

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

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# 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 5 combination policy options
- Model
- Results
  - Enrollment, premium, spending (federal, state and consumer)
  - Comparing: Efficiency of spending vs equity/policy goals
- Discussion: next steps for the 4<sup>th</sup> Working Group

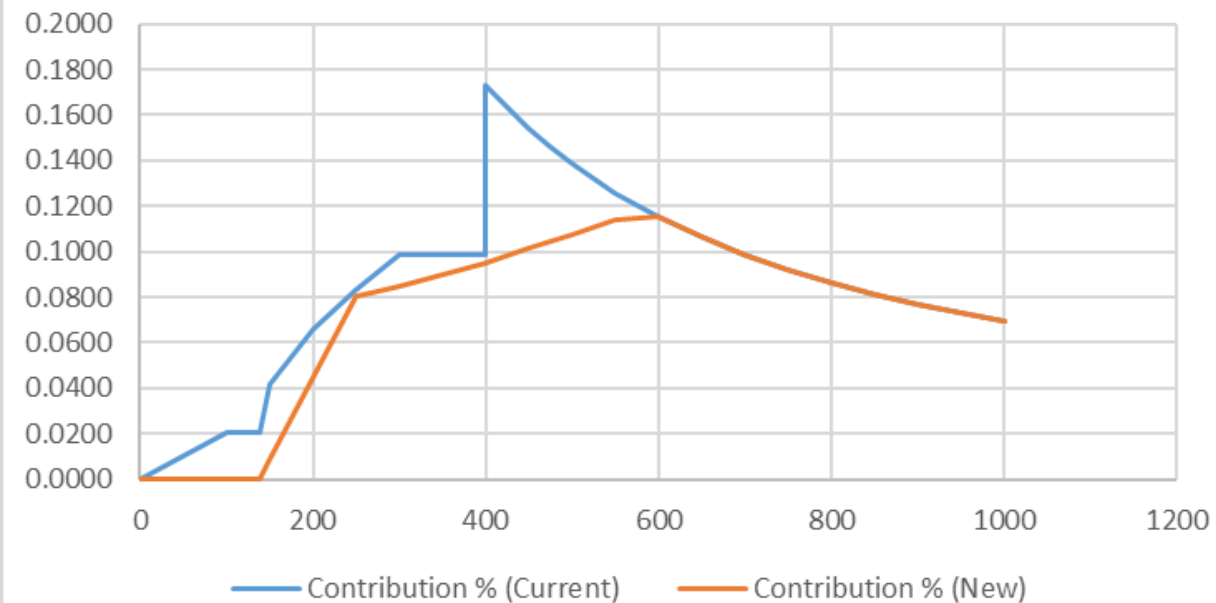
# Affordability and Other Challenges

- 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)

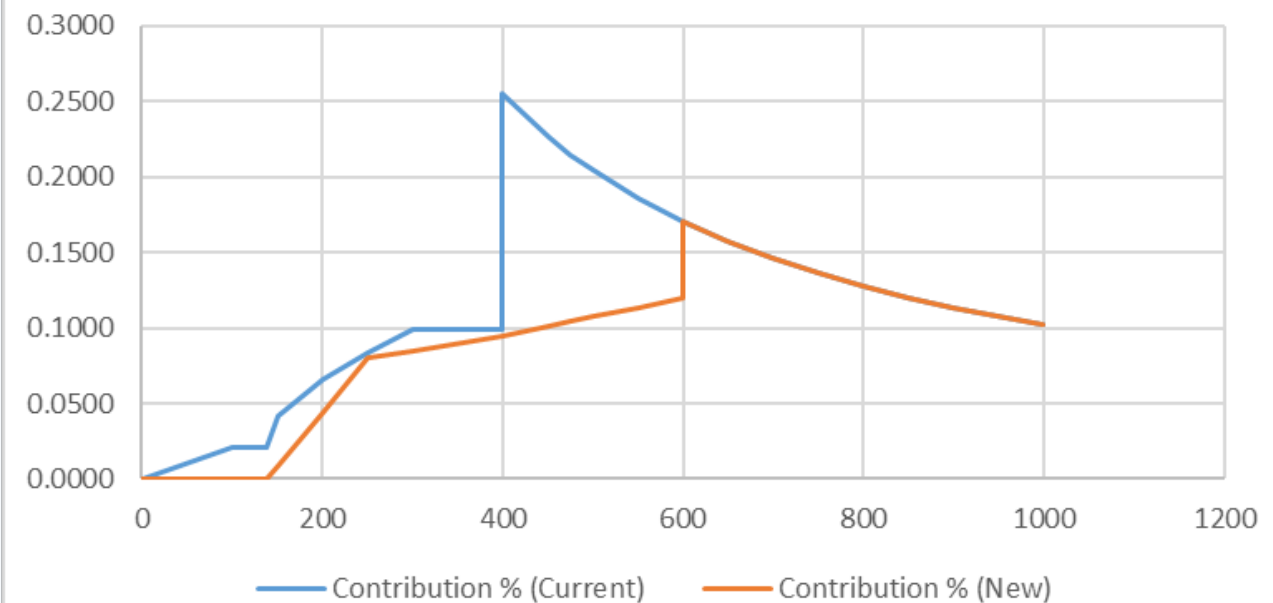
Policy Option	What It Does	Affordability Goal	Budget
<b>1. Lower Cap (to 600 FPL)</b>	<ul style="list-style-type: none"> <li>&lt;138: 0% cap</li> <li>138-400: Linear 0 to 9.5%</li> <li>400-600: Linear 9.5 to 12%</li> </ul>	-Makes premiums more affordable for people currently eligible for APTC and above the cliff	<ul style="list-style-type: none"> <li>-New CA APTC</li> <li>-Higher federal APTC</li> <li>-Partial offset from improved risk mix</li> </ul>
<b>2. Lower Cap (to 1200 FPL)</b>	<ul style="list-style-type: none"> <li>Lower Cap 600 (Model 1)</li> <li>600-700: Linear 12 to 15%</li> <li>700-1200: Linear 15 to 20%</li> </ul>	-Caps premiums at 20% of income for virtually everyone	<ul style="list-style-type: none"> <li>-New CA APTC</li> <li>-Higher federal APTC</li> <li>-Partial offset from improved average risk</li> </ul>
<b>3. Lower Cap (to 600) + CSR</b>	Raising Silver AV <ul style="list-style-type: none"> <li>200-400FPL: to AV 80</li> </ul>	<ul style="list-style-type: none"> <li>-Makes premiums more affordable for people currently eligible for APTC and above the cliff</li> <li>-Makes medical care more affordable at lower-middle incomes</li> </ul>	<ul style="list-style-type: none"> <li>-New CA APTC</li> <li>-Higher federal APTC</li> <li>-New CA CSR spending</li> <li>-Partial offset from improved average risk</li> </ul>
<b>4. Lower Cap (to 600) + Reinstate Penalty</b>	<ul style="list-style-type: none"> <li>Lower Cap 600 (Model 1)</li> <li>Reinstate the 2019 penalty at the state level</li> </ul>	<ul style="list-style-type: none"> <li>-Makes premiums more affordable for people currently eligible for APTC and above the cliff</li> <li>-Encourages new enrollment and generate income through penalty</li> </ul>	<ul style="list-style-type: none"> <li>-New CA APTC</li> <li>-Higher federal APTC</li> <li>-Partial offset from improved average risk</li> <li>-Penalty Income</li> </ul>
<b>5. Reinsurance 10% + Reinstate Penalty</b>	<ul style="list-style-type: none"> <li>Lower gross premiums 10%</li> <li>Reinstate the 2019 penalty at the state level</li> </ul>	<ul style="list-style-type: none"> <li>-Lower gross premiums on and off-exchange</li> <li>-Encourages new enrollment and generate income through penalty</li> </ul>	<ul style="list-style-type: none"> <li>-Lower federal APTC</li> <li>-Additional offset from improved average risk<sub>5</sub></li> <li>-Penalty Income</li> </ul>

