



THE SYCAMORE INSTITUTE

BUDGET RECONCILIATION AND THE AFFORDABLE CARE ACT

PART 2 OF 2 - IMPACT AND IMPLICATIONS FOR TENNESSEE

BOTTOM LINE

Proponents and opponents of the Affordable Care Act (ACA) both agree that the law has some shortcomings. With a new administration taking office in 2017, opponents of the law plan to use budget reconciliation to begin to reform the individual health insurance market. H.R. 3672, a reconciliation bill passed by Congress but vetoed by President Obama in 2015, offers the most insight into the type of reconciliation bill Republicans plan on passing. Enacting an H.R. 3762-like measure to repeal key provisions of the ACA would change the individual health insurance market and potentially affects 268,867 Tennesseans in the health insurance Marketplace. The nonpartisan Congressional Budget Office notes that these types of changes will affect the number of uninsured people and the type of insurance coverage that people will have. This brief discusses the rationale for repealing and retaining key provisions and the implications for Marketplace enrollees in Tennessee. For a discussion of the budget reconciliation process, please see Part 1.

HEALTH INSURANCE MARKETS ARE COMPLICATED

and include many moving, interrelated pieces. Policy decisions about them will have inevitable tradeoffs. This means that performing impact analysis is difficult and imprecise, and the specific policy details matter.

HOW WOULD AN H.R. 3762-LIKE MEASURE CHANGE THINGS?

No piece of legislation is perfect, and the Affordable Care Act (ACA) is no different. Some argue that the ACA has expanded the federal government's power too much, increased taxes, failed to control costs, and taken control away from patients and their families.⁽¹⁾ Others will note that the ACA has decreased the uninsured rate, made health care more affordable for many people, and improved the health care system.⁽²⁾⁽³⁾⁽⁴⁾ The U.S. health care system - including both the insurance market and the delivery system - still needs work, and there are ample opportunities for improvement. Republican lawmakers believe that a budget reconciliation bill is a starting point for reforming the health insurance system.

The repealed provisions included in H.R. 3672 impact the number of uninsured people and the type of insurance coverage people will have. The nonpartisan Congressional Budget Office (CBO) estimated that H.R. 3762 would decrease deficits by about **\$474 billion** over the 2016-2025 period. CBO also estimated it would increase the number of uninsured people relative to current projections by **22 million** - including 14 million fewer Medicaid or the Children's Health Insurance Program (CHIP) enrollees, 18 million fewer individual market enrollees, and 10 million more in employer based coverage.⁽⁵⁾

268,867

The number of Tennesseans enrolled in a Marketplace plan that are likely to be impacted by a budget reconciliation bill.

ARGUMENTS YOU MAY BE HEARING FOR OR AGAINST REPEALING THESE PROVISIONS

ACA provision likely to be impacted by reconciliation...	Proponents of repeal say...	Opponents of repeal say...	Expected outcome ⁽⁶⁾ ...
Individual mandate	<ul style="list-style-type: none"> • Requiring people to purchase health insurance or a pay a penalty is financially harmful to some individuals and families. ⁽⁷⁾ • Purchasing health insurance is a private choice, and the federal government should not interfere. • Young and healthy people are being forced to subsidize care for older and less healthy people. 	<ul style="list-style-type: none"> • Government intervention helps create broad risk pools that make insurance affordable for the largest group of people. 	<p>The CBO analysis of H.R. 3672 cited on the previous page only estimated the impact on the federal deficit and the number of people with health insurance. CBO later provided a more detailed analysis of the impact of additional changes. They included the provisions in H.R. 3672 and the repeal of other ACA reforms like benefit mandates and requirements to cover people with pre-existing conditions. These reforms cannot be repealed or changed in a reconciliation bill. CBO estimates that the combined impact of the repeal of these reforms would include:</p>
Employer mandate	<ul style="list-style-type: none"> • More employers will offer insurance without being required to because people will have fewer individual market and Medicaid options. • More employees will take up employer-based coverage because they do not have other options. • Employers will save money because they do not have to pay a penalty for not offering insurance to their employees or report to the IRS. 	<ul style="list-style-type: none"> • 59% of Americans receive insurance through their employers. • The employer mandate ensures that employers continue to offer coverage instead of requiring people to enter the subsidized individual insurance market. ⁽⁸⁾ • Fewer employer coverage options will result in increased health care costs for individuals and for the federal government. 	<p>IN THE INDIVIDUAL HEALTH INSURANCE MARKET...</p> <ul style="list-style-type: none"> • 14 million fewer individuals will be covered. • On average, plans will offer fewer benefits, out-of-pocket costs will increase, and premiums will decrease. • More healthy people and fewer less healthy people would be covered in the individual market. • Healthier people would have more affordable insurance options. • Less healthy people and low-income individuals would have fewer affordable insurance options.
Premium tax credits and cost-sharing subsidies	<ul style="list-style-type: none"> • Tax credits and subsidies increase the federal deficit. • Tax credits discourage recipients to work and make more money because they do not want to lose their eligibility. ⁽⁹⁾ • Taxpayers are bearing the burden of paying for the subsidies. 	<ul style="list-style-type: none"> • Lack of subsidies will make health insurance unaffordable for people with poor health or those with lower incomes. • Without subsidies, only employer-based coverage is given preferential tax treatment. 	<ul style="list-style-type: none"> • Some less healthy people may be denied coverage. • Insurance purchased in the individual market would no longer receive favorable tax treatment. <p>IN THE EMPLOYER-BASED MARKET....</p> <ul style="list-style-type: none"> • 10 million more individuals will be covered. • The total number of hours worked in the U.S. may rise.
Medicaid expansion	<ul style="list-style-type: none"> • States have become more heavily dependent upon the federal government. • Medicaid was intended to be a safety net program and has expanded beyond that original intent. ⁽⁷⁾ • States that did expand receive more funding than states that did not expand, which creates an inequity among states. • Medicaid is already dysfunctional and more people should not be added to it. 	<ul style="list-style-type: none"> • Adults with low-incomes are more likely to work part-time or for employers who do not offer health insurance. • Insurance is a key requirement to access needed care. • States should receive increased federal funding to meet the health care needs of their population. 	<ul style="list-style-type: none"> • Some employers will have reduced costs because they no longer have to pay the penalty for not offering insurance and they do not have to use resources to report to the Internal Revenue Service. <p>IN MEDICAID....</p> <ul style="list-style-type: none"> • 19 million fewer individuals will be covered. • Individuals no longer covered by Medicaid may not be offered employer-based coverage or be able to find affordable coverage in the individual market.



