

# Estimating the Effects of the Consumer Freedom Amendment on the Individual Market

July 15, 2017

**PRELIMINARY DRAFT**



U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES  
Office of the Assistant Secretary for Planning and Evaluation

# Overview and Methodology

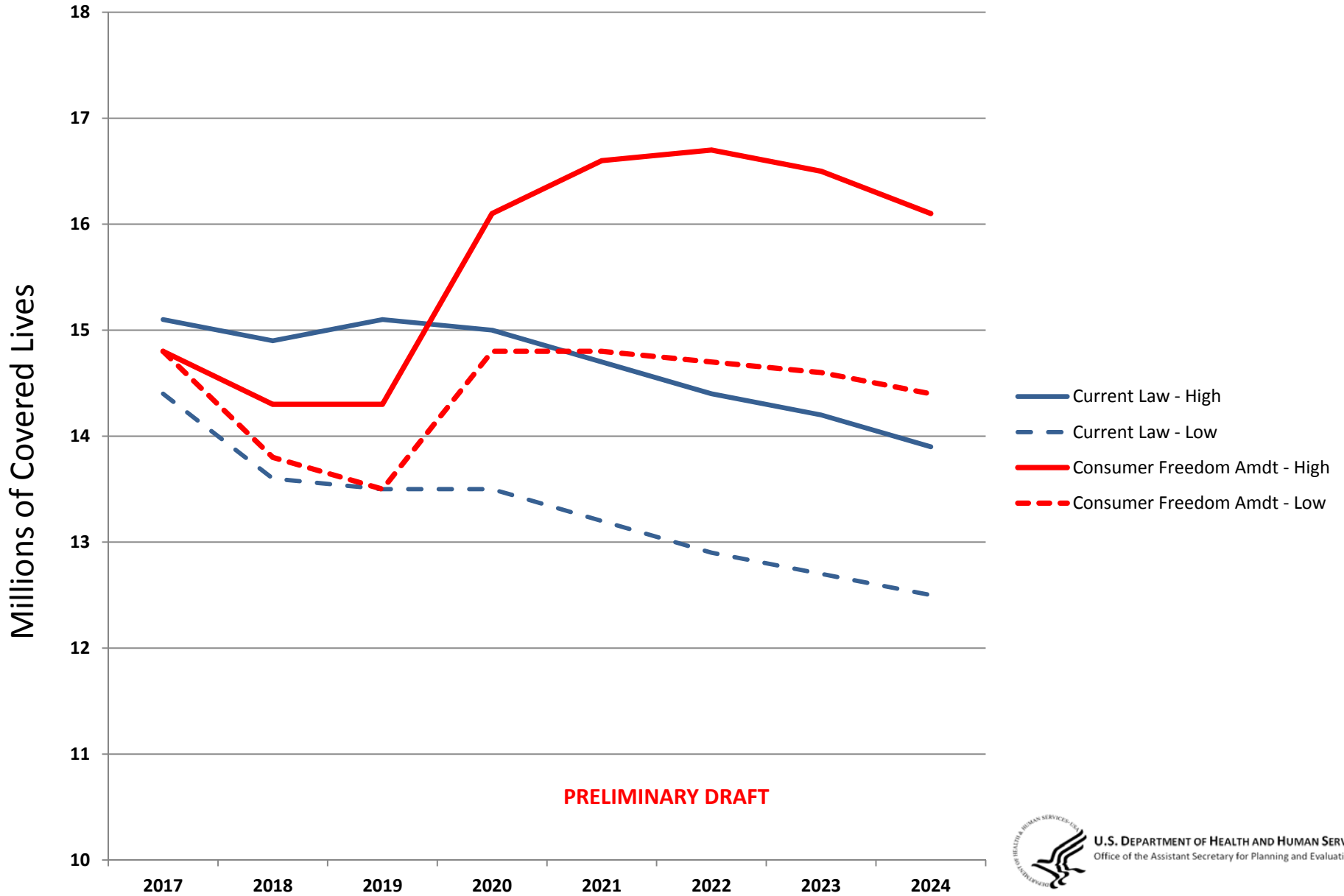
- In response to a request for technical assistance, we modeled the impact of allowing the sale of non-ACA compliant plans alongside ACA-compliant plans in the individual market, while still maintaining the consumer choice provisions of Section 1312(c)(1) of the Patient Protection and Affordable Care Act. Non-ACA compliant plans sold in plan year 2019 or later may also be referred to as Consumer Freedom Plans throughout this document.
- An alternate scenario absent the requirements of Section 1312(c)(1) of the Patient Protection and Affordable Care Act is also included.
- In both scenarios, it is assumed that an adequate number of issuers offer at least one bronze, silver, and gold qualified health plan, and that all states in 2020 permit all carriers to offer health insurance plans with a lower actuarial value and fewer required benefits without imposing stricter requirements and premium rating rules.
- We divided the nationwide uninsured and individual market populations into demographic cells (based on age, income, and health risk) and their insurance status (uninsured, insured in ACA-compliant plan, insured in an non-compliant plan).
- Using proprietary elasticity estimates, the model compares current year and prior year premium costs for individuals in each age/income/risk category, to determine the number of individuals choosing to purchase, maintain, or drop coverage, or remain uninsured.
- A range of coverage, premium rate, and federal outlay estimates were developed between two scenarios –high total/non-ACA enrollment and low total/non-ACA enrollment – for both the current law and the Consumer Freedom Amendment.
  - The “high” enrollment scenario assumes greater price sensitivity, more enrollment in non-ACA plans prior to 2017, 10% fewer claims as a result of loosened EHB requirements, and \$10B in annual federal funding used as reinsurance each year from 2020-2026.
  - The “low” enrollment scenario assumes lower price sensitivity, half the pre-2017 non-ACA enrollment, 5% fewer claims, and no federal funding.
- A full list of assumptions and limitations of our approach is described in the endnotes.