# “Lower Cap to 600 FPL” (\$700 premium)

Contribution Caps <600 Policy  
(% income for 1 Policy-HH Size 1)

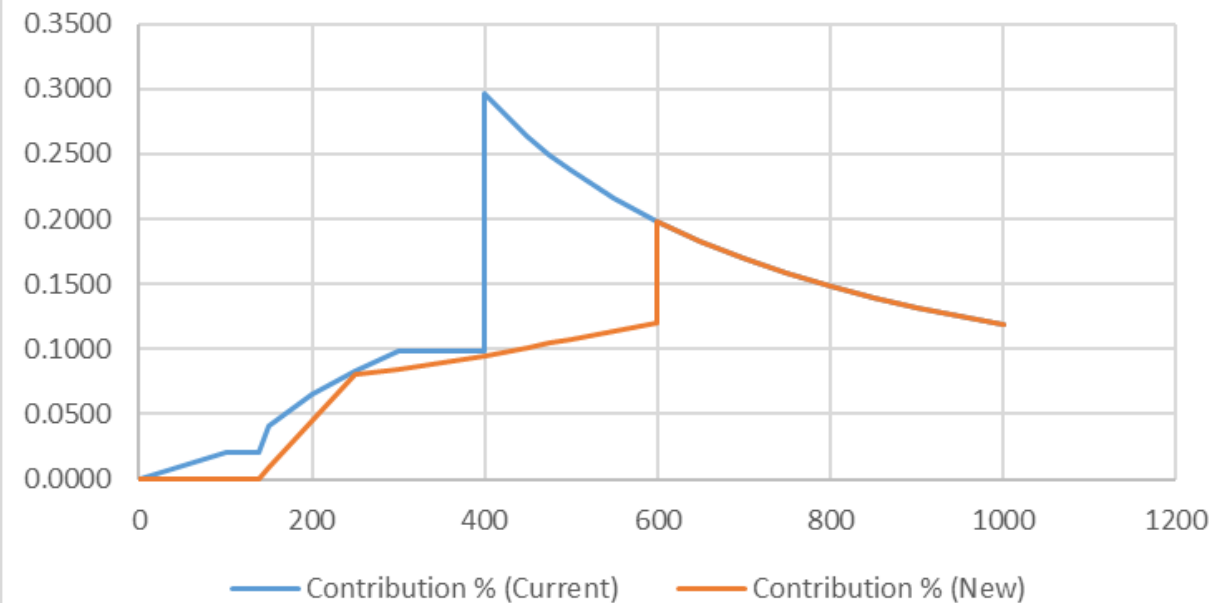


Contribution Caps <600 Policy  
(% income for 2 policies-HH Size 2)

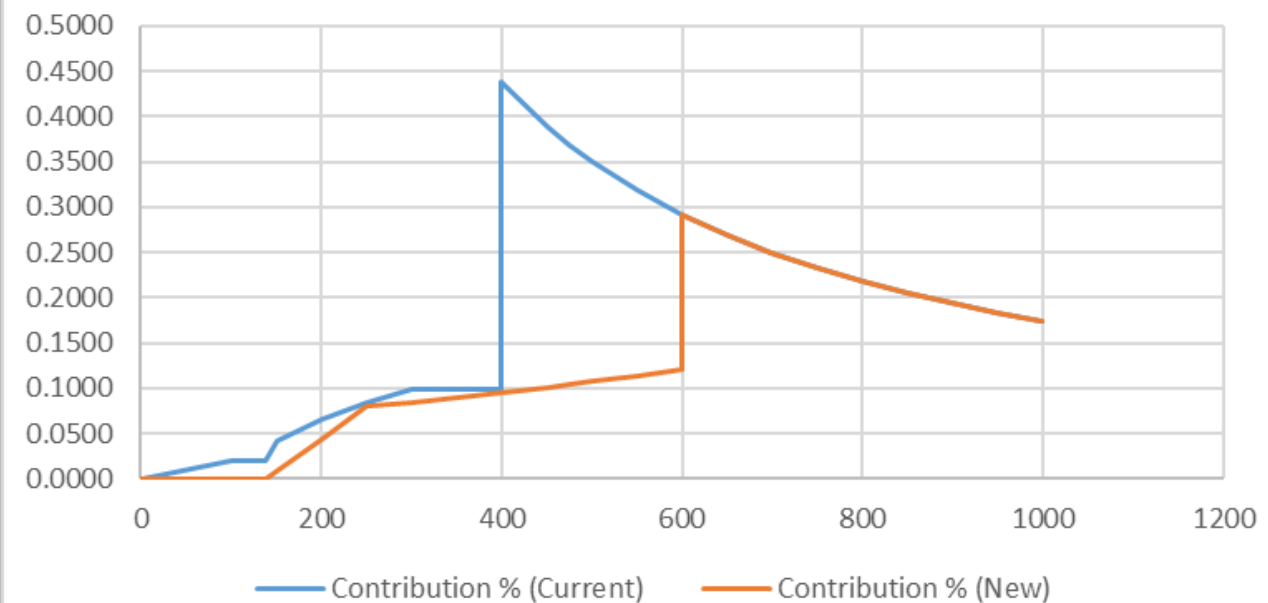


# “Lower Cap to 600 FPL” (\$1200 premium)

Contribution Caps <600 Policy  
(% income for 1 Policy-HH Size 1)

