Premiums and Stability in the Individual Health Insurance Market

The Effects of Young Adult Enrollment and Subsidies

Key findings:

- Eliminating the Affordable Care Act’s premium tax credits would substantially increase premiums and reduce overall enrollment in the individual market.
- Reduced enrollment of young adults in the individual health insurance market would lead to modest premium increases.
- Alternative types of subsidies—such as vouchers—could cause premiums to become more sensitive to the age mix of enrollees.
- Eliminating the individual mandate would cause small increases in premiums but large declines in enrollment.

Reduced Enrollment of Young Adults in the Individual Market Translates into Slight Premium Increases

In a baseline scenario for 2015, the RAND COMPARE simulation suggests that 27 percent of enrollees in the individual market would be young adults between ages 18 and 34. If this share were to fall, premiums would rise modestly. The team estimated that a 1 percentage point reduction in the share of young adults is associated with an increase of less than half of 1 percent (Figure 1). The modest effect size is driven partly by the ACA’s tax credits, which create an incentive for some young adults who are eligible for subsidies to remain in the individual market even if other young adults—including a mix of those eligible for subsidies and those not—drop out. In addition, the spending data used as input to COMPARE suggest that, for most enrollees of all ages, premium payments are enough to cover the costs of health care claims, an effect that is boosted by the age rating provisions of the ACA.

This research highlight summarizes RAND Health research reported in the following publication:
Eliminating Tax Credits Would Substantially Reduce Enrollment and Increase Premiums

Eliminating premium tax credits for lower-income enrollees would disrupt the individual market. All enrollees would be required to pay the full cost of premiums. The research team estimated that, if this happened, premiums would rise nearly 45 percent and enrollment would fall by nearly 70 percent (see table). This effect is driven by the fact that higher-risk individuals are likely to sign up for coverage regardless of whether they are eligible for tax credits, whereas lower-risk individuals—including those from the “young invincible” population—often need incentives to sign up. When they do, they improve the risk pool and help contain the price of premiums.

Alternative Types of Subsidies—Such as Vouchers—Could Cause Markets to Become More Sensitive to Age Mix

The analysis also examined the effect of the ACA’s premium tax credits, which cap individual spending on health insurance premiums as a percentage of income, up to the price of the second-least-expensive silver plan in an individual’s rating area. This design protects enrollees against rising premiums because, once an individual’s required contribution is met, any additional premium cost is paid by the federal government. If this design were changed to an alternative structure—such as a voucher for a fixed dollar amount or a fixed percentage contribution—then the individual market would likely become more sensitive to the share of young adult enrollees. For example, if enrollees were given a fixed-dollar voucher to buy insurance, then a 1 percentage point reduction in the share of young adults in the market would be associated with an

Figure 1. A 1 Percentage Point Change in the Share of Young Adult Enrollment in the Individual Market in 2015 Means a 0.4 Percent Change in Premiums
increase in premiums of roughly three-quarters of 1 percent (Figure 2). This is true even if we set the initial voucher amounts so that they are equivalent to the premium tax credit amounts predicted by the model at baseline.

Eliminating the Individual Mandate Would Cause Modest Increases in Premiums but Large Declines in the Number of Insured

Without the mandate, the overall number of people enrolled in the individual market would fall by nearly 20 percent, from 19.8 to 15.8 million. The number of young adults would decline from 5.4 million (27 percent of those enrolled) to 3.9 million (24.8 percent of those enrolled), and premiums would rise by about 7 percent. The sharp decline in enrollment in this scenario suggests that the individual mandate is important to achieving the ACA’s goal of universal coverage.

Conclusions

Many of the mechanisms included in the ACA help provide stability across shifts in the enrollee age mix. In particular, premium tax credits, which encourage participation and guard against financial shocks from rising premiums, play an important role in stabilizing the individual market. Without the ACA’s premium tax credits, the RAND COMPARE model estimates large premium increases and dramatic declines in Marketplace enrollment.

### Figure 2. Alternative Types of Subsidies Would Make Premiums More Sensitive to Changes in Young Adult Enrollment

- **Baseline COMPARE enrollment estimate, 2015**

### Notes:

This figure shows the change in individual market premiums that could be expected as the share of young adult enrollees increases or decreases under three alternative assumptions about the structure of premium subsidies. The solid line shows the ACA premium subsidy, which is a tax credit that caps spending as a percentage of income, up to the cost of the second-lowest-price silver plan in an individual’s rating area. The dashed line shows an alternative subsidy in which both individuals and the federal government contribute a fixed percentage to the premium; each individual’s percentage contribution varies with income and age. The dotted line shows a voucher approach, in which each individual receives a fixed dollar amount that can be used to purchase health insurance coverage. Voucher amounts also vary by age and income. All estimates are derived from the COMPARE model and represent calendar year 2015.

### Table 1: Alternative Types of Subsidies Would Make Premiums More Sensitive to Changes in Young Adult Enrollment

<table>
<thead>
<tr>
<th></th>
<th>Premium (age-standardized)*</th>
<th>Total ACA-Compliant Individual Market Enrollment (in millions)</th>
<th>ACA-Compliant Individual Market Enrollment Among 18-to-34-Year-Olds</th>
<th>Total Insured (in millions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>ACA</td>
<td>$3,400</td>
<td>19.8</td>
<td>5.4</td>
<td>244.9</td>
</tr>
<tr>
<td>No premium tax credits</td>
<td>$4,900</td>
<td>6.3</td>
<td>1.6</td>
<td>233.6</td>
</tr>
<tr>
<td>Difference</td>
<td>+43%</td>
<td>−68%</td>
<td>−70%</td>
<td>−5%</td>
</tr>
</tbody>
</table>

Notes: This table shows enrollment and premiums for 2015 as estimated in the COMPARE model under the ACA and under an alternative scenario in which we assume that there are no subsidies (premium tax credits). Estimates reflect enrollment and premiums for all ACA-compliant individual market enrollees, whether enrolled on or off the marketplaces. We apply a ratio adjustment to the enrollment figures to bring COMPARE’s estimates into line with the Congressional Budget Office’s estimates, and to the premium spending estimates to bring COMPARE’s estimates into line with 2014 premium filings. The same ratio adjustments are applied both to the ACA scenario and to the “No premium tax credits” scenario.

* The age-standardized premium reflects the silver premium for a 40-year-old nonsmoker. While premium amounts will vary by age, the change in premiums resulting from the elimination of tax credits is 43.3 percent for all age groups because of the ACA’s rating requirements.
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