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Analysis on the Impact of the American Recovery Act

Case Study on the State of Washington's Individual Market

On March 10, 2021, President Biden signed into law the American Rescue Plan Act (ARP) of 2021. The legislation includes nearly $1.9 trillion in spending, including stimulus checks, funding for state and local governments, incentives for Medicaid expansion, an extension of enhanced unemployment benefits, and more. One of the more impactful health care related provisions of ARP is that it includes a temporary expansion of Affordable Care Act (ACA) premium subsidies. This brief examines key features and implications of the additional ACA premium subsidies and initial findings from the state of Washington.

ARP includes multiple provisions that increase the premium subsidies for health care coverage. For 2021 only, it provides extensive ACA subsidies for individuals receiving unemployment insurance (individuals who receive unemployment insurance will receive Advanced Premium Tax Credits (APTC) equal to 100% of the benchmark plan). In 2021 and 2022, ARP increases the amount of subsidies to those currently eligible as well as increases the number of people who are eligible for subsidies. The changes will be felt across the income spectrum. The enhanced subsidies in 2021 and 2022 include the following:

- End the subsidy cliff – For the first time, households over 400% of the Federal Poverty Limit (FPL) will be eligible for Advanced Premium Tax Credit subsidies.
- Premiums covered in full for lower-income households – Individuals between 100% and 150% FPL (i.e., those who qualify for 94% CSRs) will qualify for subsidies that will cover the entire cost of the benchmark premium.
- Enhanced subsidies for those currently eligible – For those with incomes between 150% and 400%, APTC subsidies will be dramatically higher.

The Congressional Budget Office (CBO) estimated that the number of people without health insurance coverage will decline by 1.3 million people in 2022 due to expanded subsidies.[1] CBO estimates that the individual market, before the passage of ARP, was about 14 million.[2] Consequently, there could be significant increases in market size relative to today, albeit differing by state.

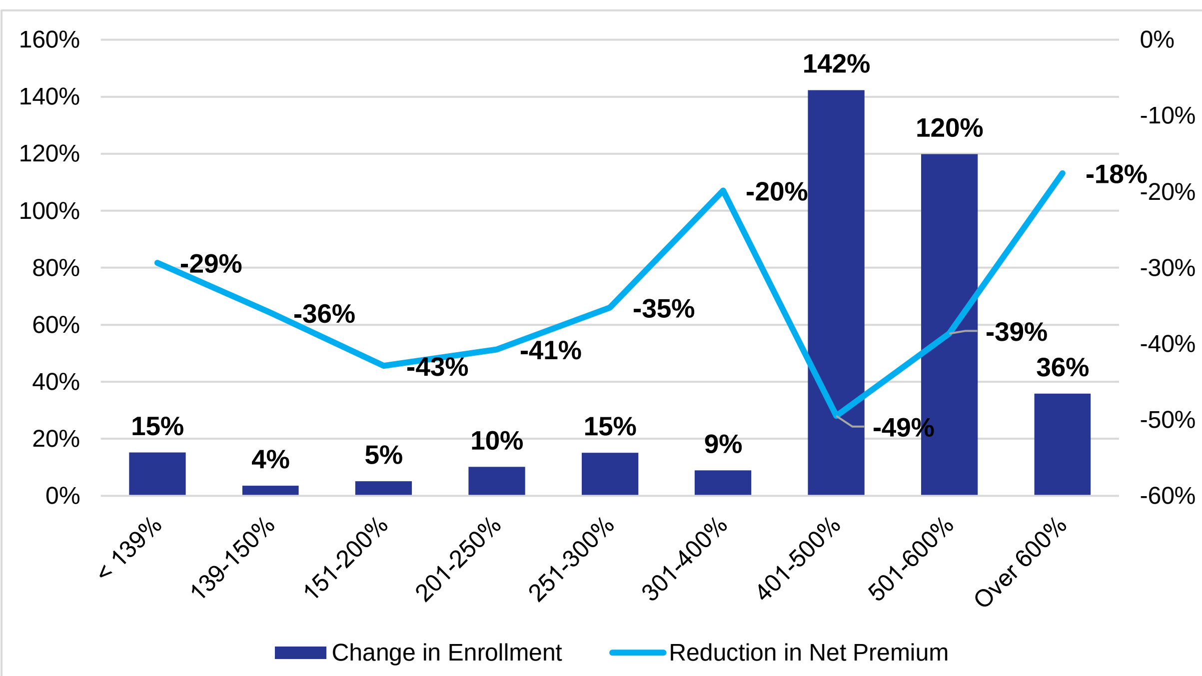
[1] https://www.cbo.gov/system/files/2021-02/hwaysandmeansreconciliation.pdf

