# ASPE ISSUE BRIEF

## THE EFFECT OF SHOPPING AND PREMIUM TAX CREDITS ON THE AFFORDABILITY OF MARKETPLACE COVERAGE

August 24, 2016

Previous ASPE analyses have shown that both advance payments of the premium tax credits (APTC) and consumer shopping behavior work to mitigate increases in net premiums experienced by consumers in the Health Insurance Marketplace from year to year. For example, last year, some observers suggested based on rate filings that consumers would experience double-digit increases in 2016. But, after taking into account shopping, the increase in the average premium among HealthCare.gov consumers was 8 percent between 2015 and 2016. Meanwhile, among the 85 percent of HealthCare.gov consumers with APTC, the average monthly net premium increased just $4, or 4 percent.[1]

In this brief, we examine how the combination of tax credits and the opportunity to shop around for coverage through the Marketplace would protect consumers in a hypothetical scenario with much higher premium increases in the Marketplace than occurred last year. Our analyses (and impacts of hypothetical rate increases) are restricted to consumers who purchase insurance through the Marketplaces, with a particular focus on the majority of these consumers who receive APTC. Focusing on a hypothetical scenario of a 25 percent increase in premiums for all Marketplace qualified health plans (QHPs) in HealthCare.gov states from 2016 to 2017, we show that the overwhelming majority of Marketplace consumers would be able purchase coverage for less than $75 per month, just as they could in 2016.

[1] Office of the Assistant Secretary for Planning and Evaluation, "Health Insurance Marketplace Premiums After Shopping, Switching, and Premium Tax Credits, 2015—2016," April 12, 2016, *ASPE Issue Brief*, available at: https://aspe.hhs.gov/pdf-report/marketplace-premiums-after-shopping-switching-and-premium-tax-credits-2015-2016.

**Key Highlights**

- Two features of the Health Insurance Marketplace—consumers' ability to shop around and the availability of premium tax credits—help ensure that consumers have affordable options.
- In a hypothetical scenario in which all Marketplace qualified health plan premiums were to increase by 25 percent from 2016 to 2017:
  - 73 percent of consumers could find coverage for $75 or less.
  - 78 percent of consumers could find coverage for $100 or less.

## Consumers Can Shop Around to Find Affordable Options

Under the Affordable Care Act (ACA), consumers may choose to enroll in any qualified health plan offered in the Health Insurance Marketplace in their area. This is a major change from how the market worked before the ACA, when people with pre-existing conditions could be charged more or denied coverage entirely if they tried to switch to a new plan (or were shopping for coverage for the first time).

Ensuring consumers can shop around is an important way in which the Marketplace ensures that consumers have affordable options. Premium changes typically vary from issuer to issuer and even across plans offered by the same issuer, so the lowest-priced plan one year may not be the lowest-priced plan the next year. Because consumers are guaranteed the option to shop around each year during open enrollment, they have the opportunity to re-evaluate the full set of plans available in the market each year and select whatever plan best meets their needs and budget.

Prior ASPE research has illustrated that shopping by consumers during open enrollment plays a very important role in keeping premiums affordable for consumers.[2] Among 2015 consumers who re-enrolled in the Marketplace for 2016 coverage, 43 percent chose to switch plans and realized substantial savings by doing so. Compared to what they would have paid if they had remained in their 2015 plan, consumers who switched plans saved an average of $42 per month in premium costs, equivalent to over $500 in annual savings.

## Tax Credits Limit Premium Changes for the Overwhelming Majority of Consumers

Advance payments of premium tax credits also play an important role in ensuring that health insurance coverage is affordable for consumers. In 2016, 85 percent of Marketplace plan selections in the HealthCare.gov states were with APTC, and among those receiving premium tax credits in the HealthCare.gov states, APTC covered 73 percent of the total premium.

[2] Office of the Assistant Secretary for Planning and Evaluation, "Health Insurance Marketplace Premiums After Shopping, Switching, and Premium Tax Credits, 2015—2016," April 12, 2016, *ASPE Issue Brief*, available at: https://aspe.hhs.gov/pdf-report/marketplace-premiums-after-shopping-switching-and-premium-tax-credits-2015-2016.

