

State Health Reform Assistance Network

Charting the Road to Coverage

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States and the American Health Care Act (AHCA): The Individual Market, Tax Credits, and Marketplaces

State Health Reform Assistance Network

Manatt Health
March 23, 2017

Agenda

- **Overview of the American Health Care Act (AHCA)**
- **Key Policy Issues**
- **Impact Analysis**

AHCA Key Provisions

Medicaid Expansion	<ul style="list-style-type: none"> Maintains Medicaid expansion but largely eliminates availability of enhanced match
Medicaid Financing	<ul style="list-style-type: none"> New per capita cap on federal Medicaid spending starting in FY 2020, or State option to choose block grant for children and certain adults, or adults only
Safety Net Funding	<ul style="list-style-type: none"> Repeals ACA DSH cuts for non-expansion states beginning in FY2018 and all other states beginning in FY 2020; provides new safety net funding to non-expansion states
Work Requirements	<ul style="list-style-type: none"> Creates new state option for work requirements for most able-bodied adults
Federal Funding to States	<ul style="list-style-type: none"> Allots \$100 billion in State Innovation Grants for CY 2018-2026 with distribution formula based on enrollment, insurer participation, claims, and poverty
Tax Credits & HSAs	<ul style="list-style-type: none"> Provides age-adjusted advanceable premium tax credits in place of income-adjusted tax credits
Marketplaces	<ul style="list-style-type: none"> Makes premium tax credits available for plans purchased both on and off Marketplace plans
Individual & Employer Mandate	<ul style="list-style-type: none"> Eliminates individual and employer mandate tax penalties, effective 12/31/15
Insurance Reforms	<ul style="list-style-type: none"> Allows penalty for individuals with gaps in coverage and age rating; repeals ACA metal-level requirements (but preserves EHBs)

Today's focus

Overview of the American Health Care Act (AHCA)

AHCA Key Provisions for Individual Market

The AHCA makes substantial changes to the ACA's individual market provisions, the majority of which would go into effect in 2020

- **Tax Credits:** Replaces income-based subsidies (premium tax credits and cost sharing reductions) with age-based tax credits (\$2000-\$4000) that began phasing out at \$75,000 income; tax credits supplemented by Health Savings Accounts (HSAs) and lower threshold for medical deductions
- **Benefit Plans:** Preserves Essential Health Benefits (EHBs); eliminates metal levels (platinum, gold, silver and bronze) and expands flexibility to offer higher deductible plans
- **Insurance Reforms:** Repeals individual and employer mandates; preserves guaranteed availability at standard rates with penalties for gaps in coverage; increases age bands from 3:1 to 5:1 with state flexibility to have broader or narrower bands; preserves other insurance reforms
- **Stable Risk Pool:** Creates \$100 billion Patient and State Stability Fund for state-operated reinsurance programs, high risk pools, subsidies for high risk individuals, or other state programs
- **Fiscal:** Repeals or rolls back multiple revenue-raising taxes

CBO Cost Estimate of AHCA

On March 13th, Congressional Budget Office (CBO) and Joint Committee on Taxation (JCT) released an estimate of AHCA's impacts

Projected Budgetary Impacts

- Cuts federal funding by \$1.2 trillion in total from 2017-2026
 - Cuts Medicaid spending by \$880 billion (25% cut)
 - Cuts tax subsidies by \$312 billion (50% cut)
 - Reduces federal revenues by \$883 billion in tax cuts (repeal of ACA taxes)
- Net result is \$337 billion in federal deficit reduction from 2017-2016



An updated CBO analysis is expected ahead of the vote this week

Projected Coverage Impacts

- 14 million more uninsured in 2018 across Medicaid, individual and employer markets
- 24 million more uninsured by 2026 for a total of 52 million uninsured
- Coverage loss disproportionately felt by lower income and older people
- Increased participation by younger people
- Overall stability in premiums with a 10% decrease in individual market premiums by 2026

Source: Congressional Budget Office, Cost Estimate of the American Health Care Act. March 13, 2017. https://www.cbo.gov/sites/default/files/115th-congress-2017-2018/costestimate/americanhealthcareact_0.pdf

