RAND CORPORATION

RESEARCH BRIEF

Increasing Subsidies and Expanding Health Insurance Options in Connecticut

Findings Without the Build Back Better Act

Although the Affordable Care Act (ACA) greatly increased health insurance enrollment in Connecticut, further expanding coverage and improving health care affordability remain important goals for state policymakers. To that end, Connecticut has recently considered expanding subsidies on the state's health insurance marketplace; introducing a publicly contracted, privately operated plan (the public option plan) on the marketplace; and offering a version of the state employee health plan (SEHP) that would be available to small businesses, large nonprofit firms, and Taft-Hartley plans (collectively bargained, multi-employer plans). This research brief describes findings from research on these policy options, under the assumption that subsidy enhancements that were implemented for 2021 and 2022 as part of the American Rescue Plan Act of 2021 (ARP) will not continue after 2022. The RAND Corporation report *Increasing Subsidies and Expanding Health Insurance Options in Connecticut* describes the background and methodology in finer detail.[1] In that report, the primary results assume that the ARP subsidy enhancements would continue past 2022 as part of the Build Back Better Act; the results under the opposite

[1] Preethi Rao, Federico Girosi, Raffaele Vardavas, Lawrence Baker, and Christine Eibner, *Increasing Subsidies and Expanding Health Insurance Options in Connecticut*, Santa Monica, Calif.: RAND Corporation, RR-A1276-2, 2022 (www.rand.org/t/RRA1276-2).

KEY FINDINGS

- Increasing marketplace cost-sharing reduction (CSR) subsidies via state funding to those who are already eligible for federal CSRs would increase enrollment and substantially reduce consumer spending for this group; however, using state funding to extend subsidies to those not eligible for federal subsidies would result in a reduction of subsidy value to those who were already eligible, leading to decreased insurance enrollment.
- The introduction of the public option plan would increase total enrollment and decrease spending for unsubsidized marketplace enrollees but would increase spending for subsidized marketplace enrollees because it would lower the subsidy value.
- Expanding eligibility for the state employee health plan would increase insurance coverage, would reduce consumer spending, and would not have a substantial impact on state spending.

assumption (that the ARP subsidy enhancements would not continue past 2022) are included in the appendixes of that report and are highlighted in this research brief.

Modeling the Impact of Individual Market Reforms: Expanded Subsidies and a Public Option Plan

A team of RAND researchers used the RAND COMPARE microsimulation model to examine health insurance enrollment, premiums, consumer spending, and state spending associated with each of the following scenarios for the year 2023:[2]

- 1.a. $0 premiums and increased cost-sharing reduction (CSR) subsidies for those with incomes under 200 percent of the federal poverty level (FPL)
- 1.b. same scenario as 1.a plus public option plan
- 2.a. $0 premiums for those with incomes under 200 percent of FPL and increased CSRs for those with incomes under 400 percent of FPL
- 2.b. same scenario as 2.a plus public option plan.

The researchers modeled a public option plan that would be offered both on and off the marketplace, with payment rates set at 125 percent of Medicare rates, or about 90 percent of commercial rates currently paid by marketplace plans.

Modeling the Impact of Employer Insurance Reforms: Increased Eligibility for the State Employee Health Plan

The research team also studied the impacts of a set of reforms that would aim to make employer insurance more affordable by allowing small businesses, large nonprofit businesses, and Taft-Hartley plans to offer a plan resembling the existing SEHP. Similar to the analysis of the individual market, researchers analyzed health insurance enrollment, premiums, consumer spending, and state spending in 2023 for each of the following scenarios:

1. SEHP plan with 82.5 percent actuarial value (AV)[3]
2. SEHP plan with 85.6 percent AV
3. SEHP plan with 87.7 percent AV
4. SEHP plan with 96.5 percent AV.

