RAND CORPORATION

RESEARCH BRIEF

Effects of a Public Option on Health Insurance Costs and Coverage

A public option for health care—that is, a government-sponsored health insurance plan with publicly determined provider payment rates—is attracting growing interest in policy circles. Multiple public option proposals have been introduced in Congress, and at least 18 states have considered legislation for some form of public option. Washington is the first state to adopt a plan to create a public option in its health insurance Marketplace. In addition, several Democratic presidential candidates in the 2020 election season proposed public option plans.

These proposals have emerged against a backdrop of decreasing enrollment in the individual market, especially among higher-income enrollees who are not eligible for federal subsidies (those making more than 400 percent of the federal poverty level [FPL]). Enrollment among unsubsidized enrollees fell from a high of 6.3 million (43 percent of all enrollees) in 2016 to 3.8 million (31 percent of all enrollees) in 2018. Champions of public option plans contend that this approach would offer a more affordable alternative in the individual market and counter falling enrollment. Critics express concerns about a growing role of government in health insurance and potential increases in government spending.

KEY FINDINGS

- Under four alternatives, public option premiums were lower than private individual market premiums because providers were paid at lower rates. Enrollment shifted from private individual market plans to public plans, but changes to the number of uninsured were small.
- Although the public option offers a lower-cost option, it can reduce advanced premium tax credits and increase private individual market premiums.
- For this reason, some enrollees are better off, either becoming newly insured or getting a better deal on coverage, while others are worse off, either becoming uninsured or getting a worse deal. Those who are worse off tend to be those who have lower incomes and would receive lower tax credits.
- Federal savings from reduced premium tax credits could be reinvested to provide additional tax credits or other programs to reduce consumer costs.

Modeling the Impact of a Public Option

A team of RAND researchers examined the likely impact of nationwide public option alternatives. The analysis used the RAND COMPARE microsimulation model to examine four alternative public option scenarios:

- Scenario 1: Coverage offered off the Marketplaces, payment to providers set at 79 percent of commercial rates
- Scenario 2: Coverage offered on the Marketplaces, payment set at 79 percent of commercial rates
- Scenario 3: Coverage offered on the Marketplaces, payment set at 93 percent of commercial rates
- Scenario 4: Coverage offered on the Marketplaces, payment set at 93 percent of commercial rates, plus federal tax credits available up to 500 percent of the FPL.

The researchers estimated the effects of these alternatives on individual market premiums, enrollment, federal government spending, and affordability of coverage for the year 2022. A key assumption for this analysis is that providers would accept lower rates.

Public Option Premiums Were Lower, but Changes to the Total Number of Uninsured Were Small

Across all four scenarios, the analysis showed that average public option premiums were lower than other "private" individual market premiums (Figure 1). Most of the difference stemmed from lower provider payment rates. In addition, the analysis assumed that sicker and more expensive enrollees would have greater preference for private plans, because of concerns about provider access in the public option. As a result, private individual market premiums increased in some scenarios, even after accounting for risk adjustment and downward pressure on private premiums due to competition with the public option.

Consistent with the lower premiums, more individual market enrollees switched from private to public plans. Under all four scenarios, enrollment in public option plans was substantially higher than in the private plans (Figure 2).

The addition of the public option had small effects on insurance enrollment in the on-Marketplace scenarios. Although the public option offered lower premiums, it also reduced tax credit amounts, which are tied to a benchmark premium. Thus, for some people who were eligible for tax credits, there was little change in out-of-pocket premiums. However, in Scenario 1, the public option led to 2.8 million fewer uninsured (an 8 percent decrease relative to current law) because the off-Marketplace public option was not considered in determining the benchmark premium for calculating tax credits. In this scenario, public plan enrollees paid reduced premiums and received credits that were relatively similar to original levels without the public option.

