



## Montana Healthcare Foundation

### Individual Market Stabilization – Medicaid Expansion Analysis

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## Introduction

The Montana Healthcare Foundation (“MHF”) retained Wakely Consulting Group, LLC (“Wakely”), to analyze the potential effects of ending Medicaid on the 2020 individual Affordable Care Act (ACA) market. In 2016, Montana expanded its Medicaid program. This had a direct effect on the size and composition of the individual market as enrollees who were between 100% and 138% FPL were newly eligible for Medicaid. Consequently, many individuals left the individual market for the Medicaid program.<sup>1</sup> Montana’s Medicaid Expansion could end at the end of June 2019. In that scenario, some individuals who currently are eligible for Medicaid could instead shift back to the individual market or become uninsured. Wakely analyzed the potential effects of ending the Medicaid Expansion on the ACA individual market.

This document contains the results, data, assumptions, and methods used in our analyses and satisfies the Actuarial Standard of Practice (ASOP) 41 reporting requirements. Using the information in this report for other purposes may not be appropriate.

## Effects of Ending Medicaid Expansion

To date no state has ended Medicaid Expansion. This increases the level of uncertainty on the impact estimates. However, historical context can shed some light on potential effects that may result. The impacts of the Medicaid Expansion ending would be both direct and indirect. The direct effects would be the enrollment changes from the previously Medicaid eligible joining the individual market and the overall market premium changes as a result of these individuals. The secondary effect is from the changes in composition of the individual market (i.e., premium increases) that could result in enrollment decreases among existing individual market enrollees.

### Direct Effects

#### ENROLLMENT

The direct effect would be the increased enrollment from newly eligible individuals in the 100% to 138% FPL range. Wakely used CMS Open Enrollment public use files (PUF) data to estimate the number of enrollees who left the Montana individual market as a result of the Montana Medicaid Expansion which was effective January 1, 2016. As occurred in other states, it likely took up to 24 months for the full effects of the Medicaid Expansion to be felt in the individual market. Based on the pre-2016 enrollment of members with incomes in the 100% to 138% FPL range, Wakely

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<sup>1</sup> Medicaid Expansion was not the only the reason for changes in enrollment in 2016 as increases in premiums is likely to have also played a role.

estimates that approximately 10,000 to 15,000 enrollees migrated from the individual ACA market to Medicaid.

The likely increases in cost-sharing, reduction in benefits, and, in some cases, increases in premiums for individual enrollees, coupled with the effective repeal of the mandate and likely increase in access to cheaper non individual market products such as short term duration plans, will likely result in some portion of the Medicaid Expansion beneficiaries becoming uninsured or seeking coverage elsewhere rather than shifting to individual market coverage. As a result, a smaller number of individuals who migrated from the ACA market to Medicaid are expected to migrate from Medicaid Expansion to the ACA market, in the event of Medicaid Expansion ending. For example, if we assume 65% to 80% of the 10,000 to 15,000 members in Medicaid Expansion migrate to the individual market, this would represent 6,500 to 12,000 new members in the individual ACA market. Note that it is possible that some Medicaid Expansion enrollees who were previously uninsured might be more likely to enroll in the individual market than they were prior to Medicaid Expansion given coverage loss aversion. However, there is no data to support this and will be dependent on other factors, such as outreach and SEP verification. Thus, we have not included previously uninsured members in our estimates.

## PREMIUMS

The large influx of previously Medicaid-eligible enrollees is expected to produce direct premium effects on the individual ACA market premiums. Previous research both nationwide and Montana specific has shown that Medicaid Expansion reduces individual market premium. For example, HHS conducted in-depth analysis on the impact of Medicaid Expansion on premiums. Controlling for numerous factors, HHS<sup>2</sup> estimated that, on average, premiums were 7% higher, in states that did not expand Medicaid. Sen and Deliere<sup>3</sup> estimated that Marketplace premiums were on average 11% higher in states that do not expand Medicaid compared to states that did, controlling for demographic and health characteristics of the state.

The theoretical research generally aligns with what Montana issuers cited in their 2016 rate development as the premium impact from Medicaid Expansion in Montana in 2016. The insurers generally estimated that Medicaid Expansion would decrease their average claim costs in 2016, although the impact was slightly less than the research suggests. While fewer individuals may shift back to the individual market, it is likely that there would be risk selection among those that do shift back to the individual ACA market (i.e., healthier Medicaid Expansion enrollees may choose to become uninsured) and as a result the premium effects may be comparable. For illustrative purposes, if we assume that the cost of the Medicaid Expansion enrollees is 25% to

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<sup>2</sup> <https://aspe.hhs.gov/pdf-report/effect-medicaid-expansion-marketplace-premiums>

<sup>3</sup> Sen, Aditi and Thomas Deliere (2018). "How does expansion of public health insurance affect risk pools and premiums in the market for private insurance?" *Journal of Health Economics*

35%<sup>4</sup> higher than the current individual ACA market and assuming 6,500 to 12,000 new enrollees, this would result in 2020 premium increases (relative to what the increases would otherwise be) of approximately 4% to 7%.

