



# Individual Insurance Markets: Enrollment Changes in 2018 and Potential Policies That Could Lower Premiums and Stabilize the Markets in 2019

## Introduction

Five years of nationwide enrollment data for insurance marketplaces is now available after the recent release of the 2018 open-enrollment period announced by the Centers for Medicare and Medicaid Services<sup>1</sup> (CMS). The data underscores the reality that “health care is local” and that recent changes in federal policy will have different impacts in states across the nation.

This issue brief seeks to put the enrollment data and premium information in context and:

- Compares enrollment trends in the federally facilitated marketplace (FFM) to those in state-based marketplaces (SBMs).
- Provides an overview of the potential impacts for 2019.
- Reviews some of the major mitigating policies that could be adopted in time to substantially lower 2019 premiums, as health insurance carriers are finalizing their prices for the upcoming year over the next two months.

### **Federally facilitated marketplace enrollment has dropped during the last two years while state-based marketplace enrollment has held steady.**

Enrollment in the FFM dropped 5 percent from last year, and 9 percent over the past two years, while enrollment in SBMs has held steady during that time (see Figure 1: Plan Selections During the 2014-18 Open-Enrollment Periods).

A closer look at the data shows that the FFM enjoyed a very strong rate of renewal from existing consumers. These subsidized consumers benefited from an average 16 percent decrease in the net price of their 2018 plan, that was the product of how most states addressed the administration’s decision to change how plans pay for consumers’ cost sharing reduction benefits.

Data from CMS also shows that since 2016, overall enrollment in the FFM has dropped while SBM enrollment held steady. At the close of the most recent open-enrollment period, the FFM had 8.7 million plan selections for 2018, a decrease of 425,000, or 5 percent, from 2017. This represents a cumulative decrease of nearly 900,000 or 9 percent from the 9.6 million enrolling in 2016.

## Highlights:

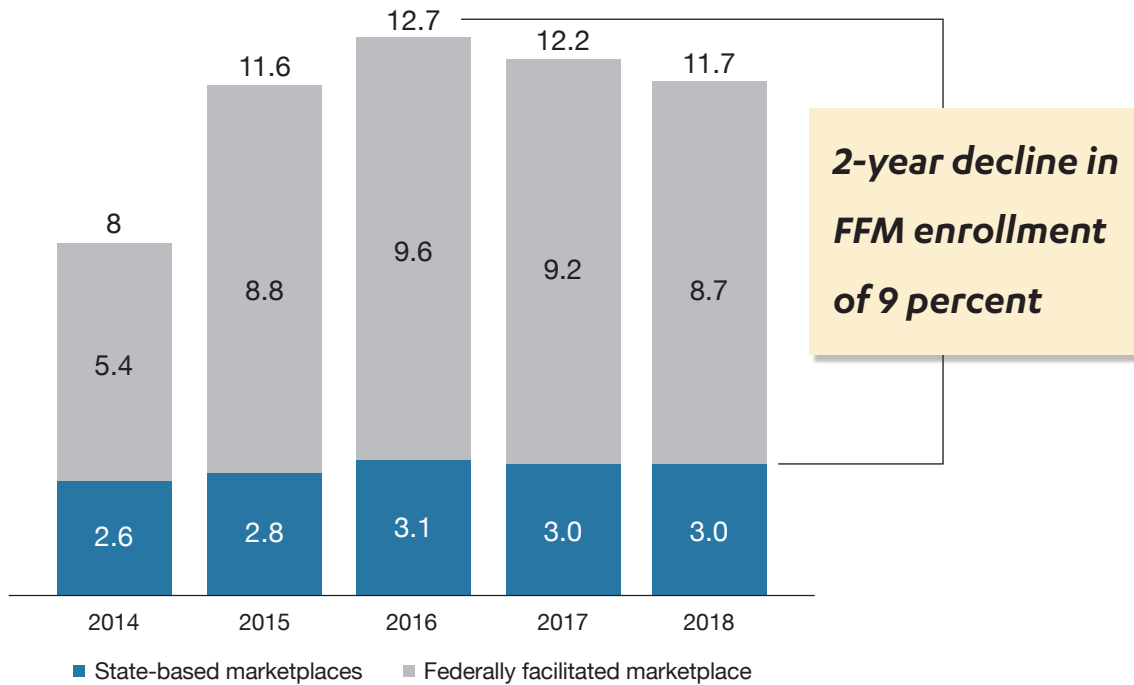
- **Enrollment in the Federally facilitated marketplace has dropped 9 percent over the past two years, with a nearly 40 percent drop in new enrollment, while enrollment in state-based marketplaces has remained steady during the same time period — indicating the dramatic effect of federal marketing reductions.**
- **Early data on off-exchange enrollment indicates that 1.6 million unsubsidized middle-class Americans have left the off-exchange market over the past two years.**
- **Increasing federal investments in marketing and outreach, from assessments collected for that purpose, could reduce premiums by 2.3 percent in 2019, and 3.2 percent from 2019–2021, saving taxpayers and consumers \$1.6 billion in the first year and \$6.6 billion over three years.**
- **Failure to act within the next few months will directly contribute to 2019 premium increases that could exceed 30 percent in many states in the federal marketplace.**