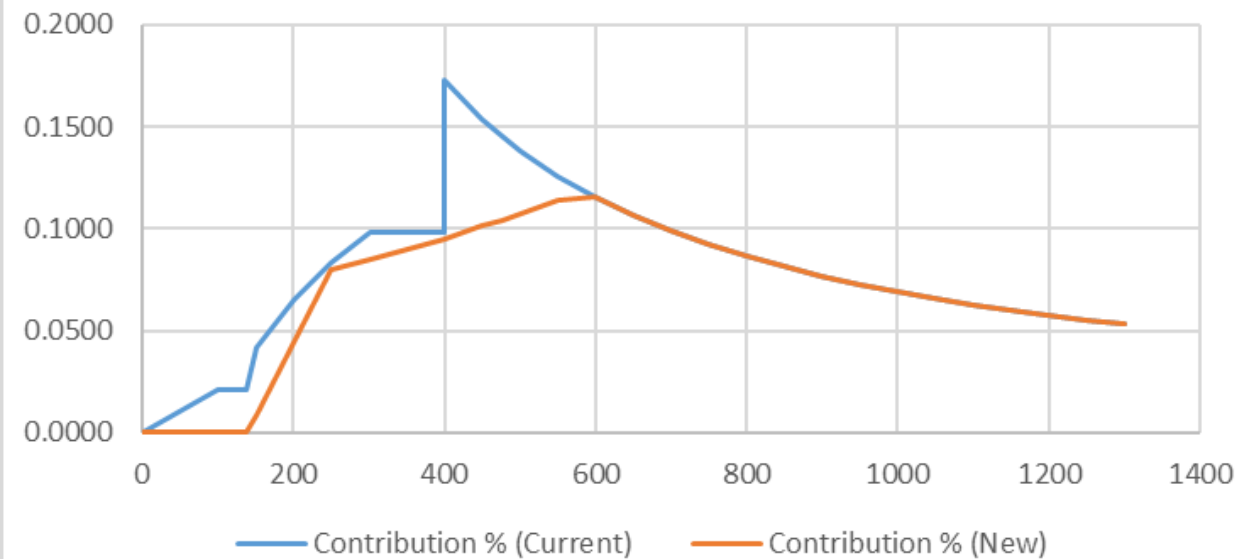


Contribution Caps <600 Policy  
(% income for 2 policies-HH Size 2)

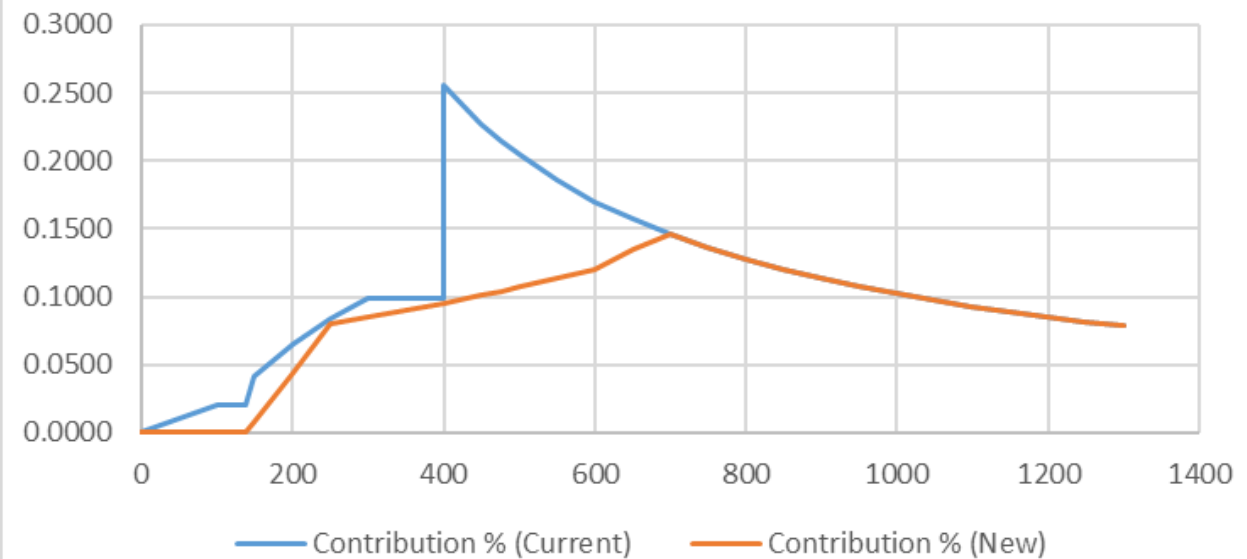


# “Lower Cap to 1200 FPL” (\$700 premium)

Contribution Caps "No Cliff" Policy  
(% income for 1 policy-HH Size 1)



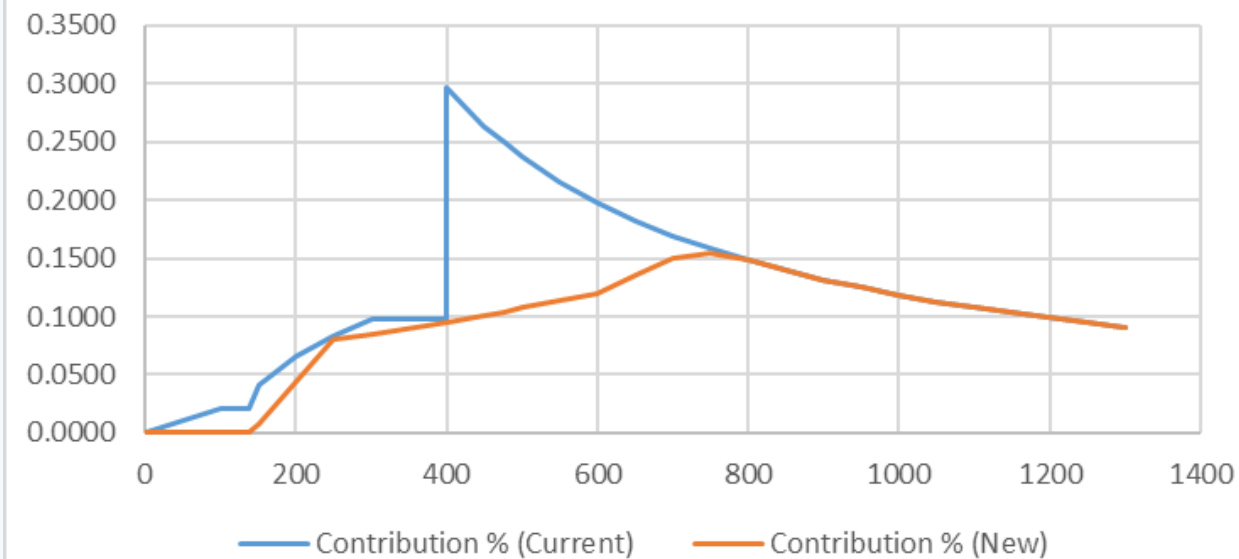
Contribution Caps "No Cliff" Policy  
(% income for 2 policies-HH Size 2)



