Center on Budget and Policy Priorities

820 First Street NE, Suite 510
Washington, DC 20002

Tel: 202-408-1080
Fax: 202-408-1056

center@cbpp.org
www.cbpp.org

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CBO: Alexander Stabilization Bill Would Raise Costs for Moderate-Income Consumers, Decrease Coverage

By Aviva Aron-Dine

Senators Lamar Alexander and Susan Collins and Representatives Greg Walden and Ryan Costello introduced legislation on March 19 that would reinstate cost-sharing reduction (CSR) payments to insurers and provide federal funding for state reinsurance programs.[1] Two new analyses from the Congressional Budget Office (CBO) show that the legislation would:

- Increase the number of uninsured Americans. This suggests that the legislation could also worsen the individual market risk pool.
- Reduce premiums for middle-income consumers only at the expense of higher premiums and out-of-pocket costs for — and reduced coverage among — moderate-income consumers with somewhat lower incomes.
- Reduce subsidies for these moderate-income consumers by *more,* in aggregate, than it would reduce premiums for middle-income consumers.

The proposal also fails to address the harm that would result from the Trump Administration's "short-term plans" rule, likely the greatest outstanding threat to individual market stability.

Reinstating CSR Payments Would Hurt Moderate-Income Consumers

CBO's first analysis of the bill assesses it relative to the official budget baseline, which assumes CSR payments continue, even though the Trump Administration halted such payments in 2017.[2] CBO also released an important supplemental analysis that examines the impact of restoring CSR payments relative to the status quo.[3] That analysis finds that as a result of the Alexander bill's proposal to reinstate CSRs through 2021, "the number of uninsured people would increase by less

[1] The legislation would also make various other, smaller policy changes affecting the individual market for health insurance. The text of the legislation is available at https://www.alexander.senate.gov/public/_cache/files/b1d925b4-df0d-4938-adfa-c6ba83d21c64/3-19-2018-tam18347.pdf.

[2] Congressional Budget Office, "Bipartisan Health Care Stabilization Act of 2018," March 19, 2018, https://www.cbo.gov/publication/53666.

[3] Congressional Budget Office, "Appropriation of Cost-Sharing Reduction Subsidies," March 19, 2018, https://www.cbo.gov/publication/53664.

than 500,000 in 2019 and by between 500,000 and 1 million in 2021 and 2021." The proposal would also increase premiums, deductibles and other out-of-pocket costs, or both for many moderate-income consumers who retain coverage.

As CBO explains, the Trump Administration's decision last fall to stop making CSR payments to insurers ended up *decreasing* costs for many moderate-income consumers. Under the ACA, insurers are required to provide reduced cost sharing (lower deductibles, co-pays, and coinsurance) to lower-income consumers who enroll in "silver" tier marketplace plans; CSR payments are supposed to compensate insurers for providing consumers this reduced cost sharing. But when the Administration halted reimbursement payments last fall, insurers in most states instead defrayed their costs by charging higher silver plan premiums, with more states likely to take this approach for 2019 and beyond.

Because of the structure of the ACA's subsidies, that shift in how insurers are compensated for cost-sharing assistance results in more affordable coverage options for many consumers. The ACA's premium tax credits are based on the "sticker price" premium of a typical silver plan where a person lives, but consumers can also use these tax credits to purchase bronze (lower sticker price, higher deductible) or gold (higher sticker price, lower deductible) plans. Their net premium is the difference between the sticker price premium for the plan they select and their tax credit. Because of the Administration's decision to halt CSR payments, silver plan premiums — and therefore premium tax credits — increased more rapidly than bronze or gold plan premiums for 2018. The result is that many subsidized consumers can now purchase bronze plans with very low net premiums, or can purchase lower-deductible gold plans for less than they paid last year for silver plans.

Most consumers with incomes below 200 percent of the poverty line are still better off purchasing silver plans, because that lets them take advantage of the generous cost-sharing assistance they are eligible for in those plans. But people who are eligible for tax credits but not for significant cost-sharing assistance — those with incomes between 200 and 400 percent of the poverty line (about $24,000 to $48,000 for a single adult) — can now purchase plans with lower premiums, lower cost sharing, or both, as a result of the Administration's decision. Meanwhile, unsubsidized consumers can largely avoid the premium increases resulting from that decision by purchasing bronze or gold plans or, in most states, by purchasing silver plans outside of the ACA marketplaces. (In most states, insurers increased premiums only for *marketplace* silver plans to account for the loss of CSRs, leaving similar plans offered outside the marketplaces unaffected.) Even before the Administration's decision to end CSR payments, most unsubsidized ACA individual market consumers enrolled outside of the marketplaces, and the majority of on-marketplace unsubsidized consumers enrolled in non-silver plans.[4]

Just as ending CSR payments improved coverage options for moderate-income consumers, reinstating these payments would worsen them. As CBO explains, "fewer people would have access to bronze plans at no or very low premium costs after tax credits," and fewer people would be able to "pay a similar or lower premium after tax credits for a [gold] plan that covers a greater share of covered benefits than a silver plan does." Many moderate-income consumers would continue

[4] For additional detail regarding the impact of ending CSR payments, see Aviva Aron-Dine, "Individual Market Stabilization Proposals Should Avoid Raising Costs for Consumers," Center on Budget and Policy Priorities, March 9, 2018, https://www.cbpp.org/research/health/individual-market-stabilization-proposals-should-avoid-raising-costs-for-consumers.

purchasing individual market coverage but would pay more in premiums, deductibles and other out-of-pocket costs, or both. Other moderate-income consumers would conclude that coverage was no longer affordable and become uninsured.

