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The Lionfish in ACA Markets

By Greg Fann

There's nothing wrong with enjoying looking at the surface of the ocean itself, except that when you finally see what goes on underwater, you realize that you've been missing the whole point of the ocean. —Dave Barry

I have done most of my scuba diving in the Caribbean Sea and the Florida Keys. I can't complain. The water is clear, the temperature is comfortable, and the fish are abundant. If you are not a diver, you can probably surmise that the experience is both highly visual and eerily quiet. If done with friends, it's 30 minutes of sharing excitement via spontaneous hand gestures.

A memorable moment of every dive is climbing back into the boat and sharing stories with dive mates and the boat crew. Barring any serious technical mishap, the first query is always "What kind of fish did you see?" It's a required gesture of hospitality, but it's rarely a serious inquiry. Most amateur divers have no skill identifying the hundreds of species feeding on coral reefs. Above the surface, the barefoot locals, whose "daily grind" is on a boat floating on crystal clear salt water, have a better idea of what's swimming underneath than the tourist divers below.

There is an exception to the rule. There is a fish that most divers never see, but they know what it is if they ever see it. You guessed it. It's the lionfish. Every diver in the region is educated about the dangers of lionfish in non-native waters. For frequent divers, it's a repeated lesson akin to oxygen mask deployment aboard an airplane. Divers know what to do if they see a lionfish. They have been told many times.

INVASIVE SPECIES

The lionfish is not inherently bad. It's a fish that behaves like a fish. It causes few problems in its native environment. It may even comfortably adjust to new environments as well. The problem is the havoc it causes when introduced to an ecosystem it should not be in.

It is what the scientific community calls an invasive species. An invasive species is environmentally problematic to the habitat and poses threats to the native species in the ecosystem. Invasive species refer to both plants and animals, and the problems they cause cannot be solved until they are understood and identified. Fortunately, invasive species and the associated damage are easily identifiable in the biological world. However, in the health insurance ecosystem, the paradoxical dynamics of the Affordable Care Act (ACA) may allow an invasive species to go undetected and abide in a market and be misconstrued as a helpful part of the ecosystem.

What would an invasive species look like in a specific health insurance market? It would operate remarkably similarly as it would in other markets, but by doing so would cause market damage in the specific market and endanger existing insurers. Simple competition itself may endanger existing insurers, but competition catalyzes price efficiency and improves markets for consumers. Invasive species don't improve markets; they make things worse for consumers and harm markets.

Isn't competition good for markets? How can a lionfish-style insurer make things worse for health insurance consumers? Follow along as we dive below the surface and explore the subsidy and price dynamics in the ACA individual markets.

ACA MARKET CHALLENGES

Enrollment in ACA markets has been less than originally anticipated and the national uninsured rate still hovers around 10 percent. Unsurprisingly, high cost is frequently mentioned as a reason why more people don't procure health insurance. As the ACA has struggled, proposed solutions have often

focused on reducing costs or providing lower cost options in markets. Proposed adjustments have taken several forms, from reinsurance to care management to narrow networks and lower cost providers. Due to the mechanical dynamics, straight cost reductions do little to improve markets and stakeholders are now seeking changes in subsidy formulas rather than cost reductions.

A problem in ACA markets across the country is akin to the impact of invasive species. The lionfish in ACA markets is an insurer with a cost structure well below traditional insurers and incumbent health plans. Sometimes, its efficient cost structure is achieved by less favorable dynamics such as a network of fewer providers or perceived as lower quality. In fact, the lionfish insurer may require such a price advantage to compete with higher cost insurers thought to be more attractive and have stronger networks.

The problem arises because the lower-cost insurer doesn't really provide lower costs for many consumers. It only increases the costs to purchase insurance from other carriers, and it may also increase consumer costs for its own plan. A highly appropriate question at this juncture would be, "What you talkin' about Willis?" This logic doesn't make any sense. How do lower costs lead to higher prices? A numerical illustration is useful to understand the dynamics.

SUBSIDY DYNAMICS

Premium subsidies are the lifeblood of ACA markets. There is a lot of chatter about mandates, outreach and consumer protections, but the ACA would not survive without premium subsidies. A proper understanding of how the subsidies work is imperative to understand the success and challenges in ACA markets. A demonstration of the effect of a low-cost insurer entering a market will illustrate the impact.

