The Affordable Care Act: Mandates, Exchanges, Medicaid
...and All That

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Atlanta Federal Reserve Bank
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Overview

• Individual Mandate
• Employer Mandate
• Exchanges
• Medicaid Expansion
• Funding
  • Medicare
  • Taxes & Fees
• Discussion
The Uninsured

CBO, March 20, 2010, Table 4

Individual Mandate

- Requires most U.S. citizens and legal residents to have health insurance
  - Penalty for going without coverage
  - Subsidies for lower income people
  - Requires “qualifying” coverage
- Eliminates use of pre-existing conditions in insurance contracts
Why a Mandate?

- We want everyone to have coverage.
- Adverse selection!

Penalties

- Phased-in
  - 2014 -- $95/year or 1.0% of income
  - 2015 -- $325/year or 2.0% of income
  - 2016 -- $695/year or 2.5% of income

- Up to 3 times these amounts for family penalties

- Adjusted for cost of living after 2016
Subsidies

- Refundable, advanceable premium credits to individuals and families with incomes between 100 and 400% of the Federal Poverty Level (FPL)
  - 100-138% FPL - 2.0% of income
  - 138-150% FPL - 3.0-4.0% of income
  - 150-300% FPL - 4.0-9.5% of income
  - 300-400% FPL - 9.5% of income

Federal Poverty Level – 2013

<table>
<thead>
<tr>
<th></th>
<th>100%</th>
<th>138%</th>
<th>150%</th>
<th>300%</th>
<th>400%</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Person</td>
<td>$11,490</td>
<td>$15,856</td>
<td>$17,235</td>
<td>$34,470</td>
<td>$45,960</td>
</tr>
<tr>
<td>2 People</td>
<td>$15,510</td>
<td>$21,404</td>
<td>$23,265</td>
<td>$46,530</td>
<td>$62,040</td>
</tr>
<tr>
<td>3 People</td>
<td>$19,530</td>
<td>$26,951</td>
<td>$29,295</td>
<td>$58,590</td>
<td>$78,120</td>
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<tr>
<td>4 People</td>
<td>$23,550</td>
<td>$32,499</td>
<td>$35,325</td>
<td>$70,650</td>
<td>$94,200</td>
</tr>
</tbody>
</table>
Subsidy is Determined By:

- Family income
- Family size
- Premium of the second least expensive silver plan

Individual Exchange Subsidies

<table>
<thead>
<tr>
<th>Income Level</th>
<th>2013 Federal Poverty Level (FPL) Income Range for a Family of Two</th>
<th>Maximum Percentage of Income to Be Paid for Insurance</th>
<th>Maximum Subsidy for a $5,000 Silver Plan at the Midpoint of the FPL</th>
</tr>
</thead>
<tbody>
<tr>
<td>100 to 138% FPL</td>
<td>$15,510 - $21,404</td>
<td>2.00</td>
<td>$4,631</td>
</tr>
<tr>
<td>138 to 150% FPL</td>
<td>$21,404 - $23,265</td>
<td>3.00 to 4.00</td>
<td>$4,219</td>
</tr>
<tr>
<td>150 to 200% FPL</td>
<td>$23,265 - $31,020</td>
<td>4.00 to 6.30</td>
<td>$3,602</td>
</tr>
<tr>
<td>200 to 250% FPL</td>
<td>$31,020 - $38,775</td>
<td>6.30 to 8.05</td>
<td>$2,496</td>
</tr>
<tr>
<td>250 to 300% FPL</td>
<td>$38,775 - $46,530</td>
<td>8.05 to 9.50</td>
<td>$1,255</td>
</tr>
<tr>
<td>300 to 400% FPL</td>
<td>$46,530 - $62,040</td>
<td>9.50</td>
<td>No subsidy</td>
</tr>
</tbody>
</table>
Bigger Subsidies for Older Folks

<table>
<thead>
<tr>
<th>Age</th>
<th>Income</th>
<th>Maximum Share of Income Required to be Spent on Insurance</th>
<th>Maximum to Spend on Insurance</th>
<th>Silver Plan Premium per Month in Jefferson County, AL</th>
<th>Subsidy</th>
<th>Premium after Subsidy</th>
<th>Percent Reduction in Exchange Premium</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bob Younger</td>
<td>27</td>
<td>$17,000</td>
<td>4%</td>
<td>$57/month</td>
<td>$212</td>
<td>$55</td>
<td>73%</td>
</tr>
<tr>
<td>Mary Middle-Aged</td>
<td>50</td>
<td>$17,000</td>
<td>4%</td>
<td>$57/month</td>
<td>$360</td>
<td>$303</td>
<td>84%</td>
</tr>
<tr>
<td>Bob Younger</td>
<td>27</td>
<td>$35,000</td>
<td>9.5%</td>
<td>$277/month</td>
<td>$212</td>
<td>0</td>
<td>100%</td>
</tr>
<tr>
<td>Mary Middle-Aged</td>
<td>50</td>
<td>$35,000</td>
<td>9.5%</td>
<td>$277/month</td>
<td>$360</td>
<td>$83</td>
<td>23%</td>
</tr>
</tbody>
</table>

“Zero-Premium” Plans

- Bob Younger, with his $17,000 income is eligible for a subsidy of $212/month.

