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Public Options and Other Policies to Lower Health Insurance Premiums Need Guardrails to Protect Low- and Moderate-Income Consumers

The RAND Corporation recently released a groundbreaking analysis of public options in the individual market.[1] Described in a joint post by experts from Families USA, RAND, and two leading actuarial firms,[2] the analysis teaches important lessons about public options and other approaches to lower premiums.

Key Finding:

If a state lowers premiums in the individual market, people benefit if their incomes are too high to qualify for premium tax credits (PTCs), but consumers with low and moderate incomes can be harmed. The silver-level plan with the second-lowest cost sold in the exchange — the "benchmark" — determines PTC amounts. If benchmark premiums fall, PTC values drop. This cuts the financial help PTCs provide to consumers with incomes at or below 400% of the federal poverty level (FPL), the maximum income threshold for PTC eligibility.[3] With reduced PTCs, beneficiaries may have to pay more for insurance, depending on the plan they buy.

By contrast, a state that combines a premium reduction policy, like a public option, with guardrails that limit PTC erosion can help people across the income spectrum, including PTC beneficiaries and higher-income consumers alike.

This should matter to policymakers concerned about racial and ethnic disparities or income inequality. According to Families USA research that includes both national and state-specific results, 26% of PTC-eligible consumers are Latino, African-American, or Native American, compared to 17% of individual market consumers above 400% of FPL. In the latter group, 70% earn more than $100,000 per year, and 23% have incomes above $200,000. By contrast, just 6% and 0.3% of PTC-eligible consumers earn above these respective thresholds.

What Did RAND Find?

Premium reductions without PTC guardrails can help the affluent but harm many low-income and working-class families. RAND examined public option proposals that lowered premiums by paying providers amounts between Medicare and private levels ("low-reduction scenario") or between Medicaid and private levels ("high-reduction scenario"). RAND's modeling showed that, if such public options are offered on the exchange and directly lower benchmark premiums, higher-income consumers earning more than 400% of FPL unambiguously benefit, but PTC beneficiaries with incomes below that threshold are often harmed. For example, if the high-reduction scenario is implemented nationwide:

- **Above 400% of FPL, almost all affected consumers will benefit,** according to RAND's modeling:
  - 1.1 million uninsured in this income range will gain coverage, and no one will lose it.

- 1.6 million people above 400% of FPL who are already in the individual market will pay less in premiums. Just 0.1 million will pay more.

» **Below 400% of FPL, some consumers will gain, but many others will lose:**

- 1.2 million uninsured will receive coverage, but 0.9 million who currently have insurance will lose it.
- 2.6 million individually insured consumers who qualify for PTCs will pay less in premiums, but 5.8 million will pay more.

By contrast, premium reductions with PTC guardrails can help consumers at all income levels. RAND also modeled the combination of 1) a high-reduction scenario with low public plan premiums and 2) guardrails that limit the public option's impact on PTCs by offering it only off-exchange, thereby making it irrelevant to calculating benchmark premiums. Under this alternative scenario, PTC-eligible consumers can buy the public plan using federal pass-through payments provided to the state through a waiver under Affordable Care Act (ACA) Section 1332. Such payments approximate PTC amounts.

This combination results in on-exchange silver premiums falling by much less than premiums for off-exchange public coverage. As a result:

» **Above 400% of FPL, almost all affected consumers benefit:**

- 1.4 million uninsured gain coverage, and no one loses it.
- 1.6 million people already in the individual market pay less in premiums, and only 0.1 million pay more.

» **Below 400% of FPL, the vast majority also benefit:**

- 1.8 million uninsured receive coverage, and only 0.2 million with insurance lose it.
- 7.3 million individually insured consumers pay less in premiums, while 1.9 million pay more.

» **The overall results are much more favorable to consumers as a whole:**

- The total number of uninsured would fall by 3.0 million, compared to 1.3 million under the scenario featuring a public option without PTC guardrails.
- Instead of 5.9 million currently insured consumers paying more and 4.3 million paying less, just 2.0 million would pay more while 8.9 million would achieve savings when guardrails limit the effects of the low-cost public option on PTC beneficiaries.

What Does this Mean for the Individual Market?

State leaders cannot casually assume that premium reductions help everyone. Responsible policymakers must recognize the unique role of silver exchange premiums, which define the level of federal financial assistance consumers receive under the federal tax code. Efforts to trim premiums in the individual market must therefore go hand-in-hand with effective mechanisms to limit the resulting erosion in PTC values, or people of color and people with low and moderate incomes may experience increased costs and reduced coverage as an unintended result of policy initiatives that have important and worthy goals.