*This analysis was prepared by Covered California for its ongoing planning and to inform policy making in California and nationally.*

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**Figure 1**

Plan Selections During the 2014-18 Open-Enrollment Periods (in millions)



## The significant drop in new consumers enrolling in states served by the FFM is concerning for the risk mix and premiums.

During the same two-year period, the number of new enrollees dropped significantly, 18 percent from 2017 to 2018, with the FFM having a nearly 40 percent decrease in new enrollments from 2016 to 2018 (see Figure 2: National Enrollment Trends, New and Total Enrollment, 2014-2018). The number of new consumers in the FFM dropped from 4 million in 2016 to 3 million in 2017 and fell to 2.5 million in 2018. Cumulatively, this represents a 1.5 million drop in new consumers in the FFM since 2016. The declines in new enrollments from 2017 to 2018 occurred even though, on average, new enrollees eligible for subsidies would have benefited from the same 16 percent drop in health care premiums that renewing consumers received.

The drop in new enrollees is not a “natural” phenomenon, rather, it is the product of policy choices during the same period. When comparing new enrollment across marketplace types during 2016-18, the data shows that SBMs have held steady with 800,000 new enrollees signing up annually for coverage. The states served by the FFM, which were directly impacted by the federal policy of significantly cutting back on marketing and outreach over the past two years, saw a large drop in enrollment, which will mean consumers in those states will be paying higher premiums. States served by SBMs, which maintained their marketing and outreach to foster enrollment in those states, did not see a drop in enrollment and their consumers will benefit from lower premiums.