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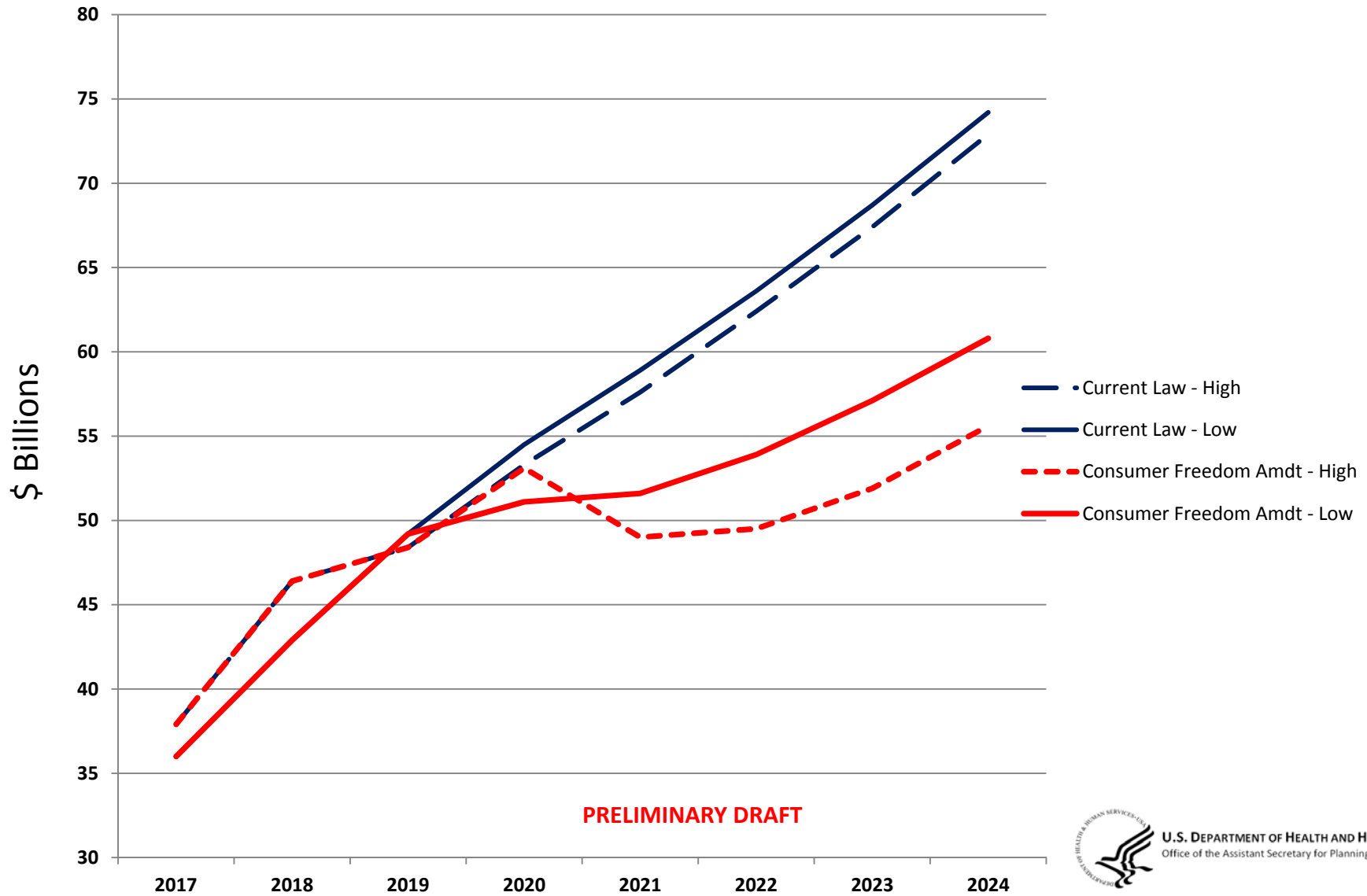
# Total Enrollment - Single Risk Pool



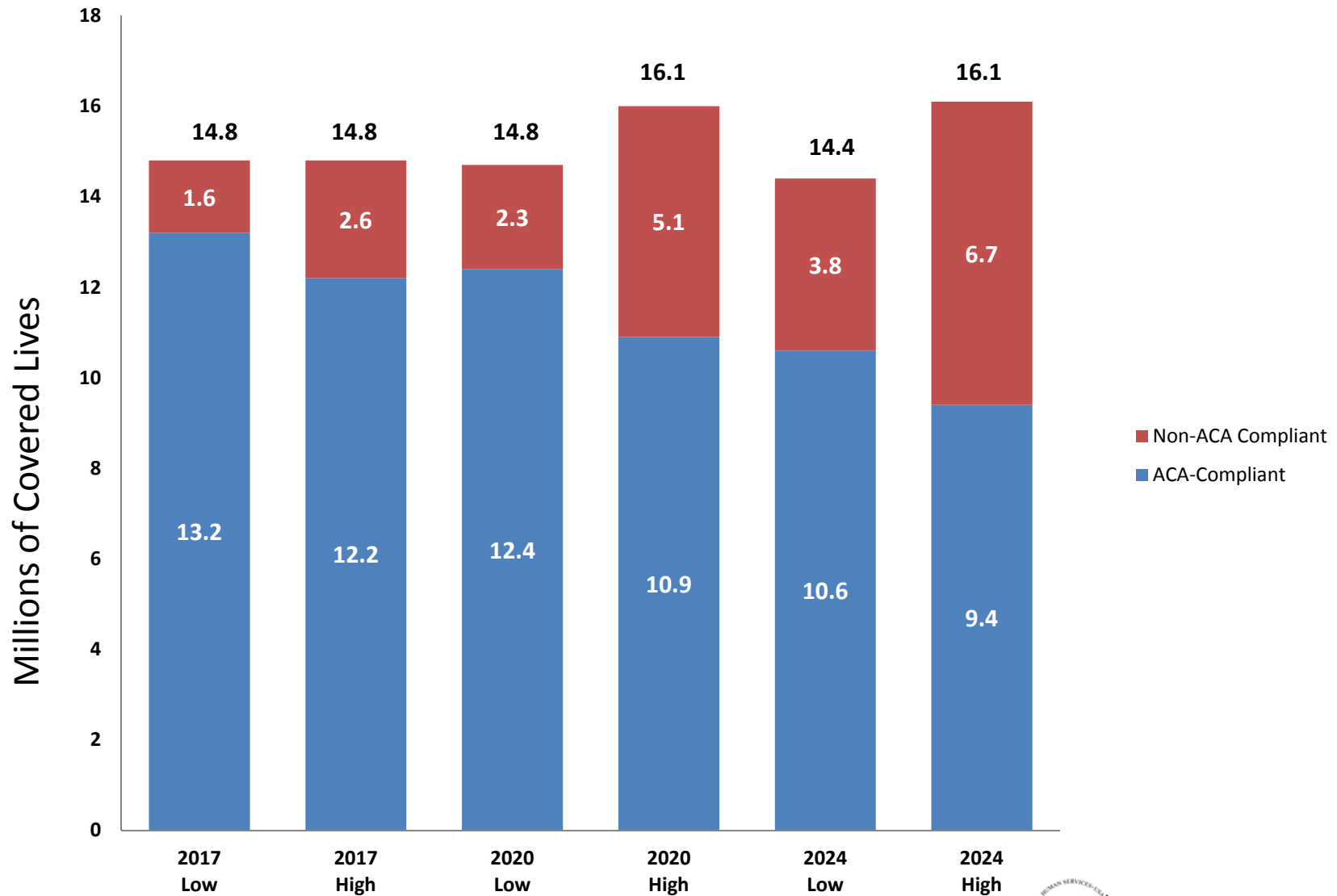
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# Federal Outlays: APTC, CSRs, and Section 301 Funding - Single Risk Pool