[2] ibid

The question this research analyzed is what the impact of ARP is on a particular state. Differences in subsidy eligibility, economic conditions, size, and distribution of the current market all could result in the effects of the state differing from the national average. To better under the effects on a particular state, Wakely analyzed the effects on Washington. With permission from the Washington Health Benefit Exchange (WAHBE) Wakely used member level enrollment, premium, and plan selection data to estimate how the changes in subsidies would impact affordability for those currently enrolled as well as how the individual market might change as a result of the new subsidies in 2021 and 2022.

Overall Wakely found that ARP, when implemented for a full year in 2022, would increase enrollment in the individual market by 13% and decrease net premiums by nearly 25%. Overall subsidized enrollment is expected to account for nearly 75% of Washington's individual market on-Exchange compared to 60.7% in 2020. The increase in enrollment is primarily driven by increases in enrollment in the newly subsidized (400% to 600% FPL) bucket. This is reflected in the chart below which shows the estimated change, with and without ARP, in enrollment and net premiums in 2022 under the best estimate scenario. This paper will outline Washington's individual market without ARP (baseline), what the potential effects ARP will have on the state's individual market in 2021 and 2022, and conclude with additional considerations.

Chart 1: 2022 On-Exchange Change in Enrollment and Net Premium Reduction under ARP



Baseline Scenario

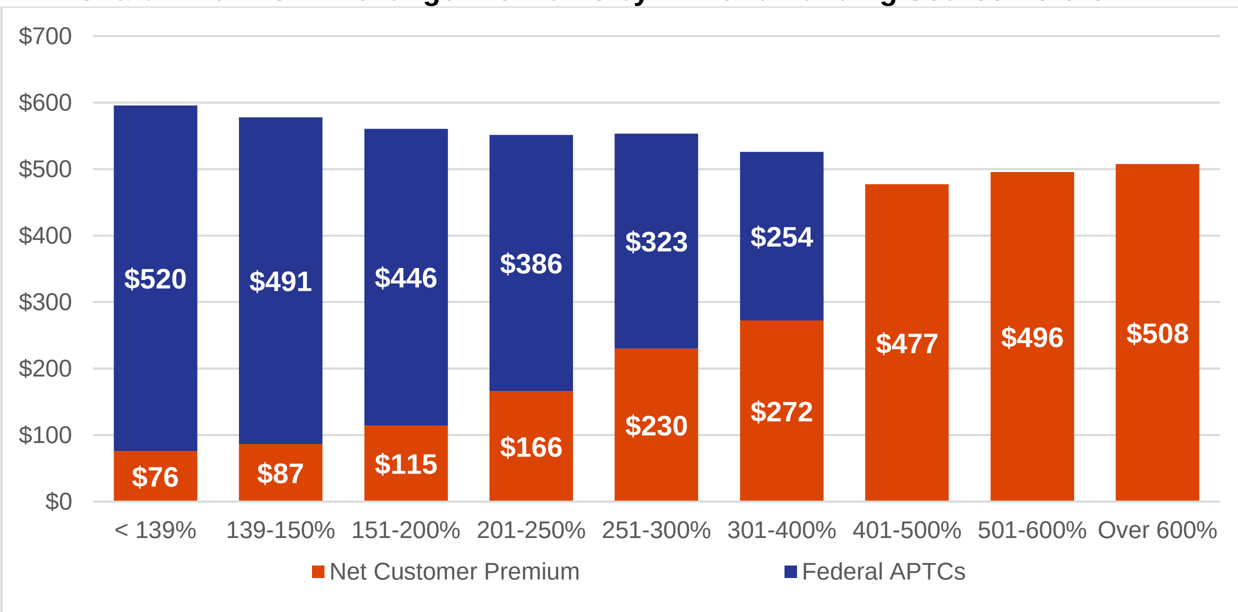
In order to calculate the impact of implementing ARP, Wakely developed a baseline database to estimate the environment in 2021 and 2022, including the on and off-Exchange enrollment in the Individual market and the uninsured landscape. While Wakely created a range of baseline estimates, this paper focuses on the results using the best estimate baseline. The table below shows a summary of the Individual market assumed in the best estimate baseline, prior to the implementation of ARP program.

