

GRUBER AND GORMAN ANALYSIS OF ACA AND EXCHANGE IMPACT : SMALL GROUP DISCUSSION

Manny Munson-Regala
Deputy Exchange Director
Minnesota Department of Commerce
April 18, 2012

Project Background

- The Minnesota Department of Commerce hired Gorman Actuarial and Dr. Jonathan Gruber to assess the impact of the ACA on the state
- Project the effect on insurance coverage, pricing, and budgets
- Consider the implications of establishing a Basic Health Plan (BHP) for both low income households and the state government
- Commerce requested two scenarios:
 - Scenario 1: Assume child eligibility at a lower bound income limit of 150% of the federal poverty level (FPL) for a public health insurance program
 - Scenario 2: Assume child eligibility at an upper bound income limit of 275% FPL for a public health insurance program.

Key Findings

- **By 2016, the number of uninsured decreases by 290,000 or almost 60%**
- **There will be a large rise in non-employer insurance coverage, with little change in employer-provided coverage**
- **The Exchange will enroll over 1.2 million persons**
- **After the application of tax subsidies, overall premium costs for those in the individual market will fall by 20% on average; approximately 70% of the individual market will experience either no change or premium decreases**
- **Minnesota household budgets will improve by roughly \$500 to \$700 per household in 2016**

Figure 1: Coverage Sources of the Newly Insured: 2016

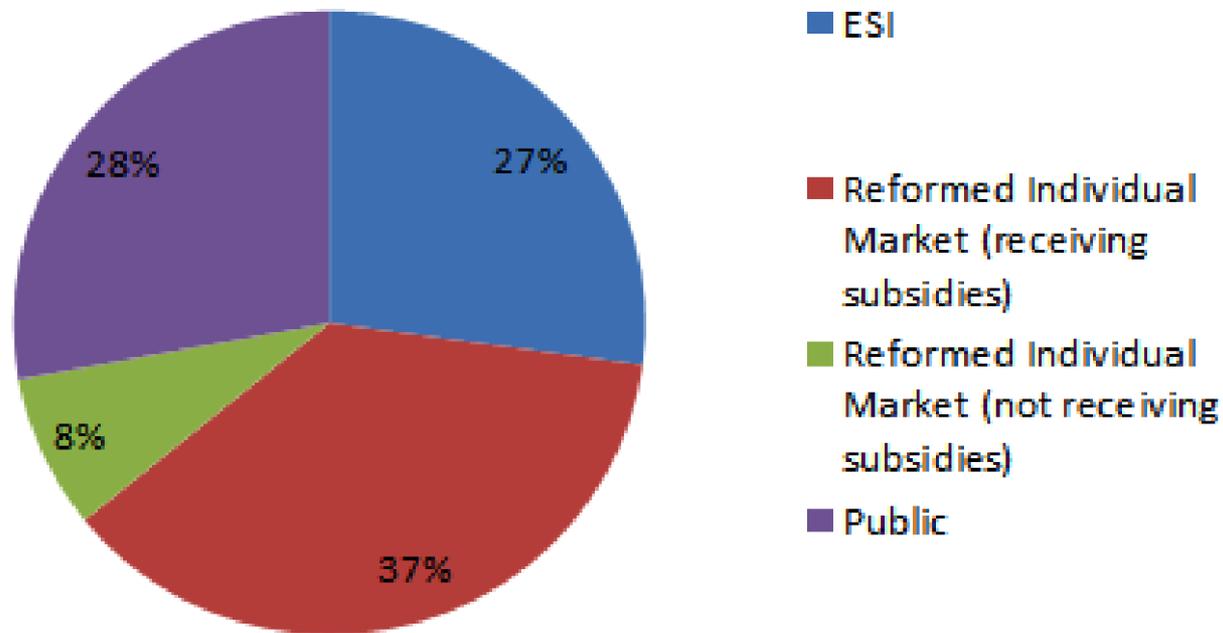
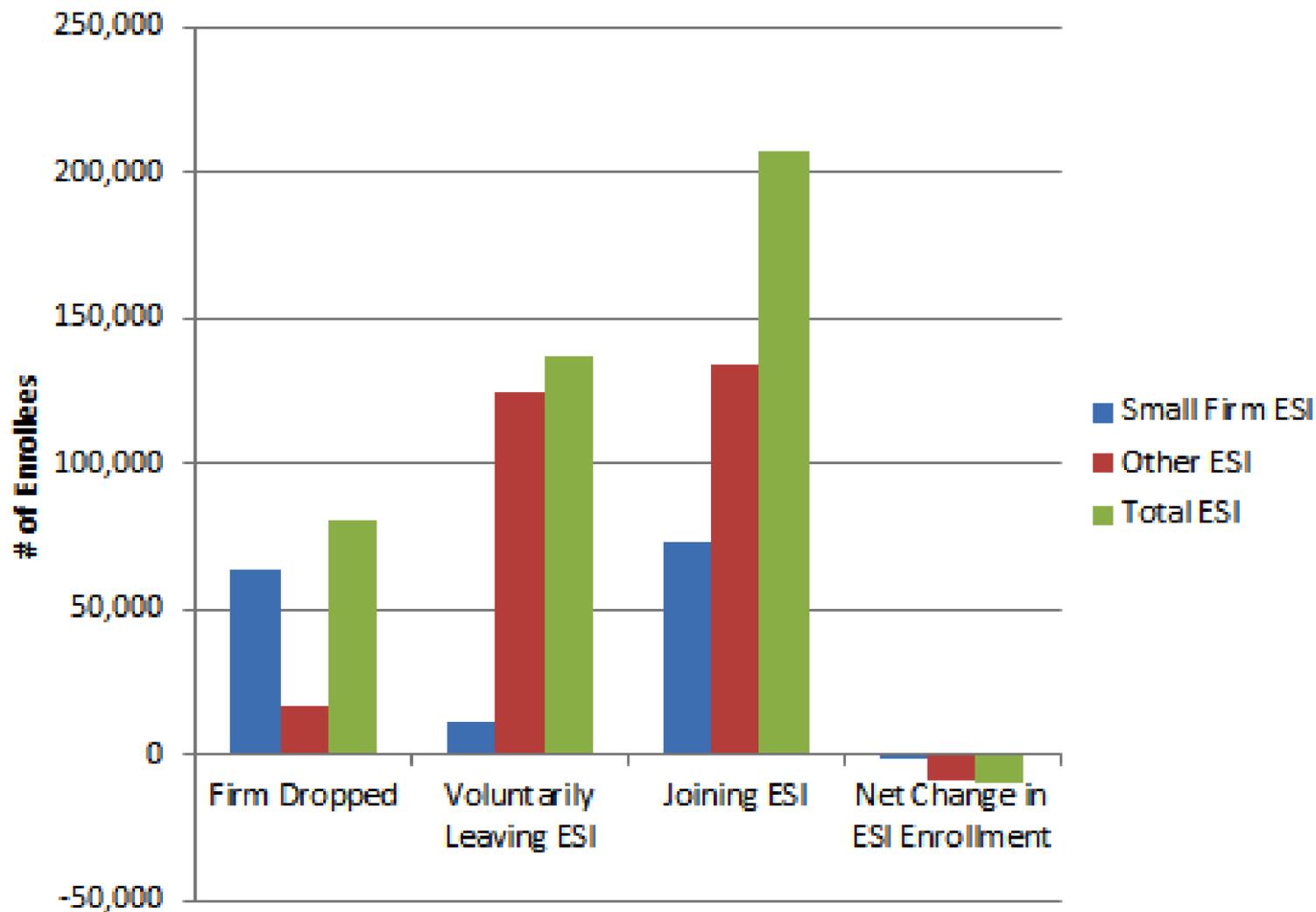