# Individual Market Enrollment: ACA Compliant vs Non-ACA Compliant Plans - Single Risk Pool

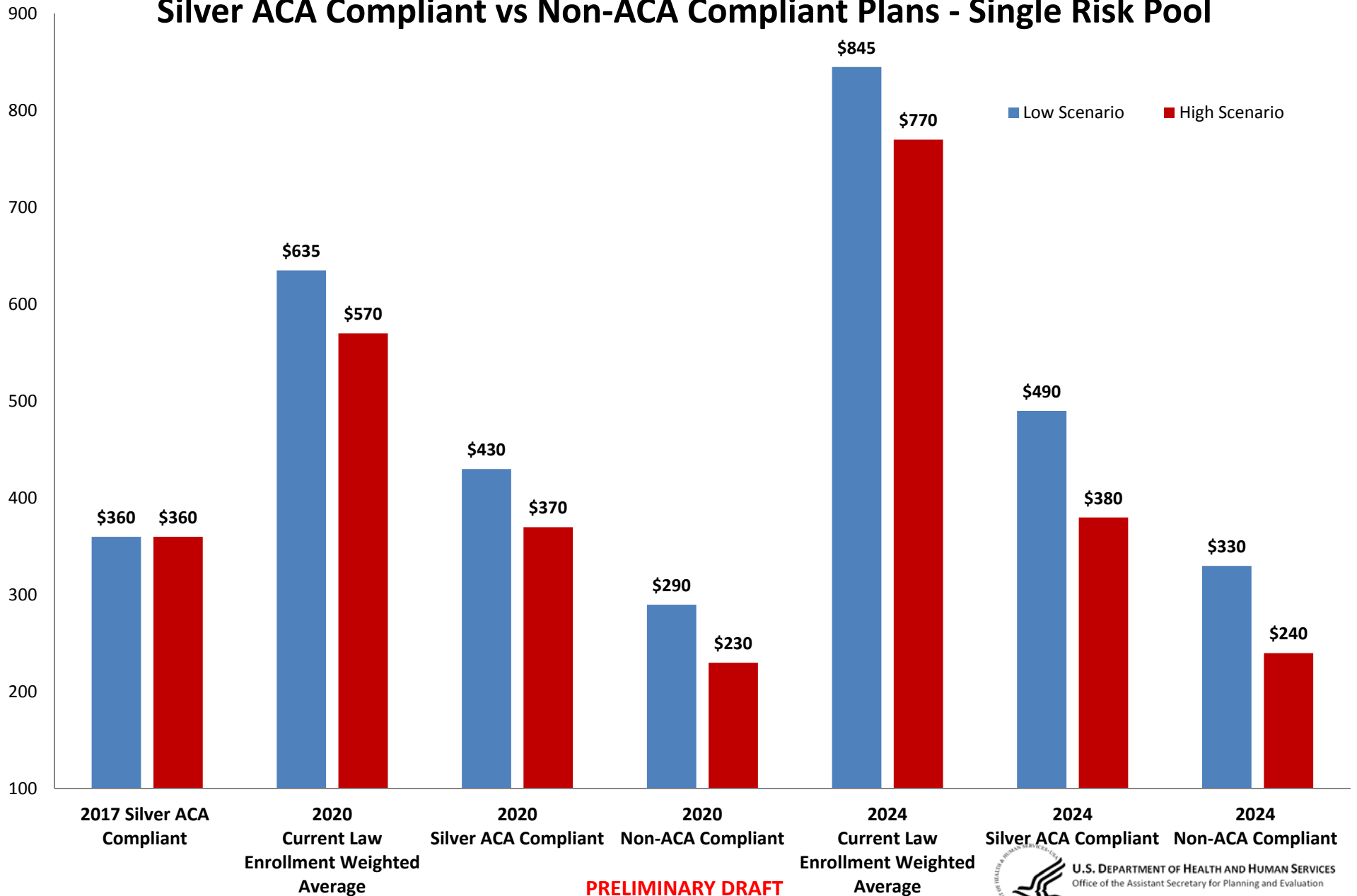


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# Individual Market Monthly Premiums

## Silver ACA Compliant vs Non-ACA Compliant Plans - Single Risk Pool



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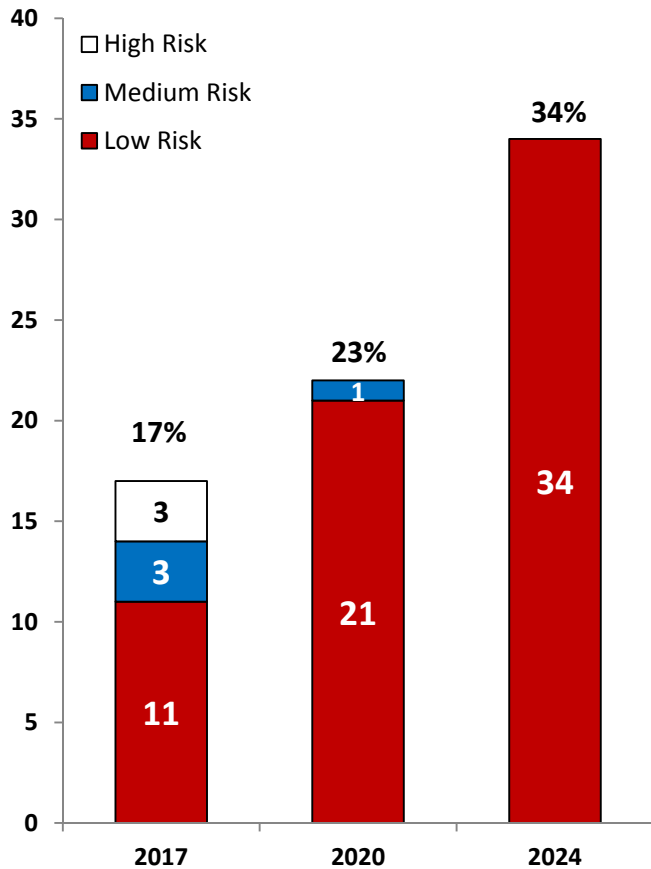
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Scenario premiums are for age 40 and do not include premium assistance under the current law or Consumer Freedom Amendment. Enrollment weighted average contains all ages.

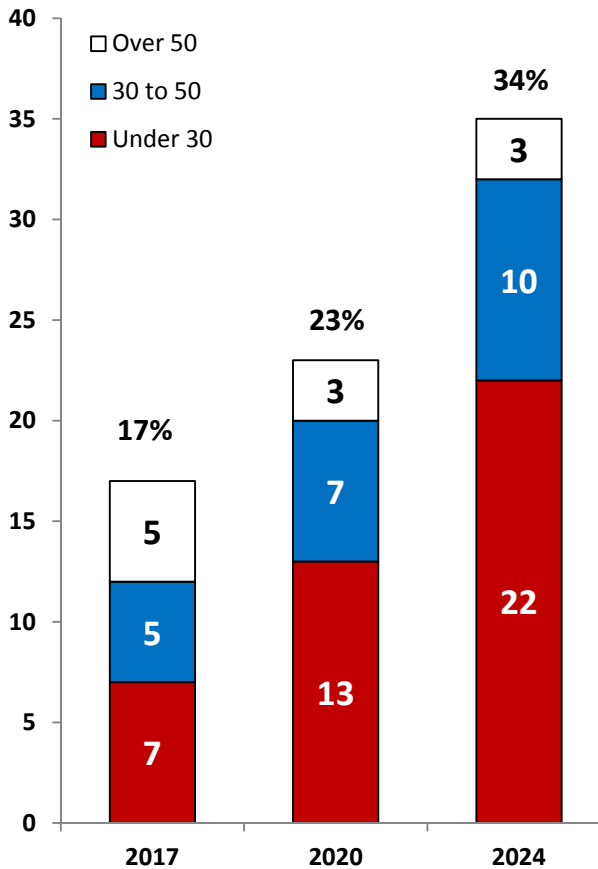
# Individual Market Enrollment:

