Health Care Coverage Affordability in California: A Study of Policy Options

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November 16, 2018

Background

- AB 1810 requires Covered California to develop an Affordability Options Report to the Legislature, Governor, and the new Council on Health Care Delivery Systems
- Report due by February 1, 2019
  - Options for providing financial assistance to help low and middle-income Californians access health care coverage.
  - Include options to assist individuals paying a significant percentage of income on net premiums, and those with income of up to 600% FPL.
  - Consider maximizing all available federal funding.
- Model policy options
  - New enrollment, consumer spending, state and federal spending
  - Highlight how each addresses affordability challenges

Outline

- Affordability challenges
- Summary of 6 policy options
- Model
- Results
  - Enrollment, premium, spending (federal, state and consumer)
  - Comparing: Efficiency of spending vs equity/policy goals
- Discussion: next steps for the Working Group and modeling

Affordability and Other Challenges

- Premiums
  - Paying for plans remains a challenge for low- and middle-income individuals, even with federal APTC
  - People above cliff have difficulty paying for plans; premiums exceed contribution caps
- Cost-sharing
  - Low and middle-income individuals typically purchase lower AV plans. Studies show that high deductibles or low AV plans discourages medical care seeking (both high and lower value care)
- Penalty elimination will cause increased disenrollment and increased premiums
  - Rising premiums particularly impactful for unsubsidized consumers (off-ex + >400)

Policy Option	What It Does	Affordability Goal	Budget
Lower Cap	• <138: 0% cap • 138-250: Linear 0 to 8% • 250-400: 8%	-Makes premiums more affordable for people currently eligible for APTC	Increased enrollment will increase fed APTC
Extend Cliff	2019 caps, but extend 9.86% cap to 700 FPL	-Makes premiums more affordable for people right above current cliff	-No increase in fed APTC -Subsidizes people *currently* enrolled off-ex
CSR Light	Raising Silver AV • 200-400FPL: to AV 80	-Makes medical care more affordable at lower-middle incomes	Increased enrollment will increase APTC
CSR Heavy	Raising Silver AV • 150-200: to AV 94 • 200-300: to AV 87 • 300-400: to AV 80	-Makes medical care more affordable at lower and lower-middle incomes -Encourages new enrollment	Same as CSR Light, but heightened effects on enrollment and budget
Reinstate Penalty	Apply 2019 penalty at state level	Improve risk mix and enrollment	No spending, and gain penalty revenue
Reinsurance	5% cost reduction	-Lowers premiums for marketplace and off-ex -Makes premiums more affordable for the unsubsidized, including off-ex	Lowers APTC, possible 1332

Where to phase out premium subsidies?

Family Size	1	2	3	4	5
FPL	$12,140	$16,460	$20,780	$25,100	$29,420
400 FPL	$48,560	$65,840	$83,120	$100,400	$117,680
Fair share contribution @Cliff (400)	$399	$541	$683	$825	$967
Subsidy @ cliff 1 policy	**81**	0	0	0	0
Subsidy @ cliff 2 policy		**419**	277	135	0
Subsidy @ cliff 3 policy			**757**	615	473
Phase out FPL for 1 plan	**4.81**	3.55	2.81	2.33	1.99
Phase out FPL for 2 plan		**7.10**	5.62	4.65	3.97
Phase out FPL for 3 plan			**8.43**	6.98	5.96

Microsimulation: overview

- We want to model the impacts of various policy proposals on
  - Total enrollment, premiums, CA spending, federal spending, consumer spending
  - By income, by on and off-ex

- Basics of the microsimulation model:
  - Use CC enrollment data from 2014-2018 and cutting-edge econometrics to estimate how consumers respond to past changes in premiums and subsidies
  - Estimate how premiums respond to past changes in subsidies, penalty and consumer choice
  - Use consumer and plan responses to forecast how consumers and plans would respond to each policy option (for now, separately).