Table 1: Baseline Individual Market – Best Estimate Enrollment

2022 Baseline Enrollment	2020	2021	2022
On-Exchange - Subsidized	113,400	112,600	117,500
On-Exchange - Unsubsidized	73,500	74,300	75,700
Off-Exchange	29,100	27,700	26,300
Total	**216,000**	**214,600**	**219,500**
% Subsidized - Total	52.5%	52.5%	53.5%
% Subsidized - On-Exchange Only	60.7%	60.2%	60.8%
Estimated Uninsured		**261,500**	**261,500**

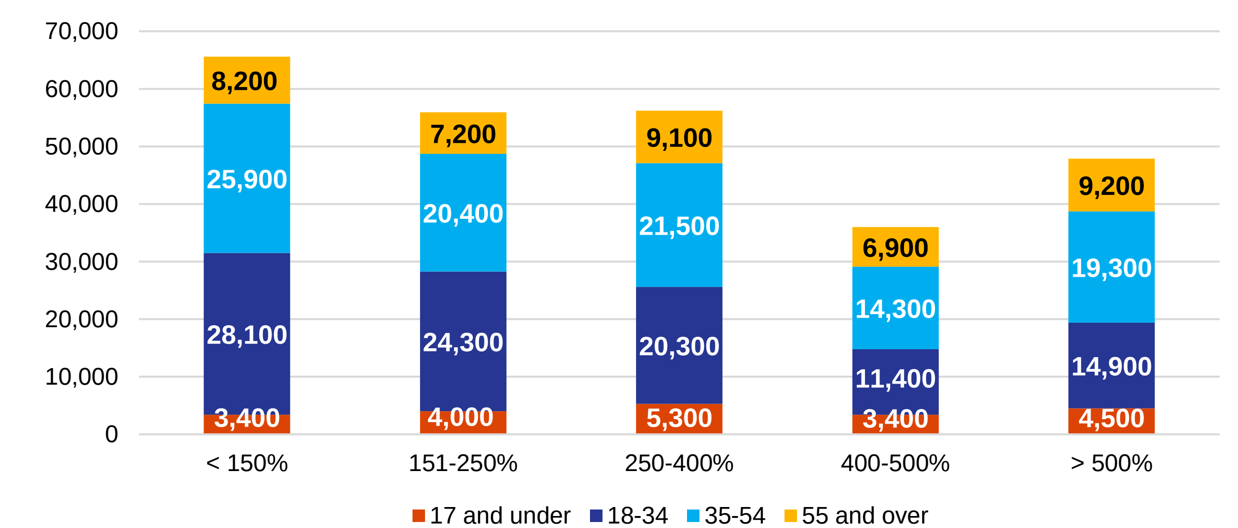
The following chart illustrates, for income groups, based on a percent of the federal poverty limit (FPL) using the best estimate baseline scenario, the average portion of premium that is covered by the current federal subsidy program and the remaining average member net premium for 2022. It reflects the on-Exchange market and includes both subsidized and unsubsidized individuals. This chart illustrates the premium cliff at the 400 percent FPL level for individuals receiving federal premium tax credits, at which net member premiums increase significantly given federal subsidies are limited to those under 400 percent FPL.

Chart 1: 2021 On-Exchange Premiums by FPL and Funding Source Before ARP



Another key baseline assumption is around the number of uninsured in Washington that may become covered in the individual market if lower premiums are available on the Exchange. The chart below reflects the baseline best estimate of uninsured by FPL and age group. The individuals reflected in the chart below are the estimates of QHP-eligible individuals and excludes the uninsured that are eligible for Medicaid or ineligible to purchase a plan on the Exchange due to citizenship status. These customers reflect the pool of uninsured who may choose to purchase coverage due to ARP.