## Demographic Mix of Non-ACA Compliant Plans - Single Risk Pool

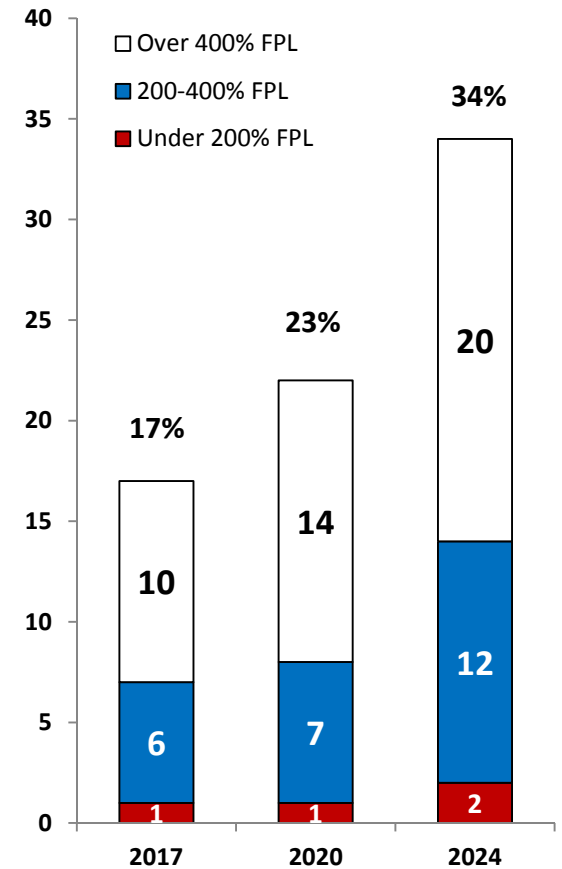
Individual Market Enrollment by risk



Individual Market Enrollment by age



Individual Market Enrollment by FPL



Totals may differ because of rounding

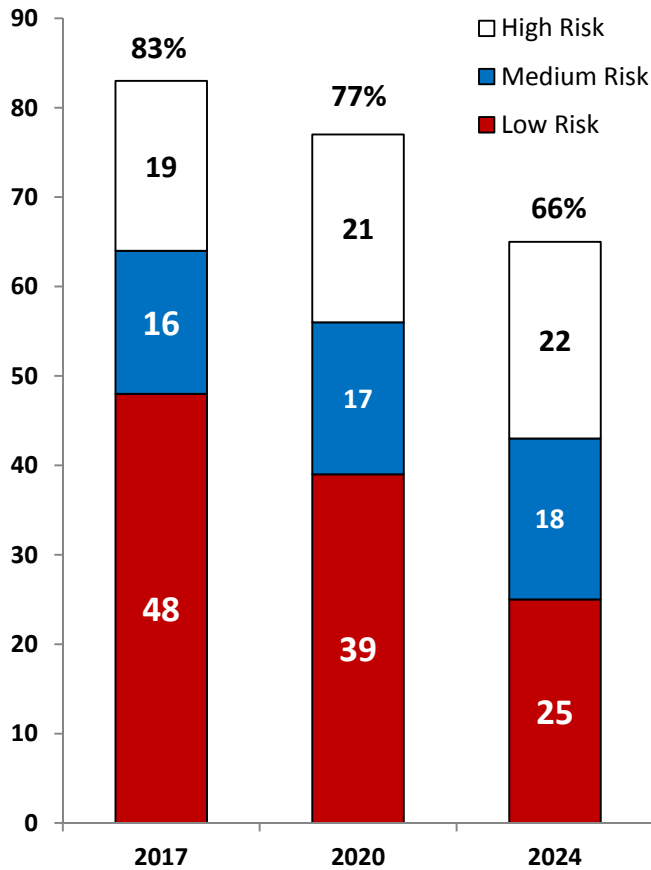
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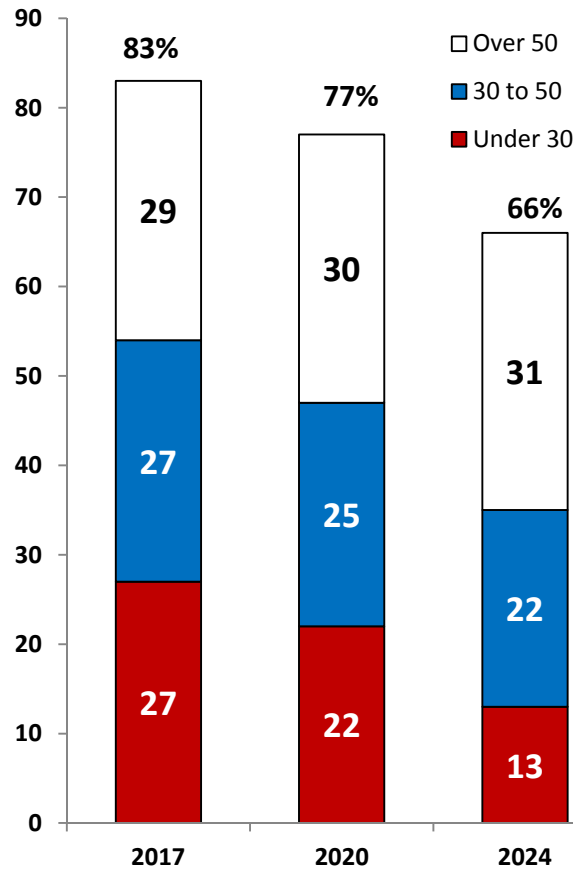
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# Individual Market Enrollment: Demographic Mix of ACA-compliant Plans - Single Risk Pool

