Avalere

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# OPEN ENROLLMENT PREVIEW: 2017 EXCHANGES STRUGGLE TO ADDRESS CHALLENGES WITH ENROLLMENT, RISK MANAGEMENT, AND CONSUMER CHOICE

*Avalere experts look ahead to the 2017 open enrollment season as challenges facing the exchanges mount*

The fourth open enrollment period for the exchange market will kick off on November 1. Low enrollment, the end of risk corridor and reinsurance programs, and health plans exits will shape exchanges for the 2017 plan year. Below are critical issues that will impact consumers and the healthcare industry in the 2017 exchanges.

## Enrollment

**The exchange market will be less than half the size what was projected when the Affordable Care Act (ACA) was passed.** Recent Department of Health and Human Services data suggest that on average, 10.4 million individuals were enrolled in exchange coverage during the first half of the year. In 2011, about one year after the ACA passed, the Congressional Budget Office (CBO) projected 22 million people would be enrolled in exchanges for the 2016 plan year (Figure 1). While a stable employer-sponsored insurance market could help explain lower-than-expected enrollment, the exchange market has struggled to attract some types of consumers, most notably younger and higher income participants.

**Enrolling young consumers and those with higher incomes has proved difficult for exchanges.** Exchange participation rates decline dramatically as incomes increase and subsidies decrease. Recent Avalere analysis finds that in 2016, exchanges enrolled over 80 percent of eligible individuals with incomes below 150 percent of the federal poverty level (FPL) ($17,820 for an individual), but only two percent of eligible individuals with incomes above 400 percent of the FPL ($47,520 for an individual) (Figure 2). Meanwhile, Avalere analysis also found that individuals 55 years and older comprise more than one-quarter (26 percent) of exchange enrollees, despite being just 16 percent of the eligible population (Figure 3).

**The individual mandate penalty may be insufficient to encourage consumers to enroll.** Models predicting exchange enrollment assumed the individual mandate and the corresponding penalty for not having insurance would begin to drive a spike in exchange coverage in 2016. However, the individual mandate penalty may be too low relative to the cost of coverage, even after accounting for premium subsidies, to attract enrollment. For example, recent Avalere analysis found that a 27-year-old earning approximately $24,000 (200 percent of the FPL) would pay $1,523 in premiums for a low-cost silver plan versus $695 in penalties (Figure 4). Meanwhile, in 2015, more taxpayers (12.4 million) claimed individual mandate coverage exemptions than signed up for coverage through the exchange.

**"Low enrollment has been a major factor contributing to escalating exchange premiums. In 2014 when the exchanges began, high-need enrollees flocked to the program. Since then, subsidies and mandate penalties have not driven enough participation among**

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**younger, healthier individuals," said Caroline Pearson, senior vice president at Avalere. "If 2017 enrollment growth is small, as expected, it will perpetuate market instability."**

## Risk Management

**While support from the risk corridor program never materialized for most plans, the absence of reinsurance in 2017 will have an effect on premiums.** While the ACA created the "3Rs" (risk adjustment, reinsurance and risk corridors) to stabilize the market, two programs – reinsurance and risk corridors – were temporary and will expire at the end of 2016. In 2014, the risk corridor program, which sought to protect consumers from volatile premium increases by mitigating the losses insurers may have experienced in the early years of the exchanges when not much was known about the marketplaces, paid only 12.6 percent of total payments due. While risk corridors may have done little to stabilize premiums, many issuers cited insufficient risk corridor payments as a reason for their market exits. Reinsurance, i.e., payments to insurers who cover high-cost patients, however, is estimated to have reduced premiums by approximately 10 percent. With no reinsurance or risk corridor programs for 2017, plans must rely on risk adjustment to manage adverse selection.

**The risk adjustment model may not be compensating plans appropriately for enrollees.** The risk adjustment program has many weaknesses identified by stakeholders and previous Avalere analysis, including (1) the data source used to calibrate the model does not match actual exchange enrollment; (2) the diseases used to predict costs may be too limited; (3) the model fails to appropriately account for enrollees with high drug spending; and (4) the model does not account for partial year enrollees. For example, recent Avalere analysis finds that individuals who enroll in exchange coverage during special enrollment periods have higher costs and lower risk scores than open enrollment period consumers, suggesting plans are not compensated properly for these individuals (Figure 5). Meanwhile, the current risk transfer formula creates "winners" and "losers" in the market, exposing plans to unexpected payment obligations. Some plans noted these unanticipated costs as reasons for their exit from the market.

**"While the Administration has proposed steps to improve the risk adjustment model, additional action is likely necessary," said Elizabeth Carpenter, senior vice president at Avalere. "The accuracy and predictability of risk adjustment is critical to achieving long-term stability in the market."**

## Consumer Choice

**Premiums will be significantly higher on average in 2017 versus 2016, but most consumers will be shielded from high premium increases.** New data from the federal government indicates that average premium increases for the second-lowest-cost silver plans will increase 22 percent on average in 2017—ranging from a 3 percent reduction in Indiana and Massachusetts to a 116 percent increase in Arizona. Nevertheless, 85 percent of exchange consumers receive a premium tax credit subsidy that caps their premium at a percentage of income. As a result, if subsidized exchange enrollees are willing to switch plans and pick one of the lowest cost options in the market, many consumers may be protected from significant premium increases.

**In 2017, consumers will have fewer carriers to choose from in many regions of the country.** As a result of the factors described above, many carriers have announced they will exit the exchange market or significantly scale back participation for 2017. Competition in exchanges will decline significantly in 2017. In 2017, there will be an average of 2.9 plans available per county in Healthcare.gov states, down from a nationwide average of 5.3 plans per county in 2016. In states using the federal marketplace, 21 percent of enrollees will have only one participating carrier for the 2017 plan year.

**Carrier participation will impact the benefits available to consumers.** While exact figures are not available, estimates indicate more than 1 million Americans will need to choose coverage from a new insurance company in 2017 because of carrier exits from the market. Consumers that have to choose a new company will likely have access to different benefit designs. Specifically, changes in benefit design, especially provider networks and drug formularies, may threaten access or continuity of care for some patients.

**"Depending on where they live, consumers are likely to have decreased choice for 2017," said Kelly Brantley, vice president at Avalere. "People picking a new plan should examine benefits closely to assess if their medications are covered and their providers are in-network."**

## Looking Ahead

**Additional policy solutions are likely necessary to restore confidence in the exchange market and ensure long-term stability.** While the Obama Administration has proposed a series of changes designed to stabilize the exchange market and improve the risk adjustment program, the future administration and/or Congress will likely need to consider additional policy change to ensure the market is sustainable for consumers and health plans alike. These changes could include reforms to improve the accuracy and predictability of the risk adjustment program, ensure the integrity of the market through increased oversight of enrollment and payment practices, and make insurance more affordable and attractive to consumers.

**"Major initiatives like the Affordable Care Act need to evolve over time to meet the needs of consumers, industry stakeholders, and governments," said Dan Mendelson, president at Avalere. "The current state of the market underscores the potential need for Congress and the next administration to consider incremental improvements that will make the law sustainable over time."**

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