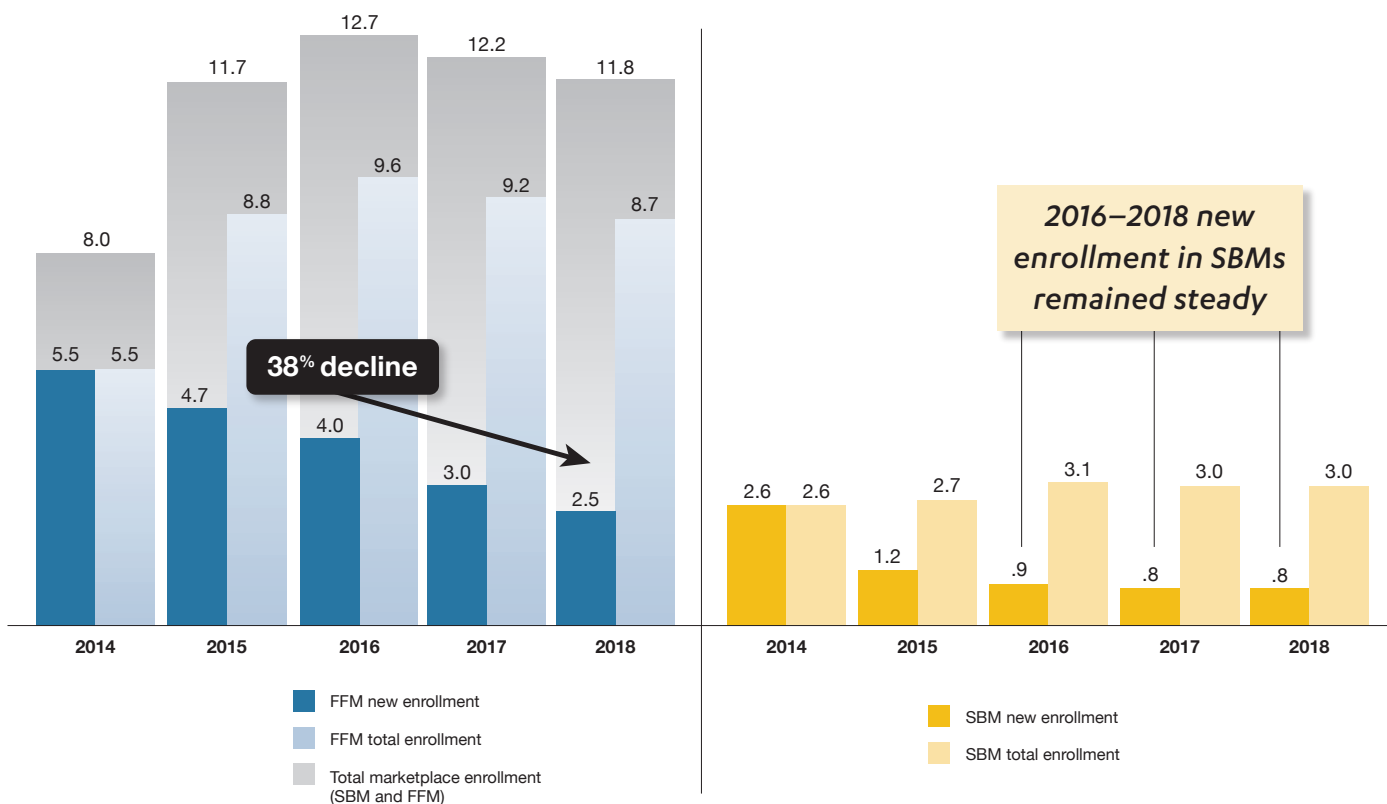
The individual insurance market is a high-churn market, often due to individuals leaving for job-based coverage, and thus requires active and ongoing efforts to maintain or grow enrollment through new members.<sup>2</sup> New enrollment is vital because enrolling a new mix of customers in a churn market like health insurance is critical to keeping the consumer pool healthy, which leads to lower premiums and more people insured.

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Since premiums reflect the underlying health status of enrolled members, the level of new enrollment has a direct impact on marketplace stability. In California’s state-based marketplace, new enrollees in 2017 had a risk score that was 16 percent lower than the cohort of renewing enrollees, meaning they had better health as measured by lower health care utilization and fewer chronic conditions, while renewing members’ risk score was virtually unchanged from the prior year.<sup>3</sup> Because these new enrollees will incur lower claims costs, analyzing new enrollment trends is an important way to measure a marketplace’s effectiveness in attracting a balanced risk mix and thus lowering premiums.

**Figure 2**

National Enrollment Trends, New and Total Enrollment, 2014–2018 (in millions)



## Consumers were protected from premium increases by cost-sharing reduction workarounds.

In 2018, many states across the nation responded to the federal government’s cancellation of the cost-sharing reduction (CSR) reimbursements by allowing health plans to fund the required CSR subsidy program by loading the costs onto on-exchange Silver products only.<sup>4</sup> There were many complicated implications of this policy that are now being analyzed, but for the majority of states including those in the FFM, the CSR workaround was the best option to protect both subsidized and unsubsidized consumers.

### Impacts of the CSR Workaround on Subsidized Consumers

Subsidized consumers account for 85 percent of total enrollment in the FFM. Since the CSR workaround increased the premiums of Silver plans, it also increased the value of the Advanced Premium Tax Credit (APTC) which is tied to the benchmark plans. Therefore, the workaround protected subsidized consumers by raising the APTC to offset the price increases required to fund the CSR benefits received by most subsidized consumers.