Microsimulation: Deeper Dive

- Consumer model
  - Based on Covered California administrative data on plan offerings, premiums and consumer plan choice; and publicly available ACS data on individuals who do not enroll in a plan
  - Past changes in premiums and plan offerings allows us to identify how consumers respond to changes in a net-of-subsidy-premium, given what other plans are available. These responses are the “price elasticities” economists often estimate.
- Plan premium setting model
  - The model assumes plans set premiums to maximize profits, factoring in consumer price elasticities and plan competition in the region. We use past premiums, estimated elasticities, and plan competition to estimate each insurer’s “optimal” premiums.
- Forecasting
  - With consumer and plan behavior fully characterized, we can simulate how premiums and consumers will respond to hypothetical policies
  - Because the model is based on “micro” data on individual consumers, outcomes can be characterized in aggregate, or separately by consumer type (e.g. income groups, age, risk).
  - Distinct from “macro” data, which can only look at aggregates (e.g. overall enrollment)

Model Assumptions

- Forecasts for plan year 2021
- Premiums rise 7% per year until 2021
- Penalty elimination effective in 2019
  - Estimates of disenrollment range from 15% to 25%;
  - Results shown today take mid-point estimates (20%) (consistent with Covered California budget projections)

Results (Main)

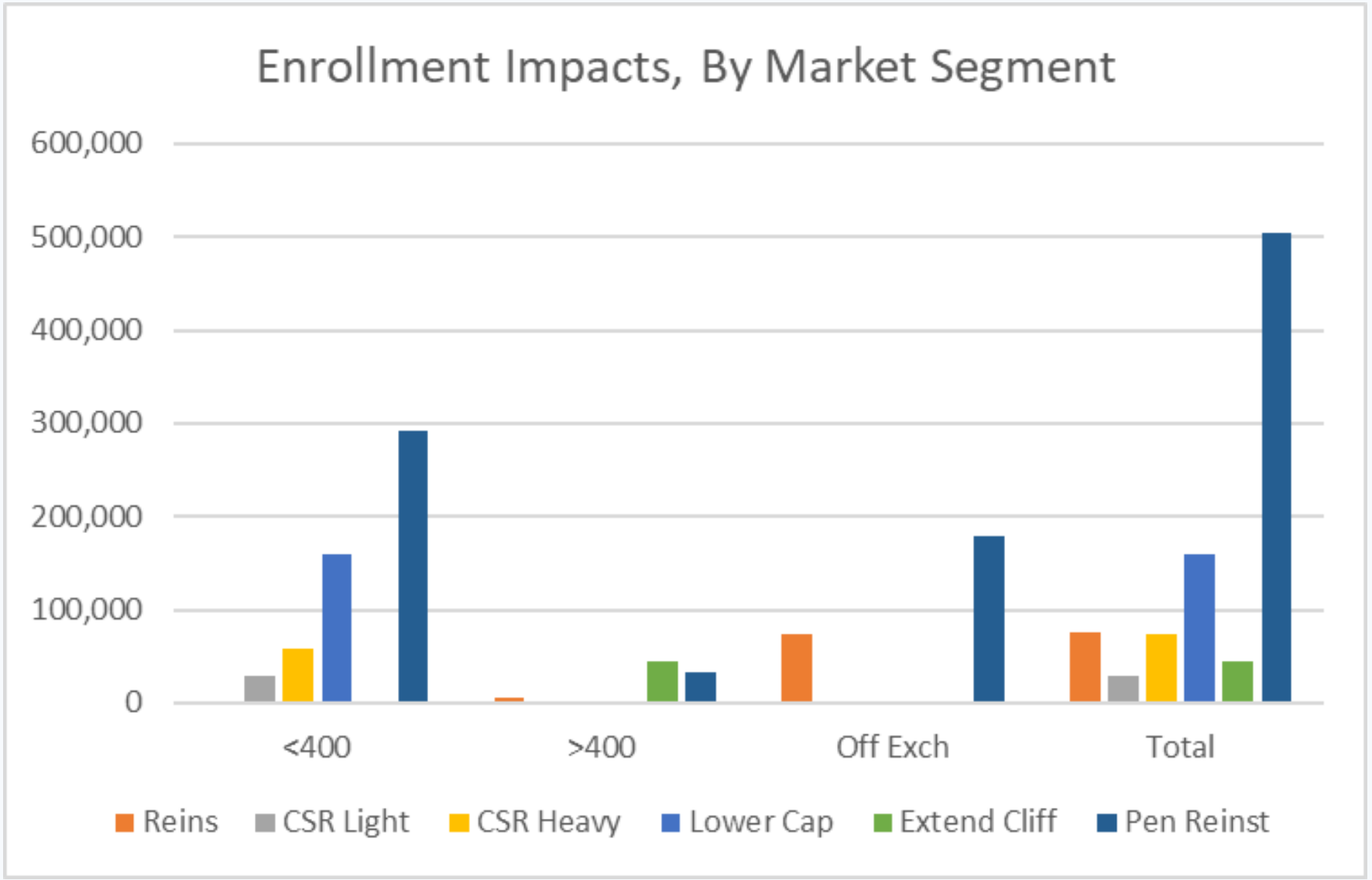
Policy Option	What It Does	Enrollment & Premium Impacts	Budget Impacts
Lower Cap	• <138: 0% cap • 138-250: Linear 0 to 8% • 250-400: 8%	-Net Premiums fall $25-$35 <400FPL -12.5% enrollment CC increase (160,000)	-$560M in $CA -$810M in new $APTC
Extend Cliff	2019 caps, but extend 9.86% cap to 700 FPL	-Net Premiums fall $180-$200 >400FPL -63% enrollment CC increase >400 (44,000)	-$616M in $CA -Of which $290M crowds out *existing* off-ex enrollees
CSR Light	Raising Silver AV • 200-400FPL: to AV 80	-Net Premiums flat (slightly higher silver load) -2.2% enrollment CC increase (28,000)	-$207M in $CA -$176M in new $APTC
CSR Heavy	Raising Silver AV • 150-200: to AV 94 • 200-300: to AV 87 • 300-400: to AV 80	-Net Premiums flat (slightly higher silver load) -5.8% enrollment CC increase (75,000)	-$512M in $CA -$539M in new $APTC
Reinstate Penalty	Apply 2019 penalty at state level	-Net Premiums flat (fall for unsub) -25% enrollment overall increase (500,000)	-$800M in $CA *revenue* -$1.4B in new $APTC
Reinsurance	5% cost reduction	-Net Premiums flat <400FPL -Premiums fall 5% or $35 (unsub/off-ex) -8% unsub/off-ex enrollment increase (65,000)	-$745M in $CA -$513M in 1332 $APTC (69%)