Timeline: AHCA Provisions

	<u>Taxes</u>		<u>Individual Market</u>			<u>Other</u>
2016	Retroactive repeal of individual and employer mandates for tax year 2016		Retroactive repeal of individual and mandate for tax year 2016			
2017	Health insurance, Rx, device, net investment income, tanning taxes repealed [†]	Threshold for deducting medical expenses is lowered to 5.8%				
2018		ACA tax credits remain available on exchanges	Increased maximum HSA contribution	Penalties for coverage lapses begin (SEPs only)		State innovation grants available
2019			Penalties for coverage lapses begin (open enrollment)			
2020	ACA premium tax credits and small group tax credits repealed	New age-adjusted tax credits available on and off exchange	CSRs repealed	Actuarial value/metal-level requirements repealed		
2021					Permissible age rating changed to 5:1 or state option	
2022						
2023						
2025						
2026	Cadillac tax implemented					
2027						

Note: Unless otherwise noted, dates correspond with effective years (i.e., a tax repealed on December 31, 2019 would be listed under 2020). Some effective dates correspond with fiscal years.

^{*}Except for "grandfathered" individuals that are continuously enrolled in the program after December 31, 2019

[†]Uses FY 2016 as base year and trends forward to establish a target spending amount for FY 2019

[^]Taxes will be repealed retroactively to Jan. 1, 2017, except for tanning tax which will be repealed as of June 30, 2017

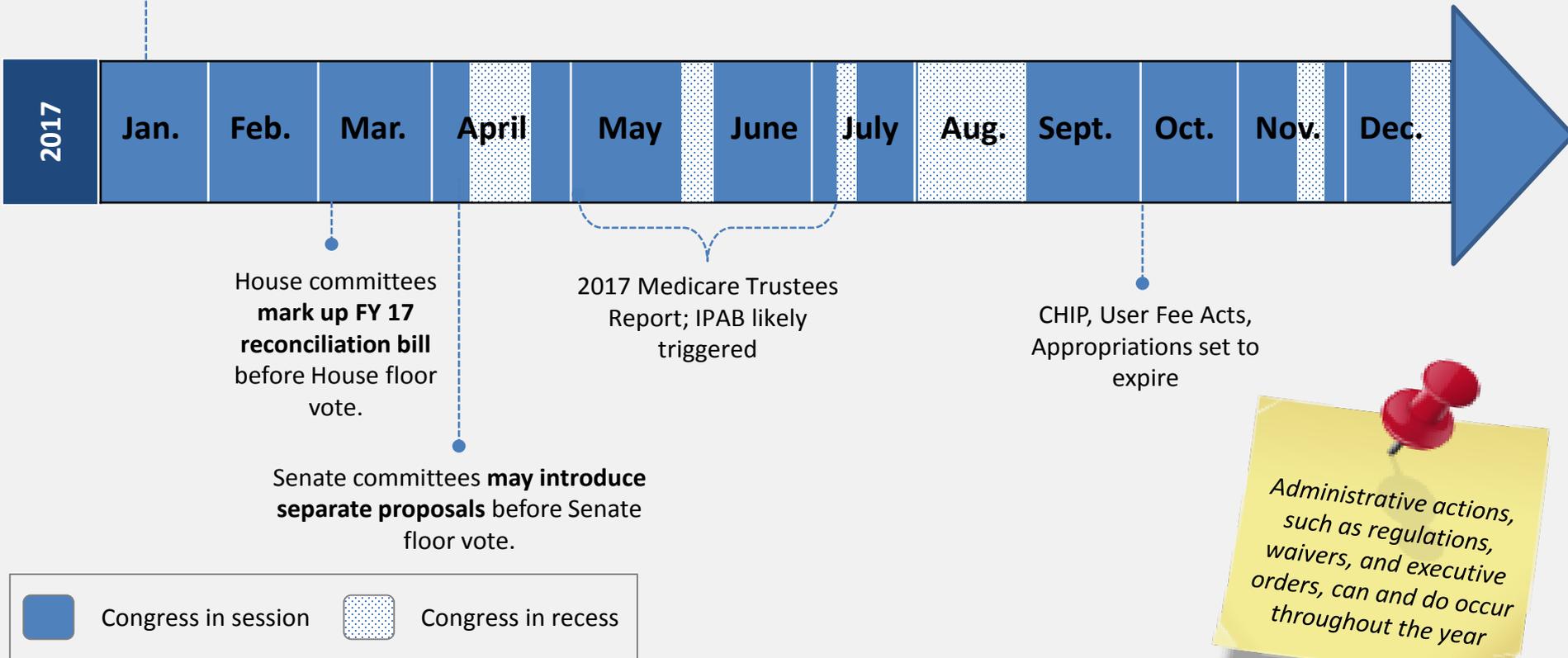
Timeline: Legislative & Administrative Key Dates

Congress **passed a FY 17 budget resolution** allowing for repeal of ACA through the budget reconciliation process.

