ASPE
ISSUE BRIEF

POTENTIAL FISCAL CONSEQUENCES OF NOT PROVIDING CSR REIMBURSEMENTS

This note considers the potential long-term fiscal consequences of a counterfactual scenario in which the federal government did not reimburse insurers for cost-sharing reductions (CSRs).[1] Under the Affordable Care Act (ACA), insurers are required to provide CSRs to low- and moderate-income enrollees. The federal government is then required to reimburse insurers for the cost of these subsidies. As explained below, if the federal government did not reimburse insurers for CSRs, insurers would increase plan premiums to cover these costs. As a result of the ACA's structure, these higher premiums would translate into higher federal costs for Premium Tax Credits (PTCs). Moreover, because many more people are eligible for PTCs than for CSRs, the result would be a substantial increase in total federal costs, compared to the current arrangement under which the federal government directly reimburses insurers for the CSRs they provide to eligible individuals. In effect, the federal government would pay CSRs indirectly, through increased PTCs, at much greater total expense.

This analysis focuses on the long-term consequences of not reimbursing insurers for CSRs. It assumes that insurers set premiums based on a full understanding that they are required to provide CSRs to eligible individuals, but that the federal government will not reimburse them for the CSRs they are required to provide. The analysis also assumes that individuals select the plans that are most financially advantageous to them given those premiums. The analysis does not consider the process of adjustment from the current arrangement to the counterfactual scenario. That process would almost certainly involve sizable transition costs and a period of significant uncertainty, market instability, and disruptions in coverage.

Background: Under the ACA, Health Insurance Marketplace plans are categorized into "metal tiers" based on the share of total costs covered by insurers versus enrollees. Silver plans, which serve as the benchmark for setting PTC amounts, have an actuarial value (AV) of 70 percent. That means that 70 percent of expected total health care costs are covered by the insurer, while 30 percent are paid for by enrollees through deductibles, copayments, and coinsurance. Silver plan premiums are set to cover the insurers' 70 percent share of costs. The remaining ACA metal tiers – bronze, gold, and platinum plans – have AVs of 60, 80, and 90 percent respectively.

[1] This analysis bears on the consequences of challenges to the CSR appropriation.

For silver plan enrollees with incomes below 250 percent of the federal poverty line (FPL), the ACA requires that insurers provide CSRs that reduce enrollees' share of total costs to below the standard 30 percent.[2] Specifically, CSRs increase silver plans' AV from 70 percent to:

- 94 percent for people with incomes below 150 percent of the FPL.
- 87 percent for people with incomes between 150 and 200 percent of the FPL.
- 73 percent for people with incomes between 200 and 250 percent of the FPL.

CSRs are not available for plans in metal tiers other than silver.

PTC amounts are calculated based on premiums for the second-lowest cost silver plan in a given Marketplace rating area. For individuals with incomes below 400 percent of the FPL, the PTC covers the difference between the second-lowest cost silver plan premium and a specified percentage of income (ranging from 2.03 to 9.66 percent in 2016). Because of this structure, increases in benchmark premiums generally translate dollar-for-dollar into increases in eligible individuals' PTCs. PTCs are available to eligible individuals for plans selected in any metal tier. The federal government pays both PTCs and CSR reimbursements on a monthly basis, through advance payments made directly to insurers.

Impact on premiums: If the federal government did not reimburse for CSRs, the ACA would still require insurers to provide CSRs to eligible individuals enrolling in silver plans. In order for insurers to remain solvent (as well as to comply with state insurance market regulations[3]), insurance premiums must be set to cover insurers' expected total costs. Thus, if the federal government did not reimburse for CSRs, insurers would have to increase silver plan premiums enough to cover these costs. Since insurers are prohibited from charging individuals different rates for the same plan, these increases would apply to all individuals in these plans, not just those eligible for CSRs.

Based on enrollment patterns reported at the end of the 2015 open enrollment period, about 85 percent of all those selecting silver plans have income levels that qualify them for CSRs, and the average AV of silver plans – taking into account CSRs – is about 85 percent. Hence, even if consumers' plan choices remained unchanged, silver plan premiums would have to increase by more than 20 percent, in order to cover about 85 percent, instead of 70 percent, of total health care costs for enrolled consumers.[4]

Such price increases would lead many consumers to reconsider their plan choices. In particular, individuals not eligible for CSRs – or eligible for CSRs that increase their silver plans' AV to 73

[2] The ACA prescribes different rules for Indians, as defined in 25 U.S.C. 450b(d).

[3] State regulations generally require state regulators to review insurance premiums to ensure that premiums are set high enough to cover costs and ensure solvency.