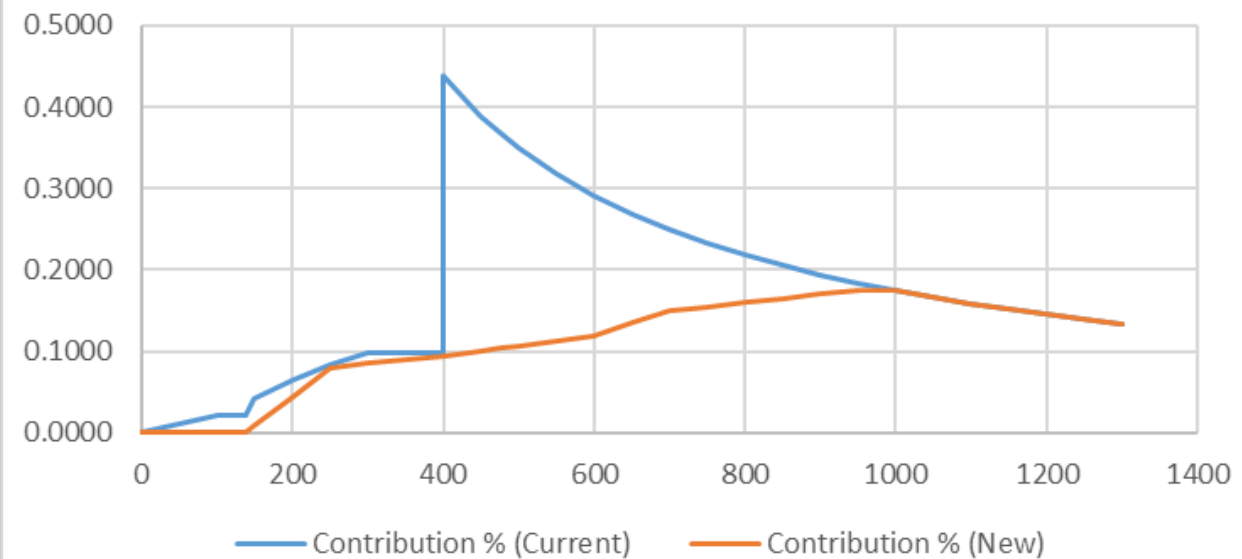


# “Lower Cap to 1200 FPL” (\$1200 premium)

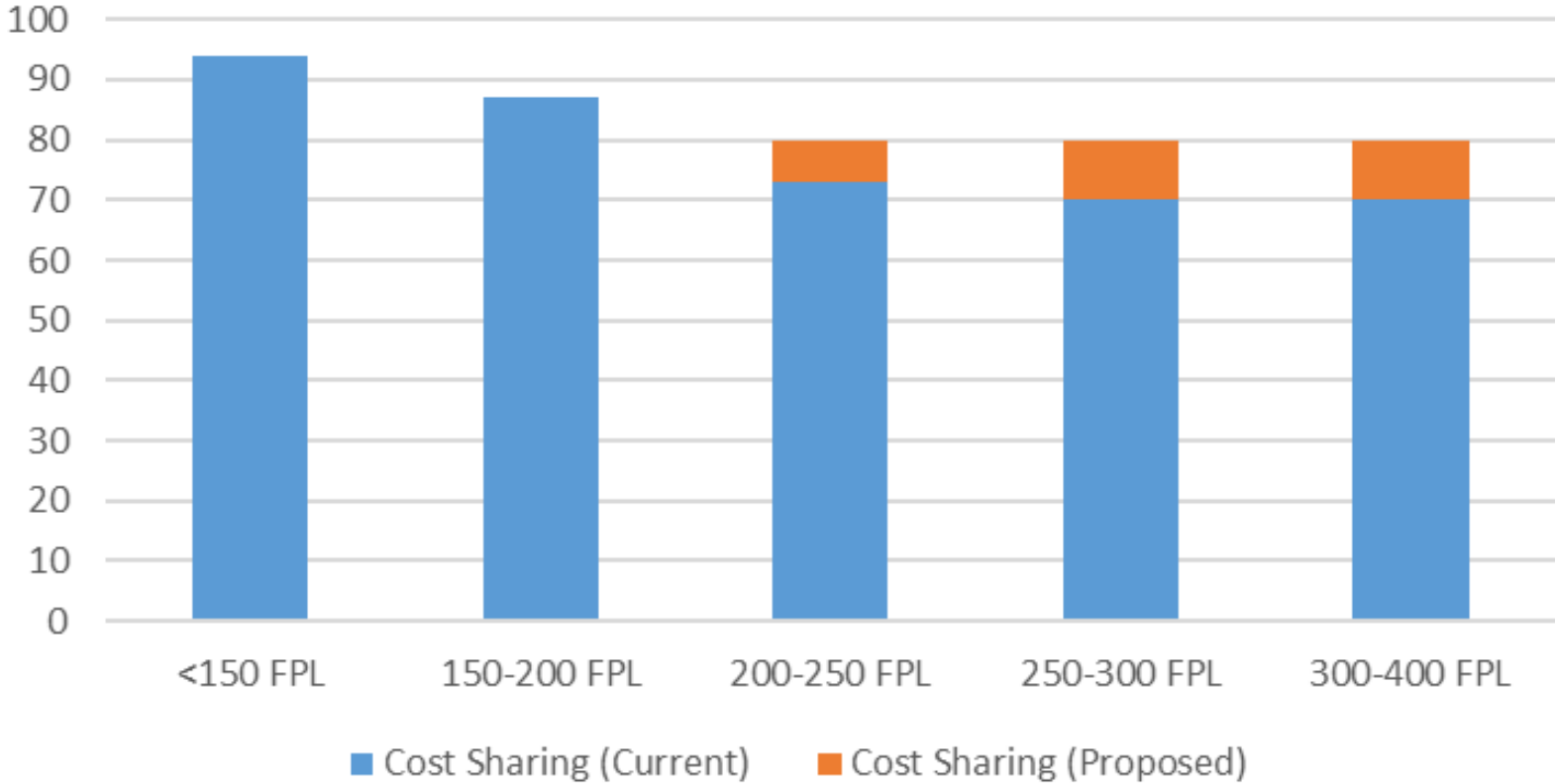
Contribution Caps "No Cliff" Policy  
(% income for 1 policy-HH Size 1)



