MILLIMAN WHITE PAPER

Has the ACA "death spiral" kicked the bucket?

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Executive Summary

Starting in 2017, there has been talk of the possibility of a "death spiral" in the individual Affordable Care Act (ACA) marketplace.[1,2,3,4] In health insurance, death spirals occur when premium rates rise enough to drive out the healthiest enrollees, leaving the risk pool sicker and more expensive. This, in turn, necessitates that insurers increase premium rates, which then drives out the next-healthiest enrollees and reduces new enrollment. This cycle continues until the risk pool contains only the sickest and most expensive enrollees, with premiums unaffordable for most.

Death spirals start slowly and then accelerate, with the primary symptoms being higher than usual rate increases, falling enrollment, and increasing morbidity. Talk of an ACA death spiral has occurred because two of those symptoms (high rate increases and falling enrollment) were observed in 2017 and 2018. We reviewed ACA rates, enrollment, and morbidity to determine the likelihood of a death spiral occurring in the ACA marketplace. Our conclusions are threefold:

1. High rate increases did occur in 2017 and 2018 benefit years.
2. Enrollment declined, driven primarily by the off-exchange market, which is a small and decreasing portion of the overall ACA market.
3. Off-exchange morbidity increased, but overall morbidity has remained fairly steady despite increased premium rates and decreasing enrollment.

Given these dynamics, it appears a death spiral is unlikely to be taking place in the ACA-compliant individual market as a whole. The off-exchange market had all the characteristics of a death spiral in 2017 and 2018 (high rate increases, falling enrollment, increasing morbidity), but the subsidized exchange market did not. Enrollees in the subsidized exchange market were sheltered from the high rate increases because premium subsidies increase to offset premium increases. The subsidized exchange market enrollment is therefore more stable, and shows fairly level morbidity. Because premiums are developed based on both subsidized and unsubsidized members, the increasing proportion of subsidized exchange enrollment insulates the total market from a death spiral.

Rate changes in the individual ACA market

Milliman's estimates show the 2014 to 2016 individual ACA market premiums were insufficient, leading to underwriting losses of roughly 6% to 10% in 2014 through 2016.[5] Most carriers first had complete ACA claims experience and known risk adjustment transfer amounts to recognize that their ACA pricing was insufficient in time for 2017 pricing, resulting in high rate increases in 2017 due to the substantial losses incurred. The 2018 rate increases were also well above past ACA rate increase levels, although these increases included additional premium (known as "CSR loading") to cover cost-sharing reduction (CSR) subsidies in low-income silver exchange plans that were no longer being subsidized by the federal government for enhanced cost sharing for a subset of the members.

Issuers generally requested much lower 2019 rate increases than in the two prior years. Figure 1 shows the 2017 through 2019 premium renewal rate changes for each metallic level. The rate increases for 2018 silver plans are much higher than the 2018 bronze and gold plans due to CSR loading. States could require these extra increases be applied to all plans, all silver plans, or silver exchange plans only, although most states dictated that carriers apply these unfunded costs to silver plans alone.

FIGURE 1: PREMIUM RATE CHANGES (BEFORE PREMIUM SUBSIDIES)

Rate Change Measurement	2016-2017	2017-2018	2018-2019
Average Gold Plan Renewal Rate Change	26.2%	17.0%	1.7%
Average Silver Plan Renewal Rate Change	21.2%	33.5%	1.5%
Average Bronze Plan Renewal Rate Change	23.1%	18.5%	3.0%

[1] https://www.washingtonpost.com/opinions/this-is-what-a-death-spiral-looks-like/2018/05/14/07cea4cc-57b3-11e8-8836-a4a123c359ab_story.html?utm_term=.2d133cd4a136

[2] https://www.healthleadersmedia.com/welcome-ad?toURL=/finance/cms-cites-rising-premiums-death-spiral-push-cheaper-plans

[3] https://www.bloomberg.com/opinion/articles/2018-06-10/obamacare-is-in-serious-legal-peril-again

[4] http://us.milliman.com/insight/health/Lessons-from-Brazil-Regulatory-changes-in-the-health-insurance-market/

[5] See figure 6 in https://www.milliman.com/uploadedFiles/insight/2018/commercial-health-insurance-2016-overview.pdf.

Rate change impact on enrollment

As expected, high 2017 and 2018 individual ACA rate increases had a negative impact on total enrollment. The number of individuals who selected a 2019 exchange open enrollment plan is only slightly lower than the number who selected a 2018 exchange open enrollment plan.

ACA rate increases impact enrollees differently depending on their situations. Enrollees with advanced premium tax credits (APTC), i.e., premium subsidies, often see those premium subsidy amounts increase along with the premium increase. In some cases, the premium subsidy can increase more than the premium amount, resulting in enrollees actually paying less premium out of their own pocket despite a high premium increase.

