



*Policy Blog*

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## **ACA and AHCA Part 1: The Big Picture in the Individual Market, 50,000 Arizonans 50+ Face Huge Cost Increase by 2020 under GOP Proposal**

Prohibiting discrimination against pre-existing conditions is one of the most popular provisions of the Affordable Care Act (ACA) that is also part of the House Republican replacement bill, the American Health Care Act (AHCA).

The Grand Canyon Institute estimates that approximately 50,000 Arizonans age 50 or older would face significant jumps in their premium costs and out of pocket expenses such that under the AHCA they are very likely to no longer be able to afford health insurance. Middle income younger adults, a healthier demographic, would find more incentive to purchase plans under the AHCA than under current law.

Prior to the ACA, people with pre-existing conditions would obtain health insurance that had periods of noncoverage for that condition or were denied coverage entirely. This impacted people particularly in the individual market. Essentially people paid differently or received different coverage based on their health-risk (or status).

Preventing this kind of price and coverage discrimination is a godsend to those who need it, but it's not free. The question is who pays for it.

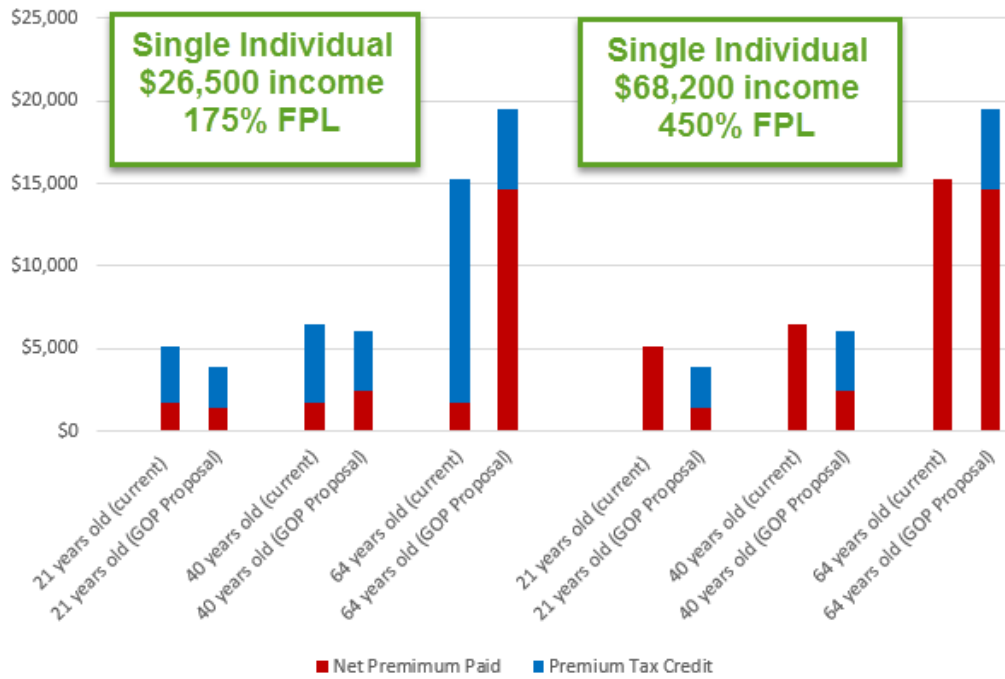
In single payer systems, everyone has coverage, so those with chronic health issues can have those costs spread across the entire financing system.

However, with the United States insurance system, insurers used to price according to health risk. Consequently, customers not expected to generate significant claims could get far cheaper rates than those who had a high expectancy of significant claims. Folks in the latter category were frequently priced out of the market.

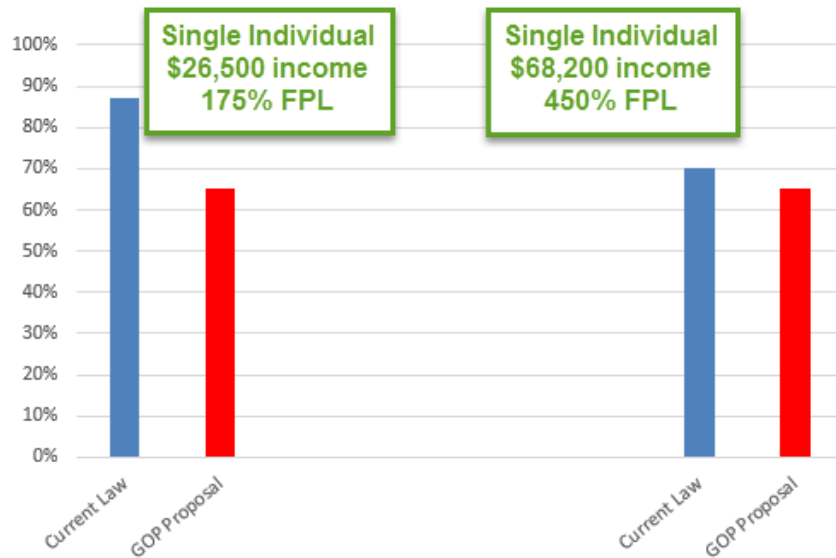
Preventing price discrimination based on one's medical history means prices go up for healthier people. In an insurance-based system you need healthy people to sign up and spread the cost of covering less healthy people. The ACA uses an income-based approach to compensate for higher costs, while the AHCA uses an age-based approach to compensate for higher costs.

