Turmoil in the Individual Insurance Market — Where It Came From and How to Fix It

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In recent weeks, some health insurers have announced that they will not offer individual market coverage in 2018, while others have requested sizable premium increases. In response to this news, President Donald Trump has pronounced the individual market structure created by the Affordable Care Act (ACA) "dead." Similarly, House Speaker Paul Ryan (R-WI) has claimed that the market is experiencing a "death spiral" reflecting fundamental flaws in the ACA's design. These claims misdiagnose the situation. The ACA's individual market structure — though not perfect — is sound and has succeeded in greatly expanding coverage. As 2017 began, the market was poised to leave behind the growing pains of the past few years. Then the President and Congress acted to create needless turmoil.

ACA reforms that greatly expanded the individual market form the backdrop for the current debate. These reforms include a bar on insurers denying coverage or charging higher premiums based on health status; subsidies to make insurance coverage more affordable; and a requirement that people carry health insurance or pay a penalty. These provisions triggered a dramatic increase in individual market enrollment from 11 million in 2013 to roughly 17 million today. That expansion not only presented insurers with a major opportunity to sell to new customers, but also posed a challenge: insurers knew little about the health care needs of the previously uninsured.

It turned out that insurers initially set premiums too low to cover costs generated by new enrollees, and many incurred large losses from 2014 through 2016. Some insurers responded by exiting the market, leaving about one fifth of people in markets where just one company offered coverage. Some of these withdrawals reflected a natural pattern of adjustment in a new market that poorly performing sellers leave, while successful sellers remain and expand over time.[1] In some cases, withdrawals may have reflected "panic" after 3 years of losses — or other factors entirely.

The remaining insurers raised premiums significantly for 2017 — an average of 22% for the "benchmark" marketplace plan. Although this adjustment was wrenching, the sharp enrollment declines that some observers feared did not materialize.[2] Early indications are that insurers will, on average, break even or make modest profits in 2017. Heading into 2017, it appeared that prices would stabilize and competition would begin to recover.

The administration and Congress, however, undermined that progress. On his first day in office, Trump signed an executive order directing his administration to be as permissive as possible in providing exemptions from ACA provisions, including the individual mandate. Then the House of Representatives passed the American Health Care Act, which would repeal the individual mandate retroactive to plan year 2016. The Congressional Budget Office estimates that the resulting exodus of healthier enrollees from the individual market would drive a 20% increase in individual market premiums for 2018.[3]

The President has also sown doubt about whether the federal government will continue to reimburse insurers for cost-sharing subsidies that they are legally required to provide to most marketplace enrollees. In 2014, House Republicans filed a lawsuit alleging that the ACA did not formally appropriate funding for those reimbursements. A federal district court judge ruled in favor of the plaintiffs but stayed her decision pending appeal. Now the administration has suggested that it may drop the appeal and stop these reimbursements. The Kaiser Family Foundation estimates that ending the payments would require insurers to raise premiums for "silver" plans by 19% on average across states using the HealthCare.gov enrollment platform.[4]

These steps have been all the more damaging because they appear to be part of a deliberate strategy to undermine the ACA. President Trump has noted that withholding cost-sharing reduction payments could seriously damage the individual market and that market turmoil increases his leverage in seeking repeal of the ACA. To that end, the administration reportedly opposed adding language to recent appropriations legislation giving it clear legal authority to continue the cost-sharing reduction payments.

Faced with these risks, some insurers are abandoning the individual market. Anthem, one of the

country's largest insurers, cited policy uncertainty, especially regarding cost-sharing reduction payments, as a major factor in its decision to leave Ohio's market. Should uncertainty persist, more pullouts will follow. At least for now, many other insurers are continuing their participation, and Centene — an increasingly important individual market player — is expanding its geographic footprint, a reflection of the long-run opportunities it sees in this market. But these insurers are proposing large premium increases in 2018 to protect themselves from a hostile policy environment. Pennsylvania insurers, for example, requested individual market rate increases averaging 8.8% if current policies are maintained, but 36.3% if the individual mandate is repealed and cost-sharing reductions payments stop.[5] Insurers that are allowed to file only one set of rates are frequently requesting large increases.

Although it is too late to prevent all damage in 2018, prompt and constructive action can limit it. Most urgently, Congress and the President can immediately appropriate funds to reimburse insurers for cost-sharing reductions and rule out other disruptive administrative or legislative changes.

Although these steps would probably suffice to put the individual market on a path back toward stability, additional steps could bolster insurers' confidence now and strengthen the market in the future. Policymakers could create a permanent reinsurance program, like that in Medicare Part D, to insulate insurers from claims incurred by very-high-cost enrollees, building on a program created through executive action last December. Such a program would blunt insurers' incentives to leave particular markets or to distort plan offerings to avoid these enrollees.

Increased financial assistance for enrollees could directly reduce enrollees' costs and increase enrollment. Research on how financial assistance affects enrollment decisions implies that new enrollees would be comparatively healthy. Consequently, such aid would also reduce premiums for those who are ineligible for assistance.

To promote competition and ensure that every area has at least one plan, Congress could authorize the federal government to contract with private insurers to serve as a "fallback" in areas where no coverage would otherwise be available, an approach similar to that taken in Medicare Part D. A more controversial approach would be to create a Medicare-based "public option" either nationwide or in areas with limited competition.

Although timely and constructive federal action would be best, states can also act to curb damage to their markets. States could make cost-sharing reduction payments themselves if the federal government fails to do so. Insurers may well prevail in litigation to require the federal government to make the payments, limiting states' ultimate exposure. Similarly, if the federal government stops enforcing the individual mandate, states with income taxes could replicate the federal penalties through their own tax systems. States could also nudge insurers to offer individual market coverage by blocking them from bidding on Medicaid managed-care contracts — or perhaps even selling group coverage — if they refuse to sell individual coverage in specified areas.

The threat to the stability of the individual market is real. But if the market collapses in parts of the country, the reason will be recent decisions by elected officials that have undermined insurers' confidence, not shortcomings in the ACA's design. For the sake of the millions of people whose financial security and access to health care depend on this market, policymakers should change course before it is too late.

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