



Impact of Stabilization Funding on ACA Premiums and Subsidies

In January 2017, the Congressional Budget Office (CBO) released updated projections for Affordable Care Act (ACA) enrollment and costs for the 2017-2027 period.¹ CBO expects that there will be approximately 9 million subsidized enrollees purchasing non-group coverage in the ACA's insurance exchanges in 2017, growing to 11 million by 2019. The vast majority of ACA exchange enrollees are subsidized – CBO estimates that there will be approximately one million unsubsidized enrollees with ACA coverage in those years.

Subsidized ACA exchange enrollees receive advanceable tax credits via a complex formula that caps their post-subsidy premiums based on their income as it relates to federal poverty thresholds. Enrollees with incomes between 100 and 200 percent of the Federal Poverty Line (FPL) receive subsidies that cover a large portion of premiums. The subsidy amounts then phase down at higher poverty levels and phase out completely for enrollees with incomes above 400 percent FPL. Data from the Department of Health and Human Services (HHS) indicate that more than 60 percent of subsidized ACA enrollees have incomes below 200 percent of poverty, which implies a relatively high average subsidy rate of more than 50 percent of premiums.²

HHS data also indicates that average benchmark exchange premiums rose by 25 percent in 2017.³ In many areas around the country, premiums are going up by much more. For example, Arizona has seen a 116 percent increase in premiums for these plans.⁴ Further, more than a quarter of exchange enrollees were over age 55.⁵ Because of the relatively high ages and associated high health costs of these enrollees, several insurers have expressed concern that the market has become unstable and will likely worsen in coming years if these trends are not reversed. That is, as premiums increase, younger and healthier enrollees may decline to enroll, while older, less healthy enrollees stay in the system. Without enough younger, healthier enrollees to balance the risk of older, sicker enrollees, premiums could continue to increase rapidly. Fear and uncertainty around market stability has led to the exit of several major insurers from exchange markets across the country.

When ACA premiums rise or fall, federal outlays for ACA subsidies also rise and fall, roughly in proportion to the premium change. According to CBO's latest projections, the federal costs of ACA tax credits are projected to total \$38 billion in 2017, \$48 billion in 2018, and \$56 billion in 2019. These outlay increases (26 percent in 2018 and 17 percent in 2019) are driven more by premium increases than by the increases in expected enrollment. We expect this trend to continue next year absent congressional action.

Stabilization Funding Can Reverse Negative Market Trends with a Reduced Impact on Federal Outlays

The illustrations below show that funding to stabilize ACA risk pools in 2018 and 2019 would reduce ACA premiums and subsidy outlays, in effect, largely offsetting the cost of the stabilization funding itself. For simplicity, the illustrations assume that enrollment is fixed at levels projected by CBO, and that the average ACA tax credit rate is 55 percent.

¹ Congressional Budget Office. (2017, January). Federal subsidies under the Affordable Care Act for health insurance coverage related to the expansion of Medicaid and nongroup health insurance: Tables from CBO's January 2017 baseline. Retrieved from: <https://www.cbo.gov/sites/default/files/recurringdata/51298-2017-01-healthinsurance.pdf>

² Department of Health and Human Services. (2016, October 24). Health plan choice and premiums in the 2017 health insurance marketplace. Retrieved from: <https://aspe.hhs.gov/pdf-report/health-plan-choice-and-premiums-2017-health-insurance-marketplace>

³ Department of Health and Human Services. (2016, October 24). Health plan choice and premiums in the 2017 health insurance marketplace. Retrieved from: <https://aspe.hhs.gov/pdf-report/health-plan-choice-and-premiums-2017-health-insurance-marketplace>

⁴ CBS New York/Associated Press. (2016, October 25). Arizona Obamacare plan to jump by 116 percent when premiums go up next year. *CBS New York/Associated Press*. Retrieved from: <http://newyork.cbslocal.com/2016/10/25/arizona-obamacare-premiums/>

⁵ Council for Affordable Health Coverage/Avalere. (2016, June 7). Exchange enrollment: An opportunity for reform. Retrieved from: http://cahc.net/wp-content/uploads/2016/07/CAHC-IssueBrief_ExchangeEnrollment_061616.pdf

For example, a \$10 billion annual stabilization fund in the 2018-2019 period would reduce premiums by 10 to 11 percent, and would reduce federal outlays for ACA tax credits by about \$6 billion per year. Thus, the net cost of the stabilization fund would be about \$4.5 billion per year. The \$10 billion annual stabilization fund would yield back savings through the ACA tax credits that partially paid for the funding. Likewise, a \$15 billion annual stabilization fund would reduce tax credits by \$8 billion per year and would reduce premiums by 15 to 17 percent. A stabilization fund of \$20 billion per year would yield back \$11 billion in ACA tax credit savings, and would reduce premiums by 20 to 23 percent.

Congress has already indicated a willingness to contribute funding to stabilize marketplaces. Evidence shows that during the 2018-2019 transitional period, greater levels can be devoted without impacting federal outlays beyond what is currently being proposed.

We believe larger injections of funding during this transitional period will help to reverse current trends that are leading to market instability, unbalanced risk pools, insurer exits, and reduced consumer choice. These trends must be reversed to stabilize markets in the short-term so that greater reforms to benefit design and tax credit structures can be enacted in future years. In short, focus must be given to market stabilization during a transition period or there will be no markets to reform.

Impact of 2018 and 2019 Market Stabilization Funding on Premiums and Outlays*		
Option: \$5 billion per year		
	2018	2019
ACA Tax Credit Baseline	48	56
Premium Stabilization Funding	10	10
Tax Credit Savings	-6	-6
Net Cost of Stabilization	5	5
Reduction in Premiums	-11%	-10%
Option: \$7 billion per year		
	2018	2019
ACA Tax Credit Baseline	48	56
Premium Stabilization Funding	15	15
Tax Credit Savings	-8	-8
Net Cost of Stabilization	7	7
Reduction in Premiums	-17%	-15%
Option: \$9 billion per year		
	2018	2019
ACA Tax Credit Baseline	48	56
Premium Stabilization Funding	20	20
Tax Credit Savings	-11	11
Net Cost of Stabilization	9	9
Reduction in Premiums	-23%	-20%

*In billions unless otherwise noted. Number are rounded up to the nearest billion, therefore, items may not sum to totals.

Source: CAHC and Inforum Analysis, March 2017