Contribution Caps "No Cliff" Policy  
(% income for 2 policies-HH Size 2)



### Proposed Increase in CSR (Model 3)



# 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-exchange
- 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 for WG3

- Forecast for plan year 2021
  - Premiums rise 7% per year until 2021; changes in eligible enrollment based on CalSIM
- Penalty elimination effective in 2019
  - Estimates of disenrollment range from 15% to 25% by 2021;
  - We assume a mid-point estimate of 18% (consistent w/ Covered California budget projections)
  - On top of realized 3.5% 2019 premium increase, 1.25% increase in 2021 due to worsened risk and risk premium associated with full effect of zeroing out of penalty
- Reinstatement of penalty in 2021
  - Due to inertia, 20 percent of “lost” enrollment is not recovered in penalty reinstatement
  - Penalty revenue: assumes 2018 penalties and 75% compliance (federal rate)
- Enrollment increases leads to improved risk mix and lower premiums
  - Budget estimates sensitive to these effects
  - We report baseline budget estimates assuming 0 premium decreases due to risk improvements
  - Also report estimated premium declines, with budget impacts based on 1% premium decline = \$95 million APTC decline

# Results (Main)

Policy Option	Enrollment Impact (On   Off)		Budget Impact	Other notes
<b>1. Lower Cap (to 600 FPL)</b>	14% ( <b>177,000</b> <200: 96,000 200-400: 44,000 >400: 37,000)	None	-New CA APTC: <b>\$945 million</b> (\$151 million in crowd-out) <b>-\$660 million</b> new federal APTC	~2.2% fall in gross premiums due to improved risk (~\$209 million fall in total APTC)
<b>2. Lower Cap (to 1200 FPL)</b>	14.1% ( <b>178,200</b> <200: 96,000 200-400: 44,000 >400: 38,000)	None	-New CA APTC: <b>\$970 million</b> (\$164 million in crowd-out) <b>-\$660 million</b> new federal APTC	~2.2% fall in gross premiums due to improved risk (~\$209 million fall in total APTC)
<b>3. Lower Cap (to 600) + CSR Boost</b>	16.4% ( <b>207,000</b> <200: 97,000 200-400: 73,000 >400: 37,000)	None	-New CA funding: <b>\$1.18 billion</b> (incl. \$151 million off-ex crowd-out and \$219 million in new CSR) <b>-\$833 million</b> new federal APTC	~2.5% fall in gross premiums due to improved risk (~\$237 million fall in total APTC)
<b>4. Lower Cap (to 600) + Reinstatement Penalty</b>	35% ( <b>440,000</b> <200: 187,000 200-400: 187,000 >400: 66,000)	22% ( <b>123,000</b> <400: 47,000 >400: 123,000)	-New CA funding: <b>\$1.11 billion</b> (incl. \$181 million in crowd-out) <b>-\$1.76 billion</b> new federal APTC <b>-\$457 million</b> in penalty revenue	~6% fall in gross premiums due to improved risk (~\$570 million fall in total APTC)
<b>5. Reinsurance 10% + Reinstatement Penalty</b>	19.1% ( <b>242,000</b> <200: 101,000 200-400: 103,000 >400: 38,000)	39% ( <b>217,000</b> <400: 86,000 >400: 132,000)	-New CA APTC: <b>\$1.68 billion</b> <b>-\$129 million less</b> in total federal APTC ( <b>net \$1.56 billion</b> ) <b>-\$1.12 billion less</b> in APTC from reinsurance alone ( <b>net \$557 mil</b> ) <b>-\$492 million</b> in penalty revenue	~5% fall in gross premiums due to improved risk (~\$475 million fall in total APTC)

# Lower Cap (600 FPL)

Overall	Enrollment		Market Share		Premium PMPM		Avg Net Prem PMPM		APTC+Prem Sub/m		New Prem Sub/m
	Baseline	Model	Baseline	Model	Baseline	Model	Baseline	Model	Baseline	Model	Model
Catastrophic	10,825	10,314	0.01	0.01	238.24	238.40	238.24	238.40	0	0	0
Bronze	374,509	385,533	0.30	0.27	498.69	499.54	66.18	60.05	161,925,400	169,373,833	16,943,233
Silver	756,282	896,875	0.60	0.62	721.04	703.08	119.65	88.01	454,862,200	550,921,730	39,745,277
Gold	86,699	106,245	0.07	0.07	754.27	747.46	284.38	247.69	40,773,046	53,077,328	6,261,175
Platinum	38,809	45,099	0.03	0.03	941.66	921.32	592.08	502.29	13,566,716	18,897,962	3,206,991
Overall	1,267,124	1,444,067	1.00	1.00					671,127,361	792,270,852	66,156,675