The APTC is designed to ensure that consumers have affordable options among the plans offered in their area. In detail, at any level of income below 400 percent of the Federal Poverty Level (FPL), the ACA specifies the share of income that households are expected to pay toward benchmark Marketplace coverage, also known as the required contribution.[3] The APTC contributes the difference between the actual cost of the benchmark plan and this specified share of income, thereby ensuring that consumers can purchase the benchmark plan for no more than the specified share of income.

This design ensures that APTC protects consumers in two important ways. First, the APTC amount a consumer is eligible for adjusts with the premium of the benchmark plan. If premiums for all plans in an area rise similarly, the difference between the required contribution towards health insurance coverage and the benchmark premium would increase, resulting in a higher APTC amount for those receiving APTC that would leave the consumer's cost of purchasing a plan with a premium equal to the benchmark premium unchanged and actually *reducing* premiums for those in plans below benchmark (all else equal). Prior research has shown that Marketplace consumers overwhelmingly select low-cost plans, which will almost always have premiums near or below the benchmark.[4]

Second, when benchmark premiums rise faster than expected, more individuals are protected by APTC. This occurs because when premiums rise, actual premiums exceed the required contribution towards health insurance coverage for people at higher income levels. For example, under the ACA, a family of four with income of 350 percent FPL can be required to pay up to 9.69 percent of income, or $687 per month, for benchmark coverage. If premiums are less than or equal to $687, the family does not receive APTC. But if premiums rise from $687 to $787, the family will become eligible for APTC of $100 per month.

To illustrate the APTC's role in mitigating premium increases and protecting the availability of affordable coverage options, we estimate the impact of a hypothetical 25 percent increase in premiums for all Marketplace QHPs in HealthCare.gov states from 2016 to 2017. We do not yet know what final Marketplace premium increases for 2017 will be; the appendix shows alternative hypothetical increase of 10 and 50 percent. For purposes of this analysis, we assume that all premiums increase 25 percent.[5] This assumption is highly unrealistic: even in a market

[3] The benchmark plan is the plan that has the second-lowest premium according to the proportion of the premium that goes toward essential health benefits (EHB). The benchmark plan may not always be the second-lowest cost gross premium in the silver tier, and there may not be a plan priced lower than the benchmark, if plans have EHB percentages less than 100%. For the purpose of this hypothetical analysis, we have assumed that all plans have 100% EHB.

[4] Amy Burke, Arpit Misra, and Steven Sheingold, "Premium Affordability, Competition, and Choice in the Health Insurance Marketplace, 2014," ASPE Issue Brief, June 18, 2014, available at: https://aspe.hhs.gov/sites/default/files/pdf/76896/2014MktPlacePremBrf.pdf.

[5] When calculating the impact of hypothetical rate increases, we hold constant consumers' ages, family composition, and household income as a percentage of the federal poverty level, and exclude individuals for whom age was missing from our dataset, tobacco users (who may face surcharges above the base premium), and individuals enrolled in catastrophic plans. For each plan selection with an APTC, we use each individual's 2016 maximum monthly premium payment amount as it appears in the data, then make adjustments to convert that number to a 2017 amount. In our dataset, we observe some households that are not receiving APTC in 2016 but do appear eligible on the basis of income. For these households, we impute the maximum amount the household would need to pay

where premiums rose by 25 percent on average, some premiums would likely rise less, and, as illustrated above, prior experience indicates that many consumers would likely shift toward these plans. The simple hypothetical scenario helps illustrate how key features of the ACA protect consumers from rate increases. All Marketplace premiums will be finalized and public in October.

Under this hypothetical scenario, we find that the percent of Marketplace consumers who could purchase coverage for $75 or less would be 73 percent, and the percent who could purchase coverage for $100 or less would be 78 percent. If the increase were 50 percent, 76 percent of Marketplace consumers could purchase coverage for $75 or less and 80 percent could purchase coverage for $100 or less. This suggests that even if premium increases for 2017 are significant, the structure of the tax credits will help keep premiums affordable.[6]

Table 1 summarizes the effect of a hypothetical 25 percent increase in Marketplace premiums on APTC and access to plans. We also show the effects of hypothetical 10 and 50 percent increases. State-level tables of consumer APTC receipt and plan access are shown in the Appendix.