Lower Cap

Overall	Enrollment		Market Share		Premium PMPM		Avg Net Prem PMPM		APTC+Prem Sub/m		New Prem Sub/m
Metal Tier	Baseline	Model 5	Baseline	Model 5	Baseline	Model 5	Baseline	Model 5	Baseline	Model 5	Model 5
Catastrophic	10,315	9,811	0.01	0.01	242.94	243.12	242.94	243.12	0	0	0
Bronze	379,608	377,072	0.30	0.26	514.13	508.86	63.61	56.07	171,092,480	170,678,101	8,208,612
Silver	765,391	906,291	0.60	0.63	742.53	722.41	118.49	84.91	477,559,680	578,098,560	34,829,410
Gold	85,507	101,586	0.07	0.07	778.31	764.19	282.94	240.99	42,274,204	53,151,650	3,065,884
Platinum	38,456	43,529	0.03	0.03	974.78	950.25	611.77	546.62	13,959,406	17,569,423	1,033,885
Overall	1,279,277	1,438,289	1.00	1.00					704,885,769	819,497,734	47,137,791
		0.124									

Annual Budget Impact	
New Prem Subsidy	**565,653,495**
New CSR	**0**
New Reins	**0**
Change in APTC $	**809,690,087**

Results
(Comparing Options)


Enrollment Impacts, By Market Segment
600,000
500,000
400,000
300,000
200,000
100,000
0
<400
>400
Off Exch
Total
Reins
CSR Light
CSR Heavy
Lower Cap
Extend Cliff
Pen Reinst