Impacts of Individual Market Reforms

Total Health Insurance Increased Modestly

Total insurance enrollment increased modestly relative to current law in three of the four scenarios when enhanced marketplace subsidies were introduced (Figure 1). In Scenario 1.a, the introduction of more-generous subsidies on the individual market led to a minor increase in enrollment of 1,800 individuals, relative to total insurance enrollment in the state among those under age 65 of roughly 2.8 million. The introduction of the public option plan under Scenario 1.b led to a substantial increase in enrollment among unsubsidized individual market enrollees, who experience the full effect of the lower-cost public option plan. This increase (nearly 16,000 individuals) outweighed a reduction in enrollment among subsidized marketplace enrollees (more than 5,000 individuals), for whom the introduction of the lower-cost public option plan led to a reduction in the value of their subsidy. There were also changes in employer-sponsored insurance (ESI) coverage, as nearly 5,000 individuals transitioned from ESI to the (unsubsidized) public option.

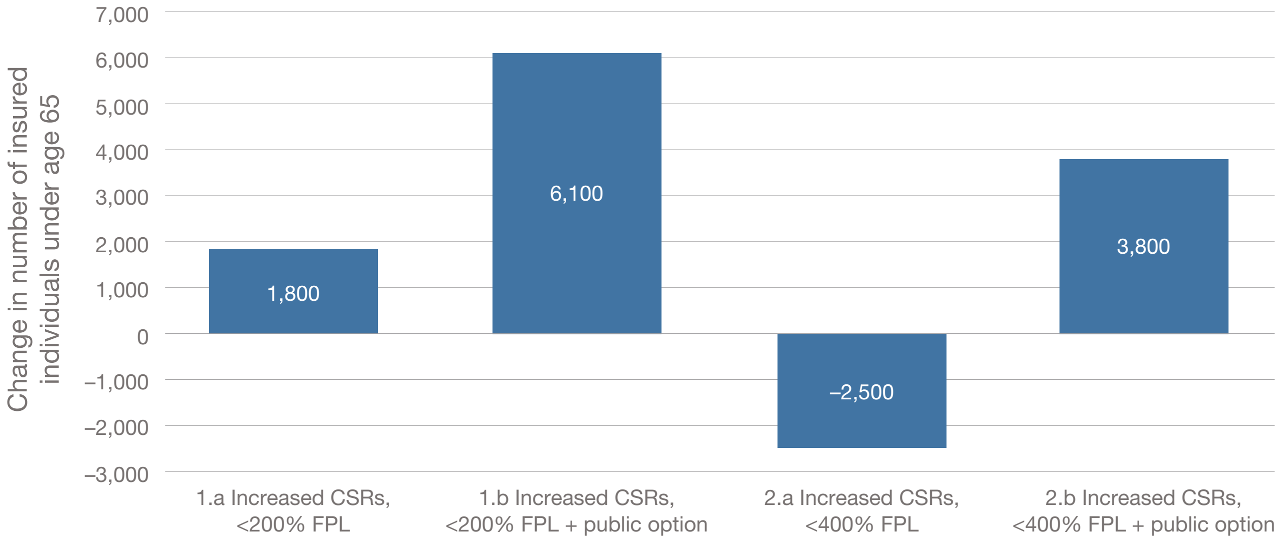
In Scenario 2.a, in which people with incomes between 200 and 400 percent of FPL are offered enhanced CSRs, total insurance coverage was lower than under current law. This counterintuitive result stems from the effects of federally funded CSRs on premiums. Because of the Trump administration's decision to halt federal CSR payments, federal CSR

[2] These scenarios expand an existing policy, Covered Connecticut, that builds on the enhanced subsidies under the ARP to offer more-generous subsidies to those with incomes under 175 percent of the federal poverty level. Based on the state's 1115 demonstration waiver to continue the program, it is possible that the state would amend Covered Connecticut because of the increased costs of the program in the absence of the ARP subsidy enhancements. Because it is not clear how the state would address these higher costs (e.g., add more state funding, reduce eligibility for the program), we assumed in our modeling that Covered Connecticut remains in place with no changes.