Federal Spending Was Lower

In all scenarios, federal spending on tax credits fell with the introduction of the public option, with savings ranging from $7 billion to $24 billion (Figure 3). The reduction in federal spending was driven by changes

Figure 1. Public Option Premiums Were Lower Across All Four Scenarios

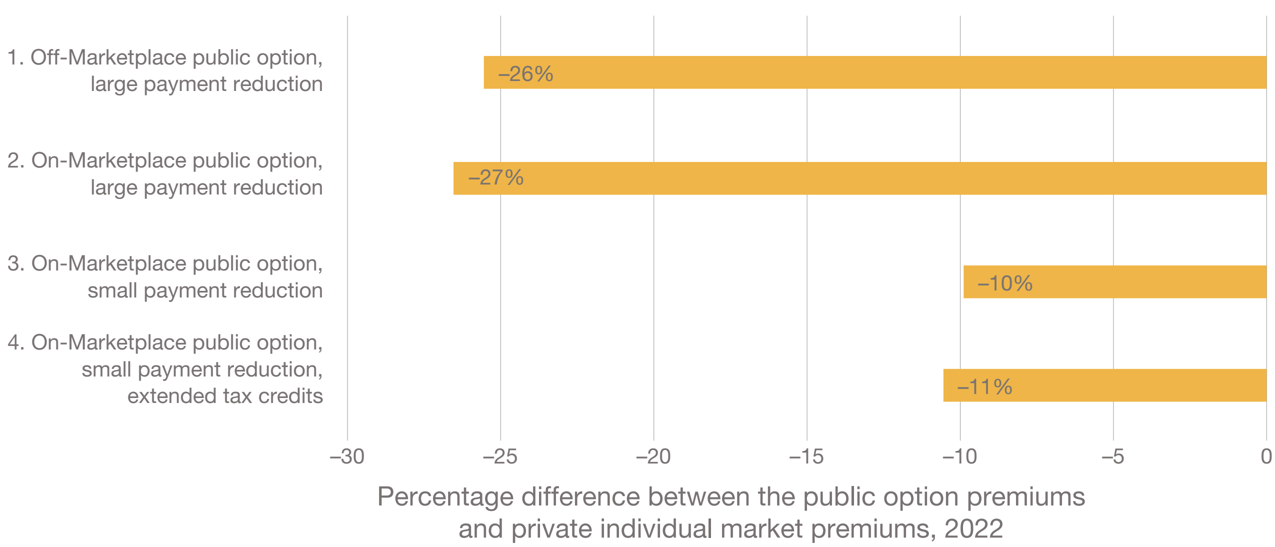


Figure 2. Consumers' Preferred Public Option Alternatives

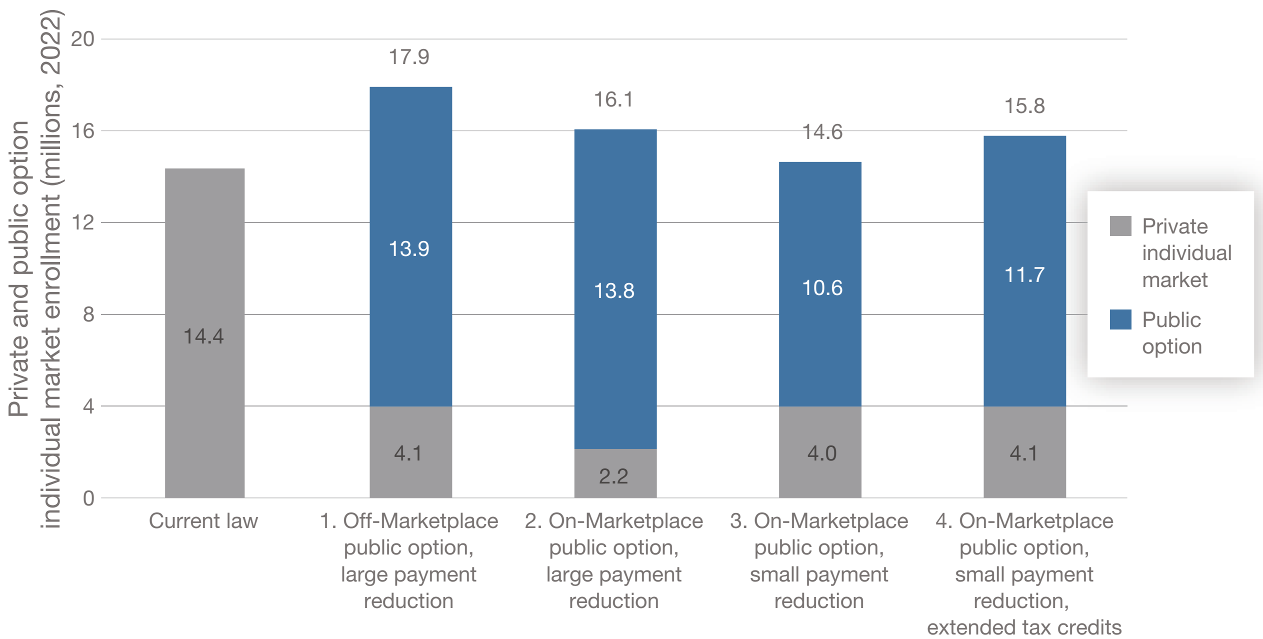
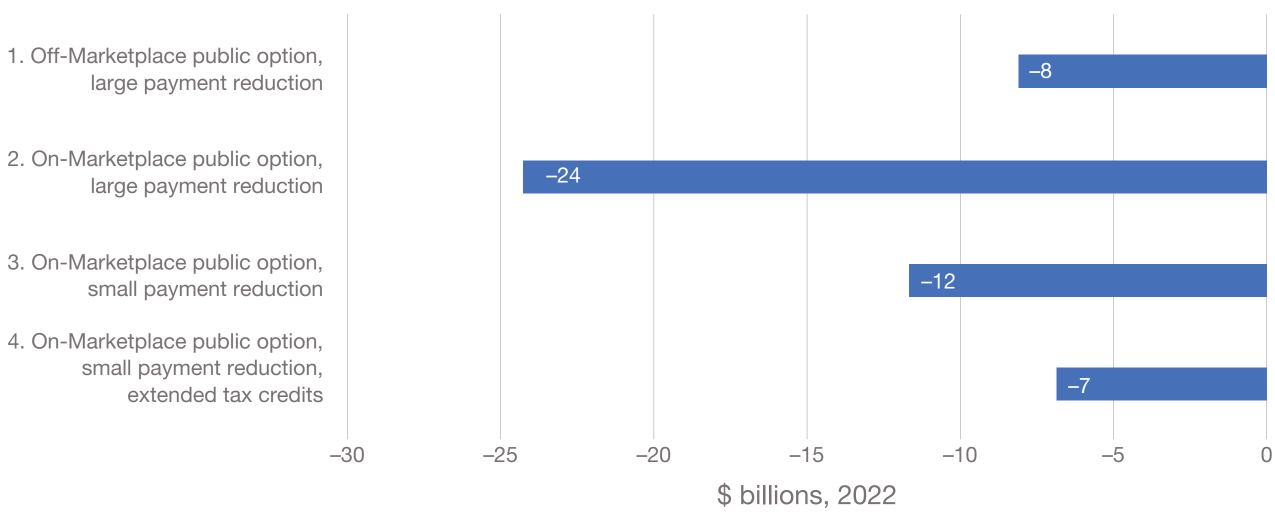


