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Change to Insurance Payment Formulas Will Raise Costs for Millions With Marketplace or Employer Plans

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A seemingly minor change included in the Administration’s final rule setting Affordable Care Act (ACA) marketplace standards for 2020 will raise premiums for at least 7.3 million marketplace consumers by cutting their premium tax credits.¹ These higher premiums — for example, \$208² more annually for a family of four with income of \$80,000 — will cause 70,000 people to drop marketplace coverage each year, according to the Administration’s own estimates.

The change will also increase limits on total out-of-pocket costs for millions of people, including many with employer coverage. Families that experience costly illnesses or injuries, whether insured through the marketplace or through their employer, could face an additional \$400 in medical bills because of the new policy. People with pre-existing health conditions, who are more likely to reach their plans’ limits on total out-of-pocket costs, will be disproportionately affected.

The change is not required by the ACA or any other statute. The Administration is making an entirely discretionary choice to raise costs for millions of people, just weeks after President Trump justified his latest efforts to repeal the ACA by arguing that it has resulted in premiums and deductibles that are too high.³ Moreover, the Administration chose to move forward with finalizing the rule change despite the fact that, as the final rule itself notes, “all commenters on this topic [of the proposed rule] expressed opposition to or concerns about the proposed change.”

¹ Patient Protection and Affordable Care Act; HHS Notice of Benefit and Payment and Payment Parameters for 2020, April 18, 2019, <https://s3.amazonaws.com/public-inspection.federalregister.gov/2019-08017.pdf>.

² Estimates in this analysis have been updated to reflect the Department of Health and Human Services’ proposal to base adjustments on private health insurance premiums excluding premiums paid for Medigap and property and casualty insurance, rather than all private premiums.

³ See for example, <https://twitter.com/realDonaldTrump/status/1112900816371900418>.

How the Rule Will Increase Premiums, Out-of-Pocket Costs

The Administration's policy will change how the ACA's "applicable percentages" and "maximum out-of-pocket limit" are adjusted each year.⁴ The applicable percentages establish the share of income that marketplace consumers are expected to pay toward benchmark (silver plan) health coverage, with the ACA's premium tax credits making up the difference. The maximum out-of-pocket limit establishes the maximum amount that consumers can be required to pay in cost sharing, whether through deductibles, co-pays, or co-insurance. It applies to nearly all private plans, whether offered through employers or in the individual market.

Under the final rule, both the share of income that people pay in premiums (after tax credits) and the maximum out-of-pocket limit will increase more rapidly than they otherwise would have. Specifically, the applicable percentages will be 2.7 percent higher in 2020 than they otherwise would have been, and the maximum out-of-pocket limit will be 2.5 percent higher. That means:

- The large majority — at least 7.3 million — of the 8.9 million people who purchase subsidized coverage in the ACA marketplaces will pay higher premiums, because they will receive smaller premium tax credits.⁵ Subsidized consumers in every state (including state-based marketplaces) will be affected.

Premiums will increase most for families with incomes well above the poverty level but still low enough to qualify for subsidies. For example, a family of four with income of \$80,000 will pay an extra \$208 in 2020 premiums as a result of the rule. (See Table 1 for impacts on single individuals and families at other income levels.)

According to the Administration's own analysis, included in the final rule, these premium increases would cause 70,000 people each year to drop marketplace coverage. In addition to the direct impact on these consumers, this could also hurt the marketplace risk pool, causing sticker price premiums (premiums before tax credits) to rise as well. As the proposed rule explained, "the proposed change could also contribute to a decline in Exchange enrollment among premium tax credit eligible consumers, and could ultimately result in net premium increases for enrollees that remain in the individual market, both on and off the Exchanges, as healthier enrollees elect not to purchase Exchange coverage."⁶

⁴ Specifically, the rule changes how the Administration would measure "premium growth," which is part of the formula for adjusting the applicable percentages, the maximum out-of-pocket limit, the ACA's employer mandate penalty, and certain other ACA policy parameters.

