ADVANCED PREMIUM TAX CREDITS, RATE CHANGES, AND THE IMPACT ON THE INDIVIDUAL EXCHANGE MARKET

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Enrollment in the Marketplace exchanges established by the ACA increased rapidly over the open enrollment period, with over 8 million people having successfully selected a plan.[1] Successful enrollment was in part due to the availability of "advanced premium tax credits" (premium subsidies or APTCs) which are only available to those purchasing their non-group coverage through the Marketplaces. As we show in Exhibit 1, a significant share of enrollees in the Marketplaces are receiving the APTCs.

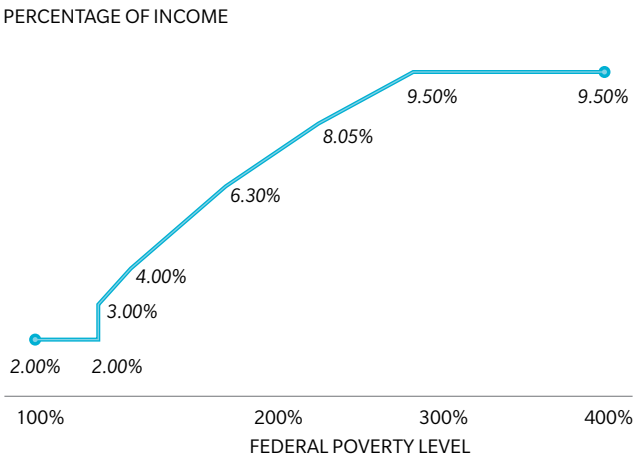
Exhibit 1: Share of the exchange market receiving APTCs

MARKET TYPE	AVERAGE ACROSS MARKETS	RANGE
State Based Marketplace (SBM)	82%	38% (HI) to 89% (CA)
Federally Facilitated Marketplace (FFM)	86%	77% (IL, NH, AZ) to 95% (MS)
Total	**85%**	

The level of APTC available to an individual is set such that the amount that a household spends on health insurance contributions is capped at a fixed percentage of household income, referred to as the "applicable percentage," provided the household purchases the second lowest cost silver plan available in a market. The percentage of income the household is required to spend depends on the household income as we show in Exhibit 2.

1 http://aspe.hhs.gov/health/reports/2014/MarketPlaceEnrollment/Apr2014/ib_2014Apr_enrollAddendum.pdf.

Exhibit 2: Applicable percentage used for calculating the APTCs – 2014



So, for example, a household with income equal to 200% of the Federal poverty level in 2014 is expected to pay 6.3% of their income towards the cost of health insurance.

Importantly, the APTC amount does not change based on the product actually purchased, i.e., APTCs will not be decreased if a less expensive plan is purchased – rather all of the reduction will be to the benefit of the household in the form of lower out-of-pocket premium costs. Federal enrollment statistics[2] have shown that individuals have taken advantage of this feature of the APTCs:

- 15% of individuals eligible for subsidies on the FFM decided to use subsidies to purchase a bronze metal plan.
- While 75% of individuals eligible for subsidies on the FFM decided to purchase a silver plan, 43% of those chose the lowest cost silver plan, rather than the second lowest cost plan on which subsidies are based.

SO WHAT HAPPENS TO THESE INDIVIDUALS IN 2015?

First, under the Administration's proposed rule, individuals will automatically be re-enrolled in the plan they had in 2014.[3] They will be allowed to change plans during the open enrollment period, but they will have to take some action to do so.

The most material impact to the contributions paid by these individuals is from changes in premiums of the underlying products.[4] A pattern is starting to emerge whereby those issuers with the lowest rates in 2014 are raising premiums in 2015, with other companies significantly reducing rates and in many cases offering lower rates than the prior market leader.[5] While this is indicative of increased market competition, it could result in households being exposed to very large increases in the amounts they have to pay for their ACA-compliant policy.

