WHITE PAPER

Addressing the Financial Impact of Renewals: Why Many Enrollees Could Benefit from Shopping

Julia Lerche, FSA, MAAA, MSPH
727.474.8644 • Julia.Lerche@wakely.com

Aree Bly, FSA, MAAA
720.226.9813 • AreeB@wakely.com

With the first open enrollment under their belt, marketplaces now face a different set of challenges and opportunities as they prepare for open enrollment for plan year 2015. One of these challenges stems from the complicated nature of the premium subsidy calculations, leading to potentially large swings in consumers' after-subsidy premiums and tax liability implications. Marketplaces, including the Federally-Facilitated Marketplace (FFM), are taking great strides to make the process as smooth as possible for consumers, by facilitating auto-renewals into Qualified Health Plans and, in the case of the FFM, rolling over 2014 Advanced Premium Tax Credits (APTCs) into 2015. Depending on factors such as income changes, premium variation, and a change in the benchmark plan, however, this approach may be detrimental to some consumers. State agencies, marketplaces, and stakeholders (including those in states with an FFM) will want to carefully balance the competing imperatives of ensuring continuous coverage while protecting consumers from tax liability, and in some cases, avoidable premium increases. This paper explores these issues and provides suggestions for how to mitigate confusion and empower consumers. Key takeaways include:

- **State insurance departments and marketplaces should be careful when communicating individual market rate increases to the public and the media, as changes in after-subsidy premiums do not necessarily track with approved changes in insurance rates.** The subsidy dynamics are counter-intuitive, for example, the net (after subsidy) premium for a plan can increase, even when the plan's approved rate (full cost before subsidy) decreases. Communications about approved rate changes should clearly indicate that impact to a particular consumer (especially those eligible for subsidies) may vary significantly from approved rate changes.

- **State insurance departments (including those in FFM states) can modify the language included in the federally-proposed carrier notices.** Based on the specific dynamics of changes in plan rates and Marketplace offerings within a state, there may be reasons to encourage consumers, more than is recognized in the proposed notices, to shop for alternative plans and/or go to healthcare.gov or their state Marketplace website to receive a redetermination of eligibility to update their APTCs to reflect updated household information, as well as 2015, rather than 2014, premium rates.

- **State agencies and organizations assisting consumers should be equipped with messages for and tools to identify consumers expected to see large increases in their after-subsidy premiums as well as those who may be at risk of owing money when 2015 taxes come due.** To mitigate the risk of consumers dropping coverage or re-enrolling in plans that may cause additional financial burdens, education and outreach efforts should be targeted to areas of the state where consumers will encounter the largest premium increases. Those providing consumer assistance should be prepared to guide consumers through their options and help them understand the importance of shopping. Additionally, these organizations should identify areas of the state (sometimes at the county or sub-county level) where the cost of the benchmark (second-lowest cost silver) plan is decreasing and encourage those consumers to request an eligibility redetermination to avoid a tax liability at the end of the year.

August 7, 2014

Support for this resource was provided by a grant from the Robert Wood Johnson Foundation's State Health Reform Assistance Network program

After-Subsidy Premium Changes are Not Intuitive

Subsidies are calculated based on household income and the benchmark plan rate available to each household. Consumers selecting the benchmark plan will have premiums that are solely based on income (and not tied to the cost of the plan). One complication of this provision is that the benchmark plan may change from year to year as carriers offer new, lower cost plans (e.g., with narrower networks), new carriers enter the market, and competition on price increases. Due to the uncertainty in the health of the newly enrolled populations resulting from the ACA, rates are likely to fluctuate significantly in these first few years. A recent study of proposed rate changes in the largest zip code in the largest city in each of nine states, indicated that the benchmark plan is expected to change in eight of the states.[i] This change in benchmark plan results in a potentially significant impact to consumer premiums after subsidy.

Because subsidies are tied to a benchmark plan, the only way consumers can ensure relatively stable premiums year over year is to commit to enrolling in the benchmark plan each year. The reality, however, is that (1) consumers may not necessarily want to change their plan each year, either because changing plans will impact the availability of their providers, they like their current plan, or simple inertia, and (2) consumers don't always choose the benchmark plan (and by nature of the benchmark plan being the second lowest cost silver plan, there will always be a less expensive silver plan available).

To add to the complication, consumers selecting plans other than the benchmark pay the premium they would have paid for the benchmark plan plus or minus any difference between the benchmark and their selected plan rates. As a result, even if the benchmark plan does not change, after-subsidy premiums for those enrolling in a non-benchmark plan are driven substantially by the difference in rates between two plans (or two moving targets). This creates some counter-intuitive results as demonstrated in the following simplified example.