Enrollees purchasing ACA coverage off-exchange are not eligible for federal premium subsidies, and will effectively see their premiums increase at the same level as the carriers' rate increases. Figure 2 shows the change in individual market ACA member months, both in total, and by cohorts.

FIGURE 2: PREMIUM RATE CHANGES AND IMPACT ON MEMBER MONTHS

Rate Change Measurement	2017	2018	2019
Average Gold Plan Renewal Rate Change	26.2%	17.0%	1.7%
Average Silver Plan Renewal Rate Change	21.2%	33.5%	1.5%
Average Bronze Plan Renewal Rate Change	23.1%	18.5%	3.0%
Change in Enrollment	**2017**	**2018***	**2019****
Total	-10.3%	-6.8%	N/A
Off-exchange	-25.8%	-27.6%	N/A
Exchange	-2.8%	0.9%	-2.9%
w/ Premium Subsidies	-3.0%	1.5%	-0.8%
w/o Premium Subsidies	-1.9%	-2.0%	-13.0%

* 2018 exchange enrollment based on projected completion of effectuated months through June 2018.

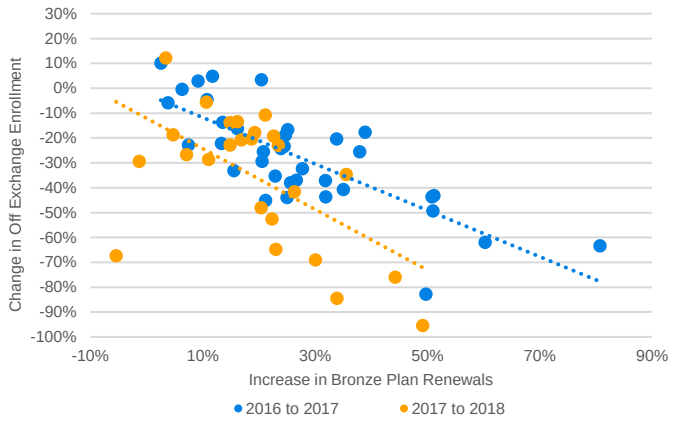
** 2019 based on open enrollment selections.

At the state level, Figure 3 shows how well 2017 and 2018 off-exchange enrollment corresponds to bronze plan rate increases. Off-exchange enrollment decreases between roughly 0.7% and 1.0% for every 1.0% increase in bronze plan premium rates. The correlation is higher in 2017 (r2 of 0.64) than 2018 (r2 of 0.17). A number of factors, other than the rate change, can impact enrollment:

- The length of the open enrollment period
- The amount of government marketing efforts
- Issuers exiting the market
- An improved economy resulting in individual ACA enrollees transitioning to the employer health insurance market
- 2018 CSR loading differing by state

In addition to these factors, it is possible that those most likely to leave the market already did so in 2017, or that enrollees decided to go uninsured due to perception that the individual mandate was effectively removed, among other factors unique to 2018.

FIGURE 3: CHART OF AVERAGE BRONZE PLAN RENEWAL RATE CHANGE VS. CHANGE IN OFF-EXCHANGE MEMBER MONTHS BY STATE*



* AK, MA, MD, VT, WA are excluded due to lack of data, Washington D.C. and Indiana are excluded due to their very limited off-exchange markets.

Enrollment changes' impact on morbidity

The 2017 and 2018 individual ACA market has two of the three components of a market death spiral–high rate increases (21% and 34%, respectively, for silver plans in 2017 and 2018) and decreasing enrollment (-10% and -7% in 2017 and 2018, respectively). To determine whether morbidity is significantly increasing in the ACA risk pool (another sign of a potential death spiral), we compared the experience of 2017 and 2018 member-level risk adjustment information in four states where Milliman has performed detailed risk adjustment simulation studies. Figure 4 shows that the combined total of these four states' 2017 to 2018 enrollment changes were similar to the nationwide enrollment changes. For this morbidity analysis, APTC (premium) subsidies were not available at the member level, although CSR subsidies were. CSR subsidies are for those individuals with income levels between 100% and 250% of the federal poverty level (FPL), whereas premium subsidies are for those with income levels between 100% and 400% of the FPL. We therefore split exchange plan enrollment into those receiving CSR subsidies (and also premium subsidies) and those not receiving CSR subsidies (some of whom may receive premium subsidies).

FIGURE 4: 2017 TO 2018 CHANGE IN MEMBER MONTHS

Enrollment Cohort	Nationwide	Four States
Total	-6.8%	-9.9%
Off-exchange	-27.6%	-27.9%
Exchange	0.9%	-5.2%
w/ CSR Subsidies	-7.7%	-19.9%
w/o CSR Subsidies	12.5%	8.4%

The 2017 to 2018 CSR subsidized enrollment change is particularly affected by CSR subsidies no longer being funded, making non-CSR plans more attractive. As such, this difference is not likely representative of a difference in the underlying premium subsidy-eligible population.