Chart 2: Baseline Scenario – 2022 Estimate of Uninsured by FPL and Age



ARP Implementation

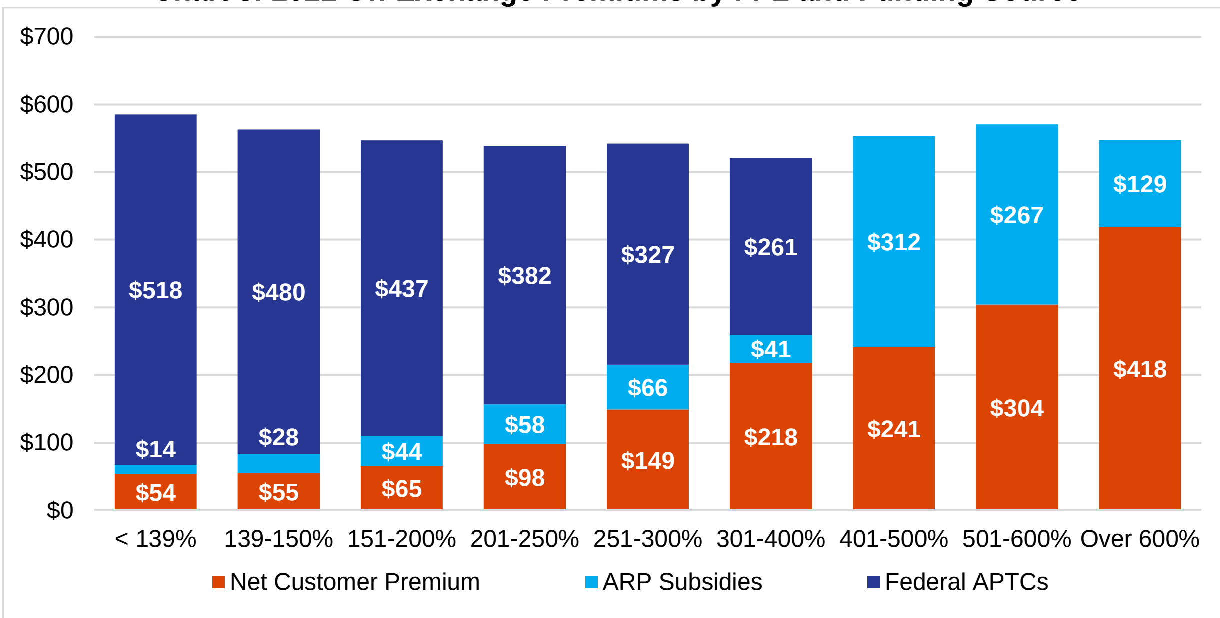
The ARP-related ACA subsidies provide premium assistance to a subset of customers purchasing coverage in the individual market through the Exchanges. Previously under the ACA, the federal program provides premium assistance via APTC dollars to Washingtonians who earn up to 400 percent of the FPL and enroll in coverage on the Exchange. ARP provides additional subsidies through two main mechanisms. It provides individuals in 2021 and 2022 additional subsidies who previously qualified, and it newly provides subsidies to those above 400 percent FPL and enroll in coverage on the Exchange. It also provides subsidies to those who receive (or are approved to receive) unemployment insurance in 2021.

Table 2: Maximum Income Contribution by FPL

	Range of Maximum Income Contribution (Percent of Income)	
Income Range (Percent of FPL)	Under Current Law	Under ARP
100% - 133%	2.07%	0.00%
133% - 150%	3.10% - 4.14%	0.00%
150% - 200%	4.14% - 6.52%	0.00% - 2.00%
200% - 250%	6.52% - 8.33%	2.00% - 4.00%
250% - 300%	8.33% - 9.83%	4.00% - 6.00%
300% - 400%	9.83%	6.00% - 8.5%
400% +	N/A	8.50%

The following chart illustrates, for income groups, as a percent of the federal poverty limit (FPL) using the best estimate baseline scenario, the average portion of premium that is covered by the current federal subsidy program, ARP subsidies, and the remaining average member net premium for 2022. The chart shows the significant reduction in the premium cliff at the 400 percent FPL level. Similar to Chart 1, it reflects the on-Exchange market and includes both subsidized and non-unsubsidized individuals. As a result, even though under ARP all eligible members would have 100% of the benchmark premium covered by subsidies, not all members may be eligible (e.g., family glitch)[3] and some members may choose to purchase more costly plans which could require a small premium contribution.

