

# Panel: Insurance Markets Post- Trump

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# Short-term Options



**MORNING CONSULT**  
**HEALTH // News Ticker**

**McConnell: Obamacare Replacement Plan Is 'Phase Two'**

12/12/16 1:33 PM

Senate Majority Leader Mitch McConnell on Monday indicated that Republicans won't be putting forth their alternative to the Affordable Care Act before repealing parts of the health care law.

Maybe Steve needs to head back to DC early??

# Replacing the Individual Mandate

Feature	ACA	Republican Alternatives	Medicare
Penalty	Greater of 2.5% of income or \$695 per adult; ½ for kids; maximum of \$2,085 per family	Insurers can charge market-rate premiums based on individual risk	10% of premium per year for Part B; 1% per month for part D
Duration	One year	Indefinitely	Indefinitely
Exemptions	Lots: < 3 month gap in coverage; premiums are unaffordable; don't file income taxes	< 63 day gap in coverage; anyone who never purchases coverage	< 63 day gap in coverage for Part D; anyone who never purchases coverage

Linda J. Blumberg and John Holahan, "The New Bipartisan Consensus for an Individual Mandate," Urban Institute, April, 2015

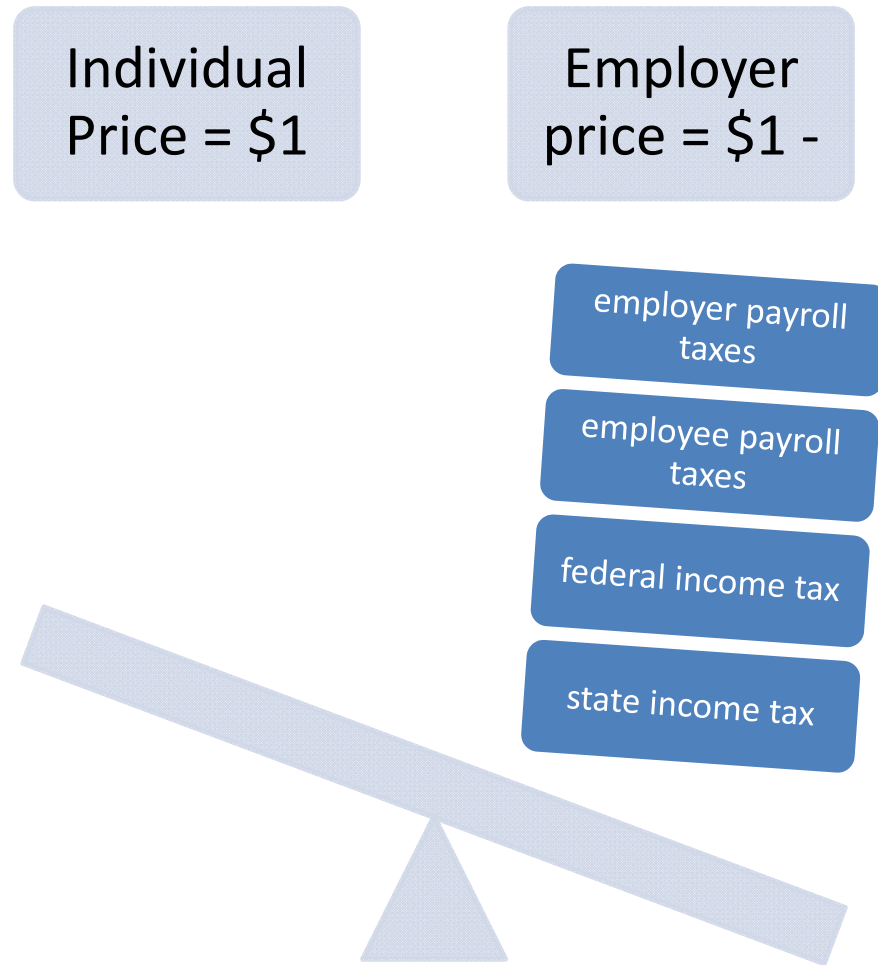
# Incentives to Sign Up Now

- Suppose young people have a positive but declining marginal benefit from delayed enrollment
- The marginal cost of delayed enrollment in ACA is constant \$695 per year
- In Medicare, the initial marginal cost of delayed enrollment is very high and then it declines
- In the R plan the initial marginal cost is 'huge' and then it is negative
- Allows ranking of incentives to sign up now: R Plan > Medicare > ACA
- So which plan has the 'real' mandate?