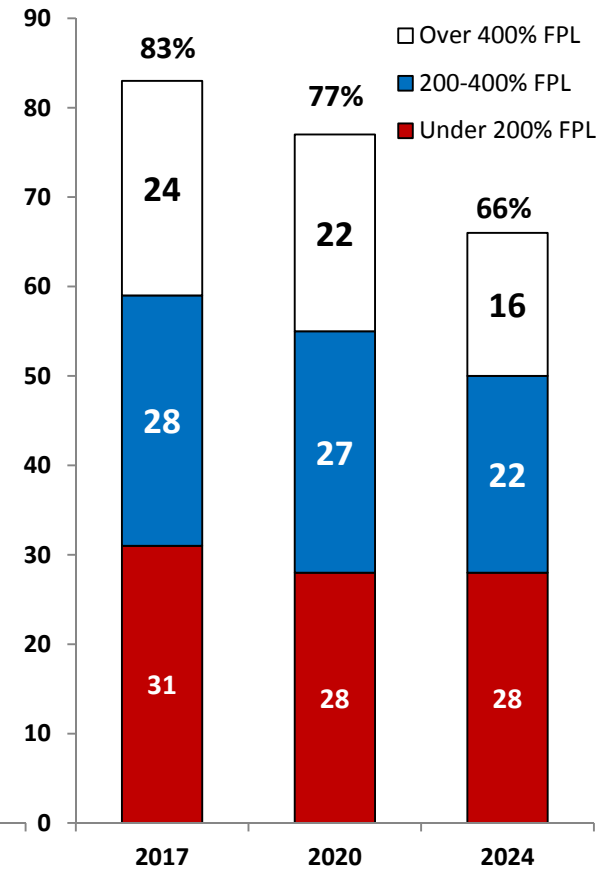
Individual Market Enrollment by risk



Individual Market Enrollment by age



Individual Market Enrollment by FPL



Totals may differ because of rounding

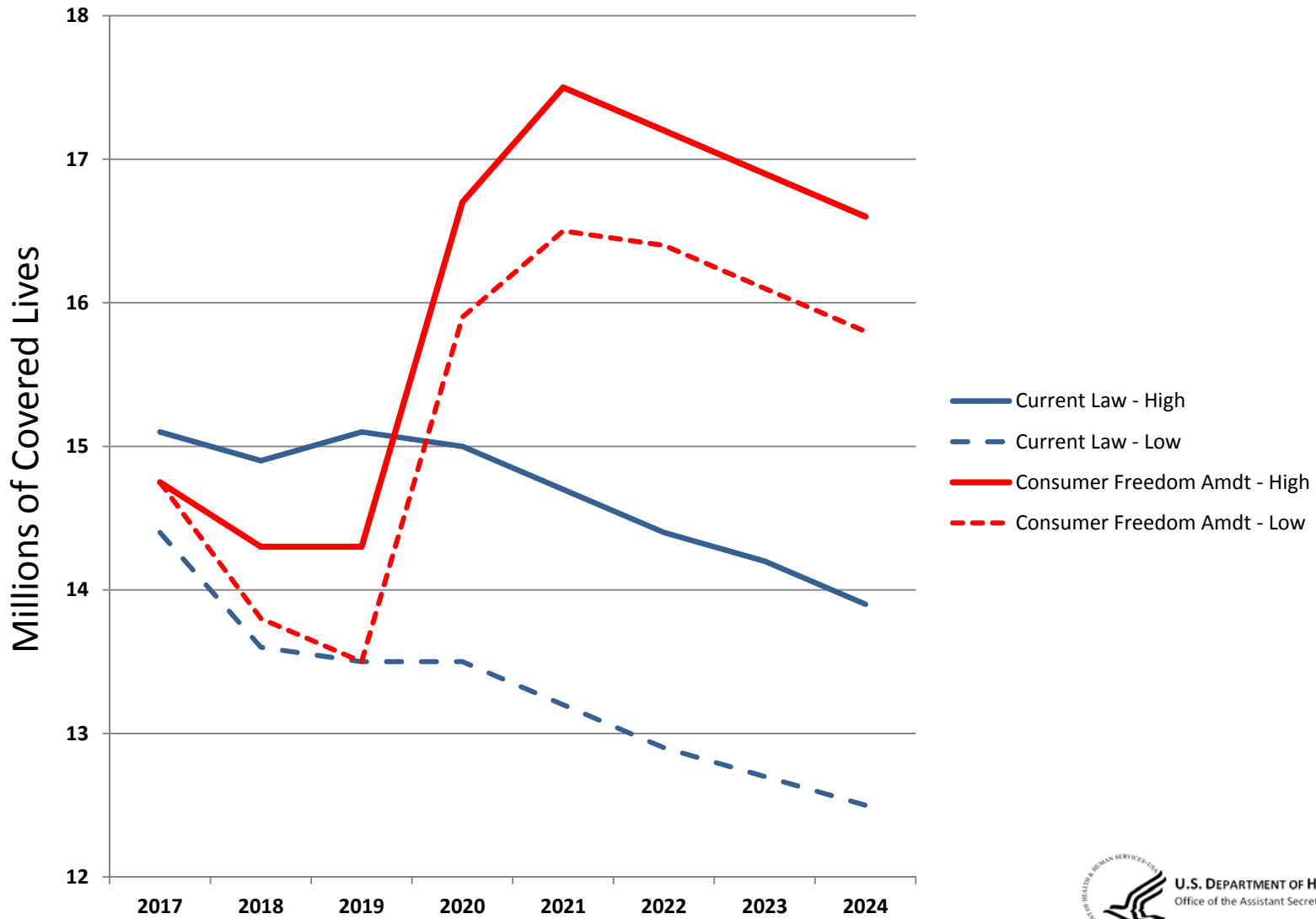
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# Total Enrollment - Two Risk Pools



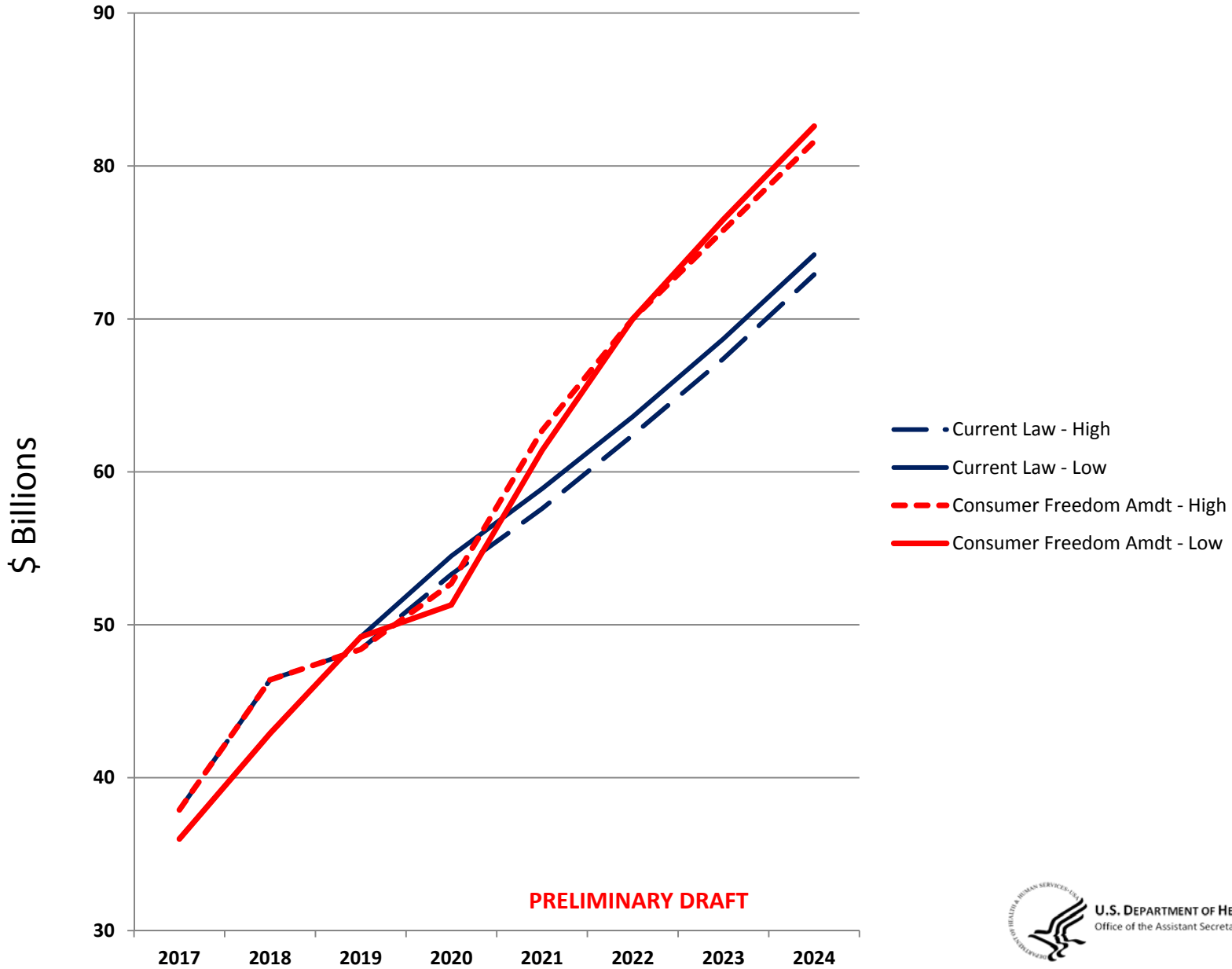
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# Federal Outlays

