

# Reinsurance and Cost-Sharing Reductions Estimates

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In response to the 2018 premium increases in the Affordable Care Act's individual market, members of Congress have written various pieces of legislation with the goal of lowering premiums. Appropriating money for cost-sharing reduction payments (CSRs) to insurers and creating a reinsurance program are two policies that have been considered. In the following report, the Center for Health and Economy (H&E) evaluates the impact that a combination of the two policies would have on the ACA's individual marketplace beginning in the year 2019. All impacts projected in this report are relative to H&E's March 2018 baseline.<sup>1</sup> As with all projections, the estimates are associated with some degree of uncertainty.

## Key Findings:

- **Premium Impact:** CSRs and reinsurance are projected to decrease the cost of premiums for private individual market health insurance coverage. Silver plans would see the largest impact, as premiums would decrease by 15 to 16 percent beginning in 2019 relative to the baseline.
- **Coverage Impact:** These policies are projected to lead to marginal increases in the insured population within the individual marketplace; roughly 1 million more people would purchase insurance by 2028.
- **Medical Productivity:** These policies would lead to a 1 percent decrease in medical productivity by 2028.
- **Provider Access:** These policies would lead to a 4 percent increase in provider access by 2028.
- **Budget Impact:** These policies would create \$158 billion in new spending. However, when compared to the H&E baseline, these policies also lead to a drop in premium tax credits with a resulting net decrease in federal deficits of \$17 billion between 2019 and 2028.

## Analysis

This analysis uses a microsimulation model developed for use by H&E. The model employs micro-data available through the Medical Expenditure Panel Survey to analyze the effects of health policies on the health insurance plan choices of the under-65 population and interpret the resulting impact on national coverage, average insurance premiums, the federal budget, and the accessibility and efficiency of health care.

For this report, H&E assumed that CSR payments would be reinstated beginning in 2019. For the reinsurance portion of the analysis, H&E assumed that the government made reinsurance payments to insurers for all the claims per-beneficiary incurred above a specific threshold. The threshold would be equal to the 90<sup>th</sup> percentile of beneficiaries ranked by total claims. All other baseline assumptions and policies were left unchanged. All comparisons are to the March 2018 baseline projection.

## Premium Impact

H&E health insurance premium estimates are based on five plan design categories offered in the Individual Market: Platinum, Gold, Silver, Bronze, and catastrophic. Under current law, the cost-sharing designs of the four metallic categories correspond to approximate actuarial values: 90 percent, 80 percent, 70 percent, and 60 percent, respectively. Catastrophic coverage plans refer to health insurance plans that reimburse medical expenses only after members meet a high deductible—a maximum of \$7,350 for an individual under current law. All premium estimates reflect health insurance prices without any federal subsidies.

Table 1 below presents the estimated premiums for each category between 2019 and 2028.

Table 1. Average Annual Premiums in the Individual Market

|                              |                     | 2019   | 2020   | 2021   | 2022   | 2023   | 2028   |
|------------------------------|---------------------|--------|--------|--------|--------|--------|--------|
| Single Coverage              | Platinum            | 7,600  | 7,900  | 8,200  | 8,500  | 8,800  | 10,500 |
|                              | Gold                | 6,700  | 7,000  | 7,300  | 7,600  | 7,900  | 9,500  |
|                              | Silver <sup>2</sup> | 6,000  | 6,300  | 6,600  | 6,900  | 7,200  | 8,800  |
|                              | Bronze              | 5,300  | 5,500  | 5,700  | 6,000  | 6,300  | 7,700  |
|                              | Catastrophic        | 2,800  | 2,900  | 3,000  | 3,200  | 3,400  | 4,200  |
| Family Coverage <sup>1</sup> | Platinum            | 15,400 | 15,800 | 16,300 | 16,800 | 17,400 | 20,400 |
|                              | Gold                | 14,400 | 14,800 | 15,300 | 15,800 | 16,300 | 19,100 |
|                              | Silver <sup>2</sup> | 13,300 | 13,800 | 14,400 | 15,000 | 15,600 | 19,100 |
|                              | Bronze              | 12,500 | 12,900 | 13,300 | 13,800 | 14,300 | 16,900 |
|                              | Catastrophic        | 6,000  | 6,300  | 6,600  | 7,000  | 7,300  | 9,100  |

<sup>1</sup>Family coverage estimates are based on a family size of four persons.

<sup>2</sup>Silver plans offered to low income households receive cost-sharing benefits that alter the effective premium relative to un-assisted Silver plans.

H&E estimates that the policies will eventually lead to lower health insurance premiums in all categories for both single and family coverage relative to the March 2018 baseline

projection, with the largest decreases occurring among Silver plans. Both CSRs and reinsurance would contribute to the decrease in premiums.