Chart 3: 2021 On-Exchange Premiums by FPL and Funding Source



Wakely modeled the impact of ARP on the 2021 and 2022 individual ACA markets. Since ARP will be implemented part way through the year in 2021 (for example, in Washington it starts in May), the effects are somewhat mitigated. The following Table 3 outlines Wakely's best estimate of the uninsured take-up, the total number of customers receiving a premium subsidy, and a change in net premium.

Table 3: Range of Estimated Impacts of ARP – On-Exchange

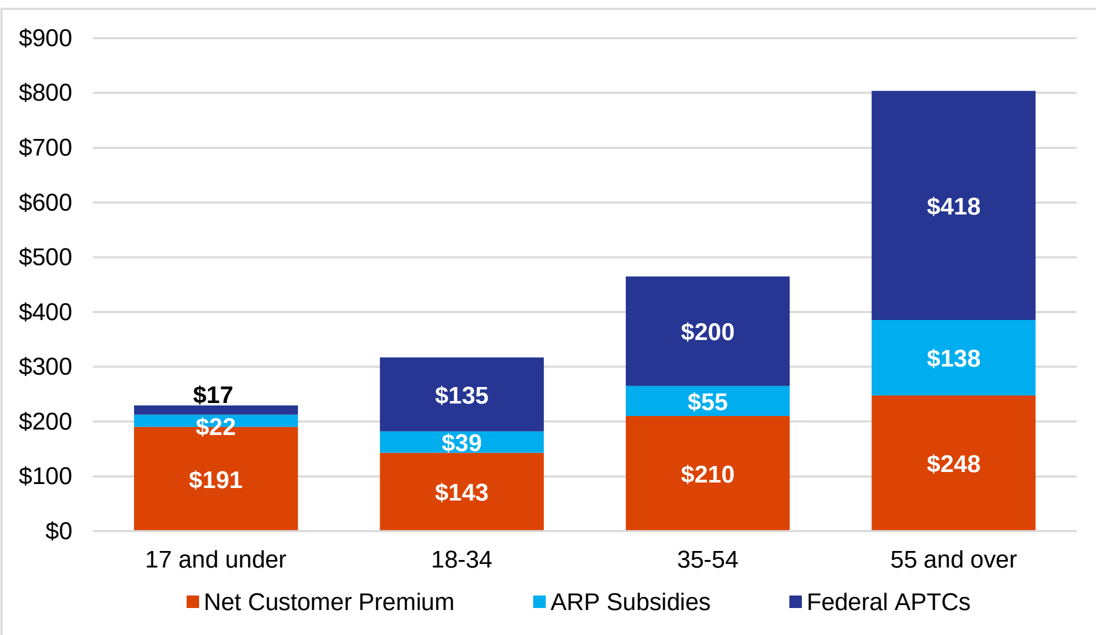
Year	Take-Up from Uninsured	Percent of Enrollees with Subsidized Coverage On-Exchange	Change in Average Subsidy	Change in Average Net Premium
2021	13,600 - 20,300	74.9% - 75.4%	26.8% - 33.3%	-22.9% to -26.6%
2022	14,700 - 36,000	74.9% - 75.4%	17.2% - 33.1%	-24.1% to -28.6%

[3] The "family glitch" is the ACA rule that bases eligibility for a family's premium subsidies on whether available employer-sponsored insurance is affordable for the employee only, even if it's not actually affordable for the whole family. As a result of this rule, if one person in a family is offered affordable employee only coverage, all family customers are ineligible for federal premium tax credits

As can be seen above, the effects of ARP on enrollment and affordability are quite pronounced. Enrollment is markedly higher and net premiums are much lower. This is driven by the dramatic increase in subsidies. While in the baseline, the average subsidy is estimated to be $265 in 2022, ARP (in its first/only full year) subsidies are estimated to increase to $332, or an increase of 25% under the best estimate scenario. There is significant uncertainty around the level of enrollment and uninsured take-up as shown in the range of estimates above. Additionally, these results do not account for migration of members between plans and/or metal levels.