## APTC, CSRs, and Section 301 Funding - Two Risk Pools

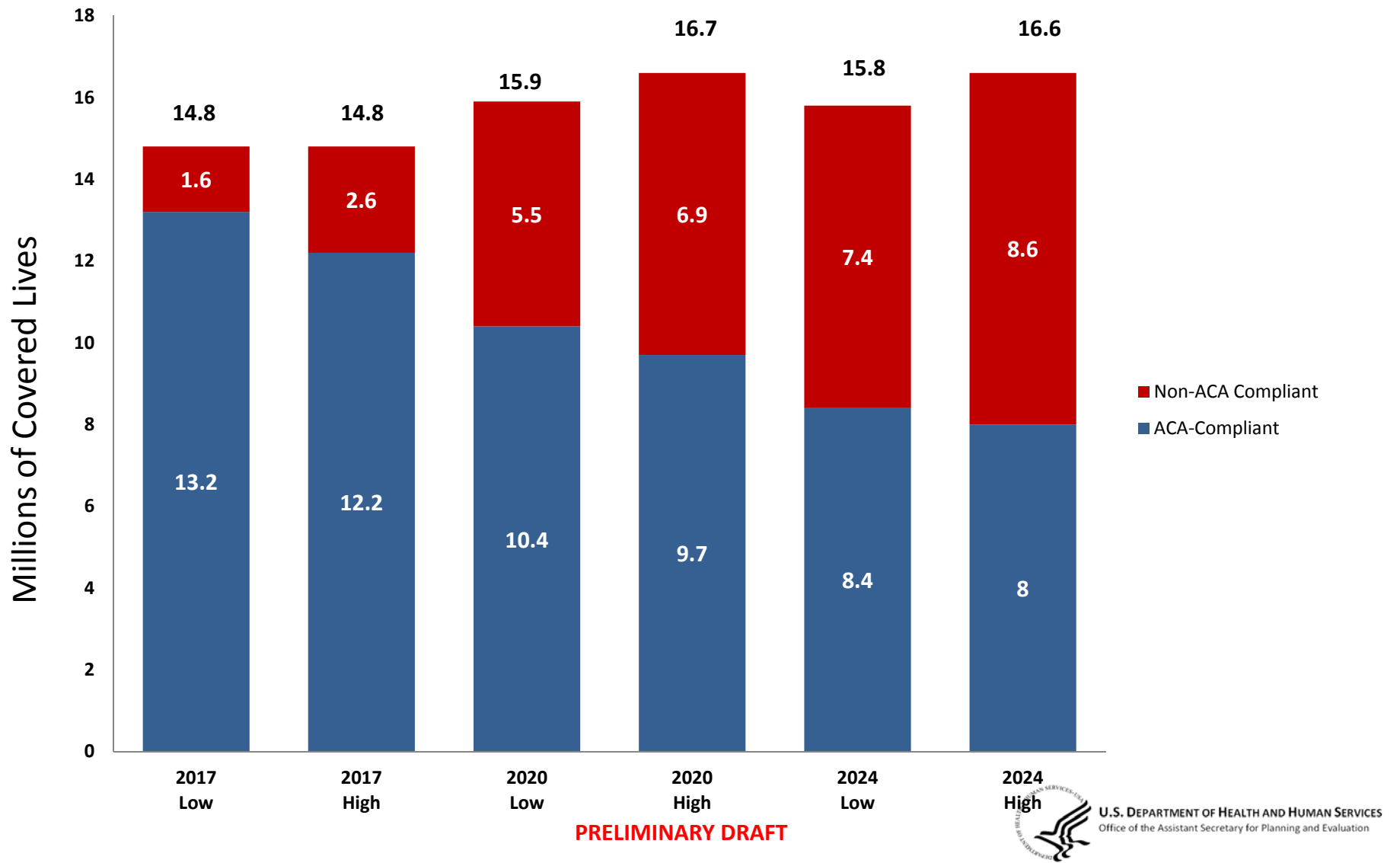


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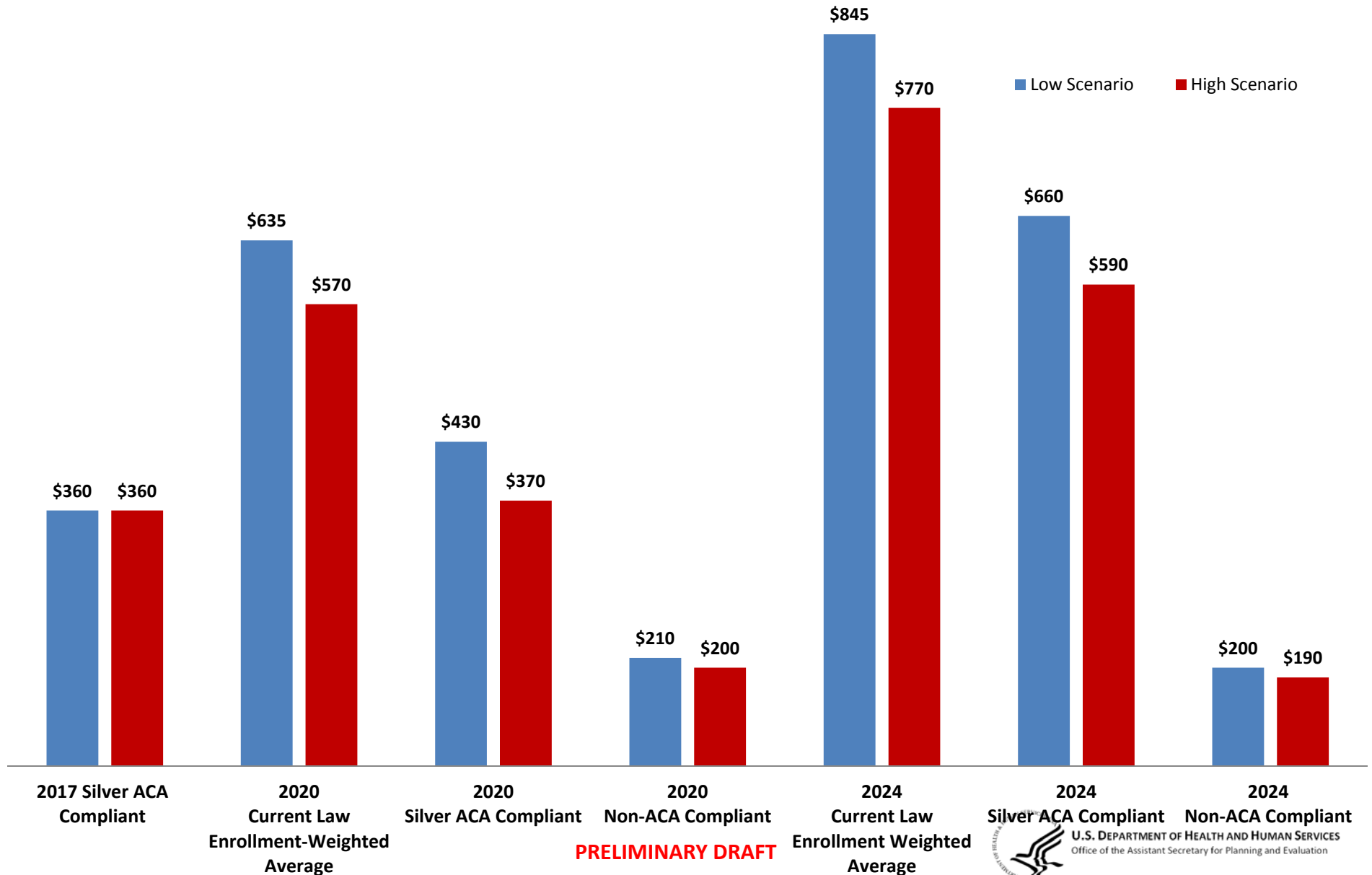
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# Individual Market Enrollment: ACA Compliant vs Non-ACA Compliant - Two Risk Pools



