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Low Cost Carriers in ACA: Insights from the 2018-2021 Market Experience

Introduction

1332 state innovation waivers[1] have been in place for a number of years and allow states to implement programs that increase access to and the affordability of healthcare coverage, subject to approval by the Department of Health and Human Services (HHS) and Department of Treasury (Treasury). Nearly all waiver programs in effect in 2021 employ a reinsurance program aimed at reducing the overall claim costs and premiums for members by reimbursing issuers for a portion of claim costs over a specified threshold.

A number of states have been exploring other ways to structure a waiver program, including introducing a public option plan into Affordable Care Act (ACA) markets (individual and small group plans subject to the ACA market reforms). The definition of a "public option plan" has evolved over time and can vary, but more commonly refers to a privately funded health plan with some level of government oversight or additional requirements established to improve consumer value and facilitate cost containment.

A public option plan aims to further increase access to coverage and affordability by offering a new qualified health plan, typically with a lower premium relative to existing premiums in the market. A public option plan specifically aims to extend a more affordable coverage to individuals who are currently not eligible for ACA subsidies (e.g., family glitch, non-citizens, and those with higher incomes). The plan could be structured in a variety of ways such as a state-sponsored product, state employee health plan buy-in, Medicaid plan buy-in, or a private plan offered by existing issuers Colorado[2] and Washington will require health plans to offer public option plans with a target premium reduction relative to other plans in the market, with constrained rate increases over time, giving health plans the opportunity to arrive at the lower premiums through

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[1] https://www.cms.gov/CCIIO/Programs-and-Initiatives/State-Innovation-Waivers/Section_1332_State_Innovation_Waivers-

[2] Please note Colorado's program has not yet been enacted and the ultimate policy is contingent of its 1332 waiver amendment application.

their own means, for the 2023 plan year.[3] Lower premiums would likely be achieved through a combination of lower provider reimbursement and lower risk margins.

Given the nature of premium subsidization in the individual ACA market, where premium subsidies are tied to the second lowest cost silver (SLCS) plan in the market, the introduction of a lower cost public option plan has a mixed impact on market growth and the types of member segments that benefit. Since Washington State is the only Exchange that currently offers a public option plan, there is minimal experience available to understand the impact a public option plan may have on the market. As a result, our goal was to look at states where a new issuer has entered a market as a low cost plan over the last four years, to better understand plan enrollment migration (how many members switch to the low cost carrier), competitors' reactions, and the reduction in premium needed to incentivize members to take up coverage. This market dynamic potentially closely mimics a public option plan that offers lower premiums being introduced in a market. Over the last four years (2018-2021), we identified 51 instances of new issuers entering an individual on-Exchange market. Of those 51 new entrances, 25 met our criteria of a low cost plan.[4]

The analysis showed mixed impacts of a low cost plan introduction in ACA markets, with minimal impact on the uninsured, but with improved affordability, particularly for the unsubsidized. The detailed observations are discussed further in this paper.

This paper explores the potential design elements and expected effects of a public option or a low cost plan being newly introduced in an ACA individual market. It is for discussion purposes only and does not address all of the relevant issues that could be affecting decisions made by consumers, carriers and regulators in a particular market.

Key Observations

We relied on historical public use files for the 2018 through 2021 ACA individual market, including Unified Rate Review Template data, rate tables, and open enrollment data. Information was aggregated by state and calendar year to capture market characteristics and year-to-year changes in the outcomes of interest such as changes in market size, premiums (normalized for age and metal mix), loss ratios, and others. The analysis[5] of the market impact of the introduction of low cost plans (i.e., public option look-alike) compared to the markets without low cost issuers revealed the following observations.

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[3] The Commonwealth Fund. State Public Option–Style Laws: What Policymakers Need to Know. https://www.commonwealthfund.org/blog/2021/state-public-option-style-laws-what-policymakers-need-know

[4] A low cost issuer was defined as an issuer that has the lowest premium plan in any rating area, in any metal tier in a given state.

[5] Regression analysis was conducted on non-missing data points controlling for the impact of reinsurance programs, Medicaid expansion in the state, and year-to-year premium changes on the outcomes of interest. Effects were deemed statistically significant if p-values were below 0.15. Note that other market dynamics could have also influenced the outcomes of interest, but were not readily observable in the data.

