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Research Report

Effects of the Affordable Care Act on Consumer Health Care Spending and Risk of Catastrophic Health Costs

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Summary

Purpose and Approach

The purpose of the study is threefold:

1. to examine the likely effects of the Affordable Care Act (ACA) on average annual consumer health care spending
2. to examine the likely effects of the ACA on the risk of catastrophic medical costs[1]
3. to examine the likely effects of the Medicaid expansion under the ACA on average annual consumer health spending and the risk of catastrophic medical costs for low-income individuals in two large states: one in which Medicaid will not be expanded (Texas) and one in which expansion remains undecided (Florida).

For the first two parts of this study, we used RAND's Comprehensive Assessment of Reform Efforts (COMPARE) microsimulation model to estimate consumer health care spending (comprising out-of-pocket spending—which includes spending on co-payments, coinsurance, and deductibles—plus consumer spending on premiums[2]) for the newly insured and those who change their source of coverage. We then compared these estimates with similar estimates of what these consumers would spend for health care if the ACA were not in effect. We took a national perspective and focused on a single year—2016—when the ACA is expected to take full effect.

For the third part of this study, we used the COMPARE model to estimate consumer health care spending in Florida and Texas in 2016 under the ACA with and without Medicaid expansions for low-income residents.

[1] We define *catastrophic medical costs* as falling into one of two classes: 10 percent of annual income, which we label as *high medical cost burden*, and 20 percent of annual income, which we refer to as *very high medical cost burden*.

[2] For individuals with employer-sponsored insurance (ESI) plans, we consider only the employee contribution to be the premium paid by the consumer. For individuals who receive premium subsidies under the ACA, we consider the premium paid by the consumer to be the total premium minus the subsidy.

Key Findings and Conclusions

National-Level Results

We find that the ACA will have varied impacts on consumers' health care spending, depending on their income level and their insurance status compared with what it would otherwise be in 2016 in the absence of the ACA.

Out-of-pocket spending will decrease. Out-of-pocket health care spending will decrease for the newly insured, as well as for those changing their source of insurance. Decreases in out-of-pocket spending will be largest for those who would otherwise be uninsured. In some cases these reductions will be dramatic. For example, the largest reduction in out-of-pocket spending will be for the 11.5 million newly insured who join Medicaid after implementation of the ACA. Their reduction in out-of-pocket spending will be nearly fortyfold—from $1,463 to $34 per year.

Effects on total spending will vary, depending on income levels and the type of insurance transition. Some consumers, such as the 11.5 million who become newly insured by Medicaid and the 3.9 million with incomes below 400 percent of the federal poverty level (FPL) who are insured on the pre-ACA individual market without the ACA and who transition to the new ACA-regulated individual market, will see total spending, which includes both out-of-pocket and consumer spending on health insurance premiums, fall. Others, such as the 16.5 million consumers who are uninsured without the ACA and who become newly insured on the individual market, will see their total spending rise under the ACA. Of these 16.5 million consumers, the 3.3 million with incomes over 400 percent of the FPL will experience the greatest increase in costs. These consumers will spend $7,202 under the ACA, compared with $5,368 without the ACA. This increase is explained largely by the fact that newly insured consumers are paying premiums for the first time—and for those with incomes above 400 percent of the FPL, these premiums are not subsidized by the government—and thus their total spending on health care will increase even though their out-of-pocket spending will go down.

Consumers will have reduced risk of catastrophic medical costs. Consumers at all income levels and undergoing all insurance transitions considered in our analysis will be less likely to have catastrophic medical costs after implementation of the ACA. Those consumers with the lowest incomes will see the most dramatic reductions in risk of catastrophic medical costs. For example, the 11.5 million individuals who become newly insured by Medicaid will see their risk of spending at least 10 percent of income on medical costs decrease from 45 percent to 5 percent.

State-Level Results: Case Studies of Texas and Florida

To examine the effects of a state's decision to expand Medicaid, we conducted a more granular analysis focused on two states: Texas and Florida. We assumed that the ACA is in effect, but under two alternative scenarios: one with Medicaid expansion and one without expansion. Because a state's decision to expand Medicaid overwhelmingly affects lower-income

populations, we focused this analysis on people with incomes below 100 percent of the FPL and those between 100 and 138 percent of the FPL. We chose both of these groups because the Medicaid expansion's upper income bound is 138 percent of the FPL. In many states, the current income eligibility limit for Medicaid is well *below* 100 percent of the FPL for many potential participants, such as childless adults; furthermore, if a state chooses not to expand Medicaid, consumers with incomes *over* 100 percent of the FPL will become eligible for subsidies on the individual exchanges, while individuals with incomes below 100 percent of the FPL will not. This means that in such states, many people with incomes below 100 percent of the FPL will face either large amounts of out-of-pocket spending or a high risk of catastrophic health care costs, or both.

Our results show that if Medicaid is not expanded, out-of-pocket and total health care spending would be dramatically higher for individuals with incomes below 100 percent of the FPL in both states, compared with a scenario in which the ACA is implemented with Medicaid expansion.

- For individuals with incomes below 100 percent of the FPL in Texas, expanding Medicaid in Texas would cover 3.5 million people, compared with 2.2 million under non-expansion. Of the 1.3 million who would not gain Medicaid coverage in the absence of expansion, 1.2 million would be uninsured. Coverage for these individuals under the individual exchanges will be prohibitively expensive because they will not be eligible for subsidies. Out-of-pocket spending for people in this income group who remain uninsured under non-expansion would be dramatically larger: $1,831 per year, compared to $28 per year with Medicaid expansion.
- Results are similar for Florida. For individuals with incomes below 100 percent of the FPL, expanding Medicaid would cover 2.1 million people, compared with 1.3 million without an expansion. As in Texas, coverage for these individuals under the individual exchanges will be prohibitive because they will be ineligible for subsidies. Of the 1.3 million who would not gain Medicaid coverage in the absence of expansion, 740,000 would be uninsured. Out-of-pocket spending for those in this income group who remain uninsured under non-expansion would be dramatically larger: $1,994 per year, compared to $31 per year with Medicaid expansion.
- In both states, the decision to expand Medicaid will have more modest effects on individuals with incomes between 100 and 138 percent of the FPL because these individuals will be eligible for generous subsidies to offset out-of-pocket costs and premiums if Medicaid is not expanded.

Conclusions

The ACA will have varied impacts on individuals' and families' spending on health care, depending on their income level and on their estimated 2016 insurance status without the ACA. We find that average out-of-pocket spending is expected to decrease for all groups considered in

our analysis, although decreases in out-of-pocket spending will be largest for those who would otherwise be uninsured. People who would otherwise be uninsured who transition to the individual market under the ACA will have higher total health care spending on average after implementation of the ACA because they will now incur the cost of health insurance premiums. We find that risk of catastrophic health care spending will decrease for individuals of all income levels for the insurance transitions we consider; decreases will be greatest for those at the lowest income levels.

Our case studies found that in Texas and Florida, Medicaid expansion would substantially reduce out-of-pocket and total health care spending for those with incomes below 100 percent of the FPL, compared with a scenario in which the ACA is implemented without Medicaid expansion. Expansion would reduce the risk of high medical spending for those covered under Medicaid who would remain uninsured without expansion.