# Individual Market Monthly Premiums

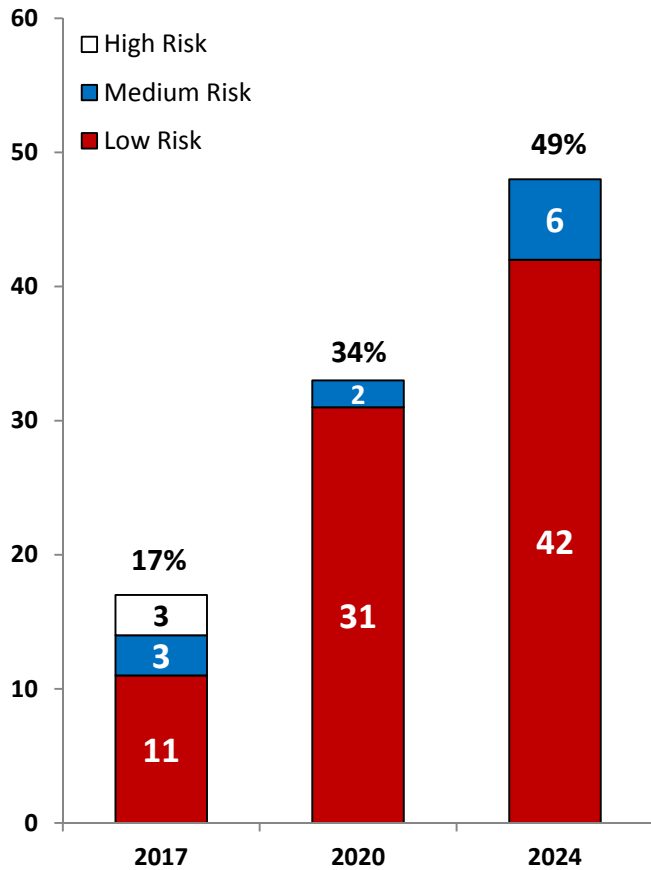
## Silver ACA Compliant vs Non-ACA Compliant - Two Risk Pools



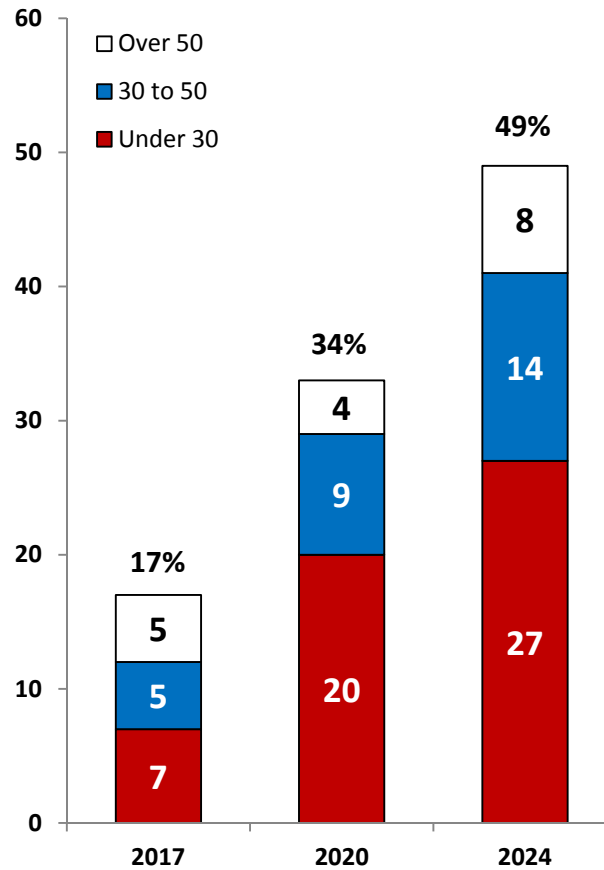
Scenario premiums are for age 40 and do not include premium assistance under the current law or Consumer Freedom Amendment. Enrollment weighted average contains all ages.