**Table 1. APTC and Access to Plans Under Hypothetical Premium Increase Scenarios**

| | 2016 | 2017 Hypothetical Premium Increase | | |
|---|---|---|---|---|
| | | 10% | 25% | 50% |
| **Percent of Marketplace consumers eligible for APTC** | 87% | 87% | 88% | 88% |
| **Percent of Marketplace consumers who could purchase coverage for $75 or less** | 70% | 71% | 73% | 76% |
| **Percent of Marketplace consumers who could purchase coverage for $100 or less** | 76% | 77% | 78% | 80% |

toward benchmark coverage and calculate the amount, if any, of APTC the household would be eligible for in 2016. See Methodology for additional details.

[6] The increases occur because calculation of APTC depends on the premium of the benchmark plan, and a consumer typically has the option of a lower-price silver plan and lower-price bronze plans. If all premiums rise proportionally, then for consumers who are APTC-eligible, the dollar increase in the APTC would be greater than the corresponding dollar increase in the premiums of these lower cost plans. Thus, the result would be a decrease in the net premium for plans with premiums below the benchmark for APTC eligible consumers.

## APPENDIX: STATE TABLES

### TABLE A1
### Hypothetical 25 Percent Premium Increase in 2017: Percentage of Health Insurance Marketplace Consumers who Could Obtain Coverage for $100 or Less After Advance Premium Tax Credits in HealthCare.gov States *Regardless of Metal Level*

| State | 2016* | | 2017 (Hypothetical) | |
|---|---|---|---|---|
| | Percentage of HealthCare.gov Consumers Who Could Select a Plan with a Monthly Premium of: | | | |
| | $75 or less | $100 or less | $75 or less | $100 or less |
| *HealthCare.gov Total (38 states)* | *70%* | *76%* | *73%* | *78%* |
| Alabama | 74% | 79% | 77% | 81% |
| Alaska | 70% | 74% | 76% | 79% |
| Arizona | 62% | 72% | 65% | 70% |
| Arkansas | 64% | 72% | 69% | 76% |
| Delaware | 64% | 70% | 70% | 74% |
| Florida | 80% | 84% | 82% | 86% |
| Georgia | 74% | 79% | 77% | 81% |
| Hawaii | 64% | 72% | 68% | 73% |
| Illinois | 54% | 63% | 58% | 65% |
| Indiana | 56% | 64% | 60% | 67% |
| Iowa | 64% | 72% | 70% | 75% |
| Kansas | 63% | 70% | 67% | 72% |
| Louisiana | 83% | 86% | 86% | 88% |
| Maine | 64% | 71% | 68% | 74% |
| Michigan | 66% | 74% | 70% | 76% |
| Mississippi | 79% | 84% | 81% | 85% |
| Missouri | 73% | 78% | 77% | 81% |
| Montana | 63% | 69% | 68% | 74% |
| Nebraska | 71% | 78% | 76% | 81% |
| Nevada | 69% | 76% | 74% | 79% |
| New Hampshire | 47% | 59% | 52% | 57% |
| New Jersey | 52% | 59% | 56% | 63% |
| New Mexico | 52% | 62% | 53% | 62% |
| North Carolina | 78% | 83% | 82% | 85% |
| North Dakota | 63% | 71% | 69% | 76% |
| Ohio | 55% | 64% | 59% | 67% |
| Oklahoma | 78% | 84% | 82% | 84% |
| Oregon | 49% | 59% | 55% | 61% |
| Pennsylvania | 54% | 62% | 58% | 64% |

| State | 2016* | | 2017 (Hypothetical) | |
|---|---|---|---|---|
| | Percentage of HealthCare.gov Consumers Who Could Select a Plan with a Monthly Premium of: | | | |
| | $75 or less | $100 or less | $75 or less | $100 or less |
| South Carolina | 64% | 71% | 65% | 72% |
| South Dakota | 69% | 77% | 75% | 80% |
| Tennessee | 74% | 79% | 78% | 81% |
| Texas | 74% | 80% | 77% | 81% |
| Utah | 73% | 82% | 77% | 82% |
| Virginia | 70% | 75% | 74% | 78% |
| West Virginia | 60% | 67% | 65% | 71% |
| Wisconsin | 64% | 70% | 69% | 74% |
| Wyoming | 61% | 69% | 66% | 73% |

***** For households that are not receiving advance payments of the premium tax credits for 2016 but appear eligible on the basis of household income, we impute the maximum amount these households would need to pay toward benchmark coverage and calculate the amount, if any, of APTC the household would be eligible for in 2016.