House leadership to reconcile any differences and develop the bill for a full House vote.

Congress works to pass a consolidated FY 17 budget reconciliation bill for President Trump to sign.

Once FY 2017 bill is complete, Congress may **advance a FY 18 budget resolution** allowing for tax reform or other changes.



Key Policy Issues

Tax Credits

Critical Question: What should tax credits be based on?

ACA/Current State

- Tax credits are a “defined benefit” (government bears risk for premium changes)
- Refundable and advanceable
- Amount varies by age, income, and location
- Supplemented by cost sharing reductions up to 250% FPL
- Individual contributes certain percentage of income (2-9.5% sliding scale)
- Tax credit covers gap between contribution and amount necessary to purchase benchmark silver plan
- Individual can buy up or down at their expense

AHCA

- Tax credits are a “defined contribution” (individual bears risk for premium changes)
- Refundable and advanceable
- Amount varies by age only
 - \$2000 under 30
 - \$4000 over 60
- Family cap of \$14,000
- Tax credits phase out starting at \$75,000
- HSAs enhanced with higher contribution limits and more flexible spending rules
- Medical deductions allowed at 5.8% of income

Policy Alternatives

- Align age variation between tax credits and premiums
- Add regional factor for high cost areas
- Add income factor for low income individuals
- Adjust income ceiling
- Share risk of higher premiums between government and individual
- Let states readjust tax credits (1332 waivers, Stability Fund)
- Give states flexibility to choose between ACA and AHCA approaches (Cassidy-Collins bill)

Benefit Plans

Critical Question: What benefits must be covered and what are the limitations on cost sharing?

ACA/Current State

- 10 EHBs
- Four cost sharing levels: platinum, gold, silver, bronze
- Gold and silver required
- Actuarial value (AV) standards limit cost sharing by metal level
- Total cost sharing also limited (out-of-pocket maximums)
- No limits on out-of-network charges except emergency services

AHCA

- Keeps EHBs and out-of-pocket (OOP) limits
- Repeals metal levels and AV limits on cost sharing
- Insurers can offer only low value, high cost sharing plans
- OOP maximums keep floor near bronze level (60% AV)

Policy Alternatives

- Repeal EHBs (states back in full control)
- Expand state flexibility
- Retain selective federal mandates (e.g., mental health parity, substance abuse, opioid treatment, maternity)
- Exempt interstate sales from state benefit mandates
- Limit cost sharing without standardized AVs
- Regulate certain out-of-network charges (e.g., regulate surprise bills)

Insurance Reforms

Critical Question: What insurance regulations are needed to protect consumers, especially those with pre-existing conditions?

ACA/Current State

- Guaranteed availability
- Annual open enrollment and special enrollments
- No exclusions or higher rates based on health status
- 3:1 age band
- Geography, smoking but not other rating factors
- Single risk pool to prevent price discrimination
- Rate review
- No annual or lifetime limits
- Dependent coverage to 26

AHCA

- Guaranteed availability only if no gap in coverage
- 30% premium surcharge for those with coverage gap of 63 days in last year
- 5:1 age band or state choice
- Retains remaining ACA insurance reforms (likely because of reconciliation limits)

Policy Alternatives

- Impose different penalties for gaps in coverage:
 - Large monetary penalty
 - Waiting periods
 - Health-based rates or assignment to high risk pool (requires medical underwriting)
- Biannual open enrollments
- Roll back rating and other reforms
- Expand state flexibility

Stable Risk Pool

Critical Question: What policies can stabilize the risk pool?

ACA/Current State

- Individual and employer mandates (participation)
- Tax credits and cost sharing reductions (affordability)
- Marketplaces (consumer choice)
- Risk adjustment
- Reinsurance and risk corridors

AHCA

- Replaces mandate with 30% premium surcharge for coverage gaps
- Rating changes to favor young
- \$100 billion Patient and State Stability Fund (2018-2026)
- States must apply and have choices
 - Reinsurance
 - High risk pools
 - Direct payments to consumers or providers
- Default for 2018-19 is reinsurance program