Starting with a simple example of one existing health plan (we'll call it Littlefish Health), sample gross premiums are provided in Figure 1.

Figure 1
Gross Premiums

	Bronze	Silver	Gold	Platinum
Littlefish Health PPO	600	850	800	900
Littlefish Health HMO	540	765	720	810

Most market enrollees are subsidized. Assuming a net contribution of $200 for a given income level, Figure 2 displays the net premiums after adjusting for premium subsidies of $650 ($850 minus $200, more detail on calculations here). Net premiums equal the maximum of $0 and the gross premiums minus $650.

Figure 2
Net Premiums

	Bronze	Silver	Gold	Platinum
Littlefish Health PPO	0	200	150	250
Littlefish Health HMO	0	115	70	160

Littlefish Health and its consumers are doing fine. Bronze plans are available for free and low cost-sharing Gold plans are available at a lower price than Silver plans. Watch what happens when an invasive plan (we'll call it Lionfish Health) arrives in the market. Lionfish Health brings a more efficient cost structure to the market. It is of no consequence whether the efficiency is related to care management, lower administration costs, or more aggressive provider reimbursement rates. The market impact is the same simply because the price is lower. In our example, we assume Lionfish Health has 30 percent lower cost than Littlefish Health. Figure 3 illustrates the gross premium comparisons.

Figure 3
Gross Premiums With Lionfish

	Bronze	Silver	Gold	Platinum
Littlefish Health PPO	600	850	800	900
Littlefish Health HMO	540	765	720	810
Lionfish Health PPO	420	595	560	630
Lionfish Health HMO	378	536	504	567

Littlefish Health's gross premiums are unchanged. Their unsubsidized consumers, the shrinking minority of the market, have the option of selecting a lower cost plan or sticking with their current plan option.

What about the majority of individual market enrollees, the lower income subsidized population? Lionfish's entry into the market disrupts the subsidy calculation by offering the new benchmark plan. The $200 maximum premium contribution is now calibrated to the Lionfish PPO Silver premium of $595 rather than the Littlefish PPO premium of $850. That reduces the premium subsidy available by $255 from $650 to $395. Figure 4 shows the new resulting net premiums with Lionfish in the market.

Figure 4
Net Premiums With Lionfish

	Bronze	Silver	Gold	Platinum
Littlefish Health PPO	205	455	405	505
Littlefish Health HMO	145	370	325	415
Lionfish Health PPO	25	200	165	235
Lionfish Health HMO	0	141	109	172

Figure 5 shows the net premium change due to Lionfish's market entry. As expected, the Littlefish net premiums are significantly higher. It is less intuitive that most of the plans offered by Lionfish Health are more expensive than the plans offered by Littlefish Health before the presence of Lionfish. In a sense, the environment is less welcoming for the invasive species. These results are driven by leveraging of premium subsidy dynamics. As benchmark premiums levels change and premiums for other benefit levels change proportionally, the difference between the two narrows.

Consumers enrolled in plans with prices below the benchmark benefit from higher costs. Historically, this was intuitively all Bronze plans and the lowest cost Silver plan. Beginning in 2018, the defunding of Cost Sharing Reduction payments necessitated an increase in Silver plan premiums. The result of this dynamic is Silver plans being priced higher than Gold plans, but the market is in transition and current pricing relationships vary across the country. In our example, you can see that the price of the lowest cost plans increased except for the high-priced Platinum PPO.

An illuminating insight here is that the majority of individual consumers are subsidized in all states and very few of them are enrolled in Platinum plans. It is conceivable that the majority of current ACA enrollees would benefit from price increases and would be harmed by price reductions. It's incredibly non-intuitive, but it's the reality of ACA math.

Figure 5
Net Premium Change due to Lionfish

	Bronze	Silver	Gold	Platinum
Littlefish Health PPO	205	255	255	255
Littlefish Health HMO	145	255	255	255
Lowest Cost PPO	25	0	15	-15
Lowest Cost HMO	0	26	39	12

Let's push the numbers a little more and see what happens. In response to the new competition, Littlefish becomes more aggressive and reduces premiums by 10 percent. Figure 6 shows the resulting gross premiums.