While the overall best estimate impact is a 25% increase in subsidies, the impact will vary significantly based on an individual member's circumstances. Similar to the current federal program, older members will see the largest decreases in net premium, therefore enrollment take-up is estimated to be greater for older individuals, particularly those who are over age 55. This is reflected in the chart below, which shows the portion of total premium covered by the current federal subsidies, ARP subsidies, and net customer premium. Members over age 55 continue to receive the largest subsidies.

Chart 4: 2021 On-Exchange Premiums by Age and Funding Source



In addition, Table 4 below shows the impact on subsidy and net premium levels by income level for 2022. Individuals with incomes between 401% and 600% FPL will see the largest impact on net premium, as these members are those historically impacted by the subsidy cliff. As such, the take-up from uninsured is estimated to be the greatest for those in the 400%-600% FPL group.

Table 4: Best Estimate Impact of ARP – On-Exchange - Subsidy and Net Premium by Income Level in 2022

Scenario	Metric	< 139%	139-150%	151-200%	201-250%	251-300%	301-400%	401-500%	501-600%	Over 600%	Not Seeking Financial Assistance*	Total
Baseline	Members	12,200	13,300	37,000	25,700	17,800	24,400	9,300	4,500	7,600	41,400	193,200
	% Subsidized	93%	97%	96%	93%	87%	76%	0%	0%	0%	0%	61%
	Average Subsidy PMPM	$520	$491	$446	$386	$323	$254	$0	$0	$0	$0	$265
	Average Net Premium PMPM	$76	$87	$115	$166	$230	$272	$477	$496	$508	$518	$276
ARP	Members	14,100	13,800	38,900	28,300	20,500	26,500	22,500	9,800	10,400	34,200	219,000
	% Subsidized	94%	97%	96%	94%	88%	78%	92%	88%	53%	0%	75%
	Average Subsidy PMPM	$532	$508	$482	$440	$393	$303	$312	$267	$129	$0	$332
	Average Net Premium PMPM	$54	$55	$65	$98	$149	$218	$241	$304	$418	$488	$206
Difference	Members	16%	4%	5%	10%	15%	9%	142%	118%	37%	-17%	13%
	% Subsidized	1%	0%	0%	1%	2%	2%	92%	88%	53%	0%	14%
	Average Subsidy PMPM	2%	3%	8%	14%	22%	19%	N/A	N/A	N/A	N/A	25%
	Average Net Premium PMPM	-29%	-36%	-43%	-41%	-35%	-20%	-49%	-39%	-18%	-6%	-25%

* Member's not seeking financial assistance are those that have chosen not to report their income through the enrollment process and are not eligible for APTCs. The ARP scenario assumes that a portion of these members may become newly eligible for subsidies and choose to report their income to receive the subsidies.

This analysis assumes that members over 400% FPL are ineligible for subsidies solely due to their income and all will be newly eligible through ARP. We did not account for members who may be ineligible for reasons other than income, such as an offer of employer-sponsored insurance. As such, the percent of subsidized members and enrollment changes in these groups may be overstated as some members may continue to be ineligible for subsidies.

Other Considerations

While the above figures showcase the change the individual market could experience in 2022 relative to a world without ARP, there are a number of other considerations both in the short-term and long-term. The list below reflects some qualitative considerations, though this list is not exhaustive.