Policy Alternatives

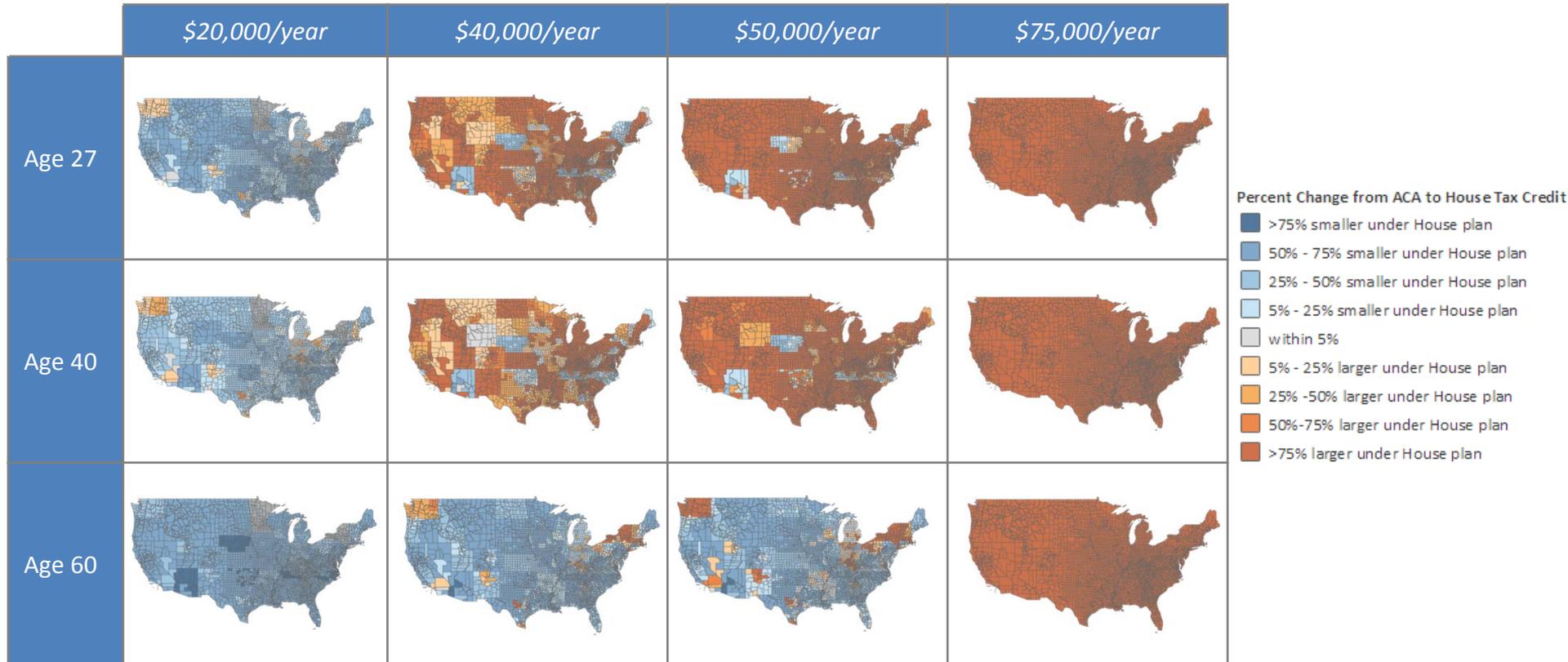
- Eliminate guaranteed issue
- Impose penalties for failure to maintain continuous coverage
 - Large monetary penalty
 - Waiting periods
 - Health-based rates or assignment to high risk pool (requires medical underwriting)
- Expand subsidies
- Restore federal reinsurance and/or risk corridors

Impact Analysis

Age-Based Tax Credits Will Reward Different Groups

Generally, the ACA provides larger tax credits to people who are older, lower-income, or live in high-premium areas. Under the AHCA, those who are younger, higher-income, or live in low-premium areas would likely receive larger credits.

Tax Credits in the AHCA vs. the ACA



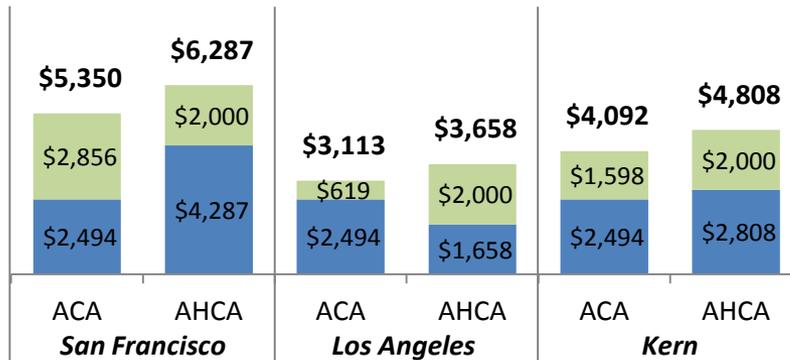
Sources: New York Times, <https://www.nytimes.com/interactive/2017/03/08/upshot/who-wins-and-who-loses-under-republicans-health-care-plan.html> ; Kaiser Family Foundation, <http://kff.org/interactive/tax-credits-under-the-affordable-care-act-vs-replacement-proposal-interactive-map/>

Impact to Consumers Depends on Where They Live

Many Californians would see their costs increase, requiring them to spend more or all of their income to maintain coverage. Those who are older, have lower incomes, or live in high-cost areas would be impacted even more.