[4] The estimates in this paragraph reflect tabulations of data on initial plan selections from the end of the 2015 open enrollment period. Figures based on final effectuated enrollments would be similar. Some silver plans also have off-Marketplace enrollees who are not included in these data, but accounting for off-Marketplace enrollment would not change the conclusions of the analysis.

percent – would now be better off buying gold rather than silver plans, since doing so would offer these individuals both lower premiums and greater financial protection. Gold plans would offer lower premiums because they would still be priced to reflect an AV of 80 percent, whereas silver plans, as discussed above, would now be priced to reflect an AV of about 85 percent. At the same time, gold plans would offer these individuals greater financial protection because they would provide an AV of 80 percent, whereas silver plans would still provide an AV of only 70 percent (for consumers with incomes above 250 percent of the FPL), or 73 percent (for consumers with incomes 200 to 250 percent of the FPL).[5]

The result would be a new distribution of consumers across Marketplace health plans, with silver plans likely enrolling only those individuals eligible for the two highest CSR tiers. Without enrollees at the 70 and 73 percent AV levels, silver plans would have to be priced even higher to cover insurers' costs. Specifically, with all enrollees entitled to 87 or 94 percent AV coverage, the new average AV in silver plans would be about 90 percent, and plans would have to be priced accordingly.[6] That would require, at minimum, a nearly 30 percent increase in silver plan premiums, to cover an AV of about 90 percent, rather than an AV of 70 percent.[7]

Impact on Premium Tax Credits: As noted earlier, increases in silver plan premiums generally translate dollar-for-dollar into increases in PTCs for eligible individuals. If the federal government did not reimburse insurers for required CSRs, PTCs would adjust to cover the increase in premiums that would result from pricing silver plans for an AV of 90 percent versus 70 percent.

Currently, the federal government reimburses insurers for CSRs that increase the silver plan AV from 70 to about 90 percent for enrollees with incomes below 200 percent of the FPL. The PTC, however, is available to people with incomes up to 400 percent FPL. In 2015, in States utilizing HealthCare.gov, there were about 45 percent more enrollees receiving PTCs than enrollees with incomes below 200 percent of the FPL receiving CSRs.[8] Higher-income PTC-eligible enrollees would also be eligible for the larger PTC resulting from higher silver plan premiums (whether they enrolled in silver plans or in plans in other metal tiers). Moreover, with higher premiums,

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[5] There is strong evidence that Marketplace consumers are sensitive to prices. See for example: DeLeire T. and C Marks, "Marketplace Consumer Plan Choice 2014-2015"; ASPE Brief October 2015.

[6] Under certain assumptions, individuals eligible for CSRs that raise the AV of a silver plan to 87 percent would also be better off buying gold or platinum rather than silver plans. In that case, only individuals eligible for the highest CSR tier would remain in silver plans, which would be priced for an actuarial value of 94 percent, resulting in even larger price increases. Conversely, if some individuals who are not eligible for CSRs (or eligible for the lowest tier of CSRs) continued to buy silver plans despite this being against their financial interest, then the price increases would be smaller than described above. However, the core conclusion of this note – that failing to provide CSR reimbursements would increase the federal deficit – would hold even under an extreme and implausible scenario in which all non-CSR eligible individuals currently enrolled in silver plans continued to select these plans even as their price rose.

[7] Lower cost sharing (i.e., lower deductibles, copayments, and coinsurance) results in higher health care utilization. Thus, the price difference between a plan with a 90 percent versus 70 percent actuarial value will actually be more than 30 percent, to cover the higher utilization.

[8] This estimate is based on tabulations of plan selection data reflecting the end of the 2015 open enrollment period.

more people with incomes above 200 percent of the FPL would have health insurance costs high enough to qualify for subsidies.[9]

Impact on federal costs and the deficit: The net result is that rather than directly reimbursing insurers for the CSRs they are required to provide, the federal government would cover the cost of more generous coverage through a larger PTC. However, instead of targeting payments for these costs towards lower-income Marketplace enrollees, it would pay them for all PTC recipients, enrollees with incomes up to 400 percent of the FPL. Compared to directly reimbursing insurers for CSRs, this approach would be significantly more expensive and that the total federal cost of Marketplace subsidies would be billions of dollars higher annually than it otherwise would be. Thus, federal deficits would be higher under the counterfactual scenario than under the current structure in which the federal government directly reimburses insurer costs for CSRs.

[9] The PTC covers the difference between the cost of the second-lowest cost silver plan premium and a specified share of income, for example, 9.66 percent of income in 2016 for individuals with incomes between 350 and 400 percent of the FPL. Currently, the second-lowest cost silver plan costs less than 9.66 percent of income for many such individuals, making them ineligible for subsidies. As the cost of silver plans rose, more individuals would face benchmark premiums exceeding 9.66 percent of income and become eligible for PTCs that make up the difference.