In Arizona approximately 200,000 people signed up to get policies through the individual market health exchange during the enrollment period that closed January 31, 2017. About 80%

## Current Law v. GOP Proposed AHCA, 2026



## Actuarial Value of Plan



Source: Congressional Budget Office, "American Health Care Act: Cost Estimate," March 13, 2017, Table 4.

of them received subsidies because their incomes are below 400% of the FPL. The remainder do not.

How would enrollees fare with the AHCA? Table 4 (graphically reproduced above) from the Congressional Budget Office cost study of the AHCA gives an approximate comparison of how people at different ages with subsidies fare compared to the up to those not receiving subsidies fare under current law.

The results are dramatically different depending on your income and age as shown in the graphical depiction of Table 4 from the Congressional Budget Office which compares a lower income individual at 175% of the federal poverty level (FPL) with a middle income individual at 450% of the FPL.

The ACA limits insurers to charging older adults to no more than three times what they charge young adults. The AHCA adjusts that ratio to 5:1. Consequently for older adults in 2026, their premiums are higher, and even though middle income older adults receive a subsidy, the subsidy part is eaten up by both the higher premiums and declining coverage (actuarial), so on average older adults with middle incomes and higher are not better off.

The bottom part of the graphic illustrates the change in actuarial value of the insurance people are buying. Presently most people in the ACA buy silver plans that excluding the premium's cost are designed to cover 70 percent of the average health care costs among consumers of the policy. In addition, the ACA provides cost sharing subsidies to reduce out of pocket costs for those below 250% of the FPL, which is why for the 175% FPL illustration the current actuarial value is 87%. In 2020 those cost sharing subsidies are terminated under the AHCA and the AHCA will allow insurers to offer plans that have an actuarial value of less than 60 percent. Consumers facing affordability challenges end up buying less coverage, and the anticipated actuarial value in the CBO cost estimate drops dramatically to 65%, which means though younger low income consumers will save slightly on premiums under the AHCA, their out of pocket costs will be much higher.

Older adults with low incomes see a dramatic rise in their premiums (estimated cost increase of \$13,000 annually for those 64 years old which would be half their entire income) and are effectively priced out of the market. And if they have health ailments as is more common for older adults, they, too, will find their out of pocket costs significantly higher under the AHCA. By contrast young adults with middle incomes see a gain that would encourage their purchasing of insurance,

The overall impact will be to encourage younger, middle income adults to sign up for coverage, and likely price out of the market low income adults, especially those who are 50 years old or older. The Congressional Budget Office estimates that by 2020 the number of people currently in the nongroup marketplace will go down by three-quarters (9 million less), which includes a combination of people no longer being able to afford plans as well as people choosing to no longer purchase a policy due to the elimination of the individual mandate. The

CBO figure also presumes some younger middle income adults, not currently covered, buy nongroup plans in that net loss figure.

In Arizona the most vulnerable people would be those who are 50 years or older, whose premiums net of subsidies and/or out of pocket costs would skyrocket to points where they likely could no longer afford it. The Grand Canyon Institute estimates that almost 50,000 adults would find themselves in this situation. This figure includes 39,000 adults who are at least 50 years old and below 250% of the FPL. They will face much higher net premiums and loss of cost sharing, significantly raising their out of pocket burden. In addition 5,000 adults, 55 and older between 250 and 300% of the FPL and 2,300 adults 60 or older between 300 and 400% of the FPL would face such significant premium cost increases net of subsidies that they likely would no longer be able to afford health insurance. These calculations are not based on the ACA signup enrollments, but sign up enrollments less 15% due to those who cancel, don't complete verification, or fail to pay premiums under the ACA, which has been the historical experience illustrated by an issue brief in 2016 from the Council for Affordable Health Coverage.

These estimated impacts are distinct from any lost coverage due to changes in the Federal Medicaid program and Medicaid expansion under AHCA.

*This is the first in a series of blogs on healthcare related to the possible repeal and replacement of the Affordable Care Act.*

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Sources:

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