0.140

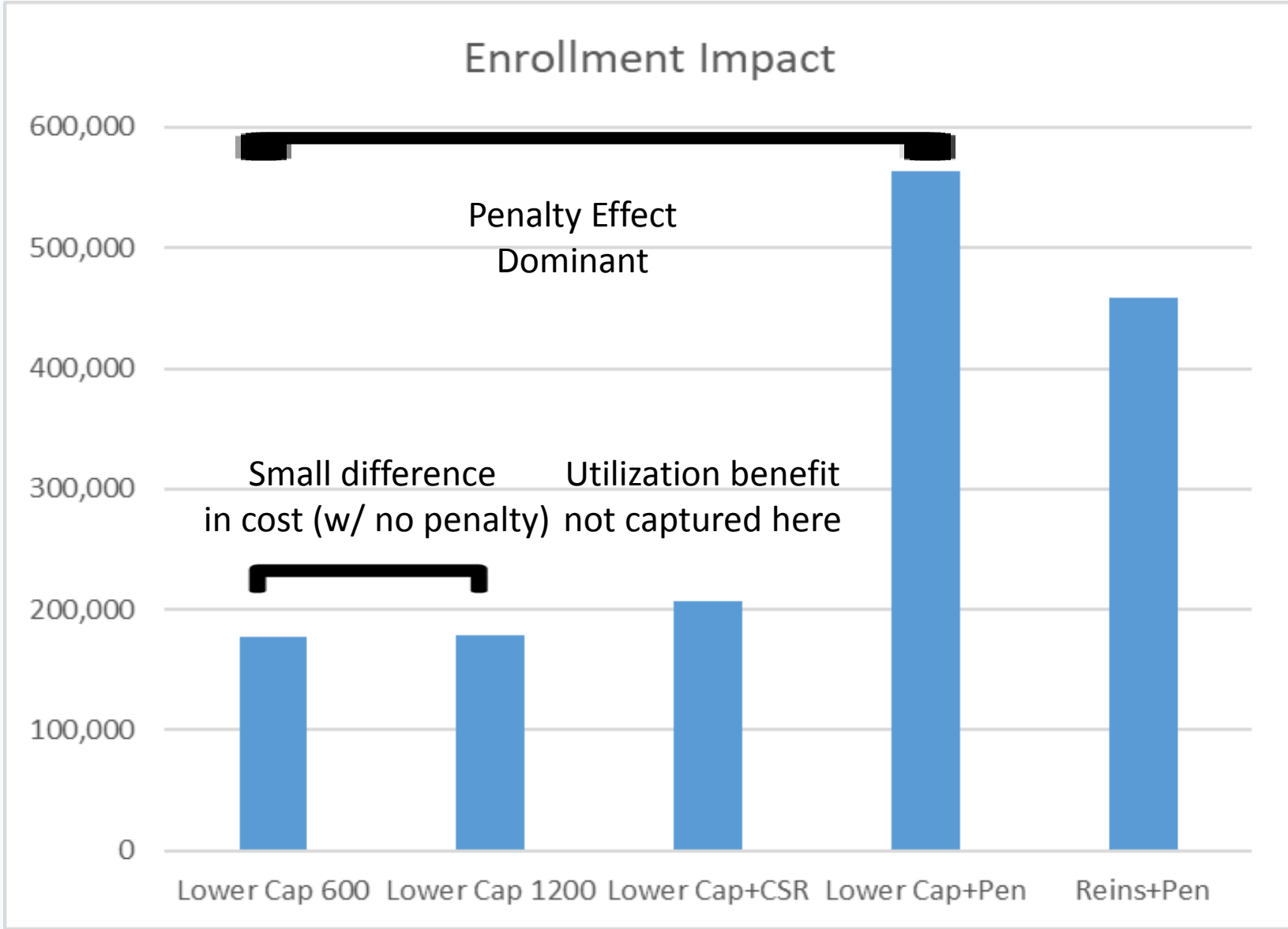
## Annual Budget Impact

<b>New CA Prem Subsidy</b>	<b>793,880,105</b>
<b>New CA Subs (Off-Ex crowdout)</b>	<b>151,000,000</b>
<b>Total CA Subsidy Spending</b>	<b>944,880,105</b>
<b>Change in Federal APTC \$</b>	<b>659,841,777</b>