Figure 6
Gross Premiums With 10 Percent Price Reduction

	Bronze	Silver	Gold	Platinum
Littlefish Health PPO	540	765	720	810
Littlefish Health HMO	486	689	648	729
Lionfish Health PPO	420	595	560	630
Lionfish Health HMO	378	536	504	567

As the benchmark plan rates haven't changed, the subsidy remains the same and the net premiums for Littlefish are lower than they were before the price reduction. However, even after a 10 percent price reduction, the Littlefish net premiums are still much higher than they were before Lionfish entered the market. The results are shown in Figure 7.

Figure 7
Net Premiums With 10 Percent Price Reduction

	Bronze	Silver	Gold	Platinum
Littlefish Health PPO	145	370	325	415
Littlefish Health HMO	91	294	253	334
Lionfish Health PPO	25	200	165	235
Lionfish Health HMO	0	141	109	172

The dynamics of a lower cost plan entering the market and causing disruption is not theoretical. It has been the cause for alarm warning of "serious financial risk." It is worth noting that all is not lost when a lower cost insurer enters a market. First, taxpayers save money as premium subsidies are calibrated on a lower cost plan. In aggregate in 2019 and 2020, taxpayers received a direct benefit from premium reductions or new insurers with lower cost structures entering markets. Second, while subsidized consumers are generally harmed by lower market premiums associated with lower health care costs, they benefit from lower cost-sharing if they switch to plans with lower provider reimbursements. Third, unsubsidized consumers obviously benefit from lower premiums. However, these "good news" items do not detract from the reality that cost reductions in ACA markets are really hurting those they are often intended to help.

MEANINGFUL SOLUTIONS

In a recent Congressional hearing related to ACA market challenges, a committee chair said, "The first step in reducing health insurance costs is to reduce the cost of health care." Nobody gasped. Nobody acknowledged a profound insight. Nobody asked him to repeat the comment or wrote it down. The relationship of health insurance premiums to health care costs is naturally logical. It's also something the committee members have heard him say many times before. But it's not accurate. At least not for subsidized consumers in ACA markets. Reducing the cost of care doesn't help them. It often makes things worse.

If reducing premium costs isn't the solution, what can states do to improve ACA markets? What if I told you that the Littlefish Health HMO gold plan that went from $70 to $243 courtesy of Lionfish Health was actually free in Oklahoma? It is, in 12 different counties. The circumstances in Oklahoma are a bit unusual, but states can benefit consumers (and insurers) by requiring stricter compliance with ACA rules. Opportunities abound as "a nationwide scan of premium rates reveals variances outside the bounds of effective Rate Review." States interested in assessing their markets can determine the overall efficiency of market rates through a quantitative market optimization model.

CONCLUSION

ACA individual markets provide the last resort for Americans to procure major medical insurance. High premiums have been a deterrent to robust enrollment in ACA markets. Enrollment is skewed due to the ACA rating rules and premium subsidy dynamics. These dynamics changed with the defunding of Cost-Sharing Reimbursement payments in 2018, but many stakeholders do not fully understand the dynamics, and relative prices in many state markets are inefficient and deviate from strict interpretation of ACA guidance.

Despite the alarmism surrounding regulatory changes, ACA markets are stronger than ever and primed to be even stronger. Unfortunately, traditional cost-saving efforts offer little promise. Serious improvements in ACA markets can be achieved via a twofold strategy. First, states can optimize their markets by assuring appropriate pricing. Second, Section 1332 waivers can be utilized to broaden the allocation of enhanced subsidies to a larger consumer base. If a state has a cost saving proposal, it should be considered as part of a Section 1332 waiver. Otherwise, cost reductions only result in lower federal subsidies and higher net premiums.

The seas are now calm, so dive in and explore the underwater world of ACA dynamics. The water is deep, but it's necessary that stakeholders responsible for decisions related to ACA markets suit up and take the plunge. While the surface may look no different than other markets, strong fins and a clear mask will reveal a different world 100 feet below. I'm usually down there and easy to find. Give me a wave or a thumbs up and let's enjoy the beautiful opportunities now available in ACA individual markets. Just leave your pre-conceived notions of gross premium impacts (and the lionfish) in the boat. ■

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