**Note:** Consumers' ages, family composition, and household income as a percentage of the federal poverty level are held constant. Information is for enrollees in the 38 states that use the HealthCare.gov platform for both 2016 and 2017. 2016 enrollees include those who had an active Marketplace plan selection as of 2/1/2016 but exclude those whose plans were terminated prior to that date. For each plan selection with an APTC, we use each individual's 2016 maximum monthly premium payment amount as it appears in the data, then make adjustments to convert that number to a 2017 amount. See Methodology for additional details. Each consumer is matched to the available plans in his or her county according to the QHP Landscape file for plan year 2016 as of November 2015.

**TABLE A2**
**Hypothetical 10 Percent Premium Increase in 2017: Percentage of Health Insurance Marketplace Consumers who Could Obtain Coverage for $100 or Less After Advance Premium Tax Credits in HealthCare.gov States *Regardless of Metal Level***

| State | 2016* | | 2017 (Hypothetical) | |
|---|---|---|---|---|
| | Percentage of HealthCare.gov Consumers Who Could Select a Plan with a Monthly Premium of: | | | |
| | $75 or less | $100 or less | $75 or less | $100 or less |
| *HealthCare.gov Total (38 states)* | *70%* | *76%* | *71%* | *77%* |
| Alabama | 74% | 79% | 75% | 80% |
| Alaska | 70% | 74% | 72% | 76% |
| Arizona | 62% | 72% | 63% | 73% |
| Arkansas | 64% | 72% | 66% | 74% |
| Delaware | 64% | 70% | 66% | 72% |
| Florida | 80% | 84% | 81% | 85% |
| Georgia | 74% | 79% | 75% | 80% |
| Hawaii | 64% | 72% | 66% | 71% |
| Illinois | 54% | 63% | 56% | 64% |
| Indiana | 56% | 64% | 58% | 65% |
| Iowa | 64% | 72% | 67% | 74% |
| Kansas | 63% | 70% | 65% | 71% |
| Louisiana | 83% | 86% | 84% | 87% |
| Maine | 64% | 71% | 66% | 72% |
| Michigan | 66% | 74% | 68% | 76% |
| Mississippi | 79% | 84% | 80% | 84% |
| Missouri | 73% | 78% | 75% | 79% |
| Montana | 63% | 69% | 65% | 71% |
| Nebraska | 71% | 78% | 73% | 79% |
| Nevada | 69% | 76% | 71% | 77% |
| New Hampshire | 47% | 59% | 49% | 55% |
| New Jersey | 52% | 59% | 53% | 61% |
| New Mexico | 52% | 62% | 51% | 62% |
| North Carolina | 78% | 83% | 80% | 84% |
| North Dakota | 63% | 71% | 65% | 73% |
| Ohio | 55% | 64% | 56% | 65% |
| Oklahoma | 78% | 84% | 80% | 82% |
| Oregon | 49% | 59% | 51% | 58% |
| Pennsylvania | 54% | 62% | 55% | 63% |
| South Carolina | 64% | 71% | 64% | 71% |
| South Dakota | 69% | 77% | 72% | 78% |

| State | 2016* | | 2017 (Hypothetical) | |
|---|---|---|---|---|
| | Percentage of HealthCare.gov Consumers Who Could Select a Plan with a Monthly Premium of: | | | |
| | $75 or less | $100 or less | $75 or less | $100 or less |
| Tennessee | 74% | 79% | 76% | 80% |
| Texas | 74% | 80% | 76% | 80% |
| Utah | 73% | 82% | 75% | 81% |
| Virginia | 70% | 75% | 72% | 76% |
| West Virginia | 60% | 67% | 62% | 68% |
| Wisconsin | 64% | 70% | 66% | 72% |
| Wyoming | 61% | 69% | 63% | 70% |

***** For households that are not receiving advance payments of the premium tax credits for 2016 but appear eligible on the basis of household income, we impute the maximum amount these households would need to pay toward benchmark coverage and calculate the amount, if any, of APTC the household would be eligible for in 2016.