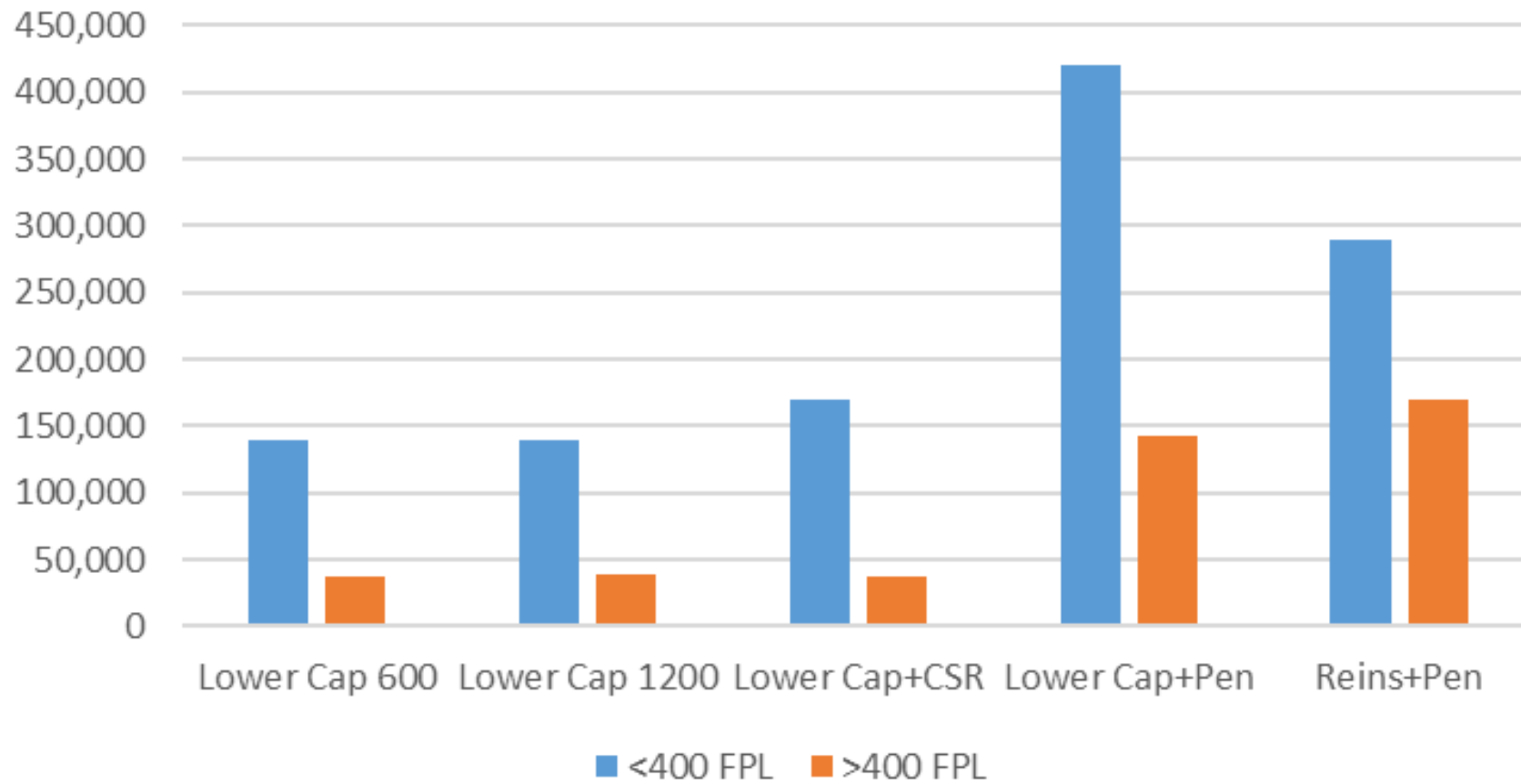
Possible premium decline (risk) 0.022



# Results (Comparing Options)



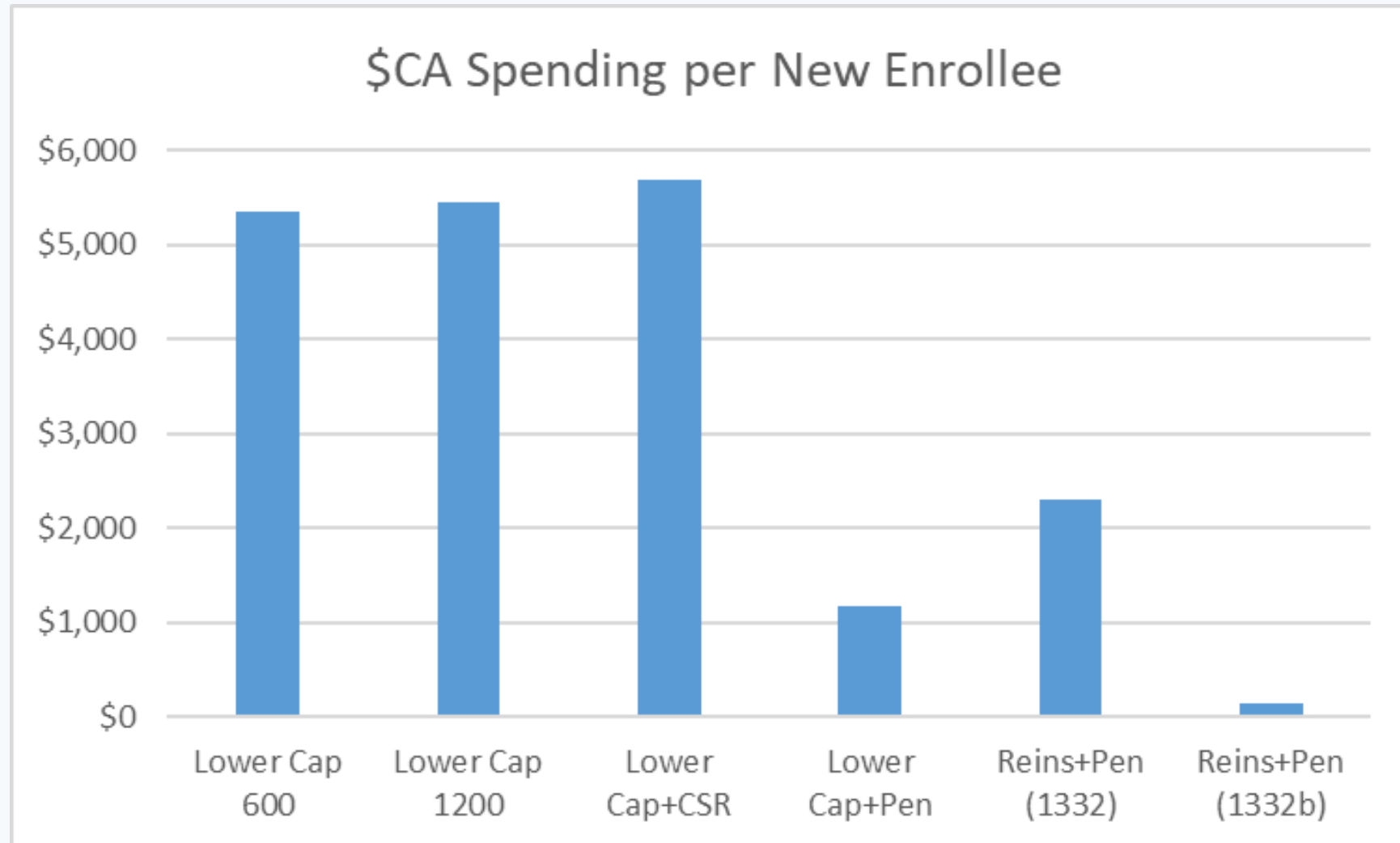
### Distributional Effect on Enrollment, by Market Segment