Metric	Result
Affordability / Premium Impacts	There was no significant impact on the overall market average premiums[6] in either the year of low cost plan introduction, or in the years following. This indicates insufficient enrollment in the plan with the lower premiums, at least in the first few years of offering.
Impact on Subsidized Enrollees	Markets with low cost new issuers experienced a significant increase (+21% on average compared to the markets without low cost issuers) in the subsidized members' net premiums (gross premiums less APTC subsidy). This is an expected outcome due to a decrease in the second lowest cost silver benchmark plan,[7] and hence a reduction in the advanced premium tax credit subsidies. While members enrolled in the second lowest silver benchmark or higher premium plan would not experience an increase in the net premium, the fact that the majority of members are enrolled in lower-premium plans leads to the observed increase.
Enrollment Impacts	Markets with low cost new issuers experienced a 3 to 5% decrease in the number of APTC subsidy-eligible members, compared to the markets without low cost issuers. There was no significant impact on overall market enrollment in the year of the low cost plan introduction, nor in the years following (up to three years at most). There are variances by state. The aggregate on-Exchange enrollment decreased from 2018 to 2021, suggesting potentially offsetting enrollment impacts. That is, an increase among unsubsidized, and a decrease among the subsidized populations. Markets with low cost new issuers experienced lower gold plan enrollment and an increase in bronze enrollment.
Issuer Profitability Impacts	There was no significant impact on average market profitability, with some variation at a state level.[8]

Finally, markets with a reinsurance program, on average, experienced a 5% increase in unsubsidized member enrollment, and a 4% decrease in the market average loss ratios. The key

[6] Market average premiums per member per months were adjusted to remove the differences in the distribution of plans by metal tier and the age of enrollees.
[7] The degree of the APTC reduction depends on the relative difference between the lowest and second lowest silver rates prior to the introduction of the low cost public option plan.
[8] Change in profitability was defined as a change in the market average loss ratio, a ratio of claims net of reinsurance receipts (if any) to the premium revenue net of risk adjustment transfer amounts.

distinguishing feature of a reinsurance program is that it enables carriers to lower premiums in all plans, without specifically targeting the second lowest cost silver plan premiums alone as a public option typically does. While the SLCS plan premium does decrease with reinsurance, the purchasing power is preserved since other plans' rates are also lower.

Policy Considerations

Given these observations and potential for trade-offs, the state policy goals need to be considered when contemplating a public option waiver. For example, if the goals are aimed at encouraging more unsubsidized uninsured individuals to enroll, both reinsurance and public option waivers would address this goal.

More generally, the availability of a lower cost plan is beneficial for the unsubsidized, and detrimental for the subsidy-eligible individuals (especially those purchasing SLCS plans or lower cost plans). The table below illustrates this point for a simple example of premium for various metal levels and the potential impact of a lower cost public option plan being introduced with 10% lower premiums. While subsidized members purchasing bronze plan experience the largest increase in their net premium, members in the SLCS and gold plans experience no change.

	Before Public Option			After Public Option (10% lower)		
	Bronze	**SLCS**	**Gold**	**Bronze**	**SLCS**	**Gold**
Gross premium, A	$350	$500	$510	$315	$450	$459
APTC, B	300	300	300	250	250	250
Net premium, A-B	50	200	210	65	200	209
Net Premium Change After Public Option				30%	0%	0%

The availability of pass-through funding may mitigate some of the negative consequences if the state would request and use the pass-through funding for additional premium subsidies. Pass-through federal funding is the amount by which a particular 1332 waiver program reduces the amount of premium tax credits that would have been paid in absence of the waiver. This analysis did not consider the potential impacts of the pass-through funding. It may be possible for states, via a 1332 waiver, to transfer premium savings via a public option into additional subsidies. For example, Colorado has applied for a 1332 waiver amendment, in which a portion of the pass-through funding achieved via premium savings, will provide additional subsidies to currently subsidized enrollees, as well as certain unsubsidized populations.[9] This approach could further help the market and target those who might be negatively impacted by the public option, or create new assistance to those currently without subsidies.