- If he buys the second least expensive silver plan he has to pay $57/month.

- If he, instead, buys a bronze plan,
  - at $184/month (Humana)
  - at $170/month (BCBSAL)
  - He pays no out-of-pocket premium because the premium is less than the subsidy

- McKinsey (2013) 6-7 million may be eligible for zero-premium bronze plans; 1 million for zero-premium silver.
**Enrollment in the Exchanges**

- **11.9 million individually insured in the U.S. in 2011**
- **CBO, March 20, 2010, Table 4**

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**“Large” Employer Mandate**

- Employers with 50 or more full-time employees must provide health insurance or pay a penalty
  - “Pay or Play” mandate
  - Penalty of $2,000 per worker (after the first 30)

- Affordable & adequate coverage
  - Employee contribution ≤ 9.5% of W-2 income
  - Actuarial value ≥ 60% of plan costs
  - Penalty of $3,000 per worker who declines coverage and gets a premium credit in an exchange plan

- Implementation delayed until 2015
Large Employer Issues

- **Drop health insurance**
  - Generally not going to happen
- **Cut part-time worker hours**
  - 30 hour definition of full-time is non-standard
    - Cut hours to <30 and add more part-timers without insurance
    - Move workers to >30 hours with insurance and cut jobs
- **Become self-insured**
  - Firms with younger & healthy employees
  - Avoid being pooled with higher cost firms

No Mandate for Small Employers

- Employers with <50 employees are NOT required to offer health insurance
  - Two year subsidy available if <25 employees
- Small employers with low wage workers may:
  - Drop coverage
  - Raise wages
  - Help workers enroll in subsidized individual exchange
Essential Health Benefits

- Ambulatory Patient Services
- Emergency Services
- Hospitalization
- Maternity and Newborn Care
- Mental Health and Substance Abuse Services
- Prescription Drugs
- Rehabilitative Services and Devices
- Laboratory Services
- Preventive and Wellness Services and Chronic Disease Management
- Pediatric Services, including oral and vision care
Implementing Essential Benefits

• Benchmark Plan

  • In Alabama: BCBS 320 Plan
  • In Georgia: BCBS HMO Urgent Care 60 Copay

  • All federal-default exchanges must use the largest small employer plan in the state as the benchmark

Implications of “Essential” Benefits

• Benefits newly available for some
  but more costly for others

• Termination letters for millions of people who currently have individual coverage

• More complete coverage for some
  but elimination of “mini-med” plans for others
Benefit Tiers

- **Platinum**
  - 90% of claims costs

- **Gold**
  - 80% of claims costs

- **Silver**
  - 70% of claims costs

- **Bronze**
  - 60% of claims costs

  Carriers must offer at least one Silver & one Gold plan

- Within each tier plans will differ based on things like:
  - Deductibles
  - Copays
  - Network providers

National Estimates of Enrollment

<table>
<thead>
<tr>
<th></th>
<th>Growth 2012-2014</th>
<th>Market Share 2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Individual Market</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Platinum, Gold or Silver</td>
<td>55%</td>
<td>45%</td>
</tr>
<tr>
<td>Bronze or Catastrophic</td>
<td>27%</td>
<td>54%</td>
</tr>
<tr>
<td>Total Individual</td>
<td>38%</td>
<td></td>
</tr>
</tbody>
</table>

Source: Data from Parente & Feldman (2013)
Analysis assumes all states expand Medicaid
The Exchanges

- A marketplace in which individuals and small employers may purchase health insurance.
- ACA requires a functioning individual and SHOP* exchange in each state as of January 1, 2014.