# Individual Market Enrollment: Demographic Mix of Non-ACA Compliant Plans - Two Risk Pools

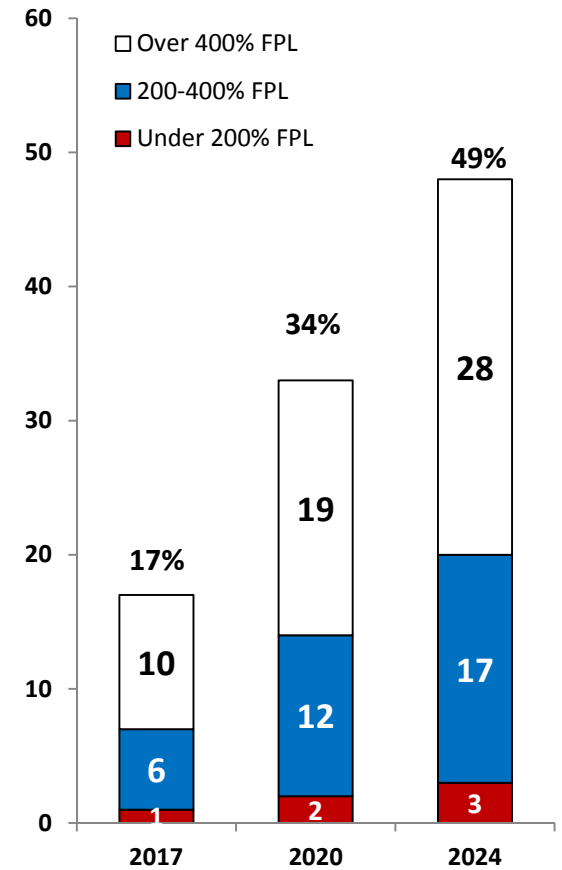
Individual Market Enrollment by risk



Individual Market Enrollment by age



Individual Market Enrollment by FPL



Totals may differ because of rounding

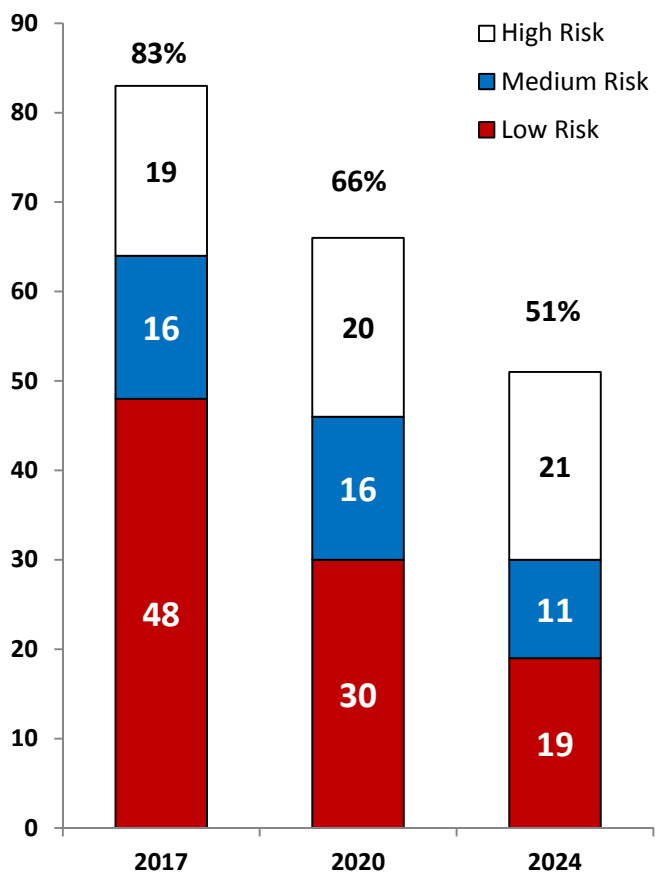
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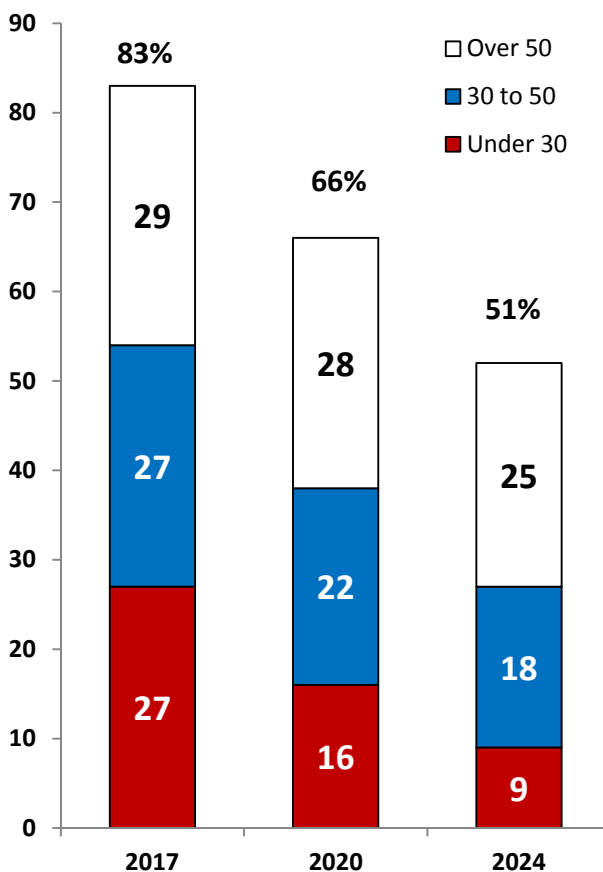
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# Individual Market Enrollment: Demographic Mix of ACA Compliant Plans - Two Risk Pools

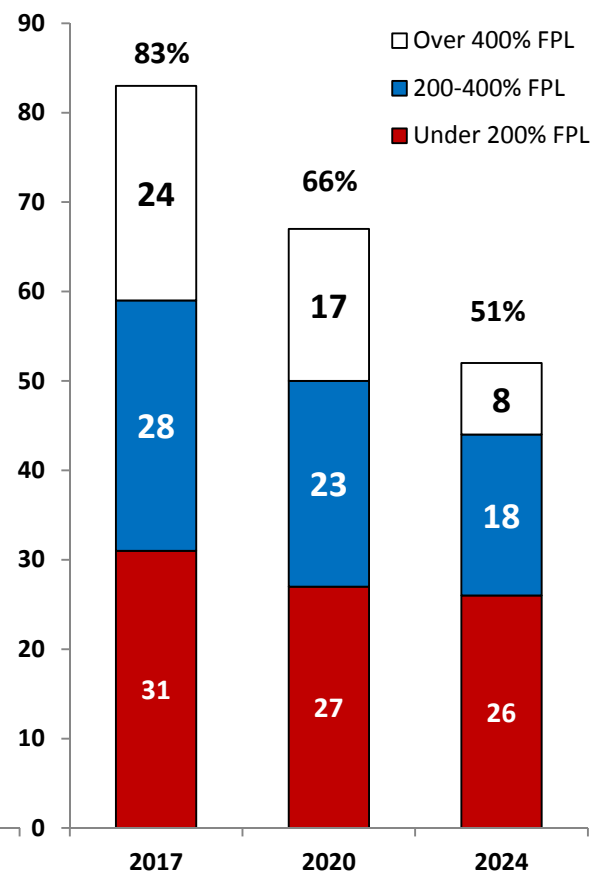
Individual Market Enrollment by risk



Individual Market Enrollment by age



Individual Market Enrollment by FPL



Totals may differ because of rounding

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# Assumptions & Limitations

The range of assumptions behind the modeled scenarios assume all of the details below are true for the model to hold.

- Rules governing the ACA market remain unchanged except for ones explicitly listed below
- In this scenario, it is assumed that an adequate number of issuers offer at least one bronze, silver, and gold qualified health plan, and that all states in 2020 permit all carriers to offer health insurance plans with a lower actuarial value and fewer required benefits without imposing stricter requirements and premium rating rules.
- In years prior to the open sale of non-ACA plans (2017-2019), a 15% lapse rate for non-ACA plans is used
- Range of lives on non-ACA plans in 2017 is estimated to be -2 - 3M
- Modeling is nationwide and assumes all states have a 5:1 age curve, both for ACA and non-ACA plans
- No change in population growth, economic growth, or medical trend
- Price elasticity is determined based on combinations of risk, age, and income
- Probability of enrollees switching between plans is ranged and based on a comparison of out-of-pocket & premium cost difference between a non-ACA plan and ACA bronze plan with higher total cost differentials leading to higher rates of switching
- Non-ACA plan designed with a \$12K deductible and \$12K maximum out-of-pocket limit

## Overall Assumptions

- Health status rating used for non-ACA plans beginning in 2020 in both scenarios
- Federal-level policy change in place to allow for open sale of non-ACA plans, with all states adopting this change and carriers in all markets offering non-ACA plans
- Rating occurs in a single risk pool without risk adjustment between non-ACA plans

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# Assumptions & Limitations

## Single Risk Pool Assumptions

- **High total/non-ACA enrollment scenario:**
  - Higher price sensitivity in total cost comparison between ACA and non-ACA plans, leading to higher rates of switching
  - 100% enrollment retention of enrollees who lapse non-ACA coverage from 2017-2019
  - Higher 2017 starting point of non-ACA enrollment
  - 10% lower claims in non-ACA plans due to EHB reductions
  - \$10B in additional federal funding used as reinsurance in each year 2020-2026
- **Low total/non-QHP enrollment scenario**
  - Lower price sensitivity in total cost comparison between ACA and non-ACA plans, leading to lower rates of switching
  - 50% enrollment retention of enrollees who lapse non-ACA coverage from 2017-2019
  - Lower 2017 starting point of non-ACA enrollment
  - 5% lower claims in non-ACA plans due to EHB reductions
  - No additional federal funding used as reinsurance in each year 2020-2026

## Double Risk Pool Assumptions

- Federal-level policy change in place to allow for open sale of non-ACA plans, with all states adopting this change and carriers in all markets offering non-ACA plans
- Rating occurs in separate risk pools (one for ACA plans and another for non-ACA plans)
- Low enrollment and high enrollment: same as the single risk pool scenario