We show the examples on the next page for Portland, Oregon for how a number of individuals with different demographic characteristics may be impacted by rate changes. The sample calculations represent a simplification and are based on rates for "standard" plans.[6]

From the results shown, a general rule emerges, namely that the greater the share of total premium paid by the APTC, the more exposed individuals may be to contribution volatility measured as percent change. Specifically, contribution percentage changes may be particularly high for:

- Larger or older households (with higher premiums, resulting in larger APTCs)
- Lower income households (with larger APTCs to reduce costs to the lower applicable percentage)
- Individuals that bought down to the lowest cost silver plan or to the bronze metal level (with lower premiums relative to APTC levels)

2 http://aspe.hhs.gov/health/reports/2014/Premiums/2014MktPlacePremBrf.pdf and http://aspe.hhs.gov/health/reports/2014/MarketPlaceEnrollment/Apr2014/ib_2014Apr_enrollAddendum.pdf.

3 http://www.hhs.gov/news/press/2014pres/06/20140626a.html.

4 Other changes impacting the APTC receivable are changes in income levels, changes in FPL levels (1.57% change) and changes in average premium levels relative to income growth. For simplicity, these impacts have been excluded from the example cases shown above.

5 http://online.wsj.com/articles/premiums-rise-at-big-insurers-fall-at-small-rivals-under-health-law-1403135040.

6 Based on rates at http://www.oregonhealthrates.org/files/portland_ind_40_pro.pdf and http://www.oregonhealthrates.org/files/portland_ind_60_pro.pdf.

Exhibit 3: Impact of rate changes on sample individuals in Portland

CASE		40-YR OLD INDIVIDUAL NOT APTC ELIGIBLE*: PURCHASED 2ND LOWEST COST SILVER PLAN	40-YR OLD INDIVIDUAL EARNING 200% OF FPL: PURCHASED 2ND LOWEST COST SILVER PLAN	40-YR OLD INDIVIDUAL EARNING 200% OF FPL: PURCHASED THE LOWEST COST SILVER PLAN
2014 Plan	Prem: 2nd Lowest silver	$221	$221	$221
	Premium Cap	Uncapped	$121	$121
	APTC	$0	$100	$100
	Premium (Plan Choice)	$221	$221	$215
	Net Cost	$221	$121	$115
2015 Cost for 2014 Plan	Prem: 2nd Lowest silver	$216	$216	$216
	APTC*	$0	$95	$95
	Premium (2014 Plan)	$249	$249	$279
	Net Cost	$249	$154	$184
	Increase $	$28	$33	$69
	Increase %	**13%**	**27%**	**60%**

CASE		40-YR OLD INDIVIDUAL EARNING 200% OF FPL: PURCHASED THE LOWEST COST BRONZE PLAN	40-YR OLD INDIVIDUAL EARNING 250% OF FPL: PURCHASED THE LOWEST COST BRONZE PLAN	60-YR OLD INDIVIDUAL EARNING 200% OF FPL: PURCHASED THE LOWEST COST BRONZE PLAN
2014 Plan	Prem: 2nd Lowest silver	$221	$221	$469
	Premium Cap	$121	$193	$121
	APTC	$100	$28	$348
	Premium (Plan Choice)	$166	$166	$352
	Net Cost	$66	$138	$4
2015 Cost for 2014 Plan	Prem: 2nd Lowest silver	$216	$216	$458
	APTC*	$95	$23	$337
	Premium (2014 Plan)	$187	$187	$396
	Net Cost	$92	$164	$59
	Increase $	$26	$26	$55
	Increase %	**39%**	**19%**	**>1,000%**

* Assumes the same cap. In reality caps will change with changes in FPL and growth in premiums relative to income levels

CONCLUSION

Due to the structure of the APTC program, many of the 85% of individuals receiving APTCs on the Marketplaces may be exposed to large increases on their renewals into 2015. This introduces additional volatility to the market with potentially broad consequences.

- The education effort and support required to newly enroll individuals will again be required as Navigators, and others supporting these populations, work with individuals to make the appropriate coverage decisions given the trade-offs (i.e., potential need for higher premiums vs. the option of changing issuers – which may also require a change in physicians).
- From a health plan operational perspective it suggests the potential for continued lower retention and higher member turnover (and related administration costs), despite the auto-enrollment proposed by CMS.
- From a strategic point of view, member sensitivity to contribution increases may mean opportunities for new/late entrants to the market, and may mean a reduced opportunity to significantly increase profitability in later years to recover pricing investments in earlier periods.

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