*Small Business Health Options Program

Role of the Exchange

- **Market Facilitator** - 45
  - Accept all plans that are qualified
  - Serve as a neutral source of information
- **Selective Contractor** - 6
  - Contracts with a limited number of insurers
  - May require additional criteria
- **Active Purchaser** - 0
  - Acts like a large purchaser of coverage
  - Much as a large employer might act
Functions of the Exchanges

- Determine Eligibility
  - Medicaid
  - Children’s Health Insurance Plan (CHIP)
  - Exchange subsidies

- Enrollment
  - Individuals
  - Small businesses
    - Particularly difficult
  - Disenrollment
  - Non-payment
  - Change in subsidy status
Functions of the Exchanges

- Determine Eligibility
- Enrollment
- Plan Management
  - Certify plans
  - Quality rankings
  - Review marketing
  - Network adequacy
- Consumer Assistance
  - Single application
  - Plan comparisons
  - Premium calculator
  - “Navigators”
Functions of the Exchanges

- Determine Eligibility
- Enrollment
- Plan Management
- Consumer Assistance
- **Financial Management**
  - Risk adjustment
  - Payment of plans
  - Exchange solvency

State or Federal Exchanges?

- **Timing:**
  - Open enrollment began 10/1/2013
  - Fully functioning on 1/1/2014
- **Federal guidance:**
  - Slow to arrive
- **Costs:**
  - State is responsible for all costs of running the exchange in 2015

<table>
<thead>
<tr>
<th>Type</th>
<th>States</th>
</tr>
</thead>
<tbody>
<tr>
<td>Federal-default</td>
<td>26</td>
</tr>
<tr>
<td>State-Based</td>
<td>18</td>
</tr>
<tr>
<td>Partnership</td>
<td>7</td>
</tr>
</tbody>
</table>
An Alabama Exchange

- Eligibility for Coverage:
  - Individual Exchange: 500,000
  - SHOP Exchange: 600,000

- Take-up Rates (moderate estimate):
  - Individual Exchange: 60%
  - SHOP Exchange: 5%

- Combined enrollment: 330,000

LMI Report to Alabama Dept of Insurance, November 2011

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Estimated Administrative Costs
Alabama Exchange
Moderate Enrollment of 330,000 People, 2015

<table>
<thead>
<tr>
<th>Budget Category</th>
<th>Estimated Annual Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>Eligibility Determination</td>
<td></td>
</tr>
<tr>
<td>Cost per enrollee</td>
<td>$17.50</td>
</tr>
<tr>
<td>Total cost</td>
<td>$5,775,000</td>
</tr>
<tr>
<td>Health plan enrollment</td>
<td></td>
</tr>
<tr>
<td>Annual per enrollee</td>
<td>$96.00</td>
</tr>
<tr>
<td>Total cost</td>
<td>$31,680,000</td>
</tr>
<tr>
<td>Outreach and marketing</td>
<td>$4,000,000</td>
</tr>
<tr>
<td>Exchange staff</td>
<td>$2,750,000</td>
</tr>
<tr>
<td>Facilities</td>
<td>$300,000</td>
</tr>
<tr>
<td>Total</td>
<td></td>
</tr>
<tr>
<td>Aggregate</td>
<td>$44,505,000</td>
</tr>
<tr>
<td>Per enrollee per month</td>
<td>$11.24</td>
</tr>
</tbody>
</table>

Source: LMI report to the Alabama Dept of Insurance, Nov 2011
What Will Happen to Premiums?

- Expand coverage
- Eliminate medical underwriting
- Eliminate gender differences
- Limit age differences

Estimates of Premiums

<table>
<thead>
<tr>
<th>State</th>
<th>Pre-PPACA</th>
<th>Post-PPACA</th>
<th>Percent Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ohio</td>
<td>$223</td>
<td>$403</td>
<td>80.9%</td>
</tr>
<tr>
<td>Wisconsin</td>
<td>$258</td>
<td>$464</td>
<td>80.0%</td>
</tr>
<tr>
<td>Indiana</td>
<td>$222</td>
<td>$455</td>
<td>87.6%</td>
</tr>
<tr>
<td>Maryland</td>
<td>$284</td>
<td>$473</td>
<td>66.6%</td>
</tr>
<tr>
<td>Idaho</td>
<td>$211</td>
<td>$343</td>
<td>62.2%</td>
</tr>
<tr>
<td>Alabama</td>
<td>$263</td>
<td>$422</td>
<td>60.3%</td>
</tr>
<tr>
<td>National Average</td>
<td>$314</td>
<td>$413</td>
<td>31.4%</td>
</tr>
<tr>
<td>Georgia</td>
<td>$310</td>
<td>$396</td>
<td>27.0%</td>
</tr>
<tr>
<td>New Jersey</td>
<td>$481</td>
<td>$474</td>
<td>-1.4%</td>
</tr>
<tr>
<td>Rhode Island</td>
<td>$387</td>
<td>$548</td>
<td>-4.8%</td>
</tr>
<tr>
<td>Vermont</td>
<td>$582</td>
<td>$514</td>
<td>-12.5%</td>
</tr>
<tr>
<td>Massachusetts</td>
<td>$519</td>
<td>$453</td>
<td>-12.8%</td>
</tr>
<tr>
<td>New York</td>
<td>$619</td>
<td>$533</td>
<td>-13.9%</td>
</tr>
</tbody>
</table>