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For example, while the gross premium of marketplace plans increased an average of 31 percent, subsidized consumers in the FFM saw their net premium drop 16 percent because of a 44 percent average increase in APTC. For the Bronze and Silver metal tiers, net premiums dropped by 36 and 13 percent, respectively. (See Table 1: Federally Facilitated Marketplace — Average Premium, APTC and Net Premium).

| <b>Table 1: Federally Facilitated Marketplace — Average Premium, APTC and Net Premium<sup>5</sup></b> |             |             |               |
|---|-------------|-------------|---------------|
| <b>Marketplace Total</b>  | <b>2017</b> | <b>2018</b> | <b>Change</b> |
| Gross Premium   | \$476       | \$621       | 31%           |
| APTC Among Subsidized Consumers   | \$383       | \$550       | 44%           |
| Net Premium for Subsidized Consumers*   | \$106       | \$89        | (16%)         |
| <b>Bronze Only</b>  |             |             |               |
| Gross Premium   | \$422       | \$499       | 18%           |
| APTC Among Subsidized Consumers   | \$341       | \$452       | 32%           |
| Net Premium for Subsidized Consumers  | \$98        | \$63        | (36%)         |
| <b>Silver Only</b>  |             |             |               |
| Gross Premium   | \$489       | \$667       | 36%           |
| APTC Among Subsidized Consumers   | \$395       | \$583       | 48%           |
| Net Premium for Subsidized Consumers  | \$101       | \$88        | (13%)         |

\* Please note, this figure is an average that does not hold constant changes to enrollment details such as age or metal tier choice across 2017-18.

## *Impacts of the CSR Workaround on Unsubsidized Consumers*

The CSR workaround also protected unsubsidized consumers who do not receive any financial assistance through APTC. Most unsubsidized individuals avoided premium increases due to the CSR surcharge for two reasons:

- For the vast majority of unsubsidized consumers who purchase off-exchange, there was no CSR surcharge. Most states or marketplaces directed carriers to offer essentially mirrored products off-exchange with no markup to pay for the CSR benefit.
- Even those unsubsidized consumers who purchased coverage through a marketplace could avoid the surcharge by either selecting a non-Silver metal tier or enrolling in an off-exchange plan, which was not subject to the surcharge.

While unsubsidized consumers did not pay the “gross premium” increase reported in FFM data, they still faced an average increase of 18 percent for Bronze plans that did not reflect the CSR surcharge.

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## Enrollment Trends for Unsubsidized Americans and Implications for the Risk Mix and Premium Trends in the Individual Market

Marketplace enrollment does not tell the story of the millions of consumers who purchase health insurance coverage directly from carriers, or what is referred to as “off-exchange.” While there is no current and comprehensive data source for off-exchange enrollment publicly available to assess the extent to which consumers are retaining or leaving coverage, there are troubling indicators.

There are public reports that indicate that 1.6 million unsubsidized middle-class Americans left the off-exchange market over the past two years, a decline of about 30 percent.<sup>6</sup>

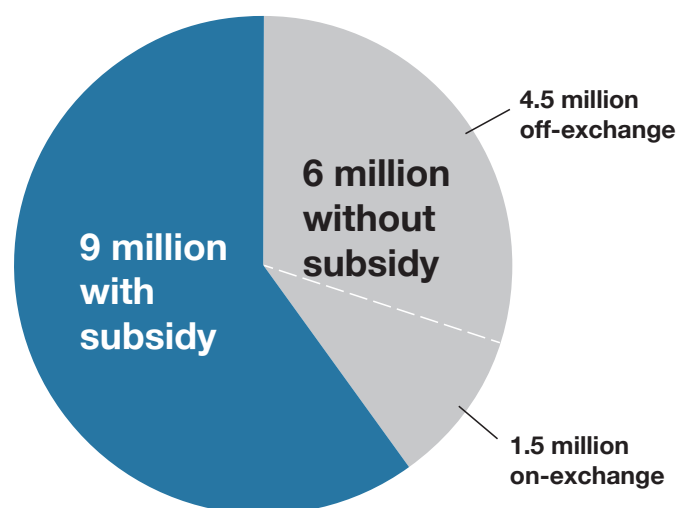
With this recent decline, the individual (or “nongroup”) market is likely composed of approximately 15 million Americans (see Figure 3: Total Insured with Individual Coverage).<sup>7</sup> Of these, roughly 6 million individual market enrollees do not receive subsidies and bear the full cost of premium rate increases. The vast majority of these individuals (approximately 75 percent) obtain insurance in the off-exchange individual market. This means they purchase directly from health plans, but they are still purchasing Affordable Care Act-compliant policies and these individuals are all part of the “common risk pool” that serves as the basis for health plans’ pricing.