[3] The actuarial value of a plan refers to the percentage of total enrollee costs that the plan covers on average.

FIGURE 1

Change in Total Insurance Enrollment Among Individuals Under Age 65 Across Subsidy Scenarios, Relative to Current Law



costs for people with incomes under 250 percent of FPL are loaded onto the silver marketplace plans, increasing the benchmark premium. In turn, the higher premium increases advance premium tax credits (APTCs), giving consumers more purchasing power. Unlike federal CSRs, state-sponsored CSRs would not be loaded onto silver premiums; they would be paid directly by Connecticut. By offering state-sponsored CSRs, the state would attract people who are not eligible for federal CSRs onto silver marketplace plans. The influx of additional people into the silver tier who are ineligible for federal CSRs would spread federal CSR costs across a larger number of enrollees, diluting the effects of federal CSR loading on premiums and reducing the value of APTCs. Hence, the team estimated that purchasing power would decline for some consumers, and they would opt not to enroll. In Scenario 2.b, total insurance coverage is higher than under current law, due to increased individual market enrollment among the unsubsidized when the lower-cost public option is offered.

Public Option Plan Premiums Were Lower Than Traditional Individual Market Premiums

Individual market premiums did not change substantially under scenarios that enhanced subsidies without adding a public option (Scenarios 1.a or 2.a) relative to current law (Table 1). However, adding a public option (Scenarios 1.b. and 2.b) both created a low-cost alternative to private marketplace plans and put downward pressure on private marketplace premiums. In Scenario 1.b, this led to the private marketplace silver plan (with silver loading) becoming untenable due to lack of enrollment.

For Subsidized Enrollees, More-Generous Subsidies Led to Reductions in Consumer Spending, While the Public Option Plan Led to Increases

Among subsidized individuals enrolled in the individual market under current law, consumer spending fell when more-generous subsidies were introduced under Scenarios 1.a and 2.a (Table 2). However, the introduction of the public option plan reduced the value of subsidies for these individuals, leading to an increase in consumer spending relative to current law under Scenarios 1.b and 2.b. Among unsubsidized individuals, spending increased or remained constant when subsidies became more generous for others, but spending fell when the public option was introduced. We note that increased spending does not necessarily imply that consumers are worse off, or vice versa; increases in spending can reflect higher premiums or cost-sharing but can

TABLE 1

Individual Market Premiums Across Subsidy Scenarios

	Current Law	Scenario 1.a: Increased CSRs, <200% FPL	Scenario 1.b: Increased CSRs, <200% FPL + Public Option	Scenario 2.a: Increased CSRs, <400% FPL	Scenario 2.b: Increased CSRs, <400% FPL + Public Option
Individual market (other than public option)					
Bronze	$5,500	$5,500	$5,200	$5,700	$5,400
Silver (off-marketplace)	$6,400	$6,400	$6,000	$6,600	$6,300
Silver (on-marketplace with loading)	$7,500	$7,500	Untenable	$7,200	$6,900
Gold	$8,200	$8,200	$7,700	$8,500	$8,100
Public option plan					
Bronze	N/A	N/A	$4,900	N/A	$5,200
Silver	N/A	N/A	$6,700	N/A	$6,600
Gold	N/A	N/A	$7,400	N/A	$7,700

TABLE 2

Average Annual Consumer Spending Among Those on the Individual Market Under Current Law Across Subsidy Scenarios

	Current Law	Scenario 1.a: Increased CSRs, <200% FPL	Scenario 1.b: Increased CSRs, <200% FPL + Public Option	Scenario 2.a: Increased CSRs, <400% FPL	Scenario 2.b: Increased CSRs, <400% FPL + Public Option
Subsidized	$3,400	$3,100	$3,900	$3,000	$3,700
Unsubsidized	$8,700	$8,700	$8,200	$9,100	$8,400

also reflect increased health care utilization and moves to more-generous plan types.