Source: Society of Actuaries (2013)
Exchange Summary

- Most states have a federal-default Exchange
- Open enrollment: October 1, 2013
- Coverage begins: January 1, 2014
- Perhaps 7 million enrollees nationwide
- Average premiums may increase substantially
- Some will see lower premiums
- State experiences will differ dramatically due to existing state underwriting rules and their interaction with the ACA

Medicaid & the ACA

- The ACA “required” the states to expand eligibility for Medicaid to all citizens and long time legal residents aged 19 through 64 with incomes below 138 percent of the Federal Poverty Level.
SCOTUS Decision

- Concluded that requiring Medicaid expansion at the cost of losing all federal Medicaid funding was a “gun to the head” of the states and unconstitutional.

Medicaid *(assuming all states participate)*

138% of FPL for those 19 to 64

CBO, March 20, 2010, Table 4
Medicaid Expansion

- States now have the option to expand with substantial financial incentives:
  - Federal match for the expansion:
    - 2014 100%
    - 2015 100%
    - 2016 100%
    - 2017 95%
    - 2018 94%
    - 2019 93%
    - 2020 90%

New Alabama Medicaid Enrollment

Source: Becker & Morrisey (November, 2012)
Costs of Expansion in Billions
(Intermediate Scenario)

Over the 7 years Alabama would spend $771 million and the feds would provide $11.7 billion

Source: Becker & Morrisey (November, 2012)

Economic Impact of Federal Spending

- Direct Spending:
  - New federal spending generates income in Alabama
- Indirect Spending:
  - New federal health spending generates additional spending in Alabama economy
  - IMPLAN Input-Output Model multipliers
Economic Impact of Federal Spending in Billions
(intermediate scenario)

<table>
<thead>
<tr>
<th>Year</th>
<th>Total</th>
<th>Direct</th>
<th>Indirect</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
</tr>
<tr>
<td>2015</td>
<td>0.50</td>
<td>0.50</td>
<td>0.00</td>
</tr>
<tr>
<td>2016</td>
<td>1.00</td>
<td>1.00</td>
<td>0.00</td>
</tr>
<tr>
<td>2017</td>
<td>1.50</td>
<td>1.50</td>
<td>0.00</td>
</tr>
<tr>
<td>2018</td>
<td>2.00</td>
<td>2.00</td>
<td>0.00</td>
</tr>
<tr>
<td>2019</td>
<td>2.50</td>
<td>2.50</td>
<td>0.00</td>
</tr>
<tr>
<td>2020</td>
<td>3.00</td>
<td>3.00</td>
<td>0.00</td>
</tr>
</tbody>
</table>

Direct and indirect spending resulting from new federal Medicaid dollars would generate $19.8 billion over 7 years.

Impact of Expansion on Alabama Tax Revenue

- New income generates new state and local tax revenue from personal and corporate income taxes, sales and property taxes, and other taxes.
- Federation of Tax Administrators estimates Alabama’s tax burden as 8.6 percent of income.
Alabama Program Costs and Tax Revenues

<table>
<thead>
<tr>
<th>Intermediate Scenario (in millions)</th>
<th>2014</th>
<th>2020</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>AL Program Costs</td>
<td>$-39</td>
<td>$-222</td>
<td>$-771</td>
</tr>
<tr>
<td>AL Tax Revenue</td>
<td>$250</td>
<td>$237</td>
<td>$1,706</td>
</tr>
<tr>
<td>Net</td>
<td>$212</td>
<td>$16</td>
<td>$935</td>
</tr>
</tbody>
</table>

Based on our intermediate scenario, between 2014 and 2020 Alabama will spend $771 million on the expansion. The new federal spending will generate $1.7 billion in new tax revenue – a net budget gain of $935 million. In the process some 293,000 people will be newly enrolled in Medicaid.