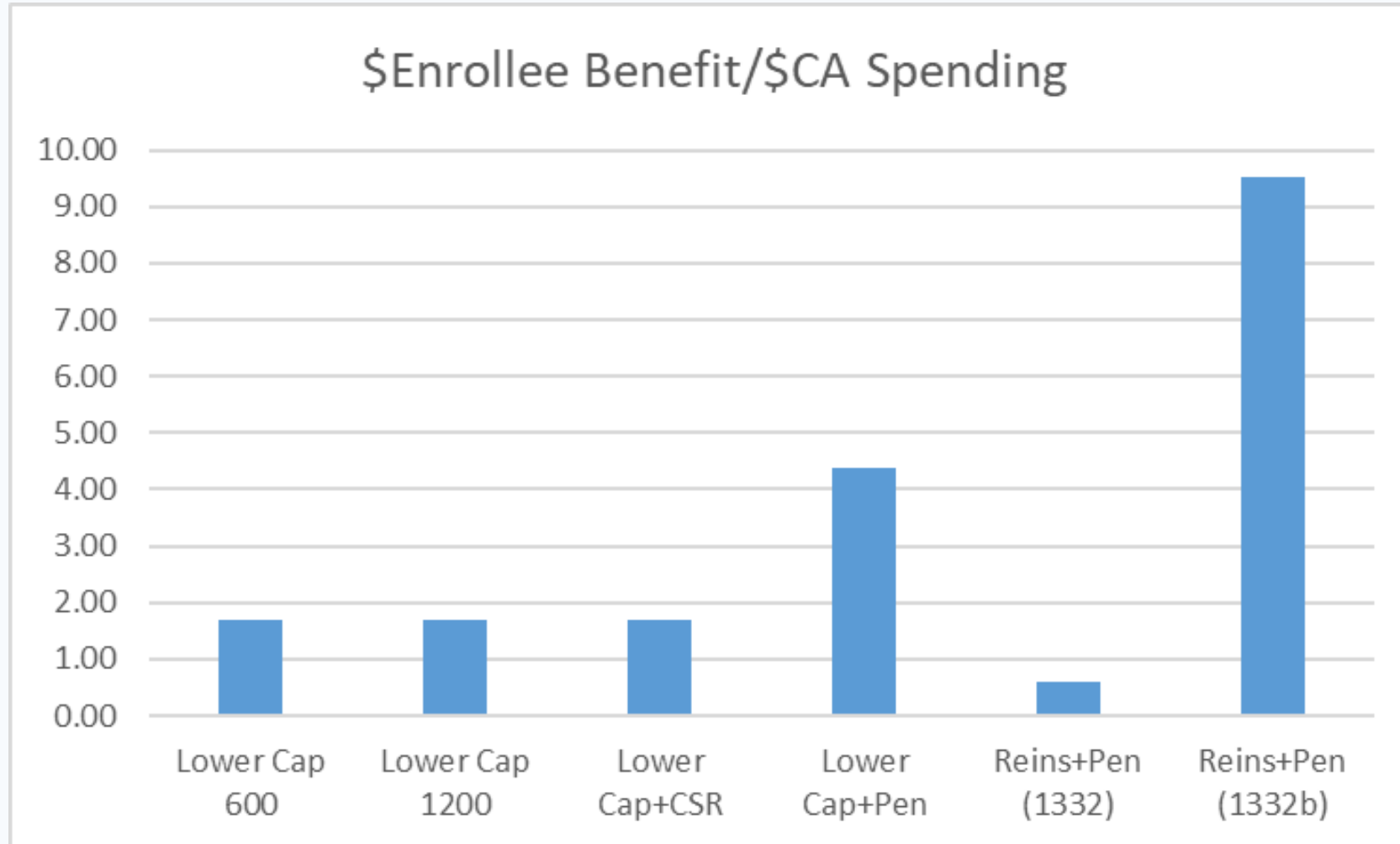
# Two Measures of Efficiency of \$CA

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

# Efficiency: \$CA/ New Enrollee



# Efficiency: \$Enrollee Benefit/\$CA



# CSR Benefit: Two main benefits

- Direct benefit of AV value (primarily deductible) for 200-400 FPL
  - Estimated to increase utilization by 5% (based on Brot-Golberg *et al* 2017)
- Marked shifts in enrollment from Bronze to Silver
  - Silver share moves from 60% to 65% overall
  - For 200-400 FPL, Silver share increases from 40% to 50%

	<b>Lower Cap 600</b>	<b>Lower Cap 1200</b>	<b>Lower Cap+CSR</b>	<b>Lower Cap+Pen</b>	<b>Reins+Pen (1332)</b>	<b>Reins+Pen (1332b)</b>
Δ\$CA APTC	\$944,880,105	\$969,650,165	\$957,162,577	\$1,112,785,857	\$0	\$0
Δ\$CA CSR	\$0	\$0	\$219,513,004	\$0	\$0	\$0
Δ\$CA Reins	\$0	\$0	\$0	\$0	\$1,548,084,298	\$557,331,784
Δ\$CA Penalty Rev	\$0	\$0	\$0	\$457,000,000	\$492,000,000	\$492,000,000
Δ\$CA Total	\$944,880,105	\$969,650,165	\$1,176,675,581	\$655,785,857	\$1,056,084,298	\$65,331,784
Δ\$Federal	\$659,841,777	\$659,841,777	\$833,021,969	\$1,759,025,695	\$0	\$0
ΔEnrollee Ben \$	\$1,604,721,883	\$1,629,491,943	\$2,009,697,550	\$2,871,811,553	\$622,912,115	\$622,912,115
\$Fed/\$CA	0.70	0.68	0.87	1.58	0.00	0.00
\$Enrollee/\$ CA	1.70	1.68	1.71	4.38	0.59	9.53



# Penalty Calculation

- By income group, we calculate:

$$penalty\ income_g = (\#uninsured_g - \#newly\ insured_g) * rate_g^{elig} * \overline{penalty}_g * rate_g^{compliance}$$

- We then sum across income groups:

$$penalty\ income = \sum_{g=1}^G penalty\ income_g$$

- Assumptions
  - Use federal compliance rate of 0.75
  - Eligibility rate captures the income tax reporting threshold
  - #Uninsured and #newly insured based on baseline (no penalty) and policy scenarios (baseline consistent with CalSIM)
  - Average penalties calculated from data, using 2018 penalty formula

# Main Takeaways

- Little cost difference between “Lower Cap 600” and “Lower Cap 1200”
  - Cliff 400 → Cliff 600 FPL costs real money
  - Cost of moving to (20% cap to 1200 FPL) is small
  - Not expensive to lower cap to 15% because relatively few people pay 15-20%
  - More expensive to shift phase out from 600 to 1200 FPL when paired with penalty
- Dollar for dollar, spending \$CA to subsidize lower income individuals generates larger enrollment increases, larger federal leverage, larger consumer benefit/\$CA
  - Whether money spent as premium tax credit or CSR
  - 5% increase in utilization for the 200-400 FPL impacted by CSR boost
  - Both a CSR and APTC benefit causes shifts from Bronze to Silver
- Power of reinstating the penalty
  - Effective at increasing enrollment and improving risk mix, while *generating* revenue

# Considerations for next models

- Relatively low cost of phasing out cliff
  - Estimate costs when pairing penalty with extending caps to 1200 FPL
  - Cap spending <20%, but can use less aggressive curve between 450-600 FPL
  - Estimate cost of capping spending <15%
- Focus more of available CA funding towards <400
  - In the form of both CSR and lower contribution caps
  - More bang for the buck for both enrollment and federal leverage
  - Generates utilization and risk protection benefits (CSR and migration to Silver)
- Reinstate the penalty
  - Pair penalty with affordability policies
- Formally integrate risk benefits
  - Come to agreement on actuarial benefits of new enrollee risk

# Next Steps

- Policy Options
  - Fine tune combination policies
- Forecasts (modeling)
  - 2021-2026
  - Macro effects in out years
  - Equilibrium premium effects