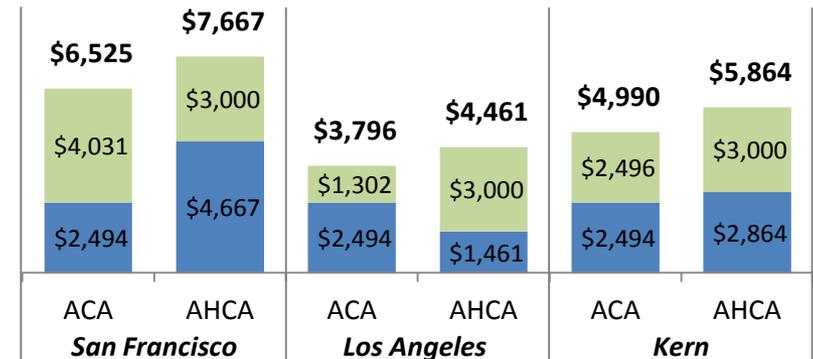
Estimated Total Premium in 2020, ACA vs. AHCA

Age: 27 Income: \$30,000



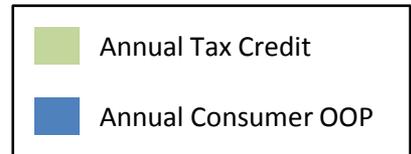
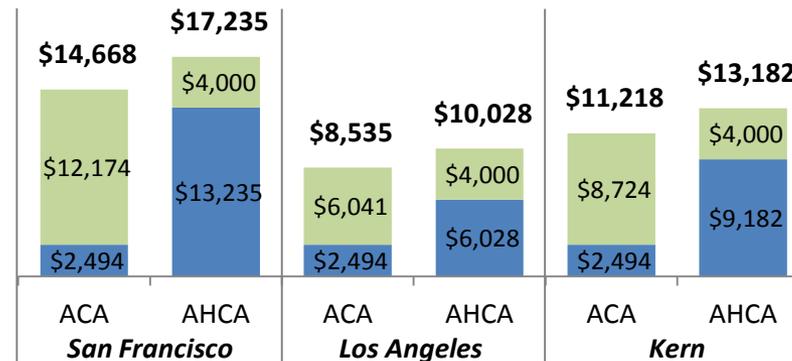
Estimated Total Premium in 2020, ACA vs. AHCA

Age: 40 Income: \$30,000



Estimated Total Premium in 2020, ACA vs. AHCA

Age: 62 Income: \$30,000



High-Level Impact Scenarios

The AHCA will create winners and losers; by 2020, some will see their premiums decrease significantly, while others will see their premiums rise significantly – perhaps making health coverage unaffordable



Name	Jose
Age	27
Location	Madison, WI
Income	\$40,000
Est. Change in Premium	-\$2,250 (69% decrease)
Premium as % of Income under AHCA	3% (down from 8% under ACA)



Name	Brian
Age	40
Location	Ripley, WV
Income	\$20,000
Est. Change in Premium	+\$1,790 (187% increase)
Premium as % of Income under AHCA	14% (up from 5% under ACA)



Name	Julia
Age	40
Location	Los Angeles, CA
Income	\$100,000
Est. Change in Premium	-\$500 (14% decrease)
Premium as % of Income under AHCA	1% (down from 4% under ACA)



Name	Isabella
Age	60
Location	Raleigh, NC
Income	\$30,000
Est. Change in Premium	+\$13,260 (534% increase)
Premium as % of Income under AHCA	52% (up from 8% under ACA)

Source: Kaiser Family Foundation analysis. For more information see "How Affordable Care Act Repeal and Replace Plans Might Shift Health Insurance Tax Credits" <http://kff.org/health-reform/issue-brief/how-affordable-care-act-repeal-and-replace-plans-might-shift-health-insurance-tax-credits/>

Discussion/Q&A



Thank You!

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