CA Spending and Federal Leveraging

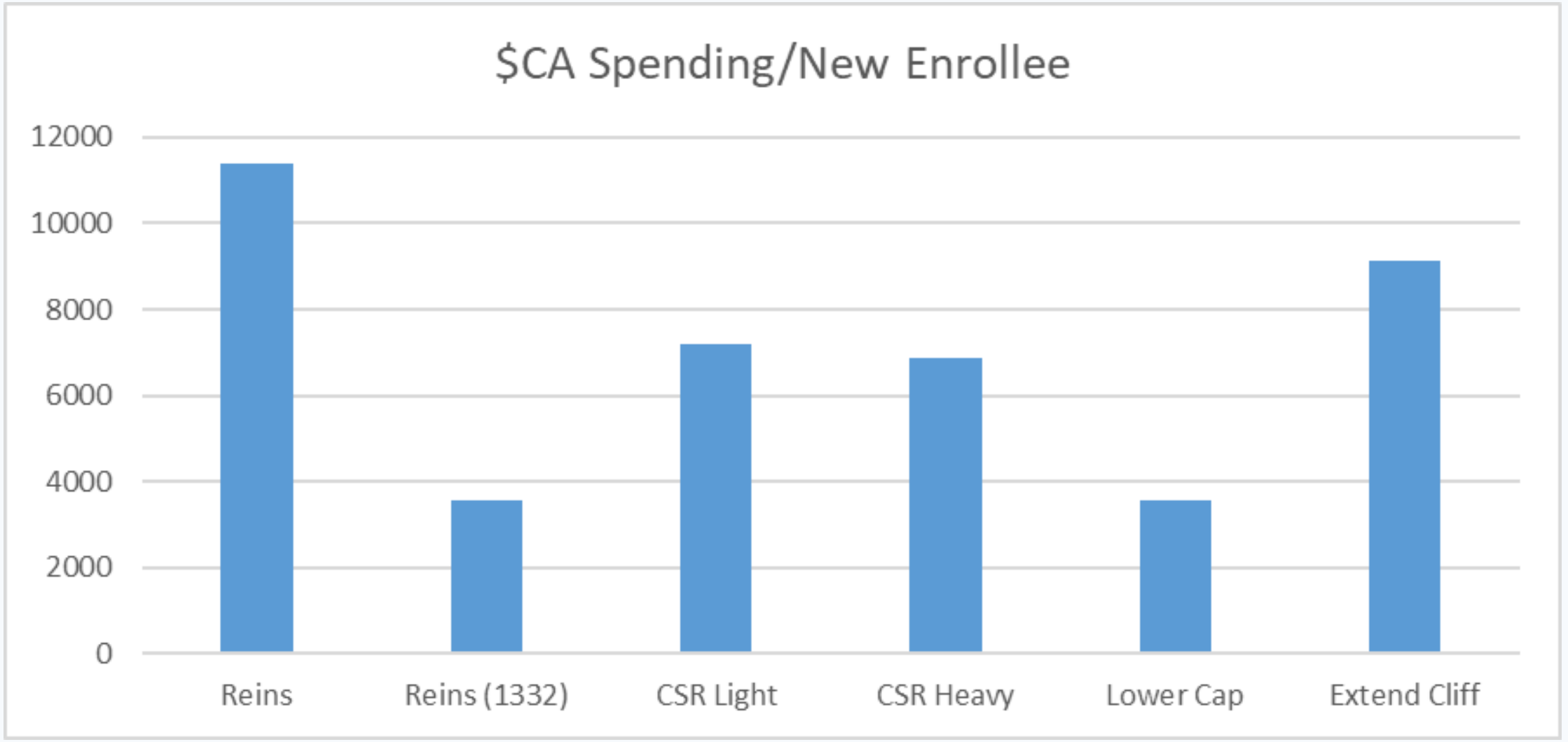
	Reins (1332)	CSR Light	CSR Heavy	Lower Cap	Extend Cliff	Pen Reinst
Δ$CA	$232	$207	$512	$566	$616	-$810
Δ$Federal	$0	$176	$539	$810	$0	$1,444
ΔEnrollee Ben $	$232	$383	$1,052	$1,375	$616	$1,444
$CA/New enrollee	$3,551	$7,210	$6,868	$3,557	$9,141	
New $Fed/$CA	0.00	0.85	1.05	1.43	0.00	
$Enrollee Ben/$CA	1.00	1.85	2.05	2.43	1.00	