CBO finds that reinstating CSR payments through 2021 would save the federal government $29 billion.[5] Of these savings, more than half would come from fewer people purchasing health insurance coverage and claiming tax credits, while the rest would come from moderate-income consumers who continue to purchase coverage paying more.

Reinsurance Funding Wouldn't Offset Cost Increases or Coverage Losses

In addition to reinstating CSRs, the Alexander legislation would provide $10 billion per year over three years (2019 through 2021) in federal funding for state reinsurance programs. By reimbursing insurers for part of the cost of their highest-cost claims, reinsurance reduces sticker price premiums, lowering costs for middle-income consumers whose incomes are too high to qualify for subsidies. But, as CBO explains, reinsurance does not reduce costs for consumers eligible for subsidies. Instead, people who receive premium tax credits generally "pay a percentage of their income toward the purchase of [health insurance] regardless of the gross premium charged for that plan." If a reinsurance program reduces sticker price premiums, premium tax credits decrease commensurately, and the amount that subsidized consumers pay stays the same.

That means that the Alexander bill's reinsurance funding would not offset its cost increases for moderate-income consumers. Instead, since the reinsurance funding is paid for by the federal savings from reinstating CSRs, every dollar of premium reductions for middle-income consumers would come at the expense of reduced coverage or higher costs for consumers at lower income levels.

In fact, the premium savings for middle-income consumers would be significantly less than the $29 billion savings from reinstating CSRs. While the Alexander bill provides $30 billion over three years in federal reinsurance funding, CBO estimates that net federal spending on reinsurance would be only about $20 billion, in large part because states would be unable to take full advantage of the reinsurance program in 2019 and would instead rely on the bill's federal "fallback" approach, which would provide only about $4 billion in net federal funding in that year. CBO also concludes that the premium savings for middle-income consumers would be less than the total federal resources available for reinsurance, because insurers would not fully pass the savings on to consumers. Instead, "insurers would tend to set premiums conservatively to hedge against uncertainty. . . . As a result … total premiums would not be reduced by the entire amount of available federal funding."

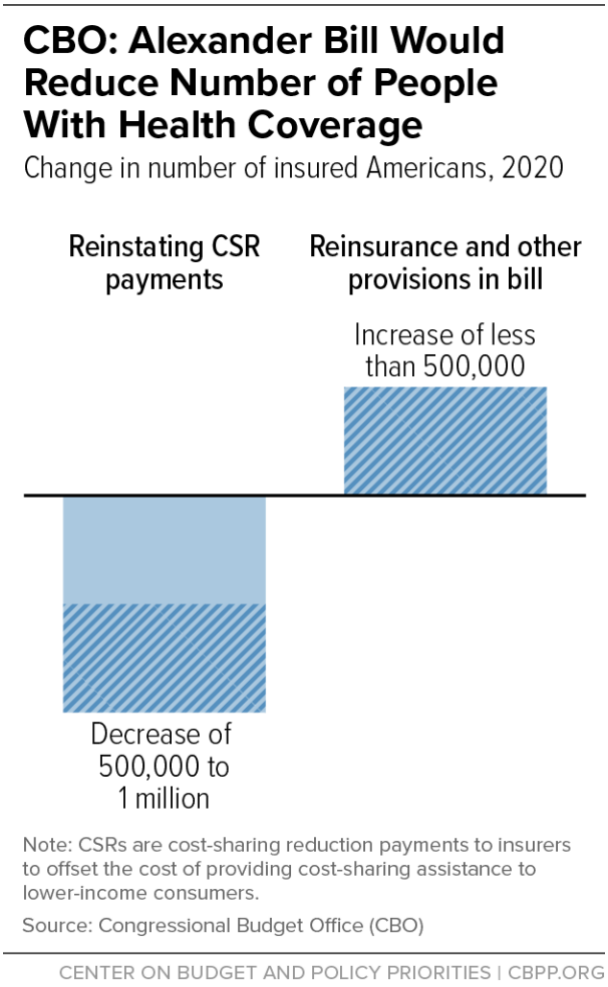
On net, CBO estimates that the Alexander bill's reinsurance proposal would reduce sticker price premiums by about 10 percent nationwide in 2019, when most states would rely on the federal government to administer their reinsurance programs. In 2020 and 2021, the proposal would reduce premiums by about 20 percent in states that were able to establish their own reinsurance programs, but would not reduce premiums at all in states that could not. CBO estimates that about 40 percent of consumers would be living in states not benefiting from the reinsurance program in 2020, and