Let's take a household of four, the Brown family, with household income of $35,000 (roughly 150% FPL). Based on the subsidy calculation, the Browns are expected to pay 4 percent of their income, or $1,400 per year (roughly $115 per month) towards the benchmark plan. In 2014, the Brown's had a choice of two silver plans, Plan A with a rate of $800 per month and Plan B (benchmark) with a rate of $850 per month. After subsidies, the Brown's had a choice of paying $115 per month for Plan B (benchmark) or $65 per month for Plan A, so they chose to enroll in Plan A.

Let's assume that in 2015, rates for Plan A and Plan B both increase by 4 percent, but New Plan C enters the market at a lower cost than Plan A. This changes the benchmark plan from Plan B in 2014 to Plan A in 2015. Assuming the Brown family would continue to have to contribute $115 per month to the benchmark plan[ii], their monthly contribution, should they be auto-renewed or choose to remain in Plan A, will increase from $65 to $115 per month, a 77 percent jump. Though this is a substantial increase, the Brown family has an alternative option, New Plan C, which has a lower premium than Plan A. The Brown family, and other households in a similar situation, should be made aware of the value of shopping for a new plan in 2015 and the fact that they may be losing out on an opportunity to enroll in a lower cost plan if they do not shop and are auto-renewed in Plan A.

Support for this resource was provided by a grant from the Robert Wood Johnson Foundation's State Health Reform Assistance Network program

	Rate Before Subsidy			Premiums After Subsidy		
	2014	2015	Increase	2014	2015	Increase over Plan A 2014
New Plan C	N/A	$800	N/A	N/A	$83	28%
Plan A	$800	$832 (New Benchmark)	4%	$65	$115	**77%**
Plan B	$850 (Benchmark)	$884	4%	$115	$167	157%

It is important to note that this is only one example (though similar dynamics have been identified in analyses performed in multiple states). Once 2015 rates are available, states (or stakeholders where rates are public) should take the time to analyze the specific dynamics across their respective states (at the county or sometimes sub-county level depending on whether there are plans offered only in certain areas of the state) to understand the premium changes consumers will experience. Because rate increases typically reported in rate filings are averages that mask geographic variations and do not reflect the introduction of new plans to the market, a detailed analysis using rate and service area tables must be performed.

Once completed, this detailed analysis of consumer premium impact at the county level can be leveraged to develop tools for those assisting consumers, by identifying the specific plans and areas of the state where consumers may experience the greatest impact, and alternatives for mitigating premium increases. With this identification, resources can be directed and messaging can be targeted appropriately to encourage 2014 enrollees to remain covered.

Federal Approach to Renewals and 2015 Advanced Premium Tax Credits (APTCs)

Based on proposed regulations[iii] and corresponding guidance[iv], individuals and families enrolled in FFM coverage will generally be auto-renewed into their current plan (or a similar plan from the same carrier if the current plan is no longer available), unless they actively select another plan.

Additionally, the FFM (and potentially some state-based Marketplaces [SBMs] under the option allowed by proposed federal guidance) will be applying 2014 APTC amounts in 2015 for most consumers, unless the consumer goes to healthcare.gov (or their SBM) to request a redetermination of eligibility. It is critical to note that in addition to being based on old income information, the 2014 APTC amount is based on the 2014 benchmark plan rate rather than the 2015 benchmark plan rate. The actual subsidy amount due to the consumer for 2015 (and the basis for 2015 income taxes) is the 2015 benchmark plan. Thus any difference between the actual subsidy (calculated by the IRS) and the APTC claimed by the consumer must be reconciled when taxes are filed.

The implications of this approach will vary by consumer based on both income changes and changes in the benchmark plan rate. The impact to premium could be significant. Assuming no income changes,

- **An increase in the benchmark plan rate** will result in consumers receiving lower APTCs than they would if they were to request a redetermination, so while they will pay higher premiums in 2015, they will receive the difference in the form of additional tax credits when they file their 2015 taxes.

Support for this resource was provided by a grant from the Robert Wood Johnson Foundation's State Health Reform Assistance Network program

- **A decrease in the benchmark plan rate** will result in consumers receiving higher APTCs than they would if they were to request a redetermination (resulting in lower 2015 premiums); they will need to need to pay back any amount over-credited when they file their 2015 taxes.

In the case of the Brown family, their subsidy decreased from $735 per month in 2014 to $717 per month in 2015 because of the introduction of lower cost Plan C, so if their 2014 APTC was applied in 2015, their anticipated tax refund for 2015 would be reduced by $216 (or they could owe money if they are not due a refund).

Draft standard carrier renewal notices recently released by the federal government require carriers to communicate to their enrollees any changes between their 2014 plan and the 2015 plan they will be automatically enrolled in if they take no action. The required notice will also include the 2014 APTC amount and the premium they will pay after applying the 2014 APTC amount. The notice includes language that the consumer "might be able to get a bigger tax credit or better plan for your budget" by visiting the Marketplace during open enrollment. The notice also indicates that consumers can update their information with the Marketplace "to make sure you get the full savings you deserve" and to "help make sure you get the right premium tax credit amount and don't owe money on your next tax return." The notice does not mention the option of switching plans until the second page, and nowhere does it explicitly say that individuals may be able to lower their premium if they switch to a different plan.