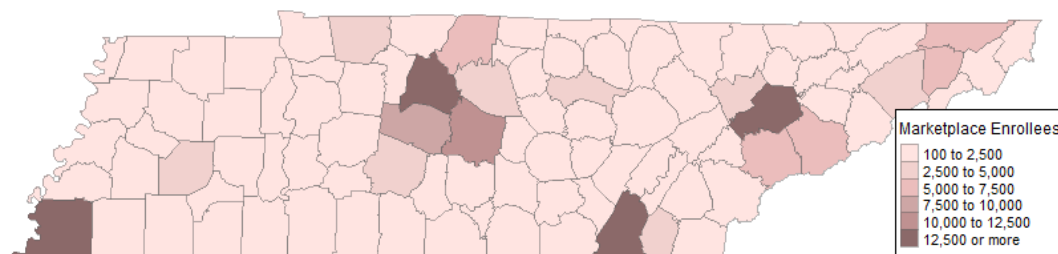
A WORD OF CAUTION

This section is intended to give an idea about how actions likely to be taken in the coming weeks may impact our state. These possible impacts are focused on the passage of an H.R. 3672-like measure *alone*, and do not account for any additional policy interventions that might be taken at the federal or state levels in the months or years that follow.

HOW WOULD AN H.R. 3672-LIKE MEASURE AFFECT TENNESSEANS?

Federal Republicans are looking to make further reforms to the health insurance market down the road. However, in the absence of a replacement measure, the provisions included in last year's reconciliation bill would impact Marketplace coverage in Tennessee both immediately and in the longer-term.

FIGURE 1
2016 ACA Marketplace Enrollment



Source: The Sycamore Institute's analysis using data from the U.S. Department of Health and Human Services, Office of the Assistant Secretary for Planning and Evaluation

WILL THE INDIVIDUAL MARKET CHANGE IMMEDIATELY?

The vetoed 2015 reconciliation bill immediately repealed the individual and employer mandates.⁽¹⁰⁾ Even in the short-term, healthy people who purchased insurance coverage because of the mandate may have less incentive to stay in the market, while individuals with more health needs would want to keep their coverage - particularly considering likely longer-term impacts (below). Insurance companies may raise premiums to cover the increase in health care costs for this less healthy mix of enrollees.

In the face of unpredictable enrollment (and costs), insurers could also decide not to offer marketplace plans any longer. For example, Blue Cross Blue Shield of Tennessee (BCBST) left the 2017 individual markets in Memphis, Nashville, and Knoxville. BCBST stated it has lost almost \$500 million on ACA plans because the individuals in the marketplace had more health needs than they had anticipated.⁽¹¹⁾ Interestingly, these three cities are located in counties with the highest number of marketplace enrollees in the state.