Figure 4: Number of People Experiencing Changes in ESI



150% FPL: Total ACA Impact

Table 1: Estimate of ACA Effect: 2016

	No Reform	With ACA	ACA Impact
ESI	3,130,000	3,120,000	-10,000
>Small Firm ESI (1-50 employees)	420,000	420,000	0
51 – 100 employees	120,000	120,000	0
Unreformed Individual Market	260,000	50,000	-210,000
Reformed Individual Market	0	510,000	510,000
Public Insurance	690,000	690,000	0
Uninsured	500,000	210,000	-290,000
Total	4,580,000	4,580,000	

150% FPL: Size of HIX

Table 3: Predicting the Size of the Exchange, 2016

	No BHP		With BHP	
	# of individuals	Enrollment in the Exchange	# of individuals	Enrollment in the Exchange
Tax credit Recipients	390,000	390,000	190,000	190,000
Enrollees in Firms <50 Receiving Tax Credit	70,000	70,000	70,000	70,000
Non-tax Credit Recipients in Reformed Market	Up to 120,000	60,000	Up to 140,000	70,000
Enrollees in Firms <50 Not Receiving Tax Credit	Up to 350,000	90,000	Up to 350,000	90,000
Enrollees in firms 50-99 Public Insurance	Up to 120,000	30,000	Up to 120,000	30,000
Enrollees	590,000	590,000	780,000	780,000
Total Exchange Enrollment		1,230,000		1,230,000