**Note:** Consumers' ages, family composition, and household income as a percentage of the federal poverty level are held constant. Information is for enrollees in the 38 states that use the HealthCare.gov platform for both 2016 and 2017. 2016 enrollees include those who had an active Marketplace plan selection as of 2/1/2016 but exclude those whose plans were terminated prior to that date. For each plan selection with an APTC, we use each individual's 2016 maximum monthly premium payment amount as it appears in the data, then make adjustments to convert that number to a 2017 amount. See Methodology for additional details. Each consumer is matched to the available plans in his or her county according to the QHP Landscape file for plan year 2016 as of November 2015.

**TABLE A3**
**Hypothetical 50 Percent Premium Increase in 2017: Percentage of Health Insurance Marketplace Consumers who Could Obtain Coverage for $100 or Less After Advance Premium Tax Credits in HealthCare.gov States *Regardless of Metal Level***

| State | 2016* | | 2017 (Hypothetical) | |
|---|---|---|---|---|
| | Percentage of HealthCare.gov Consumers Who Could Select a Plan with a Monthly Premium of: | | | |
| | $75 or less | $100 or less | $75 or less | $100 or less |
| *HealthCare.gov Total (38 states)* | *70%* | *76%* | *76%* | *80%* |
| Alabama | 74% | 79% | 79% | 83% |
| Alaska | 70% | 74% | 80% | 82% |
| Arizona | 62% | 72% | 68% | 72% |
| Arkansas | 64% | 72% | 74% | 79% |
| Delaware | 64% | 70% | 74% | 78% |
| Florida | 80% | 84% | 84% | 87% |
| Georgia | 74% | 79% | 79% | 83% |
| Hawaii | 64% | 72% | 72% | 76% |
| Illinois | 54% | 63% | 62% | 67% |
| Indiana | 56% | 64% | 64% | 70% |
| Iowa | 64% | 72% | 74% | 79% |
| Kansas | 63% | 70% | 70% | 75% |
| Louisiana | 83% | 86% | 88% | 90% |
| Maine | 64% | 71% | 72% | 77% |
| Michigan | 66% | 74% | 75% | 79% |
| Mississippi | 79% | 84% | 82% | 86% |
| Missouri | 73% | 78% | 80% | 83% |
| Montana | 63% | 69% | 73% | 77% |
| Nebraska | 71% | 78% | 80% | 84% |
| Nevada | 69% | 76% | 78% | 82% |
| New Hampshire | 47% | 59% | 56% | 60% |
| New Jersey | 52% | 59% | 59% | 66% |
| New Mexico | 52% | 62% | 57% | 63% |
| North Carolina | 78% | 83% | 85% | 87% |
| North Dakota | 63% | 71% | 73% | 79% |
| Ohio | 55% | 64% | 63% | 70% |
| Oklahoma | 78% | 84% | 84% | 86% |
| Oregon | 49% | 59% | 60% | 64% |
| Pennsylvania | 54% | 62% | 62% | 67% |
| South Carolina | 64% | 71% | 67% | 73% |
| South Dakota | 69% | 77% | 79% | 83% |

| State | 2016* | | 2017 (Hypothetical) | |
|---|---|---|---|---|
| | Percentage of HealthCare.gov Consumers Who Could Select a Plan with a Monthly Premium of: | | | |
| | $75 or less | $100 or less | $75 or less | $100 or less |
| Tennessee | 74% | 79% | 81% | 83% |
| Texas | 74% | 80% | 80% | 82% |
| Utah | 73% | 82% | 80% | 84% |
| Virginia | 70% | 75% | 77% | 80% |
| West Virginia | 60% | 67% | 70% | 74% |
| Wisconsin | 64% | 70% | 73% | 77% |
| Wyoming | 61% | 69% | 71% | 76% |

***** For households that are not receiving advance payments of the premium tax credits for 2016 but appear eligible on the basis of house income, we impute the maximum amount these households would need to pay toward benchmark coverage and calculate the amount, if any, of APTC the household would be eligible for in 2016.