[5] This estimate also takes into account the bill's provisions related to CSR payments for 2018. By itself, providing an appropriation for CSRs for 2019 through 2021 would save $32 billion.

about 20 percent in 2021. Thus, in addition to failing to benefit subsidy-eligible consumers harmed by restoring CSRs, the reinsurance program proposed in the bill would also leave out many unsubsidized consumers. And the average premium reduction, even for unsubsidized consumers, would fall far short of the 40 percent estimate provided by the bill's sponsors.[6]

CBO concludes that the premium reductions from the reinsurance program would increase coverage, but by "fewer than 500,00 people in each year." That is less than the 500,000 to 1 million coverage loss CBO estimates in 2020 and 2021 from reinstating CSRs (see Figure 1), indicating that the bill would on net *reduce* coverage, rather than increasing it by 3.2 million as the bill's sponsors have claimed.[7]

FIGURE 1



Proposal Also Fails to Address Major Threat to the Individual Market

The CBO analysis shows that the Alexander proposal would make coverage less instead of more affordable for many moderate-income consumers and would reduce coverage overall, meaning that it would most likely *worsen*, rather than improve, the individual market risk pool. The proposed legislation also falls short as a market stabilization proposal because it fails to address what is likely the greatest outstanding risk to the individual market.

Under a recent Trump Administration proposed rule, insurers could sell "short-term" health plans lasting nearly one year that are exempt from the ACA's consumer protections, including the prohibition on discrimination based on pre-existing conditions and the requirement to cover essential health benefits. The Urban Institute estimates that this change would pull 2.1 million consumers out of the ACA-compliant individual market, shrinking the market by almost 20 percent in affected states (on top of enrollment losses from mandate repeal) and

[6] "Legislation to Lower Health Insurance Premiums in Individual Market by up to 40% Proposed for Omnibus Spending Bill," March 19, 2018, https://www.alexander.senate.gov/public/index.cfm/pressreleases?ID=316AF55E-AE8E-4CA8-8187-280D5266DC5B. Restoring CSRs would add to sticker price premium reductions but, as explained above, would increase actual premiums paid by many moderate-income consumers without reducing premiums paid by most middle-income, unsubsidized consumers.

[7] *Ibid.*

worsening the risk pool, sharply increasing costs for middle-income consumers with pre-existing conditions.[8]

What's more, the proposed rule creates tremendous uncertainty for insurers heading into 2019. To set individual market premiums for 2019, insurers will have to forecast how attractive short-term plans will be, how much adverse selection they will create, and how quickly the short-term market will ramp up. Faced with that uncertainty, some insurers may decide to simply exit the ACA individual market until they see how things play out. That could reduce competition and increase the risk of bare markets — as the Administration itself acknowledged in the proposed rule.[9] Major insurers and consumer organizations have warned that expanding short-term plans could "destabilize the health insurance markets that guarantee access to comprehensive health coverage regardless of health status."[10]

The Alexander proposal would do nothing to stop the damaging spread of short-term plans or alleviate uncertainty for insurers. Moreover, it includes a concerning provision addressing state regulation of short-term plans. While the language of the provision is ambiguous, it is not needed to give states authority to regulate these plans (they already have that authority), and there is a risk that it could cast doubt on states' ability to prohibit or limit these plans in their own markets.[11]

Importantly, the reinsurance funding in the Alexander bill does *not* address the uncertainty and risk of insurer exits from the short-term plans rule. While reinsurance relieves insurers of some of their costs for high-cost enrollees, they still have to predict how many people will enroll and how much they will cost. That means short-term plans could still drive insurers out of the market due to fears they will be exposed to large losses.

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[8] Linda J. Blumberg, Matthew Buettgens, and Robin Wang, "The Potential Impacts of Short-Term Limited-Duration Policies on Insurance Coverage, Premiums, and Federal Spending," Urban Institute, February 2018, https://www.urban.org/sites/default/files/publication/96781/stld_draft_0226_finalized_0.pdf.

[9] "Short-Term, Limited-Duration Insurance," proposed rule, 83 Fed. Reg. 7437-7447, February 21, 2018, https://www.gpo.gov/fdsys/pkg/FR-2018-02-21/pdf/2018-03208.pdf.

[10] America's Health Insurance Plans, "Open Letter to State Departments of Insurance," December 14, 2017, https://www.ahip.org/wp-content/uploads/2017/12/12-14-17health-letter.pdf.

[11] Katie Keith, "Republicans Release Market Stabilization Bill," Health Affairs, March 20, 2018, https://www.healthaffairs.org/do/10.1377/hblog20180320.588251/full/.