Factors Influencing 2019 Premiums in the Individual Market

ISSUE BRIEF

KEY TAKEAWAYS

Health insurance providers are already starting the process of making decisions about market participation, product offerings, and pricing for the 2019 plan year.

The individual market faces challenges including high premiums and high premium increases, fewer plan choices for many consumers, lower-than-projected enrollment, and risk pool challenges in certain states and markets.

Members of Congress and the Administration have a short opportunity to enact legislation that would put strong downward pressure on premiums in 2019, 2020 and beyond.
Factors Influencing 2019 Premiums in the Individual Market

Background

As of January 31, the 2018 open enrollment period for the individual market has closed nationwide. This includes states with extended open enrollment periods, such as California and New York. Given the timelines for product development and rate filings, health insurance providers are already starting the process of making decisions about market participation, product offerings, and pricing for the 2019 plan year.

Based on data from the Centers for Medicare & Medicaid Services (CMS), over 8.8 million consumers made a plan selection for coverage through healthcare.gov—a 5 percent decrease in plan selections from 2017. By contrast, preliminary data from state-based marketplaces suggest that plan selections for 2018 may exceed 2017 rates.

Actual enrollment data for 2018 will not be known until later this year. However, the key reason that 2018 enrollment appears to be on par with or greater than 2017 is the availability of federal premium assistance. These advance premium tax credits, or APTCs, make coverage affordable for low- and moderate-income individuals and families. This assistance is higher for individuals and families making less than 300 percent of federal poverty (FPL), but are available up to 400 percent FPL for those who lack access to affordable coverage through an employer.

For many well-documented reasons, the individual market continues to face stability challenges in its fifth year under the market reform rules of the Affordable Care Act (ACA). These challenges include high premiums and high premium increases, fewer plan choices for many consumers, lower-than-projected enrollment, and risk pool challenges in certain states and markets. Moreover, recent policy actions and other proposals may exacerbate current market instability and place greater upward pressure on premiums for 2019. Amid this uncertain environment, this brief examines the key factors affecting individual market premiums in 2019 and policy solutions that could slow or potentially reverse premium increases in 2019 and beyond.

Factors Influencing 2019 Premiums

- **Medical spending trends—including higher prescription drug costs—will push premiums higher.** Underlying health care costs continue to increase—driven in large part by medical price inflation and higher prescription drug prices. According to CMS national health expenditure projections, medical spending is expected to grow at an average rate of 5.7 percent per year (2018-2019), while PwC projects 2018 medical cost trend at 6.5 percent. Increases in medical trend are a key driver of health insurance premium increases—given that the vast majority of premium dollars goes to pay medical claims.

- **Elimination of the individual mandate will increase premiums in 2019.** Recent enactment of the Tax Cuts and Jobs Act of 2017 eliminated the individual mandate penalty (by reducing the penalty to $0) beginning for the 2019 plan year. According to the Congressional Budget Office (CBO) and independent actuaries, this would increase average premiums in the individual market by 4-10 percent. News reports also suggest that the Administration may propose to expand the list of exemptions to the mandate for 2018, which could inject further uncertainty in the market ahead of 2019.

- **New federal regulations could further destabilize risk pools, which will place
Factors Influencing 2019 Premiums in the Individual Market

additional upward pressure on premiums. The Administration’s proposed rule to expand association health plans (AHPs) could pose new challenges to the individual and small-group markets. AHPs may offer lower rates to some via slimmer benefits and looser consumer protections—particularly for healthier, lower cost, lower risk groups and individuals. At the same time, they could also siphon off younger, healthier people and negatively impact the broader individual and small-group markets that must operate under the ACA’s community rating and single risk pool rating requirements. Likewise, pursuant to an Executive Order from October 2017, proposed regulations are currently under development that would seek to broaden the availability of short-term, limited duration insurance (STLDI) plans. STLDI policies, which are exempt from ACA requirements and consumer protections, would likely have a similarly negative impact on the individual market risk pool and lead to additional premium increases for 2019.

Factors to Mitigate 2019 Premiums

• Establishing a reinsurance or similar risk sharing program would lower premiums in 2019. Several bills have been introduced in Congress to foster market stability through a new reinsurance program or other risk-pool funding. Such programs would reduce premiums by ceding some portion of high-dollar claims to the program, placing downward pressure on premiums across the entire individual market. An Avalere analysis estimated that establishing a premium stabilization program through reinsurance could lower premiums by between 4-12 percent depending on program design and available funding levels. Moreover, because reinsurance programs result in lower premiums and lower premium subsidies, the net cost to the federal government would be significantly less than the amount of total program funding.