State lawmakers who think clearly and act creatively can draw down increased federal financial assistance that makes individual market coverage substantially more affordable for state residents, without requiring any contribution from tightly-strapped state budgets.

This pattern applies to policy initiatives that lower premiums using methods other than a low-cost pubic option. For example, when Colorado implemented a reinsurance program that substantially lowered premiums across the individual market, many PTC beneficiaries experienced sticker shock when their cost to buy insurance rose dramatically.[4]

On the other hand, Maryland's reinsurance program, which also lowered premiums, did not harm low-income consumers because the state encouraged insurers to price silver-tier exchange plans above gold plans, based on the higher percentage of covered claims paid by silver plans as a whole than by gold plans. Maryland parlayed that combination into higher total enrollment, lower premiums, and increased coverage through gold-level plans with relatively low deductibles.[5]

As noted in the accompanying blog post, another promising strategy would have a state-based exchange:

- Offer a single silver-level, low-cost plan in each rating area, selected through competitive bidding that allows for the selection of different sponsors in different geographic areas; and
- Preserve or even increase PTC amounts by maintaining, within each rating area, a minimum pricing distance between the lowest-cost silver plan and all other silver-tier plans sold on the exchange.

These strategies illustrate how state policymakers can profitably leverage — rather than dangerously ignore — the unique role played by silver-tier plans in the ACA's premium tax credit structure. Carefully designed state initiatives along these lines can make coverage more affordable at multiple income levels, lowering premiums for those who buy insurance on their own while drawing down increased federal financial assistance for consumers who use PTCs to purchase coverage.

Conclusion

The ACA's approach to the long-suffering individual market hinges on premium tax credits, which now cover 69% of all market participants, on and off exchanges.[6] A clear understanding of precisely how those credits operate is thus central to improving the market's operation. With the COVID-19 crisis ending employment and employer-sponsored health insurance for tens of millions of people, it is more important than ever before for individual market coverage to be affordable for struggling families. If state policymakers pursue that goal without carefully considering the unique role played by silver premiums in determining the amount of federal help consumers receive, well-intended solutions may backfire or fail. By contrast, state lawmakers who think clearly and act creatively can draw down increased federal financial assistance that makes individual market coverage substantially more affordable for state residents, without requiring any contribution from tightly-strapped state budgets.

Endnotes

[1] Liu, Jodi L., Asa Wilks, Sarah A. Nowak, Preethi Rao, and Christine Eibner. "Public Options for Individual Health Insurance: Assessing the Effects of Four Public Option Alternatives Outside and On Individual Marketplaces." The RAND Corporation, May 2020. https://www.rand.org/pubs/research_reports/RR3153.html

[2] Cohen, Michael, Al Bingham, Stan Dorn, Jodi Liu, and Christine Eibner. "Options for designing a public option." Wakely Consulting Group, NovaRest Actuarial Consulting, Families USA, and the RAND Corporation. May 2020. https://familiesusa.org/resources/options-for-designing-a-public-option/

[3] 400% of FPL is now approximately $50,000 per year for a single adult and $100,000 for a family of four.

[4] Ingold, John. "Colorado's reinsurance program has been lauded as a way to reduce health care costs. Here's the fine print." *Colorado Sun.* November 1, 2019. https://coloradosun.com/2019/11/01/colorado-reinsurance-health-premium-increases/; Healthcare Coverage Colorado. "Fact Check: Did Governor Polis Really Cut Family Health Insurance Costs by Hundreds Per Month?" November 18, 2019. https://healthcarecoverageco.com/fact-check-did-governor-polis-really-cut-family-health-insurance-costs-by-hundreds-per-month/

[5] Cardenas, John-Pierre. "What's Next? Coverage and Affordability Opportunities in Red, Blue, and Purple States." *Health Action 2020.* Families USA, January 26, 2020. https://familiesusa.org/wp-content/uploads/2020/02/John-Pierre-Cardenas.pdf .

[6] Centers for Medicare & Medicaid Services. "Trends in Subsidized and Unsubsidized Enrollment." August 12, 2019. https://www.cms.gov/CCIIO/Resources/Forms-Reports-and-Other-Resources/Downloads/Trends-Subsidized-Unsubsidized-Enrollment-BY17-18.pdf

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