Current law mandates that insurers offer a Silver plan with reduced cost-sharing for consumers with incomes of 250 percent of the federal poverty level or lower. In exchange for offering plans with reduced cost-sharing, insurers were to receive CSRs to ease the burden of providing extra benefits; they are currently not receiving CSRs, however, resulting in upward pressure on premiums (especially Silver premiums). Reintroducing CSRs would relieve much of the upward pressure on Silver premiums.

H&E estimates reinsurance would also relieve upward pressure on premiums. Reinsurance would provide payments to insurers that enroll high-cost beneficiaries, thereby offsetting some of the risk that insurers take on for enrolling such beneficiaries. In this analysis, it is assumed that insurers would receive payments for the costs they incur for the 90<sup>th</sup> percentile most expensive beneficiaries. Relative to the March 2018 baseline projection, H&E expects premiums across all metal levels to drop as a result of reinsurance. Table 2 below shows the overall changes in premiums due to both CSRs and reinsurance relative to the baseline.

Table 2. Change in Average Premiums in the Individual Market

|                              |                     | 2019 | 2020 | 2021 | 2022 | 2023 | 2028 |
|------------------------------|---------------------|------|------|------|------|------|------|
| Single Coverage              | Platinum            | -7%  | -7%  | -7%  | -7%  | -7%  | -7%  |
|                              | Gold                | -8%  | -8%  | -9%  | -8%  | -8%  | -10% |
|                              | Silver <sup>2</sup> | -15% | -15% | -15% | -16% | -15% | -16% |
|                              | Bronze              | -5%  | -7%  | -7%  | -6%  | -6%  | -5%  |
|                              | Catastrophic        | -7%  | -6%  | -6%  | -6%  | -6%  | -7%  |
| Family Coverage <sup>1</sup> | Platinum            | -7%  | -8%  | -8%  | -8%  | -8%  | -10% |
|                              | Gold                | -11% | -11% | -12% | -12% | -12% | -15% |
|                              | Silver <sup>2</sup> | -16% | -16% | -16% | -16% | -17% | -17% |
|                              | Bronze              | -7%  | -7%  | -7%  | -7%  | -6%  | -6%  |
|                              | Catastrophic        | -6%  | -6%  | -7%  | -5%  | -6%  | -5%  |

<sup>1</sup>Family coverage estimates are based on a family size of four persons.

<sup>2</sup>Silver plans offered to low income households receive cost-sharing benefits that alter the effective premium relative to un-assisted Silver plans.

## Coverage Impact

H&E insurance coverage estimates reflect health insurance choices for the under-65 population. H&E estimates that the two policies considered in this study would result in marginal increases in the insured population, with 1 million more consumers obtaining

insurance in the year 2028 relative to the March 2018 baseline projection. Table 3 below shows the overall projected insurance levels with both CSRs and reinsurance.

Table 3. Health Insurance Coverage (Millions)

|                                     | 2019       | 2020       | 2021       | 2022       | 2023       | 2028       |
|-------------------------------------|------------|------------|------------|------------|------------|------------|
| Individual Market*                  | 16         | 16         | 15         | 15         | 14         | 12         |
| Health Insurance Marketplace        | 10         | 10         | 9          | 9          | 9          | 7          |
| Other Non-Group Insurance           | 6          | 6          | 6          | 6          | 6          | 5          |
| Employer Sponsored Insurance        | 156        | 156        | 157        | 157        | 158        | 160        |
| Medicaid                            | 68         | 68         | 68         | 68         | 68         | 69         |
| Other Public Insurance <sup>1</sup> | 5          | 5          | 5          | 5          | 5          | 5          |
| <b>Total Non-Elderly Population</b> | <b>276</b> | <b>277</b> | <b>278</b> | <b>279</b> | <b>280</b> | <b>284</b> |
| <b>Total Insured<sup>2</sup></b>    | <b>245</b> | <b>245</b> | <b>246</b> | <b>246</b> | <b>246</b> | <b>247</b> |
| <b>Uninsured<sup>2</sup></b>        | <b>31</b>  | <b>32</b>  | <b>32</b>  | <b>33</b>  | <b>34</b>  | <b>37</b>  |
| <b>Percent Uninsured</b>            | <b>11%</b> | <b>11%</b> | <b>12%</b> | <b>12%</b> | <b>12%</b> | <b>13%</b> |

<sup>1</sup> Other Public Insurance includes under-65 Medicare enrollment.

<sup>2</sup> All insurance coverage estimates refer only to the under-65 population.

\* Individual Market and Total Insured numbers may not equal the sum of other sub-categories due to rounding.

The cause for the projected increase in the number of insured individuals is the lower premiums produced by CSRs and reinsurance. Virtually all of the increase in the number of insured individuals occurs in the individual marketplace. Within the individual marketplace, H&E expects enrollment to increase most outside of the Health Insurance Marketplace created by the ACA, as Table 4 shows below.