⁵ While all subsidized consumers with positive net premiums (after premium tax credits) will pay more under the rule, subsidized consumers with zero premium (after premium tax credits) may not: the premium tax credit available to them will decrease, but they may not have needed the full credit previously available. The proposed rule estimated that 16 percent of all marketplace enrollees are enrolled in zero premium plans; based on that estimate, we calculate that at least 7.3 million people will see higher premiums as a result of the policy. This calculation is based on marketplace enrollment data in the first half of 2018, available from the Centers for Medicare and Medicaid Services (CMS), at <https://www.cms.gov/newsroom/fact-sheets/effectuated-enrollment-first-half-2018>.

⁶ Patient Protection and Affordable Care Act; HHS Notice of Benefit and Payment, January 17, 2019, <https://s3.amazonaws.com/public-inspection.federalregister.gov/2019-00077.pdf>.

- The maximum out-of-pocket limit will increase by \$200 for an individual and \$400 for a family. (The individual out-of-pocket limit in 2020 will be \$8,150, instead of \$7,950, while the family limit will be \$16,300, instead of \$15,900.)

As noted, the maximum out-of-pocket limit protects people with employer-sponsored coverage, as well as those with individual market plans. Among consumers with employer-sponsored coverage, millions have plans with out-of-pocket limits at or near the maximum;⁷ they could face an additional \$200 per person in medical bills if they are seriously ill or injured in 2020. This change will disproportionately impact people with pre-existing health conditions, who are more likely to reach their plans' out-of-pocket limits.

Administration's Arguments for Change Are Flawed

The Administration has argued that the formula change is needed to contain federal costs for premium tax credits.⁸ But by its own analysis, most of the roughly \$1 billion in annual premium tax credit savings from the policy will come from a reduction in the number of people with marketplace coverage, with the rest coming from low- and moderate-income marketplace consumers paying more. The Administration's willingness to save \$1 billion per year by reducing marketplace coverage and requiring low- and moderate-income people to pay more in premiums contrasts with its willingness to spend about \$3 billion per year to expand the availability of short-term, limited duration health insurance plans exempt from ACA consumer protections.⁹

The Administration also tries to justify the policy on technical grounds. The ACA requires the applicable percentages and maximum out-of-pocket limit to rise each year based on premium growth, and the Administration argues that premium growth across all private plans (the metric its new method adopts) is a better measure than premium growth in employer plans (the current metric, established in past regulations). But as the rule notes, the Department of Health and Human Services previously adopted the employer plan premium measure because it "reflect[s] trends in health care costs without being skewed by individual market premium fluctuations resulting from the early years of the [ACA]." In contrast, the new methodology increases costs for consumers — including people with employer plans — due to the one-time increases in individual market premiums that occurred as insurers adjusted to the ACA and as the ACA's temporary reinsurance program (which reimbursed insurers for certain costs) phased out.

More important, the change is purely at the Administration's discretion: the statute does not require it. Rather, the Administration is choosing to adopt a formula change the effect of which is to raise premiums for millions of people and weaken protections against high out-of-pocket costs for millions more.

⁷ See Kaiser Family Foundation, *Employer Health Benefits Survey, 2018 Annual Survey*, 2018, <http://files.kff.org/attachment/Report-Employer-Health-Benefits-Annual-Survey-2018>.

⁸ Stephanie Armour, "Trump's Proposed ACA Rules Could Boost Costs for Millions of People," *Wall Street Journal*, January 17, 2019, <https://www.wsj.com/articles/trumps-proposed-aca-rules-could-lift-costs-for-millions-of-people-11547775475>.

⁹ The Administration estimates that the expansion of short-term plans will increase tax credit costs by about \$3 billion per year. See Short-Term, Limited Duration Insurance, February 20, 2018, <https://s3.amazonaws.com/public-inspection.federalregister.gov/2018-03208.pdf>.

TABLE 1

Formula Change Will Increase Health Care Costs for Marketplace Consumers

Annual income of...	Premium payment increase due to formula change in 2020	
	Individual	Family of 4
\$20,000	\$24	*
\$30,000	\$63	*
\$40,000	\$104	\$47
\$50,000	*	\$83
\$60,000	*	\$123
\$70,000	*	\$167
\$80,000	*	\$208
\$90,000	*	\$234

Source: CBPP estimates. * indicates that the individual or family has income too low to qualify for marketplace subsidies (and qualifies for Medicaid) or too high.