More-Generous State-Funded CSRs Led to Substantially Higher State Spending

Costs to the state were roughly three times higher for Scenarios 2.a and 2.b ($88.6 million and $87.8 million, respectively) relative to Scenarios 1.a and 1.b ($29.3 million and $31.1 million, respectively), due to the substantially higher CSR spending incurred by the state under Scenario 2.

Impacts of Policies to Enhance Employer Insurance Options

Total Health Insurance Coverage Increased

The analyses showed that total insurance enrollment increased by 5,500 to 6,900 compared with current law across the four SEHP scenarios. There were no substantial differences in this finding across the scenarios.

Despite Higher Generosity, SEHP Plan Premiums Were Lower Than Traditional ESI Premiums and Led to Slightly Decreased Consumer Spending

Despite increased generosity relative to the average ESI plans, the SEHP plans had lower premiums due to the assumption of lower administrative costs (Table 3). This finding stemmed from an assumption that the SEHP plan would be able to achieve administrative savings relative to current private employer insurance options.

Among consumers enrolled in ESI under current law, annual consumer spending on health care was $2,500 for those with incomes under 250 percent of FPL, $2,700 for those with incomes 250–400 percent of FPL, and $3,000 for those with incomes over 400 percent of FPL. Annual consumer spending stayed the same or fell slightly (by roughly $100) across scenarios when the SEHP plan was introduced.

Costs to the State Were Minimal

The state would not directly accrue costs for the SEHP plan; costs to the state would only change if Medicaid enrollment or marketplace enrollment among those eligible for state-funded subsidies (i.e., those subsidy-eligible marketplace enrollees with incomes under 175 percent of FPL) changed. These effects were minimal; total state spending fell by $0.3 million to $1.2 million due to minor movement from Medicaid and subsidized marketplace enrollment to the SEHP.

Conclusion

Overall, these analyses suggest that expanding eligibility for the SEHP holds promise for stabilizing or reducing consumer costs, improving plan generosity, and bringing more people into the market. This finding was driven by the lower administrative costs associated with the SEHP. The effects of options to enhance affordability on the individual market were less clear-cut. In some cases, such policies can have unintended effects, due to interactions with existing ACA policies. In particular, offering enhanced CSRs brought more people onto the marketplace silver tier, which diluted the effect of CSR loading, thereby reducing the value of APTCs. To avoid this issue, state policymakers could consider offering state-funded CSRs to those with incomes above 250 percent of FPL on the gold tier rather than on the silver tier. While adding a public option unambiguously increased health insurance enrollment, not everyone benefited from this policy. Specifically, the addition of a low-cost public plan on the marketplaces reduced the value of premium subsidies, lowering purchasing power for people with incomes below 400 percent of FPL. In theory, this issue could be avoided by offering the public option plan on the bronze and gold tiers only; however, this would require a waiver or change to federal law to implement. Alternatively, because the introduction of the public option plan would lead to federal APTC savings, the state could apply for a waiver to use the federal savings toward reducing costs for low-income individuals.

TABLE 3

ESI Premiums Across SEHP Scenarios

	Current Law	Scenario 1: 82.5% AV	Scenario 2: 85.6% AV	Scenario 3: 87.7% AV	Scenario 4: 96.5% AV
ESI (groups not eligible for SEHP)	$8,000	$7,900	$7,900	$7,900	$7,900
ESI (groups eligible for SEHP)	$9,800	Not reported	Not reported	Not reported	Not reported
SEHP plan	N/A	$7,400	$7,800	$8,300	$8,700

This brief describes work done in RAND Health Care and documented in *Increasing Subsidies and Expanding Health Insurance Options in Connecticut*, by Preethi Rao, Federico Girosi, Raffaele Vardavas, Lawrence Baker, and Christine Eibner, RR-A1276-2, 2022 (available at www.rand.org/t/RRA1276-2). To view this brief online, visit www.rand.org/t/RBA1276-1. 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.