We assessed a member's 2017 and 2018 morbidity by first calculating each year's plan liability risk score (PLRS) using the 2018 Centers for Medicare and Medicaid Services (CMS) "Do-It-Yourself (DIY)" tool.[6] To remove the impact of benefit plan selection on PLRS, we calculated PLRS assuming all members were enrolled in a silver plan and then divided the PLRS by the induced demand factor (IDF) of the member's original metallic level benefit plan. We also removed the impact of age and gender by dividing the PLRS by an estimate of claim costs by age / gender from Milliman's commercial Health Cost Guidelines™ (HCGs). The remainder represents a proxy for morbidity. The results of this analysis are shown in Figure 5.

FIGURE 5: CHANGE IN MORBIDITY OF FOUR STATES

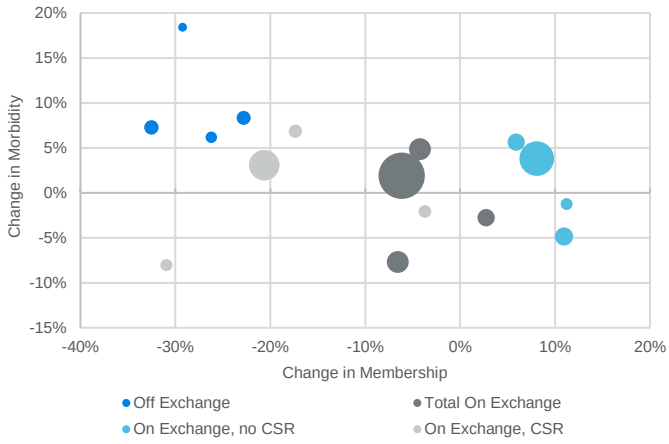
	2017 to 2018 Enrollment Change	Morbidity (adjusted PLRS)		
		2017	2018	Change
Total	-9.9%	1.008	1.026	1.8%
Off-exchange	-27.9%	1.020	1.108	8.6%
Exchange	-5.2%	1.006	1.016	1.1%
w/ CSR Subsidies	-19.9%	1.143	1.176	2.8%
w/o CSR Subsidies	8.4%	0.870	0.893	2.6%

In total, off-exchange members had roughly a 9% increase in morbidity from 2017 to 2018, which is correlated with a 28% decrease in off-exchange enrollment. Despite this large increase in off-exchange morbidity, the overall morbidity of the combined population in the four states increased by less than 2%. The small increase in overall morbidity is due to:

- The stability of the exchange market, which did not see significant enrollment or morbidity change from 2017 to 2018
- Off-exchange enrollment becoming a smaller portion of the total ACA membership. Nationwide, off-exchange membership as a percentage of total ACA membership decreased from 33% in 2016, to 27% in 2017, and 21% in 2018

Figure 6 below shows each of the four states' 2017 to 2018 morbidity and enrollment changes for four cohorts (off-exchange, total on-exchange, on-exchange no CSR, and on-exchange with CSR). The size of each bubble represents the state's relative enrollment size. The cohort of enrollees receiving CSR subsidies had the least correlation between enrollment change and morbidity change, likely due to those enrollees not being impacted by the actual rate change.

FIGURE 6: MORBIDITY VS. ENROLLMENT CHART



[6] https://www.cms.gov/cciio/resources/regulations-and-guidance/index.htm. December 4, 2018 2018 Benefit Year Risk Adjustment: Updated HHS-Developed Risk Adjustment Model Algorithm "Do It Yourself (DIY)" Software.

Future impact on ACA

As long as premium subsidies are funded, the exchange market is likely insulating the ACA marketplace from the kind of large decreases in enrollment and increases in morbidity that cause insurance market death spirals. The off-exchange market is the most susceptible to anti-selective lapses, but is also a decreasing portion of the total enrollment, dampening its impact on morbidity.

The 2019 (and 2020) rate changes are much lower than the 2017 and 2018 rate changes.[7,8] Because they are based on complete experience data, these lower rate changes may be more indicative of a stable individual ACA market, barring any federal and state regulatory changes.

[7] http://acasignups.net/rate-changes/2020

[8] https://www.fiercehealthcare.com/payer/early-aca-exchange-rate-filings-signal-end-to-massive-premium-hikes

Data sources

The following data was used to develop the metrics found in this report:

- CMS final risk adjustment reports, CMS effectuated enrollee reports, CMS enrollment public use files to determine each state's enrollments by cohorts
- Uniform Rate Review Templates (URRTs) to estimate each states' rate increases
- Milliman's Health Cost Guidelines (HCGs) to calculate the claim cost age relativity factors
- Milliman risk adjustment simulation study data in four states with comprehensive data
- U.S. Department of Health and Human Services (HHS) hierarchical condition category (HCC)-Developed 2018 Risk Adjustment Model Algorithm "Do It Yourself (DIY)" software to estimate statewide morbidity

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