Reasons Not to Expand

- The state doesn’t have the money
- Concern that the federal government won’t continue to pay 90 percent of the medical costs
- The ACA was a bad idea and the country can’t afford it
State Medicaid Decisions

<table>
<thead>
<tr>
<th>Decision</th>
<th>States*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Participating</td>
<td>21</td>
</tr>
<tr>
<td>Leaning toward</td>
<td>3</td>
</tr>
<tr>
<td>Alternative expansion model</td>
<td>1</td>
</tr>
<tr>
<td>Exploring alternative</td>
<td>4</td>
</tr>
<tr>
<td>Leaning against</td>
<td>7</td>
</tr>
<tr>
<td>Not Participating</td>
<td>15</td>
</tr>
</tbody>
</table>

* As of October 22, 2013, The Advisory Board Company

Exchanges in States that Don’t Expand Medicaid

- Medicaid expansion was to cover people aged 19 to 64 with incomes below 138% of FPL
- ACA only allows those with incomes above 100% of the FPL to be eligible for subsidies within the exchange
- HHS has said those with incomes <100% in states that do not expand Medicaid will not be required to buy coverage
Medicaid Expansion

- Currently only 21 states expanding
- The poorest adults are the ones not getting coverage
- From the state perspective, substantial economic development foregone
- But some good reasons not to expand

### Ten Year ACA Financials (in billions)

<table>
<thead>
<tr>
<th>Spending</th>
<th>Revenue</th>
</tr>
</thead>
<tbody>
<tr>
<td>Exchanges $464</td>
<td>Medicare</td>
</tr>
<tr>
<td></td>
<td>- Medicare Advantage</td>
</tr>
<tr>
<td></td>
<td>- Reduce doctor fee updates</td>
</tr>
<tr>
<td>Medicaid $434</td>
<td>Other</td>
</tr>
<tr>
<td>Small Emp Credit $40</td>
<td>Penalty Payments</td>
</tr>
<tr>
<td></td>
<td>Cadillac Coverage Tax</td>
</tr>
<tr>
<td></td>
<td>Fees on Manuf &amp; Ins</td>
</tr>
<tr>
<td></td>
<td>Part A tax</td>
</tr>
<tr>
<td></td>
<td>Other Revenue</td>
</tr>
<tr>
<td>TOTAL $871</td>
<td>TOTAL $1,081</td>
</tr>
</tbody>
</table>

CBO, March 20, 2010 – Table 2

Reduction in deficit - $143
Medicare Advantage

- Enroll some 27% of Medicare beneficiaries
- Reduce payments by $136 billion by 2019
- We estimate that a 10% reduction in payments will reduce enrollment by nearly 10%

Medicare and Physicians

- Physician payments
  - Reduced by $196 billion by 2019
  - Continuation of the “sustainable growth” formula

- The Sustainable Growth Rate
  - PPACA called for immediate implementation
    - 27.4% cut in fees
  - Congress has delayed implementation four times since the PPACA
    - Now through January 1, 2014

Medicare and Hospitals

- Hospital “DSH” payments
  - Reduced by something approaching 75%

- With reduced numbers of uninsured less need to provide extra payment to hospitals
**Cadillac Tax**

- Excise tax of 40% on value of ESHI plans which exceed $10,200/$27,500 ("Cadillac Plans")
  - Includes payments from FSAs and contributions to HSAs
  - Indexed for inflation beginning in 2020

- Researchers from Johns Hopkins University argue that the tax will affect about 16% of health plans when introduced in 2018, but 75% by 2029.

  Herring and Lentz (2011)

**Taxes & Fees - Industries**

- Impose new annual fee on pharmaceutical manufactures:
  - $2.8 billion in 2012-2013; $3.0 billion in 2014-2016; $4.0 billion in 2017; $4.1 billion in 2018; $2.8 billion in 2019 +

- Impose new annual fee on health insurance sector:
  - $8 billion in 2014; $11.3 billion in 2015-2016; $13.9 billion in 2017; $14.3 billion in 2018; prior year fee + %↑ in premiums in 2019 +

- Impose new tax of 2.3% on sale of any durable medical equipment (2013)
Taxes & Fees - Individuals

- Tax penalty for not acquiring coverage

- For those earning more than $200K/$250K (2013):
  - Increase Medicare Part A tax rate on wages by 0.9%
  - Impose Medicare Part A tax of 3.8% on unearned income
  - Thresholds not adjusted for inflation

Paying for the ACA

- Medicare Reductions
  - Cut Medicare Advantage
  - Cut Physician fees (but not really)
  - Cut hospital disproportionate share

- Taxes
  - On insurers, drug manufactures, medical device manufactures
  - On high income earners
  - On “Cadillac” health plans
The ACA

- Expands insurance coverage
  - Optimistically by 30 million people
  - But unlikely to meet that goal

- The bulk of the expansion is to come from Medicaid

- Mandates and exchanges have the potential to change the nature of health insurance provision over time

- Funding originally estimated as 60/40 new taxes and Medicare reductions

Questions

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