The median household income estimated in the 2016 National Health Interview Survey for off-exchange consumers was approximately \$75,000, compared to a median income of \$66,000 for those aged 19 to 64 (regardless of coverage).<sup>8</sup> For many of these consumers, double-digit premium increases could lead them to drop coverage. The off-exchange market does have a somewhat higher proportion of high-income individuals — with 10 percent having an estimated household income of \$200,000 or more, compared to 6 percent of all individuals regardless of coverage source — however, these are a distinct minority of those getting insurance in the individual market.

The reason for the decline in unsubsidized enrollment needs further research. Three potential reasons are likely contributors:

- For some families, premium increases may be pushing care beyond reach.
- Some families, particularly those in the Silver tier, may have been discouraged from seeking or maintaining their insurance by media coverage of premium increases that reflected the on-exchange CSR surcharge rates (as reflected in the CMS media release).
- Without marketing and outreach, many consumers may not have shopped to see how affordable coverage could actually be.

**Figure 3**  
Total Insured with Individual Coverage



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## **Without federal action, unsubsidized consumers nationwide could see their costs rise steeply in 2019 and find coverage increasingly unaffordable.**

Given the trends of declining new enrollment in the FFM and the drops in unsubsidized enrollment, the worsening consumer risk mix will contribute to unduly high premium increases for 2019. In addition to open-enrollment trends, factors that portend premium increases in 2019 above base changes in medical trends include actions to reduce federal marketing and outreach, the repeal of the tax penalty associated with the individual mandate and proposals to increase the availability of short-term or limited-duration policies.

While there have been several bipartisan attempts over the past year to stabilize the individual markets, with Congressional leaders on both sides of the aisle agreeing on several key policies, a consensus to move forward was not reached. Nevertheless, there was a great amount of work done to identify substantive ways to protect millions of Americans through lower premiums and promoting more plan competition by reducing uncertainty. Time is running out to implement those solutions in ways that could affect 2019.

Potential solutions include both Congressional actions, which have broad bipartisan support but would require time to approve, and immediate actions that the administration can take without the need for legislation.

*The administration can reduce premiums and promote stability in 2019 by restoring marketing and outreach investments.*

The administration canceled marketing during the last week of open enrollment in 2017 and then adopted a 71 percent reduction in marketing and outreach for the 2018 coverage year, including a 90 percent cut in advertising spending.

Covered California's report, "Marketing Matters," detailed how our extensive marketing and outreach campaigns contributed to one of the best take-up rates and lowest risk scores in the nation. In 2015 and 2016, California's lower risk score translated into costs that were 20 percent lower than the national average, saving consumers and the federal government \$2.6 billion for this time period.<sup>9</sup>

Like Covered California, the FFM collects revenue from its health plan assessment – amounting to \$1.2 billion in 2018 – that does not require any appropriation and is collected so the federal government can promote both available products and the financial assistance that helps bring that coverage within reach.

Covered California allocates one-third of its assessment revenue which is a similar percentage of premium as the FFM on marketing and outreach. If the FFM did the same, it would invest more than \$400 million<sup>10</sup> and would likely lower premiums by 2.3 percent in 2019 and 3.2 percent cumulatively over the next three years. The lower premiums would save unsubsidized consumers and taxpayers \$1.6 billion in 2019, and an estimated \$6.6 billion from 2019 to 2021. The increased marketing investment would yield as much as a six-to-one return on investment and lead to an estimated 1.4 million more Americans getting insurance.