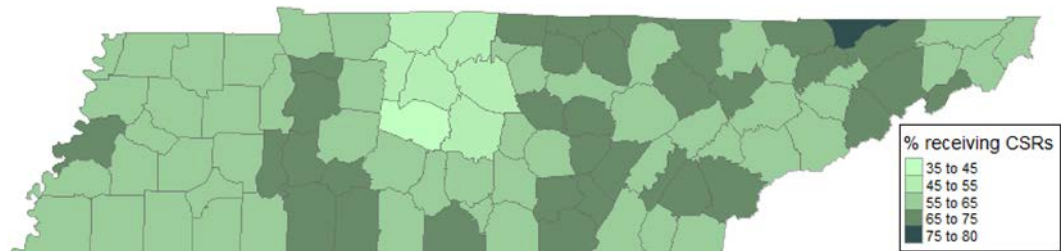
WILL THERE BE LONGER-TERM MARKET CHANGES?

As the provisions eliminating premium and cost-sharing subsidies (see Figure 2) go into effect, plans would become less affordable for enrollees and insurers may further recede from the marketplaces. Some areas of the state would be more affected by the elimination of cost-sharing subsidies than others. For example, 38% of Marketplace enrollees in Williamson County receive cost-sharing subsidies, while 81% of Marketplace enrollees in Hancock County receive cost-sharing subsidies.

Elimination of subsidies would increase the costs of coverage and cost-sharing for the nearly 230,000 Tennesseans that currently receive financial assistance through the Marketplace. As these costs rise, the trend described above would continue as Tennesseans weigh the relative value of having coverage and the impact on their pocketbook. Relatively healthier individuals would continue to drop their Marketplace coverage as the costs outweigh the benefits - pushing premiums higher as only the most costly enrollees remain. This is often referred to as a health insurance death spiral.

In fact, CBO's analysis on H.R. 3672 notes that its estimated impact on the number of uninsured does not account for the changes that would occur if H.R. 3672 were passed alone without some follow-up measure that addressed other parts of the ACA. In the absence of a replacement plan, it notes, the uninsured population would likely be larger its estimate of 22 million.⁽⁵⁾

FIGURE 2
Percentage of Marketplace Enrollees Receiving Cost-Sharing Reduction Subsidies



Source: The Sycamore Institute's analysis using data from the U.S. Department of Health and Human Services, Office of the Assistant Secretary for Planning and Evaluation

Insurers may also leave the market as individuals are less able to afford their premiums without

KEY FACTS ABOUT TENNESSEE'S MARKETPLACE

- **During the 2016 open enrollment period, 268,867 Tennesseans enrolled in the health insurance Marketplace.**
- **85%, or nearly 230,000 Tennesseans enrolling in Marketplace coverage, received some assistance to help cover the cost of their premiums and/or cost-sharing (see Figure 2).⁽¹³⁾**
- **Financial assistance reduced monthly premium costs by an average of 74%.**
- **Average monthly premium without a tax credit: \$400**
- **Average monthly premium with a tax credit: \$104.11**

financial assistance and the pool of enrollees become increasingly unpredictable and have increasingly costlier health needs.

Higher premiums and fewer options for coverage would likely leave many Tennesseans with tough decisions - drop coverage, do without needed health care, or sacrifice other needs because of increased spending on health care?

WHAT HAPPENS TO TENNESSEE'S UNINSURED POPULATION?

Because of the instability outlined above, the reconciliation bill alone would increase the uninsured population in Tennessee as individuals drop coverage because the individual mandate no longer exists and health insurance premiums become increasingly unaffordable.

By 2019, it is estimated that the reconciliation bill would result in 526,000 Tennesseans losing insurance relative to current projections - with the total uninsured population in Tennessee increasing to 1,190,000 people.⁽¹²⁾

To the extent that uninsured individuals are unable to directly pay for needed health care services, having a greater number of uninsured Tennesseans **would likely result in more uncompensated care being provided by the state's hospitals and providers.** Last year's

reconciliation bill did not allocate any additional federal funding for uncompensated care through Medicaid or Medicare. In the absence of increased funding for uncompensated care, these costs will likely be financed by a combination of state and local governments and providers (i.e. free and reduced price care).⁽⁵⁾

PARTING WORDS

Everyone can agree that all Americans need access to quality, timely, and affordable care. However, the path to achieving that goal is less clear. A budget reconciliation bill alone would change the individual insurance market in Tennessee with some areas of the state being disproportionately affected. Given the possible short-term market instability that could result from passing a reconciliation bill alone, would policymakers consider stopgap interventions? Or could more concrete ideas about how to reform and replace the ACA be put in place quickly enough to avert immediate impacts on Tennesseans? Policymakers and stakeholders should consider these questions as they work to address the changing health care needs of Tennesseans.



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BUILDING A STRONGER TENNESSEE THROUGH DATA AND RESEARCH

**The Sycamore Institute is an independent, nonpartisan
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