### Indirect Effects

There are likely secondary effects from this policy change. The increase in premiums as a result of ending Medicaid Expansion may result in enrollment decreases among the unsubsidized. Wakely estimated the resulting change to the unsubsidized population using the CEA take-up function and the direct effect assumptions around enrollment and premium increases due to the migration of Medicaid Expansion enrollees.<sup>5</sup> The results would be an approximate 0.3% decrease in total enrollment due to the increase in premiums from Medicaid Expansion. There may also be additional premium increases by insurers due to the overall uncertainty of what the true impact will be, as Montana will be the first state to end Medicaid Expansion.

Table 1 summarizes qualitatively the key impacts should Medicaid Expansion end.

**Table 1: Potential Effects of Ending Medicaid Expansion**

Effects of Ending Medicaid Expansion	Direct Effects	Indirect Effects
<b>Enrollment</b>	<ul style="list-style-type: none"> <li>• Increase in enrollment in the individual market</li> <li>• Increase in number of uninsured</li> </ul>	<ul style="list-style-type: none"> <li>• Enrollment decreases due to premium increases</li> </ul>
<b>Premiums</b>	<ul style="list-style-type: none"> <li>• Increase in ACA premiums due to higher morbidity</li> </ul>	<ul style="list-style-type: none"> <li>• Premium increases due to uncertainty</li> </ul>

<sup>4</sup> Medicaid Expansion enrollees, all things equal, are likely to have significant health care needs relative to the existing individual market. There is substantial evidence of a persistent relationship between low income and higher morbidity. For example, see Mortality, Education, Income and Inequality among American Cohorts, NBER Working Paper No. 7140. Additionally, there is evidence that undoing Medicaid expansion will worsen health status among Medicaid Expansion enrollees. See The Effect of Disenrollment from Medicaid on Employment, Insurance Coverage, Health and Health Care Utilization, NBER Working paper 24899.

<sup>5</sup>[https://obamawhitehouse.archives.gov/sites/default/files/page/files/201701\\_individual\\_health\\_insurance\\_market\\_cea\\_issue\\_brief.pdf](https://obamawhitehouse.archives.gov/sites/default/files/page/files/201701_individual_health_insurance_market_cea_issue_brief.pdf)

## Conclusion

Medicaid Expansion has had a significant effect on Montana's individual ACA market since 2016. 10,000 to 15,000 Montanans likely shifted out of the individual market to the Medicaid program following Expansion. Furthermore, premiums have likely been lower, relative to what they otherwise would have been, if Medicaid had not been expanded. Additionally, there are likely downstream effects from ending Medicaid Expansion, namely increase in the number of uninsured and increase in uncompensated care for providers. Wakely did not consider downstream impacts of such changes for this analysis. No state has ended Medicaid Expansion so the exact effects are uncertain. However, between previous research and discussions with Montanan insurers, Wakely estimates that ending Medicaid Expansion would likely result in higher enrollment in the individual market, higher individual ACA market premiums, higher uncompensated care, and a higher uninsured rate.

## Appendix A

### Data and Methodology

To create the enrollment and premium estimates for the baseline of Montana's individual market, Wakely completed the following steps:

1. Using publicly available data and data from the issuers (see Appendix B, Reliances and Caveats), estimates were made for 2018 average enrollment. The number of enrollees with PTCs in 2018 was measured based on the reported number of Advanced Premium Tax Credit (APTC) enrollees provided by Montana issuers as of April 2018. This point estimate was then adjusted to a yearly average by an attrition factor. The attrition factor was based on the 2017 attrition experience, as measured by Montana issuer data for the 2017 benefit year and the HHS First Half of 2017 Average Effectuated Enrollment Data.<sup>6</sup>
2. Given the uncertainty around the 2020 market, Wakely estimated three different scenarios for enrollment in 2019: a scenario where a mandate is enforced in Montana (or its effective repeal has no impact); a scenario in which the impact of mandate repeal is high; and a scenario in which the impact of mandate repeal is more moderate.
  - a. **Mandate Scenario:** In the mandate scenario, we assumed that Montana's enrollment would not be affected by the effective repeal of the mandate or other potential regulatory changes. Overall enrollment in 2019 and 2020 was estimated based on a non-linear enrollment response function estimated by the Council of Economic Advisors (CEA take-up function)<sup>7</sup> based on estimated premium increases in 2019 and 2020. The elasticity of the take-up function was reduced to account for the likely reduction in responsiveness of enrollees to premium changes given the effective repeal of mandate and greater availability of non-ACA products. The function computes expected enrollment change based on premium rate increases and the portion of the market that is not receiving subsidies. Enrollees who are subsidy eligible are not expected to have attrition, given the APTC subsidy structure insulates them from premium increases. The changes in enrollment were distributed pro rata between on Exchange unsubsidized and off Exchange by the share of unsubsidized enrollment that the on Exchange enrollees represent.
  - b. **No Mandate Scenario High:** In this scenario, we assume that no mandate is enforced in Montana in 2020. The initial baseline was the previous mandate enforced scenario. Enrollment losses due to the mandate are estimated using the