275% FPL: Total ACA Impact

Table 4: Estimate of ACA Effect: 2016

	No Reform	With ACA	ACA Impact
ESI	3,130,000	3,120,000	-10,000
>Small Firm ESI (1-50 employees)	420,000	420,000	0
>51 – 100 employees	120,000	120,000	0
Unreformed Individual Market	260,000	40,000	-220,000
Reformed Individual Market	0	400,000	400,000
Public Insurance	690,000	810,000	120,000
Uninsured	500,000	210,000	-290,000
Total	4,580,000	4,580,000	

275% FPL: Size of HIX

Table 6: Predicting the Size of the Exchange, 2016

	No BHP		With BHP	
	# of individuals	Enrollment in the Exchange	# of individuals	Enrollment in the Exchange
Tax credit Recipients	280,000	280,000	160,000	160,000
Enrollees in Firms <50 Receiving Tax Credit	70,000	70,000	70,000	70,000
Non-tax Credit Recipients in Reformed Market	Up to 120,000	60,000	Up to 130,000	65,000
Enrollees in Firms <50 Not Receiving Tax Credit	Up to 350,000	90,000	Up to 350,000	90,000
Enrollees in firms 50-99 Public Insurance	Up to 120,000	30,000	Up to 120,000	30,000
Enrollees	700,000	700,000	820,000	820,000
Total Exchange Enrollment		1,230,000		1,235,000

Small Group Premium

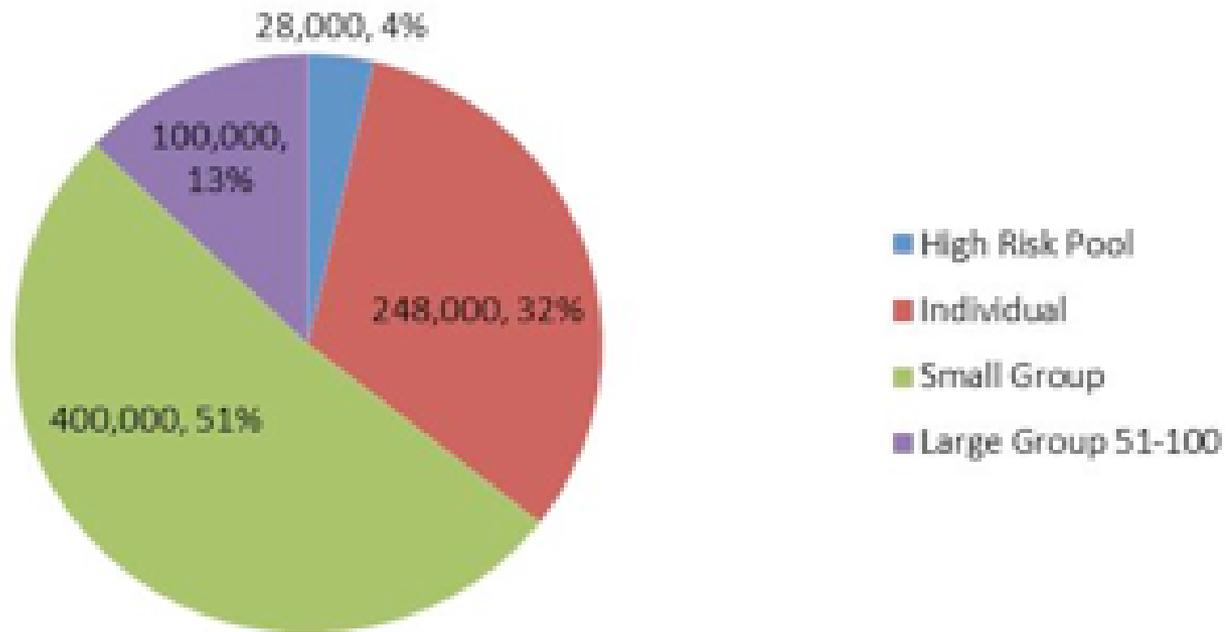
- ⦿ Modeling focused on two categories of change:
 - Product Impacts (i.e. EHB and other product constraints)- deemed minimal
 - Rating Limits (e.g. no health status adjustments, but with allowance for smoking)- wash overall (health groups increases offset sicker group decreases)
- ⦿ Minimal overall premium impact to the small group market in 2016 as a result of the ACA.
- ⦿ Managed competition effect has not been modeled it for the small group market. It is difficult to quantify the premium reduction for the small group market, but it is likely to be less than the 7.5% savings used in the individual market.
- ⦿

Merged Market Analysis

- ⦿ Being discussed in Adverse Selection TWG
- ⦿ States may elect at any time to merge individual and small group
- ⦿ May chose to define small group as 50 or 100 but in 2016 must be 100
- ⦿ Our focus in this analysis included the following Minnesota insured markets: high risk pool (MCHA), individual market, small group market and the large group 51-100 market