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## *Actions That Require Congressional Approval That Can Reduce Premiums and Promote Stability in 2019*

Given the short time frame, the only congressional action that could still affect premiums in 2019 would be to implement a reinsurance program or an expanded subsidy program. An independent actuarial analysis found that a federally funded, state-based invisible high-risk pool or reinsurance program would reduce premiums in 2019 by between 10 and 20 percent,<sup>11</sup> and improve affordability for the 6 million unsubsidized Americans who currently pay the full cost of health insurance in the individual market.

An additional policy that could promote stability would be to reinstate payments for the cost-sharing reduction (CSR) subsidies. While funding CSRs would not directly reduce premiums, it would help provide certainty to participating insurers and reduce federal spending for APTC, which was increased due to the workaround that was implemented during 2018. For states that broadly loaded the cost of the CSR program onto all metal tiers or onto both on- and off-exchange products, unsubsidized consumers would experience a one-time benefit from the return to the prior premium strategy.

In addition, there are policies at the state level that would help mitigate premium increases. For example, state-based penalties for non-coverage as well regulations that prohibit carriers from offering plans that do not provide comprehensive coverage or protect consumers with pre-existing conditions.

## **Conclusion**

Covered California has previously shared its report, “Individual Markets Nationally Face High Premium Increases in Coming Years Absent Federal or State Action, With Wide Variation Among States,” which found that in the absence of federal action, premium increases in the individual markets will likely range from 12 to 32 percent in 2019 and cumulative premium increases from 2019-21 will range from 35 percent to more than 90 percent.<sup>12</sup>

Health insurance carriers have begun their decision-making on participation in the marketplaces and for their potential rates for the 2019 coverage year. The window to effect those premiums is rapidly closing.

The issues affecting markets are multi-faceted and vary across states, and policy makers should consider a mix of policy options that, in combination, can achieve the goal of ensuring that individuals have access to quality, affordable choice of coverage. In tandem with the policies outlined above, policy makers must also ensure that they are balancing consideration of other goals, including managing health care costs and ensuring that consumers continue to receive protections that are universally agreed upon, such as guaranteed issue and prohibition of lifetime limits.



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## About Covered California

Covered California is an independent part of the state government whose job is to make the health insurance marketplace work for California's consumers. It is overseen by a five-member board appointed by the governor and the Legislature. For more information about Covered California, please visit [CoveredCA.com](http://CoveredCA.com).