• Funding cost-sharing reduction (CSR) benefits would reduce overall individual market premiums in 2019. The October 2017 termination of CSR payments—which help nearly 6 million low-income Americans better afford medical services by lowering deductibles and co-payments—caused exchange plan premiums in 2018 to increase by 20 percent, on average. Researchers at the Kaiser Family Foundation and Oliver Wyman similarly found that eliminating cost-sharing reduction payments increased premiums for the exchange silver benchmark plan by between 7-38 percent and by 11-20 percent, respectively. While average premiums across the broader individual market rose significantly, the availability of premium tax credits coupled with actions by most states on rate filings blunted the impact of these rate increases for many low- and moderate-income families. Action by Congress to provide multi-year funding for CSRs would put downward pressure on premiums across the individual market in 2019 and beyond. In addition, as with reinsurance, CSR funding would result in in reduced taxpayer spending on federal premium subsidies.

• Suspending taxes and fees. Congress recently enacted legislation that established a moratorium on the health insurance tax (HIT) for 2019. We recommend further suspending the HIT in 2018 and 2020 to place downward pressure on premiums, as it would otherwise be incorporated into premiums to cover the cost of the tax. This legislative action will reduce premiums by
Factors Influencing 2019 Premiums in the Individual Market

about 3 percent, or by about $230 annually per member in the individual market.\(^{18}\)

Other Factors

- **Changes in composition of the risk pool will affect premiums.** Broad-based participation and coverage is critical to an affordable and stable insurance marketplace. Incentives to promote participation—particularly among younger, healthier individuals—are crucial to create a balanced risk pool and well-functioning market. As noted above, recent legislative action on the individual mandate and other proposed regulatory actions may further deteriorate the individual market risk pool by causing healthier, younger individuals to exit from the individual market. While the magnitude of the impact of the proposed rules is difficult to estimate until finalized, directionally, it is virtually certain that individual market premiums will be pushed higher.

- **Effectiveness of education and outreach.** While the demand for health insurance coverage remained generally stable during the 2018 open enrollment period, sign-ups in healthcare.gov states are about 5 percent below last year’s total. Studies have shown that cuts in advertising and outreach make it harder for people to enroll and could destabilize the individual marketplace.\(^{19}\) By contrast, effective advertising and outreach can increase enrollment, expand coverage and lower premiums—as California’s comprehensive outreach and marketing program was credited with lowering premiums by 6-8 percent.\(^{20}\) An effective outreach and advertising effort—by both the federal government and states—could help stabilize risk pools and lower premiums.

Policy Recommendations for 2019 and Beyond

Members of Congress and the Administration have a short opportunity to enact legislation that would put strong downward pressure on premiums in 2019, 2020 and beyond.

For example, the Bipartisan Health Care Stabilization Act legislation introduced by Senators Alexander (R-TN) and Murray (D-WA) would reduce premiums in 2019, strengthen risk pools and lower federal subsidy costs, and reduce federal budget deficits by $3.8 billion.\(^{21}\) Similarly, a substantial reinsurance or other premium stabilization program—similar to proposals included in the American Health Care Act (AHCA) or introduced by Rep. Costello (R-PA) – would place downward pressure on premiums while promoting market stability.

Depending on the combination of policies enacted, an individual market stabilization package enacted by Congress could reverse recent premium increases as consumers make coverage selections for the 2019 plan year.

<table>
<thead>
<tr>
<th>Recommended Policies to Reduce Premiums</th>
<th>Estimated Premium Impact</th>
</tr>
</thead>
<tbody>
<tr>
<td>Create new multiyear reinsurance or similar program with $15 billion in federal funding starting in 2019</td>
<td>Reduce 4-12%</td>
</tr>
<tr>
<td>Fund cost sharing reduction (CSR) payments for 2017, 2019, and 2020</td>
<td>Reduce 7-38%</td>
</tr>
<tr>
<td>Incorporate moratorium on health insurer tax for 2019 into individual market rates</td>
<td>Reduce 3%</td>
</tr>
<tr>
<td>Fund comprehensive outreach and enrollment programs</td>
<td>Reduce 6-8%</td>
</tr>
</tbody>
</table>
Factors Influencing 2019 Premiums in the Individual Market

1 CMS Weekly Enrollment Snapshot: Week Seven. Total includes new plan selections, active plan renewals and automatic enrollments. https://www.cms.gov/Newsroom/MediaReleaseDatabase/Fact-sheets/2017-Fact-Sheet-items/2017-12-21.html
3 In 2018, 300 percent FPL is $36,180 for an individual, and $73,800 for a family of four.
4 In 2018, 400 percent FPL is $48,240 for an individual, and $98,400 for a family of four.
6 PwC Medical Cost Trend: Behind the Numbers 2018. https://www.pwc.com/us/en/health-