Table 4. Change in Coverage Estimates (millions)

|   | 2019       | 2020       | 2021       | 2022       | 2023       | 2028       |
|---|------------|------------|------------|------------|------------|------------|
| Individual Market   | *          | *          | *          | 1          | 1          | 1          |
| Health Insurance Marketplace                                | *          | *          | *          | *          | *          | *          |
| Other Non-Group Insurance                                   | 1          | 1          | 1          | 1          | 1          | 1          |
| Employer Sponsored Insurance                                | *          | *          | *          | *          | *          | *          |
| Medicaid  | *          | *          | *          | *          | *          | *          |
| Other Public Insurance                                      | *          | *          | *          | *          | *          | *          |
| <b>Total Insured in March 2018<br/>Baseline<sup>1</sup></b> | <b>245</b> | <b>245</b> | <b>245</b> | <b>245</b> | <b>245</b> | <b>246</b> |
| <b>Total Insured with Policy Changes<sup>1</sup></b>        | <b>245</b> | <b>245</b> | <b>245</b> | <b>246</b> | <b>246</b> | <b>247</b> |

<sup>1</sup> All insurance coverage estimates refer only to the under-65 population.

\* Difference between baseline estimates is between 0 and 1 million.

## Productivity and Access

In an attempt to evaluate access and productivity in the health care system, H&E estimates the Medical Productivity Index (MPI) and the Provider Access Index (PAI). Health insurance plan designs are associated with varying degrees of access to desired physicians and facilities, as well as incentives that promote or discourage efficient use of resources. H&E estimates each index by attributing productivity (i.e. efficiency) and access scores to the range of plan designs available and uses the changes in plan choices to project the evolution of health care quality. These scores are provided in Tables 5 and 6 below.

Table 5. Medical Productivity Index<sup>1</sup>

|                           | 2019       | 2020       | 2021       | 2022       | 2023       | 2028       |
|---------------------------|------------|------------|------------|------------|------------|------------|
| <b>Individual Market</b>  | <b>2.4</b> | <b>2.4</b> | <b>2.4</b> | <b>2.4</b> | <b>2.4</b> | <b>2.5</b> |
| Marketplace               | 2.2        | 2.2        | 2.2        | 2.3        | 2.3        | 2.3        |
| Other Non-Group Insurance | 2.6        | 2.6        | 2.6        | 2.6        | 2.7        | 2.7        |

<sup>1</sup> Productivity and access estimates refer only to the Individual Market, Medicaid, and under-65, non-disabled population.

Table 6. Provider Access Index<sup>1</sup>

|                           | 2017       | 2018       | 2019       | 2020       | 2021       | 2028       |
|---------------------------|------------|------------|------------|------------|------------|------------|
| <b>Individual Market</b>  | <b>3.1</b> | <b>3.1</b> | <b>3.1</b> | <b>3.1</b> | <b>3.1</b> | <b>3.3</b> |
| Marketplace               | 2.7        | 2.8        | 2.8        | 2.8        | 2.9        | 3.0        |
| Other Non-Group Insurance | 3.4        | 3.6        | 3.6        | 3.6        | 3.7        | 3.8        |

<sup>1</sup> Productivity and access estimates refer only to the Individual Market, Medicaid, and under-65, non-disabled population.

H&E expects medical productivity to decrease relative to the March 2018 baseline projection as a result of CSRs and reinsurance, as Table 7 below demonstrates. The decrease in premiums is expected to result in a larger proportion of consumers insured in higher actuarial value (AV) plans with lower cost sharing. Lower cost sharing means lower medical productivity (or efficiency), as people are more likely to pursue health care services. By 2028, medical productivity is expected to decrease by 1 percent relative to conditions under current law. On the other hand, the increase in the proportion of enrollment in higher AV plans leads to a 4 percent increase in provider access by 2028, as Table 8 shows.

Table 7. Change in Medical Productivity Index<sup>1</sup>

|                           | 2017       | 2018       | 2019       | 2020       | 2021       | 2028       |
|---------------------------|------------|------------|------------|------------|------------|------------|
| <b>Individual Market</b>  | <b>-2%</b> | <b>-2%</b> | <b>-2%</b> | <b>-2%</b> | <b>-2%</b> | <b>-1%</b> |
| Marketplace               | -2%        | -2%        | -2%        | -2%        | -2%        | -1%        |
| Other Non-Group Insurance | -2%        | -2%        | -2%        | -2%        | -2%        | -3%        |

<sup>1</sup> Productivity and access estimates refer only to the Individual Market, Medicaid, and under-65, non-disabled population.