**Note:** Consumers' ages, family composition, and household income as a percentage of the federal poverty level are held constant. Information is for enrollees in the 38 states that use the HealthCare.gov platform for both 2016 and 2017. 2016 enrollees include those who had an active Marketplace plan selection as of 2/1/2016 but exclude those whose plans were terminated prior to that date. For each plan selection with an APTC, we use each individual's 2016 maximum monthly premium payment amount as it appears in the data, then make adjustments to convert that number to a 2017 amount. See Methodology for additional details. Each consumer is matched to the available plans in his or her county according to the QHP Landscape file for plan year 2016 as of November 2015.

**Methodology**

The enrollment data used in this analysis are for Marketplace plan selections as of February 1, 2016 (the last date of activity associated with the third Open Enrollment Period) in the 38 states using the federal HealthCare.gov eligibility and enrollment platform. We exclude from this analysis individuals for whom age was missing from our dataset, tobacco users (who may face surcharges above the base premium), and individuals enrolled in catastrophic plans (catastrophic coverage is only available to certain individuals and APTC cannot be applied to catastrophic plans).

Plans in the Health Insurance Marketplace are required to offer a comprehensive package of items and services, known as essential health benefits (EHB). Marketplace plans can offer benefits beyond these minimum benefits.

Each Marketplace plan reports what percentage of its premium is related to EHB. Most plans have an EHB percentage of 100%. Plans that cover benefits beyond EHB, however, have EHB percentages smaller than 100%, reflecting the fact that a portion of the premium pays for these additional benefits. The amount of premium that covers EHB is used to rank silver plans available to a consumer and determine which plan is the second-lowest cost silver plan—also called the benchmark plan—for the purposes of calculating APTCs.

Silver plans are ranked by the EHB amount of premium in order to determine the benchmark plan. EHB amounts can also affect the calculation of premiums after applicable tax credits, as APTCs can be applied only to the portion of the plan's premium that covers EHB. For example, suppose a consumer has a $200 APTC. If he selects a plan that costs $200 before APTC and has an EHB percent of 95%, APTC will cover $190 of the plan premium and he will be responsible for covering the remaining $10. For the purpose of this hypothetical analysis, we have assumed that all plans have 100% EHB.

When calculating the impact of hypothetical rate increases, we hold constant consumers' ages, family composition, and income as a percentage of the federal poverty level for analytic simplicity. We also hold constant the set of plans available and, therefore, assume that the 2016 benchmark plan available to a consumer remains the benchmark plan for 2017.

For each plan selection with advance payments of the premium tax credit, we use each individual's 2016 maximum monthly premium payment amount as it appears in the data, then make adjustments to convert that number to a 2017 amount. These adjustments include updating incomes to be consistent with the HHS 2016 federal poverty guidelines (https://aspe.hhs.gov/poverty-guidelines) and updating the applicable percentages to reflect the newly-released IRS tables for 2017 (https://www.irs.gov/pub/irs-drop/rp-16-24.pdf).

To calculate hypothetical net premiums for 2017, we calculate APTCs using the HHS 2016 federal poverty guidelines and IRS applicable percentage tables for 2017. To calculate the percentage of HealthCare.gov consumers who could select a plan with a monthly premium of less than $75 or $100, we match each consumer to the available plans in his or her county according to the QHP Landscape file for plan year 2016 as of November 2015. Because rates and plan availability

will not be finalized in all states until the fall, for the purposes of this analysis we assume that the same plans available in 2016 would be available in 2017.

In our dataset, we observe some households that are not receiving APTC in 2016 but do appear eligible on the basis of household income.[7] For these households, we impute the maximum amount the household would need to pay toward benchmark coverage using by applying the 2016 IRS applicable percentages and calculate the amount, if any, of APTC the household would be eligible for in 2016. We impute APTC for these consumers because, when we model all premiums rising by 25 percent in 2017, some consumers who do not receive APTC in 2016 because the benchmark premium is below the maximum required monthly premium payment may see their 2017 premium increase enough to qualify for APTC.

[7] There are various reasons a consumer may not appear to be receiving APTC but have a household income that would suggest they may be eligible (i.e., from 100/138 percent to 400 percent of the Federal Poverty Level). For example, the benchmark plan available to the consumer may be priced below the maximum monthly premium payment, the household may receive an offer of affordable employer-sponsored coverage, or the plan selection or income data in our analytic file are not up-to-date.