- <sup>1</sup> Centers for Medicaid and Medicare Services. April 3, 2018. Health Insurance Exchanges 2018 Open Enrollment Period Final Report. <https://www.cms.gov/Newsroom/MediaReleaseDatabase/Fact-sheets/2018-Fact-sheets-items/2018-04-03.html>
- <sup>2</sup> See "Promoting Retention" discussion on page 28: Covered California. Marketing Matters: Lessons from California to Promote Stability and Lower Costs in National and State Individual Insurance Markets. September 2017. [http://hbex.coveredca.com/data-research/library/CoveredCA\\_Marketing\\_Matters\\_9-17.pdf](http://hbex.coveredca.com/data-research/library/CoveredCA_Marketing_Matters_9-17.pdf)
- <sup>3</sup> Covered California. Covered California Continues to Attract Sufficient Enrollment and a Good Risk Mix Necessary for Marketplace Stability. May 17, 2017. [http://hbex.coveredca.com/data-research/library/CoveredCA\\_Sufficient\\_Enrollment\\_Good\\_Risk\\_Mix.pdf](http://hbex.coveredca.com/data-research/library/CoveredCA_Sufficient_Enrollment_Good_Risk_Mix.pdf)
- <sup>4</sup> In addition to the APTC that lowers premium costs, low-income consumers between 100-250 percent FPL are eligible for CSRs subsidies that lower out-of-pocket costs at the point of care. The intent of CSR subsidies is to lower financial barriers to accessing care by reducing upfront costs for copays and deductibles.
- <sup>5</sup> Data for marketplace total, subsidized bronze and silver premiums were obtained from the following Centers for Medicaid and Medicare Services (CMS) Public Use Files: 2017 and 2018 Open Enrollment Period State-Level Public Use Files. <https://www.cms.gov/Research-Statistics-Data-and-Systems/Statistics-Trends-and-Reports/Marketplace-Products/index.html>.
- <sup>6</sup> Milliman. <https://twitter.com/PaulHouchens/status/971842998437863424>
- <sup>7</sup> It is difficult to obtain administrative data about the entire individual market. For this analysis, we estimate the size of the market based on 2016 enrollment data from Centers for Medicaid and Medicare Services (CMS) data releases. The reports suggest that in 2016 there were roughly 14.3 million enrollees in the single risk pool, which does not include enrollees in Massachusetts or Vermont, or the individual market enrollees in plans that are not part of the single risk pool (e.g. "grandfathered" plans). CMS reports that approximately 10 million were enrolled on-exchange, with about 8.4 million receiving tax credits. For total single risk pool size and average monthly enrollment, see Centers for Medicaid and Medicare Services, Center for Consumer Information and Insurance Oversight (2017). Summary Report on Transitional Reinsurance Payments and Permanent Risk Adjustment Transfers for the 2016 Benefit Year. June 30, 2017. <https://www.cms.gov/CCIIO/Programs-and-Initiatives/Premium-Stabilization-Programs/Downloads/Summary-Reinsurance-Payments-Risk-2016.pdf>. For on-exchange and tax credit average monthly enrollment for 2016, see Centers for Medicaid and Medicare Services (2017). Effectuated Enrollment Snapshot. June 12, 2017. <https://downloads.cms.gov/files/effectuated-enrollment-snapshot-report-06-12-17.pdf>
- <sup>8</sup> National Health Interview Survey (NHIS) 2016, using Lynn A. Blewett, Julia A. Rivera Drew, Risa Griffin, Miram L. King, and Kari C. W. Williams. IPUMS Health Surveys: National Health Interview Survey, Version 6.2. Minneapolis: University of Minnesota, 2016. <http://doi.org/10.18128/D070.V6.2>. Datasets available at <http://www.nhis.ipums.org>. Due to high rates of missing data for income in the NHIS, for this analysis we relied on the NHIS imputed income point estimates, and all analyses were restricted to ages 19 to 64 (inclusive). See Division of Health Interview Statistic, National Center for Health Statistics. 2016. Multiple Imputation of Family Income and Personal Earnings in the National Health Interview Survey: Methods and Examples. <https://www.cdc.gov/nchs/data/nhis/tecdoc15.pdf>.
- <sup>9</sup> [http://hbex.coveredca.com/data-research/library/CoveredCA\\_Marketing\\_Matters\\_9-17.pdf](http://hbex.coveredca.com/data-research/library/CoveredCA_Marketing_Matters_9-17.pdf)
- <sup>10</sup> Plan assessment revenue for the 2018 FY is estimated to be \$1.2 billion (see page 7 of the Centers for Medicare and Medicaid Services' FY 2019 budget justification document. <https://www.cms.gov/About-CMS/Agency-Information/PerformanceBudget/Downloads/FY2019-CJ-Final.pdf>)
- <sup>11</sup> Covered California. Reducing Premiums and Maximizing the Stabilization of Individual Markets for 2019 and Beyond: State Invisible High Risk Pools/ Reinsurance. Jan. 10, 2018. [http://hbex.coveredca.com/data-research/library/CoveredCA\\_Reducing\\_Premiums\\_1-10-18.pdf](http://hbex.coveredca.com/data-research/library/CoveredCA_Reducing_Premiums_1-10-18.pdf)
- <sup>12</sup> [http://hbex.coveredca.com/data-research/library/CoveredCA\\_High\\_Premium\\_Increases\\_3-8-18.pdf](http://hbex.coveredca.com/data-research/library/CoveredCA_High_Premium_Increases_3-8-18.pdf)