Current Market Distribution

CY 2009 Minnesota Average Members by Market Segment



Impact of Merger

- ◎ Impact varies on when merger occurs. Commerce asked modeling on 4 scenarios:
 - **Scenario 1:** Assume child eligibility at 150% FPL for a state public program and Minnesota does not offer a Basic Health Program (BHP)
 - **Scenario 2:** Assume child eligibility at 150% FPL for a state public program and Minnesota does offer a Basic Health Program (BHP)
 - **Scenario 3:** Assume child eligibility at 275% FPL for a state public program and Minnesota does not offer a Basic Health Program (BHP)
 - **Scenario 4:** Assume child eligibility at 275% FPL for a state public program and Minnesota does offer a Basic Health Program (BHP)

Merger (cont.)

- ⦿ Scenario 1- the individual market may experience a small premium increase of 1% to 5% and the small group market may experience a small premium decrease of 2% to 6%
- ⦿ Scenario 2- premiums increase significantly for the individual market when merged with the other market segments
- ⦿ Scenario 3- the individual market risk pool worsens as children up to 275% FPL are carved out and group subsidizes individual
- ⦿ Scenario 4- premiums increase for the individual market when merged with the other markets due to the offering of a BHP as in scenario 2, but the increase is less under a merger as the premiums in this market start higher with children up to 275% FPL carved out

Merger (cont.)

	Individual + HRP Impact	Small Group Impact	Large Group 51-100 Impact
	Merge IND + HRP and Small Group	Merge Small Group and Large Group 51-100	Merge IND + HRP and Small Group and Large Group 51-100
Scenario 1: no BHP and Children under 150% FPL in Public Program	1-5% 2-6%	Minimal Change 0-4%	1-5% Minimal Change 2-6%
Scenario 2: with BHP and Children under 150% FPL in Public Program	11-15% 8-12%	Minimal Change 0-4%	12-16% 5-9% 9-11%
Scenario 3: no BHP and Children under 275% FPL in Public Program	1-5% 1-5%	Minimal Change 0-4%	1-5% 0-4% 3-7%
Scenario 4: with BHP and Children under 275% FPL in Public Program	7-11% 4-8%	Minimal Change 0-4%	7-11% 1-5% 4-8%

Pros and Cons of Merger

Advantages:

- Larger risk pool spreads the risk of high cost claims over a larger population and therefore potentially decrease the volatility in claims and premium of the combined pool
- In Scenario 3, the individual market will experience slight premium decreases, which may increase enrollment
- In Scenarios 1, 2 and 4 the small group market will experience minimal to modest premium decreases, therefore helping to encourage participation and possibly offsetting the likelihood of groups choosing to drop coverage or to self insure
- If a defined contribution approach in the Exchange grows for small businesses, the rating approach in both the individual and small markets will become the same

Disadvantages:

- In Scenarios 1, 2 and 4 the individual market will likely experience slight to moderate increases to their premiums which may discourage participation
- There may be significant costs and other administrative challenges to both the state and insurers in combining the markets. For example, insurers may need to make updates to rating systems to support a merged market
- Given the other market changes occurring in 2014 and that the individual and small group markets can be merged at any time during or after 2014, it may make sense to hold off on making a decision to merge markets until the post-ACA health care environment can be analyzed further

Pros and Cons of Expansion Prior to CY 2016

Advantages:

- Larger risk pool will help the spread the risk of high cost claims over a larger population and therefore potentially decrease the volatility in claims and premium of the combined pool
- Since this has to be done by 2016, it may be better to implement sooner to have time to work out any unforeseen complications
- Given the numerous market changes occurring in 2014, it may be better for ongoing market stability for this to happen simultaneously

Disadvantages:

- Since the small group and large group 51-100 markets appear to have similar morbidity, merging these markets may not have a significant impact on either market's premium and therefore there is no clear advantage to merging prior to 2016
- The large group 51-100 market is partially experience rated. The rating methodology will change for the large group 51-100 market when it merges with the small group market and as a result there may be an additional impact on premiums that is difficult to quantify
- There is the potential for increased administrative costs for the large group 51-100 segment when moving to the adjusted community-rated small group market rating regulations
- Merging the small group and large group 51-100 markets prior to 2016 may encourage some of the 51-100 groups to self insure - particularly the young and healthy groups - and leave the pool with potentially sicker risk. Of course, this might just be a matter of timing since the markets will merge regardless in 2016
- Since the definition of small group will be expanded in 2016, it may make sense to wait until it is a requirement rather than opting to introduce more change and complexity earlier than necessary given other market changes happening in 2014