- Historically, enrollees that take up coverage because of changes in premiums tend to be healthier, on average, than those already in the market. Consequently, large increases in enrollment could yield improvements in morbidity which could further lower premiums if issuers price this into the rates in 2022.
- The program is currently only temporary. Under current law, the enhanced subsidies reflected above will no longer be in effect beginning in 2023. Therefore, subsidized members as shown in the tables above will see significant increases in their net premium from 2022 to 2023. While the CBO estimates that there will be residual increases in enrollment from ARP, it is expected that a significant number of newly enrolled members would drop coverage in 2023 if the subsidies go away.
- 2021 includes subsidies for those receiving unemployment insurance. Many of these customers will see premium increases in 2022 as the amount of their subsidy decreases. Wakely did not directly model the extent to which some of these enrollees may either maintain coverage in the Exchange or lose coverage because of their net premium increases. How states manage outreach/education and auto-enrollment options for these individuals could impact 2022 enrollment.
- Another key factor for 2022 enrollment is likely to be the status of Medicaid redetermination. Currently, Medicaid programs in Washington are not redetermining Medicaid enrollment for as long as the Public Health Emergency (PHE) is in effect. This has implications for the individual market as individuals who otherwise would have coverage in the individual market can maintain coverage in Medicaid. If the PHE were to end in 2022 (or before) there could be an increase in enrollment in the individual market as enrollees transition to the individual market from Medicaid. It is expected the majority of these members would be eligible for subsidies.
- While the ARP addresses the subsidy cliff, there are several member groups that will not receive subsidies, including:
  - Members who are in the “family glitch”
  - Individuals that are ineligible for subsidies due to citizenship status
  - Enrollees whose income are below 100% FPL and reside in states that did not expand Medicaid
- As subsidies are based on the relationship of premiums and income levels, younger members with higher incomes will be more likely to continue to be ineligible for subsidies as compared to older members with the same income level. Consequently, younger

enrollees or enrollees in lower cost areas are less likely to be eligible for subsidies. As enrollees increase the amount of subsidies they have available, they may be more likely to purchase coverage at a higher metal levels. No migration to other metal levels was modeled in the analysis.

Conclusion

The results of the analysis indicate that the American Rescue Plan Act will likely have a dramatic impact on net premiums, both for those currently subsidized and unsubsidized, since ARP not only changes the level of subsidies but who gets subsidized. Given the lower premiums for which enrollees will be responsible, enrollment is expected to increase significantly but possibly temporarily. The effects of the lower premiums should be higher in 2022 than 2021 given that premium subsidies will be in effect for the entire year. The analysis also demonstrates one state's experience could differ from another state's, potentially materially, because of different context. States, like Washington, who have a larger portion of unsubsidized individuals, could see larger changes in net premiums than states where most enrollees are already subsidized. Conversely, states like Washington, which have lower uninsured rates (partially due to Medicaid expansion), may have smaller increases in enrollment.

One key issue not covered in the analysis is the transition between years. Wakely's modeling does not include the effects of re-enrollment on enrollment retention. Based on CBO's modeling, hundreds of thousands of enrollees could see dramatic changes in their net premiums when the additional subsidies for unemployment insurance end in 2022 or when the additional subsidies are scheduled to end in 2023. Appropriate outreach and even auto-enrollment rules could have significant impacts on enrollment levels.

Overall the implementation of ARP is expected to have a large impact on premiums and enrollment in 2021 and 2022. However, the actual impact will differ based on the state's characteristics and implementation of the law. Understanding not just the national pictures but the state context is crucial for understanding the impact on the individual and uninsured markets.

Disclosures and Limitations

This paper relies on on-Exchange enrollment data provided by WAHBE as well as publicly available data. Income data was not available for a large portion of the on-Exchange enrollment and for the off-Exchange customers. Data on individual market income levels includes a certain level of error and unknown. The extent to which incomes of either the currently insured or uninsured differ from the estimates may result in material changes in the estimates. Additionally, there is enrollment uncertainty. Beyond changes to potential rates and policy, individual member or firm responses to these changes also has uncertainty. There is considerable uncertainty as to enrollment patterns due to the economic downturn.

There is significant uncertainty as to how ARP programs will be implemented. How the programs are ultimately implemented could have material impact on enrollment and costs. For example, what outreach and advertising will be done to better reach uninsured and/or currently enrolled. Different levels of outreach could impact findings. Eligibility for the program based on employer offers could influence the number of firms that shift employees into the individual market and therefore impact the estimates.

The assumptions and resulting estimates included in this report and produced by the modeling are inherently uncertain. This report is intended to be informational and is not intended to be relied on or used for other projects or analyses. Actual results may vary, potentially materially, from our estimates. Wakely does not warrant or guarantee that WAHBE or Washington carriers will attain the estimated values included in the report. Additional information on the assumptions and methodologies used in the analysis can be obtained by contacting the authors.

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Please contact Brittney Phillips, ASA, MAAA (brittney.phillips@wakely.com) or Michael Cohen, PhD (Michael.cohen@wakely.com) with any questions or to follow up on any of the concepts presented here.