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<sup>6</sup> <https://www.cms.gov/CCIIO/Programs-and-Initiatives/Health-Insurance-Marketplaces/Downloads/2017-12-13-2017-Effectuated-Enrollment-Data.pdf>

<sup>7</sup> [https://obamawhitehouse.archives.gov/sites/default/files/page/files/201701\\_individual\\_health\\_insurance\\_market\\_cea\\_issue\\_brief.pdf](https://obamawhitehouse.archives.gov/sites/default/files/page/files/201701_individual_health_insurance_market_cea_issue_brief.pdf)

Center for American Progress' estimates of Montana specific losses based on CBO's estimates.<sup>8</sup> The Montana specific estimates by Center for American Progress were estimated in part by using the American Community Survey Public Use Microdata Sample (ACS PUMS) to estimate non-elderly primary coverage in Montana. These losses were estimated for the 2025 year, so an adjustment, following the CBO's estimates for 2020,<sup>9</sup> was made to estimate Montana specific enrollment attrition in 2020 due to the loss of the mandate. The result of the mandate loss and resulting premium increases could cause additional enrollment losses, especially given the potential of alternative non-ACA products if regulations change for short-term limited duration plans and associations plans.

- c. No Mandate Low Scenario: In this scenario, we continue to assume that no mandate is enforced in Montana in 2020. There is considerable uncertainty on the exact effects of the mandate repeal. Consequently, we used a different benchmark than the high scenario. Enrollment losses due to the mandate are estimated using Kaiser Family Foundations survey of non-group enrollees.<sup>10</sup> While CBO estimated a nationwide loss of 4 million enrollees in 2019, the Kaiser survey data estimated an approximate loss of 10% of enrollees due to the mandate repeal in the first year of the effective mandate repeal. The 10% reduction was repeated in 2020 to account for greater awareness of the mandate repeal as well as the greater availability of non-ACA products such as association health plans or short-term duration plans. The result of the mandate loss for this scenario and resulting premium increases could cause additional enrollment losses, especially given the potential of alternative non-ACA products if regulations change for short-term limited duration plans and associations plans.
3. Wakely did not incorporate any impact of a state-based reinsurance program into the 2020 baseline estimates. All estimates referenced are Montana's individual market without a reinsurance program.
  4. For the impact of Medicaid Expansion on the individual market, Wakely took the following steps:
    - a. Wakely used CMS Open Enrollment public use files (PUF) data to estimate the number of enrollees who left the Montana individual market as a result of the Montana Medicaid Expansion which was effective January 1, 2016. The result is an estimate of 10,000 to 15,000 members.
    - b. To estimate the portion of members who are likely to migrate to the individual ACA market if Medicaid Expansion is ended, Wakely used estimates of 65% to 80% of

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<sup>8</sup> <https://www.americanprogress.org/issues/healthcare/news/2017/12/05/443767/estimates-increase-uninsured-congressional-district-senate-gop-tax-bill/>

<sup>9</sup> <https://www.cbo.gov/system/files/115th-congress-2017-2018/reports/53300-individualmandate.pdf>

<sup>10</sup> <https://www.kff.org/health-reform/press-release/poll-most-non-group-enrollees-plan-to-buy-insurance-despite-repeal-of-individual-mandate-penalty/>

the 10,000 to 15,000 members. These members were then added to the baseline individual enrollment estimates for 2020 for each of the three scenarios identified above. All migrating Medicaid Expansion members are assumed to be eligible for APTCs in the individual ACA market.

- c. To estimate the impact to premiums in the ACA market, Wakely assumed the relative cost (due to higher morbidity and/or higher use of services) of the Medicaid Expansion members would be 25% to 35% higher than the individual market. The 25% was applied when the portion of members migrating was higher and the 35% was applied when the portion of migrating members was lower (due to more selection).
- d. Finally, the potential indirect impact to enrollment of higher premiums was estimated using CEA<sup>11</sup> take-up function, using the resulting premium increases and the portion of non-APTC members in the market after the addition of Medicaid Expansion members.