[9] Colorado Section 1332 Innovation Waiver. Waiver Amendment Submission, Colorado Option. . November 30, 2021. https://drive.google.com/file/d/1SUy-iNz3i7IIRTPTqy2OJgNYH1oyN5mX/view

North Carolina Case Study

To illustrate some of the observations in the national ACA experience, we selected a market to serve as a case study. The North Carolina market had only two issuers participating in 2018, with new issuers entering or expanding in 2019, 2020, and 2021. In 2019, a new low cost issuer (referred to as Issuer A) began offering plans in select geographic areas (Greensboro and Raleigh, which represent around 20% of the state's individual market), having the second lowest cost silver HMO plan in Greensboro. Despite an overall market enrollment drop in 2019, Issuer A enrolled just over 7,000 members (1.4% of statewide market, and 7.2% of the two service areas), with one of the incumbents losing three-quarters of its total enrollment (in largely overlapping service areas). Issuer A's membership continued to grow in 2020 and 2021 to more than 19,000 members as it expanded in other geographic areas with competitive silver products (see Table 1).

In 2020, another new entrant (Issuer B) began offering lowest-cost (and second-lowest cost) silver plans in the Charlotte and Winston-Salem areas 5% below the closest competitor's lowest rate, as well as a competitive bronze plan (5% above the lowest). Issuer B enrolled 23,000 members (5% of the market share). By 2021, Issuer B was offering silver plans 10% below the closest competitor in Charlotte and has grown its market share to over 15% of statewide market (or 24% of the service areas) (see Table 1).

Examining the subsequent impacts on the market from 2019 to 2021, the observed effects include:

- Due to the benchmark plan premium reductions, the APTC amounts for the subsidy-eligible members decreased steadily from $680 PMPM in 2019 to $566 PMPM in 2021 (see Table 2).
- The market has experienced an overall buy-down in the plan benefit richness, with the percentage of members purchasing silver plans decreasing from 64% to 52%, whereas the proportion of bronze plans has increased from 26% to 36%. While most states have seen a shift to gold plans due to increased subsidies in 2018 due to silver loading, states with a new low-cost issuer tended to see more migration to bronze plans, likely to offset the premium impact due to decreasing subsidy amounts (see Table 3).
- Net premiums for the subsidized enrollees have modestly increased from $65 PMPM to $82 PMPM over the same time period, despite plan buy-downs (see Table 2).
- The overall market size increased from about 502,000 to 548,000 including both on and off Exchange enrollment, with an increase of 33,000 among the subsidized members and 13,000 among the unsubsidized (see Table 2). This is one of six states (out of 25) where the subsidized enrollment has increased after a low-cost issuer entered the market, and most likely driven by factors not observable in this analysis.

- The incumbent issuers' silver premiums have decreased over time and loss ratios have increased (see Table 1). New low-cost issuers generally did raise their rates in the year(s) following the market entry, but not substantially.

The North Carolina market experienced growth in both the subsidized enrollment and the overall market enrollment, with substantial migration of members between carriers and metal tiers. This market had a single issuer offering coverage prior to 2019 in the majority of the rating areas. An increase in the consumer choice could have played a role in the observed growth. The silver premiums have declined consistently over this time period and attracted more unsubsidized enrollment, and in general improved coverage affordability in the market for unsubsidized.

Table 1: North Carolina 2018 to 2021 Market Experience

	2018	2019	2020	2021
New Low Cost Issuer A:				
Geographic Area		Area 13	Area 13	Areas 13
Lowest Silver Premium (Age 40)	N/A	$470	$410	$485
Premium Differential*	N/A	+4.0%	-6.1%	-0.8%
Enrollment (statewide market share %)	N/A	7,050 (1.4%)	15,700 (3.1%)	19,300 (3.5%)
Loss Ratio	N/A	85.6%	81.8%	TBD
New Low Cost Issuer B:			Area 4	Area 4
Lowest Silver Premium (Age 40)	N/A	N/A	$405	$423
Premium Differential*	N/A	N/A	-5.2%	-10.1%
Enrollment (statewide market share %)	N/A	N/A	23,150 (4.5%)	82,250 (15.1%)
Loss Ratio	N/A	N/A	84.4%	TBD
Rest of Market (Statewide):				
Enrollment	520,450	494,900	471,450	446,000
Loss Ratio	71.2%	76.7%	81.8%	TBD
Total Market (Statewide):				
Total Enrollment	520,450	501,950	510,300	547,550

*Percentage relative to the next closest competitor's premium in the area.