Table 8. Change in Provider Access Index<sup>1</sup>

|                           | 2017      | 2018      | 2019      | 2020      | 2021      | 2028      |
|---------------------------|-----------|-----------|-----------|-----------|-----------|-----------|
| <b>Individual Market</b>  | <b>4%</b> | <b>4%</b> | <b>4%</b> | <b>4%</b> | <b>4%</b> | <b>4%</b> |
| Marketplace               | 4%        | 4%        | 4%        | 4%        | 4%        | 3%        |
| Other Non-Group Insurance | 3%        | 3%        | 3%        | 3%        | 4%        | 5%        |

<sup>1</sup> Productivity and access estimates refer only to the Individual Market, Medicaid, and under-65, non-disabled population.

## Budgetary Impact

H&E projects that policies included in the analysis will lead to a net decrease in the budget deficit of \$17 billion dollars relative to the current H&E baseline over the next decade. As neither of the policies are a new tax, it is expected that there will be no change in source funds. Both reinsurance and CSRs are both federal payments to insurers, and the combination of the two payments would result in roughly \$158 billion in added spending. However, H&E expects a net decrease of \$17 billion in spending as a result of a \$176 billion drop in spending on premium tax credits, due to the significant decrease in Silver premiums relative to the baseline.

**Table 9. Change in Budgetary Impact Estimates (billions)<sup>1</sup>**

|  | 2019        | 2020        | 2021        | 2022        | 2023        | 2028        | 2019-<br>2028 |
|--|-------------|-------------|-------------|-------------|-------------|-------------|---------------|
| <b>Change in Sources of Funds Baseline Estimates<sup>2</sup></b> |             |             |             |             |             |             |               |
| Individual and Employer Mandate Taxes <sup>3</sup>               | 0           | 0           | 0           | 0           | 0           | 0           | 0             |
| <b>Subtotal</b>  | <b>0</b>    | <b>0</b>    | <b>0</b>    | <b>0</b>    | <b>0</b>    | <b>0</b>    | <b>0</b>      |
| <b>Change in Uses of Funds Baseline Estimates<sup>4</sup></b>    |             |             |             |             |             |             |               |
| Cost-Sharing Benefits  | 8           | 8           | 7           | 7           | 7           | 6           | 69            |
| Premium Tax Credits  | -17         | -17         | -17         | -18         | -18         | -18         | -176          |
| Reinsurance  | 10          | 10          | 10          | 10          | 9           | 8           | 89            |
| Medicaid   | *           | *           | *           | *           | *           | *           | *             |
| Other  | *           | *           | *           | *           | *           | *           | *             |
| <b>Subtotal</b>  | <b>1</b>    | <b>*</b>    | <b>*</b>    | <b>-1</b>   | <b>-2</b>   | <b>-4</b>   | <b>-17</b>    |
| <b>Net Budgetary Impact in March 2018 Baseline Projection</b>    | <b>-437</b> | <b>-454</b> | <b>-471</b> | <b>-489</b> | <b>-507</b> | <b>-607</b> | <b>-5,186</b> |
| <b>Effect of CSR/Reinsurance Policies</b>                        | <b>-438</b> | <b>-454</b> | <b>-471</b> | <b>-488</b> | <b>-505</b> | <b>-603</b> | <b>-5,169</b> |
| <b>Net Budgetary Impact<sup>5</sup></b>                          | <b>-1</b>   | <b>0</b>    | <b>0</b>    | <b>1</b>    | <b>2</b>    | <b>4</b>    | <b>17</b>     |

<sup>1</sup> Cost estimates refer only for the under-65 population.

<sup>2</sup> Positive values denote increases in revenue; negative values denote decreases in revenue.

<sup>3</sup> Positive values denote increases in spending; negative values denote decreases in spending.

<sup>4</sup> Positive values denote surplus; negative values denote deficit.

\* Difference between baseline estimates is between 0 and 1 billion.

## Uncertainty in Projections

The Center for Health and Economy uses a peer-reviewed micro-simulation model of the health insurance market to analyze various aspects of the health care system.<sup>5</sup> As with all economic forecasting, H&E estimates are associated with substantial uncertainty. While the estimates provide a good indication on the nation's health care outlook, there are a wide range of possible scenarios that can result from policy changes, and current assumptions are unlikely to remain accurate over the course of the next ten years.

Aside from the potential policy changes, the magnitude of premium changes in the individual market are a specific area of uncertainty in this report. The introduction of a



substantial, federally funded reinsurance program would reduce risk for insurers in the individual market and put downward pressure on premiums; it is unclear, however, how much premiums will change—especially in the earlier years of the budget window considered. It is possible that insurers would be more cautious in setting premiums in the earlier years of such a program.

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<sup>1</sup> <http://healthandeconomy.org/health-and-economy-baseline-estimates-6/>