Figure 3. The Federal Government Saved Money Under All Scenarios

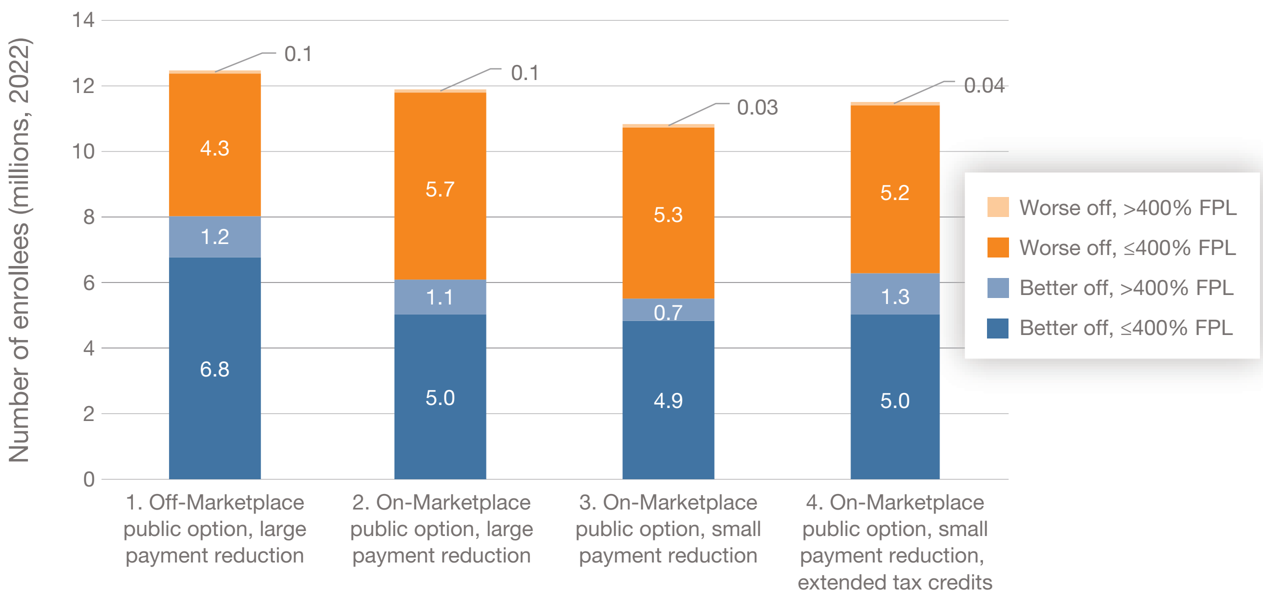


in the benchmark premium used to set tax credit amounts. Scenarios 2, 3, and 4 assumed that the public silver option, which pays lower rates, would become the benchmark plan. The benchmark premium also fell in Scenario 1, because of downward pressure from competition and dynamics with cost-sharing reduction costs loaded onto public and private silver premiums. In Scenario 4, the federal savings were smaller because the cost of extending tax credits to people with incomes between 400 and 500 percent of FPL is included in the federal spending amount.

There Were Winners and Losers

The public option offers a lower-cost option for enrollees; at the same time, it can reduce tax credits and increase private individual market premiums. These changes mean that some enrollees fare better under a public option, while others fare worse. Across the four scenarios, an estimated 5.1 to 12.1 million people would be better off, either becoming newly insured or paying less for equivalent or better coverage than they currently have. Conversely, an estimated 2.2 to 6.8 million

Figure 4. "Winners and Losers": Number of Enrollees Better and Worse Off in Public Option Scenarios



people would be worse off, either becoming uninsured or paying more for equivalent or worse coverage. Those who would be worse off tend to be people with incomes below 400 percent of the FPL who would receive lower tax credits because of the public option lowering the benchmark premium (Figure 4).

Conclusion

Lower provider payment rates would result in public option plans having lower premiums than private options. However, the impact on enrollees depends on changes both to premiums and tax credits. Because of the Affordable Care Act's tax credit structure, a public option would be less likely to benefit people with lower incomes than those with higher incomes. This is because lower-income people may receive smaller tax credits when a lower-cost public option is available, whereas higher-income people who pay the full cost of insurance can save a substantial amount when the public option is available.

Federal and state policymakers considering a public option should consider how the introduction of a low-cost public option on the Marketplaces could affect tax credits that are based on benchmark premiums. The researchers suggest that one possibility for improving the benefit of a public option would be to reinvest federal savings in tax credits or other incentives to reduce consumer costs and increase health insurance enrollment. Reinvesting federal savings in larger tax credits for people with incomes below 400 percent of FPL would make the public option more beneficial to those with lower incomes.

This brief describes work done in RAND Health Care and documented in *Public Options for Individual Health Insurance: Assessing the Effects of Four Public Option Alternatives*, by Jodi L. Liu, Asa Wilks, Sarah A. Nowak, Preethi Rao, and Christine Eibner, RR-3153-WCG, 2020 (available at www.rand.org/t/RR3153). To view this brief online, visit www.rand.org/t/RB10120. The RAND Corporation is a research organization that develops solutions to public policy challenges to help make communities throughout the world safer and more secure, healthier and more prosperous. RAND is nonprofit, nonpartisan, and committed to the public interest. RAND's publications do not necessarily reflect the opinions of its research clients and sponsors. **RAND**® is a registered trademark.