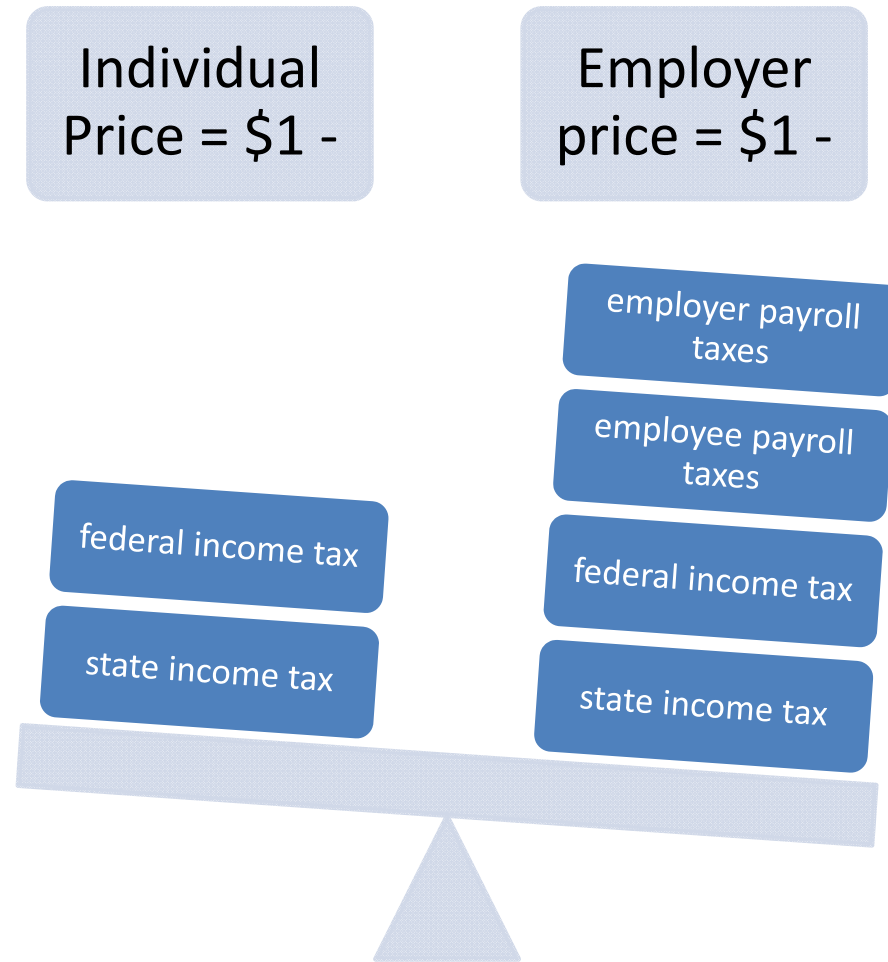
# Is the Incentive Too Strong?

- What if people are not foresighted or have a catastrophic loss of income?
- The R plan would subject them to lifetime risk rating
- Possible solutions:
  - ‘Escape hatch’ where you suffer a few years of penance before being allowed back at the group rate
  - High-risk pools based on excess lifetime premiums

# Post-tax Price of Employer-Sponsored vs. Individual Insurance: Current



# Post-tax Price of Employer-Sponsored vs. Individual Insurance: Trump



# Effects of Leveling Prices

- “Direct” effects (on individual purchase)
  - Higher propensity to purchase | no offer of ESI (healthier than current pool)
  - Higher propensity to purchase | offer of ESI (healthier among those with ESI)
- “Indirect” effects
  - Reduces offer of ESI among small groups, worsens risk pool among those who offer
  - *Could* reduce offer of ESI among large groups, OR lead to unraveling of large group market....
    - ❖ More full insurance → more cost control?
    - ❖ More individual choice → more premium pressure?
    - ❖ Without a mandate, death spiral??



# “A Better Way” (Ryan) – Limited Impact on Tax Bias Toward ESI

- Age-based premium tax credits (*BUT only for those without ESI offer*)

Age	Refundable Tax Credit
<=17	\$900
18 – 34	\$1,200
35 - 49	\$2,100
50+	\$3,000

- Cap on Employer Deduction (90<sup>th</sup> percentile in 2018, indexed to inflation)
  - Same impact as Cadillac tax?
  - Subject to political whim

2016 CHES Panel discussion  
The Ghosts of Small Group Health Insurance:  
Past, Present, and Future

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# Small group market: past and present

- Prior to the ACA
  - Market covers employers with  $\leq 50$  or 100 employees
  - Little regulation on experience rating in most markets
  - Despite this, we find<sup>1</sup> comparatively little experience rating
    - Pass through from expected costs to premiums of 3-38%
    - Full experience rating would be 100%
    - Why? Inertia generating implicit long term commitment?
- Following the ACA implementation
  - Similar to individual market:
    - Organized marketplace with posted prices
    - Single risk pool to try to implement community rating
    - Minimum loss ratio regulations
    - But no mandate!
  - ACA transformed the market to community rating, or did it?
    - Insurers started offering self-insured products in this space
  - Without individual mandate, this market may also unravel

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<sup>1</sup>“Reclassification Risk in the Small Group Health Insurance Market,” by Sebastian Fleitas, me, and Anthony Lo Sasso.

## Small group market: future

- Our research shows that premiums were more important than risk rating here:
  - Average annual premiums paid: \$5,607  
Standard deviation from 38% pass through: \$385
  - Annual welfare loss from 38% experience rating (compared to community rating): \$193
  - Annual welfare loss from full experience rating: \$756  
With  $\leq 12$  employees, \$2,756 annual welfare loss
- Our study will also examine pricing and quantity in ACA era
- Some conservative-ish solutions for future:
  - Eliminate market and move people to individual market
  - Limit risk rating if continuously enrolled
  - Policies to lower costs would be helpful!
    - But what are they?
  - Be careful of removing inertia here
    - Equilibrium effects very uncertain (Thaler versus Handel)