompanied by increases in APTC (Figure 5), and on average Silver plan premiums rise $65 per month.
- With no APTC to offset Silver premium increases, consumer response to the higher premiums will qualitatively resemble that of the unsubsidized exchange market. We find that 18.2% of Silver plan enrollees (4% of the off-exchange market) switch from Silver to Bronze (and to a lesser extent, Gold). (Figure 6).
- We estimate that less than 1% of enrollees will exit the off-exchange market. The impact on coverage is muted because most Silver plan enrollees affected by the premium increase will switch to Bronze plans, rather than exit the market. Only a smaller fraction of impacted Silver enrollees will respond by exiting the market altogether, primarily among enrollees with incomes below 400% of FPL.

For results and model appendix, go to: http://coveredca.com/news/pdfs/Appendix-Consequences_of_Terminating_CSR.pdf

Figure 5
Average Gross Premiums for Unsubsidized Individuals, by Metal Tier

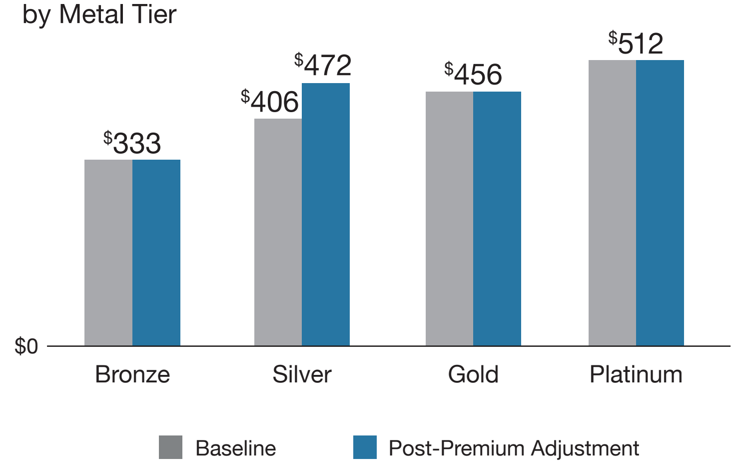
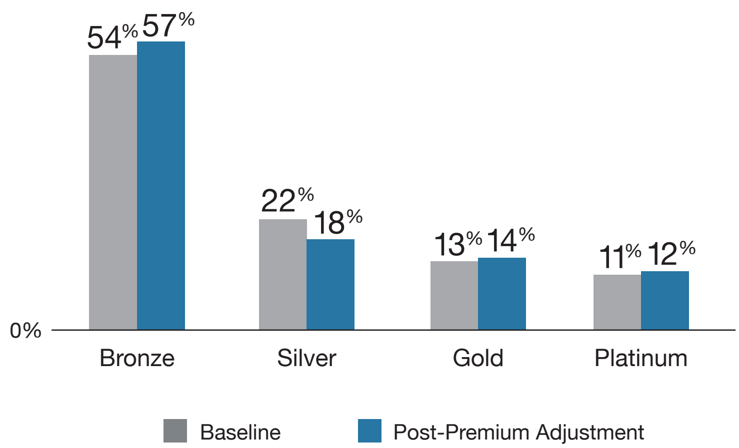


Figure 6
Metal Tier Market Share In the Off-Exchange Market



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 www.CoveredCA.com.