Table 2: North Carolina 2018 to 2021 Market Experience
Change in Premiums and Enrollment by Subsidy Status

	2018	2019	2020	2021
Average Lowest Cost Silver Premium by Area (Age 40)	$604	$597	$536	$508
% Change	N/A	-1.1%	-10.2%	-5.3%
APTC for Subsidized	$703	$680	$606	$566
% Change	N/A	-3.3%	-10.8%	-6.6%

	2018	2019	2020	2021
Net Premium for Subsidized	$82	$65	$69	$82
% Change	N/A	-20.0%	4.9%	19.2%
Number of Subsidized	468,600	453,450	455,600	486,050
% Change	N/A	-3.2%	0.5%	6.7%
Number of Unsubsidized	51,850	48,500	54,700	61,500
% Change	N/A	-6.5%	12.8%	12.4%
Total Enrollment	520,450	501,950	510,300	547,550
% Change	N/A	-3.6%	1.7%	7.3%

Table 3: North Carolina 2018-2021 Market Experience
Change in Metal Distribution

	2018	2019	2020	2021
On-Exchange Metal Distribution:				
Gold Plans	5%	9%	9%	10%
Silver Plans	71%	64%	58%	52%
Bronze Plans	22%	26%	26%	36%

Other Considerations

An extension of American Rescue Plan (ARP) or any new additional premium subsidy legislation (if enacted) would likely mute the impact of a public option for two reasons. The first is that ARP will increase the number of individuals who are subsidized. Secondly, ARP is expected to decrease the number of uninsured. The smaller the number of uninsured, especially among those who are not subsidy eligible, the harder it will be for the public option to induce additional enrollment into the individual market. As a result, the impact of the lower premiums under a public option is more likely to have a net negative enrollment impact if the ARP subsidies or similar expanded subsidies become permanent after 2022. While ARP would help to offset the subsidized member attrition due to the public option, it does not change the underlying dynamic.

Introduction of a public option should be implemented alongside effective marketing initiatives and consumer outreach in order to increase awareness around the public option plan, as well as auto-enrollment rules (similar to Massachusetts). The easier it is for the subsidized enrollees to switch to a lower cost public option plan rather than face net premium increases, the less likely they are to drop out of the individual market and more likely they are to benefit from the public option. For example, during the 2021 open enrollment, about 60% of returning enrollees actively shopped, but that proportion varied greatly by state (from 5% to 78%). Higher levels of active shopping or more active auto-enrollment rules may result in greater enrollment retention.

There could also be disruption in the market, either with issuer participation or issuer premiums with the introduction of a lower cost public option. Current issuer premiums could increase or decrease depending on their reaction to competitive pressures and perceptions of risk selection not mitigated through risk adjustment. How issuers change their pricing, their willingness to continue offering non-public option plans or even stay in the market, will also affect enrollment.

Finally, the impact of low-cost public option premiums on provider payment rates or provider participation in the individual market should also be taken into account. The extent to which public option premiums savings alter network composition (through provider participation) could affect enrollee choices and the market as a whole.

Insights for Current Carriers

Besides the public option lens, the observations from this analysis offer insight to issuers considering entering a new market or even a new service area in an existing market and its competitive position relative to incumbent carriers. The recent market experience suggests that new low cost carriers can attract reasonable market share over time with stable and sustainable rates, with the majority of enrollment coming from existing market enrollees rather than previously uninsured. At the same time, the loss of the subsidized members reduces the market share potential as well as overall market impacts. The loss ratios for the new issuers are typically higher than for the incumbents (risk adjustment being one reason, as it can take several years to capture the underlying medical conditions). Finally, lower margins leave less room for administrative expenses and require sufficient membership to support fixed costs.

Please contact Ksenia Whittal at ksenia.whittal@wakely.com with any questions or to follow up on any of the concepts presented here.

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