States enforcing the ACA[v] have the flexibility to develop their own standard notices, as long as they are at least as protective to consumers as the Federal standard. States should consider the specific after-subsidy premium and subsidy changes their individual market enrollees will encounter to determine whether they want to modify the Federal notices. States will specifically want to consider whether stronger language should be used to encourage shopping and/or seeking eligibility redeterminations.

Other Resources

- Patient Protection and Affordable Care Act; Annual Eligibility Redeterminations for Exchange Participation and Insurance Affordability Programs; Health Insurance Issuer Standards Under the Affordable Care Act, Including Standards Related to Exchanges, Proposed Rule. Available at: http://www.gpo.gov/fdsys/pkg/FR-2014-07-01/pdf/2014-15362.pdf

- Guidance on Annual Redeterminations for Coverage for 2015. Available at: http://www.cms.gov/CCIIO/Resources/Regulations-and-Guidance/Downloads/2014-0626-Guidance-on-annual-redet-option-2015-FINAL.pdf.

- Draft consumer notices for plan discontinuance or renewals, Available at: http://www.cms.gov/CCIIO/Resources/Regulations-and-Guidance/Downloads/Bulletin-on-Renewal-and-Discontinuation-Notices.pdf

- Renewal of Eligibility for Qualified Health Plans and Insurance Affordability Programs in 2014: Eligibility and Enrollment. Available at: http://www.statenetwork.org/wp-content/uploads/2014/07/State-Network-Manatt-Eligibility-and-Enrollment-July-2014.pdf

- Renewal of Eligibility for Qualified Health Plans and Insurance Affordability Programs in 2014: QHP Enrollment. Available at: http://www.statenetwork.org/wp-content/uploads/2014/07/State-Network-Manatt-QHP-Enrollment-July-2014.pdf

Support for this resource was provided by a grant from the Robert Wood Johnson Foundation's State Health Reform Assistance Network program

- Renewal of Eligibility for Qualified Health Plans and Insurance Affordability Programs in 2014: Marketplace and Medicaid Intersections. Available at: http://www.statenetwork.org/wp-content/uploads/2014/07/State-Network-Manatt-Marketplace-and-Medicaid-Intersections-July-2014.pdf

- Renewal of Eligibility for Qualified Health Plans and Insurance Affordability Programs in 2014: Consumer Notices. Available at: http://www.statenetwork.org/wp-content/uploads/2014/07/State-Network-Manatt-Consumer-Notices-July-2014.pdf

- Renewal Process Flow of Information. Available at: http://www.statenetwork.org/wp-content/uploads/2014/07/State-Network-Manatt-Marketplace-Renewals-Process-Flows-July-2014.pdf

- Kaiser Family Foundation. Explaining Health Care Reform: Questions About Health Insurance Subsidies. Available at: http://kaiserfamilyfoundation.files.wordpress.com/2013/01/7962-02.pdf

---

Please contact Julia Lerche at Julia.Lerche@wakelycom or Aree Bly at AreeB@wakely.com with any questions or to follow up on any of the concepts presented here.

[i] Avalere. Exchange Plan Renewals: Many Consumers Face Sizeable Premium Increases in 2015 Unless They Switch Plans. Available at: http://avalere.com/expertise/managed-care/insights/exchange-plan-renewals-many-consumers-face-sizeable-premium-increases-in-20. Accessed July 27, 2014.
[ii] This is a simplified example and assumes no changes for age, income and FPL.
[iii] Patient Protection and Affordable Care Act; Annual Eligibility Redeterminations for Exchange Participation and Insurance Affordability Programs; Health Insurance Issuer Standards Under the Affordable Care Act, Including Standards Related to Exchanges, Proposed Rule. Published July 1, 2014. Available at: http://www.gpo.gov/fdsys/pkg/FR-2014-07-01/pdf/2014-15362.pdf. Accessed July 27, 2014.
[iv] CMS Center for Consumer Information & Insurance Oversight. Draft Standard Notices When Discontinuing or Renewing a Product in the Small Group or Individual Market. June 26, 2014. Available at: http://www.cms.gov/CCIIO/Resources/Regulations-and-Guidance/Downloads/Bulletin-on-Renewal-and-Discontinuation-Notices.pdf. Accessed July 27, 2014.
CMS Center for Consumer Information & Insurance Oversight. Guidance on Annual Redeterminations for Coverage for 2015. June 26, 2014. Available at: http://www.cms.gov/CCIIO/Resources/Regulations-and-Guidance/Downloads/2014-0626-Guidance-on-annual-redet-option-2015-FINAL.pdf. Accessed July 27, 2014.
[v] Currently all states except Alabama, Missouri, Oklahoma, Texas, and Wyoming.

Support for this resource was provided by a grant from the Robert Wood Johnson Foundation's State Health Reform Assistance Network program