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<sup>11</sup>[https://obamawhitehouse.archives.gov/sites/default/files/page/files/201701\\_individual\\_health\\_insurance\\_market\\_cea\\_issue\\_brief.pdf](https://obamawhitehouse.archives.gov/sites/default/files/page/files/201701_individual_health_insurance_market_cea_issue_brief.pdf)

## Appendix B

### Reliances and Caveats

The following is a list of the data Wakely relied on for the analysis:

- CMS 2015, 2016, and 2017 Open Enrollment data<sup>12</sup>
- HHS Research on the Effects of Medicaid Expansion on Premiums<sup>13</sup>
- CEA Take-Up Function<sup>14</sup>
- Information provided by the issuers such as:
  - 2017 and 2018 individual ACA enrollment, split by APTC status and other breakouts.
  - Information provided as part of conference calls with each of the Montana issuers
- Medicaid enrollment and claims were not collected or analyzed as part of this analysis

The following are additional reliances and caveats that could have an impact on results:

- Political Uncertainty. There is significant policy uncertainty around future federal actions in regards to the ACA market. Potential Federal policies may alter results. For example, disallowing silver-loading by Federal government would impact both premiums and enrollment levels.
- Enrollment Uncertainty. Future enrollment is inherently uncertain. Beyond changes to potential rates and policy (e.g., mandate repeal, short term duration plans, association health plans), individual enrollee responses to these changes also has uncertainty. All of these factors result in uncertainty for estimates for future. Additionally, there is not historical data with which to base the estimates of Medicaid Expansion, these enrollment estimates are high level for illustrative purposes.
- Premium Uncertainty. Given that several regulations (e.g., 2020 Payment Notice.) have not been finalized, there is uncertainty in how issuers may respond in their 2020 premiums.

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<sup>12</sup> <https://www.cms.gov/Research-Statistics-Data-and-Systems/Statistics-Trends-and-Reports/Marketplace-Products/index.html>

<sup>13</sup> <https://aspe.hhs.gov/pdf-report/effect-medicaid-expansion-marketplace-premiums>

<sup>14</sup> [https://obamawhitehouse.archives.gov/sites/default/files/page/files/201701\\_individual\\_health\\_insurance\\_market\\_cea\\_issue\\_brief.pdf](https://obamawhitehouse.archives.gov/sites/default/files/page/files/201701_individual_health_insurance_market_cea_issue_brief.pdf)

## Appendix C

### Disclosures and Limitations

**Responsible Actuaries.** Julie Peper is the actuary responsible for this communication. She is a Member of the American Academy of Actuaries and a Fellow of the Society of Actuaries. She meets the Qualification Standards of the American Academy of Actuaries to issue this report.

**Intended Users.** This information has been prepared for the sole use of the Montana Healthcare Foundation. Distribution to parties should be made in its entirety and should be evaluated only by qualified users. The parties receiving this report should retain their own actuarial experts in interpreting results.

**Risks and Uncertainties.** The assumptions and resulting estimates included in this report and produced by the modeling are inherently uncertain. Users of the results should be qualified to use it and understand the results and the inherent uncertainty. Actual results may vary, potentially materially, from our estimates. Wakely does not warrant or guarantee that Montana will attain the estimated values included in the report. It is the responsibility of those receiving this output to review the assumptions carefully and notify Wakely of any potential concerns.

**Conflict of Interest.** The responsible actuary is financially independent and free from conflict concerning all matters related to performing the actuarial services underlying these analyses. In addition, Wakely is organizationally and financially independent of Montana Healthcare Foundation.

**Data and Reliance.** We have relied on others for data and assumptions used in the assignment. We have reviewed the data for reasonableness, but have not performed any independent audit or otherwise verified the accuracy of the data/information. If the underlying information is incomplete or inaccurate, our estimates may be impacted, potentially significantly. The information included in the 'Data and Methodology' and 'Reliances and Caveats' sections identifies the key data and reliances.

**Subsequent Events.** These analyses are based on the implicit assumption that the ACA will continue to be in effect in future years with no material change. Material changes in state or federal laws regarding health benefit plans may have a material impact on the results included in this report. In addition, any changes in issuer actions as well as emerging 2018 enrollment and experience could impact the results. Finally, if Montana implements a state-based reinsurance program in 2020, the results of this analysis could be impacted. There are no other known relevant events subsequent to the date of information received that would impact the results of this report.

**Contents of Actuarial Report.** This document (the report, including appendices) constitutes the entirety of actuarial report and supersede any previous communications on the project.

**Deviations from ASOPs.** Wakely completed the analyses using sound actuarial practice. To the best of our knowledge, the report and methods used in the analyses are in compliance with the appropriate ASOPs with no known deviations. A summary of ASOP compliance is listed below:

ASOP No. 23, Data Quality

ASOP No. 41, Actuarial Communication