American Rescue Plan: Implications for the Individual Market

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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.

Key 2021 and 2022 ACA Features of the American Rescue Plan Act

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 as well as subsidies for COBRA coverage. For 2021 and 2022, the key ACA provision is an increase in the premium subsidies. As can be seen in the below chart, the changes will be felt across the income spectrum. The enhanced subsidies in 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 (APTC) subsidies.
- Premiums covered in full for lower-income households – Individuals between 100% and 150% FPL (i.e., those that 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.

Income Range (Percent of FPL)	Range of Maximum Income Contribution (Percent of Income)	
	Under Current Law[a]	Under Section 9661
100 – 133	2.07	0
133 – 150	3.10 – 4.14	0
150 – 200	4.14 – 6.52	0 – 2.0
200 – 250	6.52 – 8.33	2.0 – 4.0
250 – 300	8.33 – 9.83	4.0 – 6.0
300 – 400	9.83	6.0 – 8.5
400+	--	8.5

Source: Congressional Budget Office.
FPL = federal poverty level.
a. Irs.gov/pub/irs-drop/rp-20-36.pdf

Potential Impact of the Expanded Premium Subsidies on the Individual Market

- Individual Market Size Increase – The Congressional Budget Office (CBO) estimates 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. The vast majority of new members joining are expected to be those currently uninsured, although there is expected to be some migration from those with group coverage.

- Morbidity Changes – Given the large influx of individuals into the individual market, the expectation is that there should be general improvements in morbidity. Historically, marginal enrollees (i.e., those influenced by premium prices) tend to be healthier on average than those within the existing risk pool. Consequently, since some issuers (especially those with lower premiums) could experience disproportionate increases in enrollment, there could be changes to risk adjustment payments and charges.

- Migration Increases – Given the enhanced subsidies, individuals may migrate to different metal levels. For example, while a number of individuals currently choose bronze plans, since buying down provides “free” plans, this may be less common with the enhanced subsidies. It is possible that more individuals may choose higher metal levels. Additionally, off-Exchange individuals are expected to migrate to on-Exchange. This could include enrollees currently in non-ACA plans such as grandfather or transitional plans.

- Duration Changes – Historically, enrollment in on-Exchange plans tends to decrease as the year progresses. Reducing the amount of money individuals must pay monthly, especially for those

[1] https://www.cbo.gov/system/files/2021-02/hwaysandmeansreconciliation.pdf
[2] https://www.cbo.gov/system/files/2020-10/51298-2020-09-healthinsurance.pdf

that now don't have to pay anything, may increase the length of time an enrollee may be enrolled during a year.

- Temporary Nature – The enhanced subsidies will go into effect midway through 2021, with different states phasing them at different times. States or areas more effective at communicating the information may have better outcomes, relative to expectations.

Other Considerations

- Operations – Understanding an Exchange's operational plan and advertisement campaign may be important in estimating how effective the new subsidies will be in 2022.
- State-Based Reinsurance/1332 Waivers – Given the increase in subsidies, all things equal, pass-through amounts (and therefore potentially reinsurance funding) may go up for states with reinsurance-based 1332 waivers. However, not all things are equal, as the COVID pandemic has had an uneven impact on enrollment. Getting information from the states on updated funding levels is crucial for pricing in states with 2022 reinsurance programs. For states that have not yet implemented a 1332-based reinsurance program, there may be less pressure to implement one in the near term as many of the previously unsubsidized will now have lower net premiums.
- Future Legislation – While the enhanced subsidies are currently slated to expire at the end of 2022, there is the expectation that there will be a legislative attempt to extend the new subsidy structure farther into the future. Monitoring Congress will be key for estimating 2023 and beyond.

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