In $Millions/year

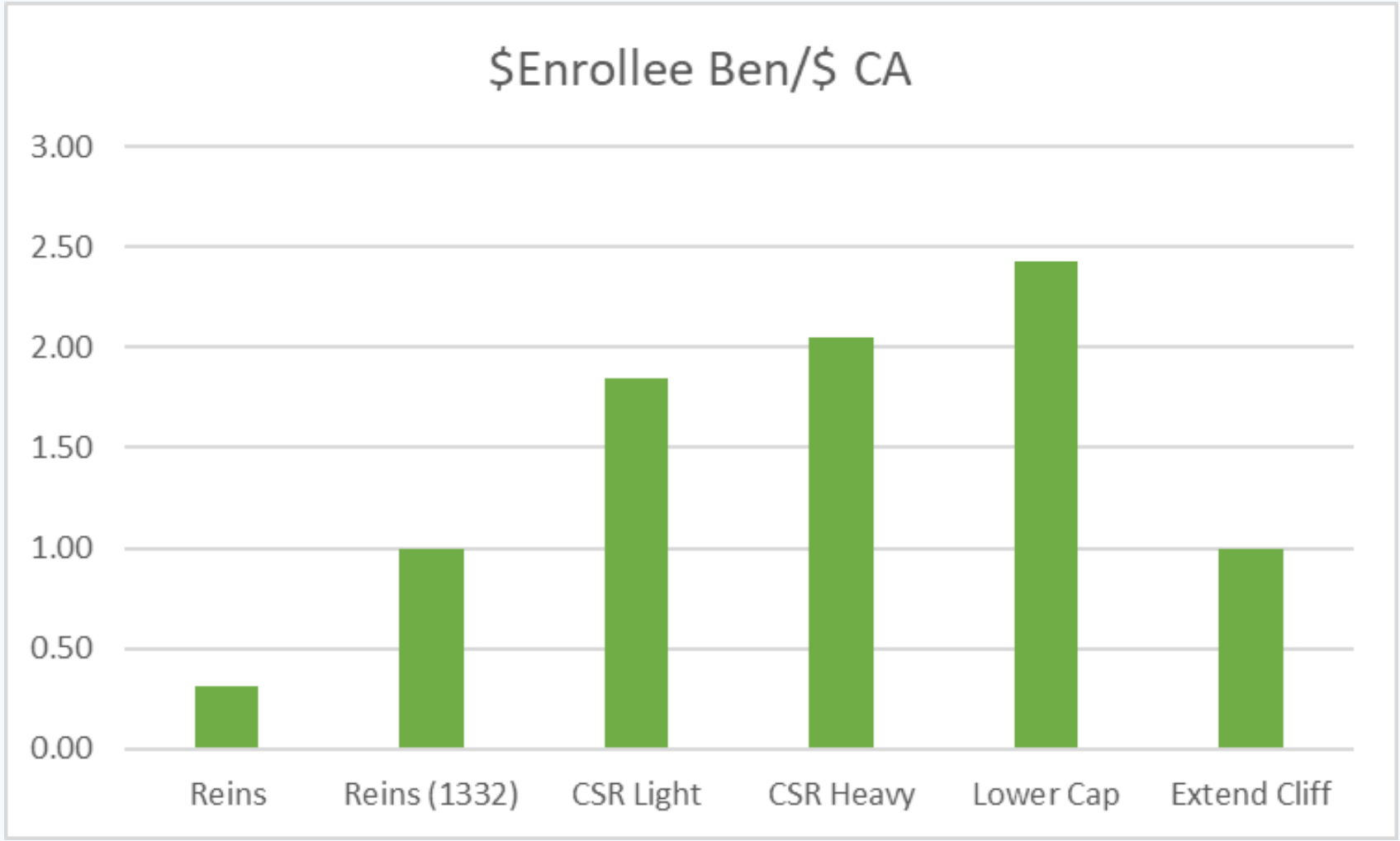
Two Measures of Efficiency of $CA

- $CA per new enrollee
- $ CA enrollee benefit (AV) per $CA

Efficiency: $CA/ New Enrollee



Efficiency: $Benefit to Enrollees/$CA

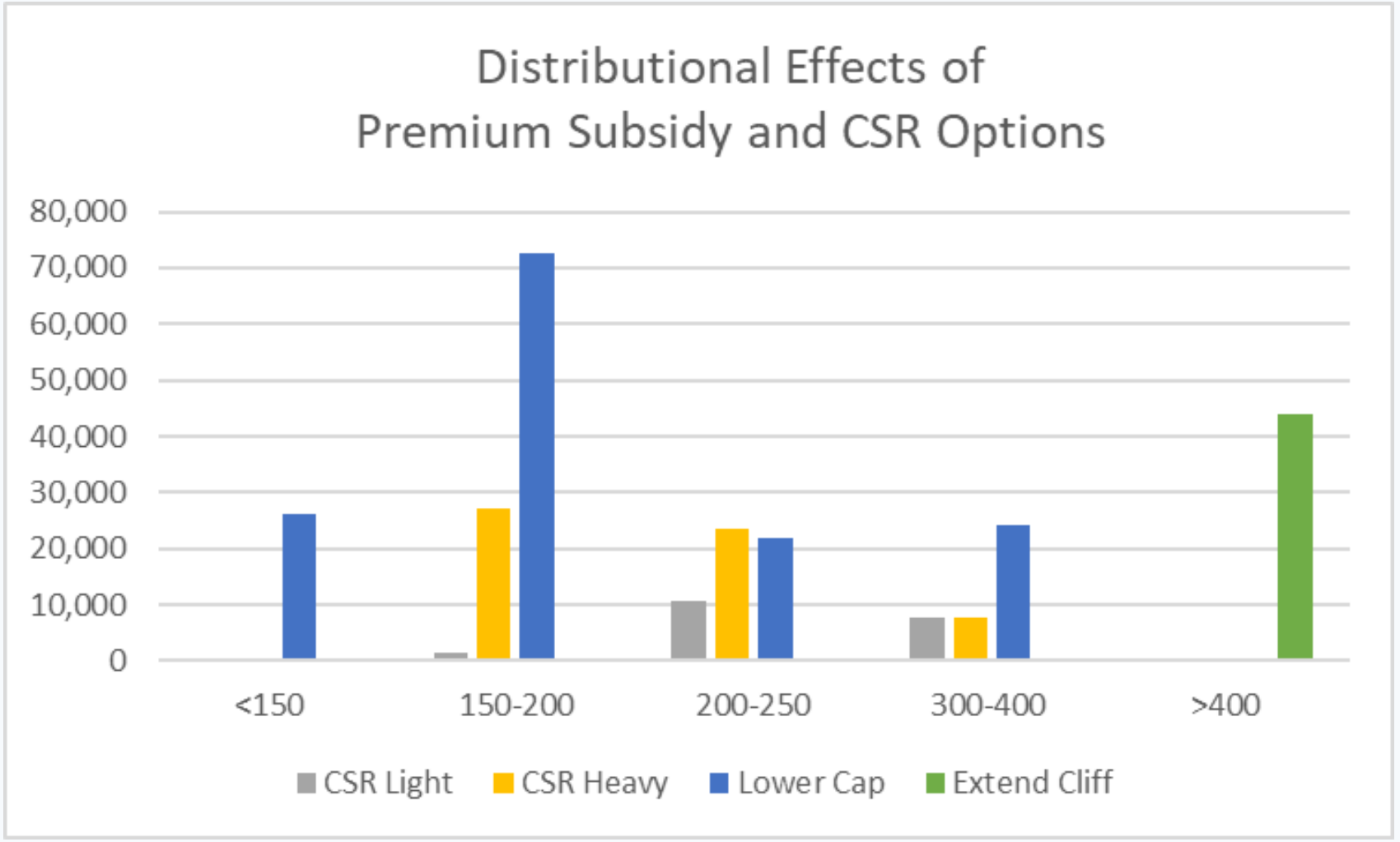


Two Measures of Efficiency of $CA

- $CA per new enrollee
  - Reinsurance (1332) is most efficient because $CA does not crowd out federal or private spending
  - Cliff Extend is worse because a lot of $CA spending goes towards crowding out premiums of current off-ex enrollees
  - CSR policies don't look favorable, despite federal leverage, because AV benefit not as salient for enrollment
- $ CA enrollee benefit (AV) per $CA
  - No $CA wasted, as CSR policies go to AV boost
  - Best is Lower Cap, because of APTC leverage
  - Extended Cliff and reinsurance is low: no APTC leverage

Equity or Policy Goals

- Lower Cap and CSR Heavy focus new spending at lower incomes
- Cliff Extend only benefits consumers above 400 FPL


Distributional Effects of
Premium Subsidy and CSR Options
80,000
70,000
60,000
50,000
40,000
30,000
20,000
10,000
0
<150
150-200
200-250
300-400
>400
CSR Light
CSR Heavy
Lower Cap
Extend Cliff

Take-aways

- "Dominant" Policies
  - Reinstating penalty induces **largest enrollment effects** *and* **generates income**
  - Supplement with strategies to make enrollment easier
- Two types of efficiency
  - $/Enrollment is narrower measure
  - Total (AV) benefit/$CA more robust (Lower Cap and CSR policies), driven by APTC leverage
- Given AV efficiency, there are policy goals
  - Redistribution (Lower Cap and CSR policies)
  - Help to people just above cliff (Cliff Extend)
  - Off-exchange stability (Reinsurance)

Next Steps

- Policy Options
  - With awareness of budgets, dial up/down policy parameters
  - Combination policies

- Forecasts (modeling)
  - 2021-2026
  - Macro effects in out years
  - Equilibrium premium effects