# Examining Proposed AHCA Legislation and the CBO's Estimations
# A Major Potential Impact in New Mexico

On March 6, 2017, the House Republican leadership introduced two bills collectively named the American Health Care Act (AHCA), which repeal and replaces portions of the Affordable Care Act (ACA). The current draft of AHCA significantly changes enrollment incentives, penalties and cost-sharing structures under the current law. The Congressional Budget Office (CBO) recently released a cost estimates report regarding the AHCA bill. Along with a vote expected on the proposed legislation, OSI anticipates that Congress may continue to debate health care policy changes in the coming weeks and will continue to monitor the issue. Below is a preliminary analysis of the AHCA bills' proposed changes to current ACA provisions, the CBO's estimations of the AHCA, and the overall potential impact in New Mexico.

## Health Care Enrollment/Uninsured Rate

**Repeal of Individual Mandate by 2018**

- New Mexico has 56,032 qualified health plan, single policyholders in the individual health insurance market.
- The CBO estimates that a repeal of the individual mandate will result in approximately 27% decrease of single policyholders in the individual insurance market by 2018; this corresponds with RAND studies of the impact of the individual mandate.
- Assuming a proportional impact of the repeal of the individual mandate in New Mexico, the individual market should expect to see a loss of approximately 15,129 policyholders by 2018.
    - The total number of individual policyholders in New Mexico would be approximately 40,903 in 2018, post-individual-mandate repeal.

**Repeal of Individual Mandate with Change in Subsidy Structure in 2020**

- New Mexico has 56,032 qualified health plan, single policyholders in the individual health insurance market.
- The CBO estimates that a repeal of the individual mandate and change in the premium subsidy structure will result in approximately 41% decrease of single policyholders in the individual insurance market by 2020.
- Assuming a proportional impact of the repeal of the individual mandate in New Mexico, the individual market should expect to see a loss of approximately 22,973 policyholders by 2020.
    - The total number of individual, major medical policyholders in New Mexico would be approximately 33,059 in 2020, post-individual-mandate repeal and change in subsidy structure.

**Impact of Employer Mandate Repeal**

- Approximately 760,000 New Mexicans are insured through employer-sponsored coverage.
- The CBO estimates that a repeal of the employer mandate will result in a 1.3% decrease in employer-sponsored coverage by 2018. As of 2026, employer-sponsored coverage is projected to decline by 4.5%
- Assuming proportional impact of the repeal of the employer mandate in New Mexico, the number of individuals in New Mexico projected to lose employer-sponsored coverage by 2018 will be approximately 9,880.
    - As of 2026, the number of individuals projected to lose employer-sponsored coverage will be 34,200.

**Medicaid Expansion Caps**

- The AHCA changes the funding mechanism for Medicaid coverage reducing the federal matching rate for adults made eligible for Medicaid by the ACA equal to the rate for other enrollees in the state, beginning in 2020.
- Additionally, the AHCA caps the growth in per-enrollee payments for most Medicaid beneficiaries to no more than the medical care component of the consumer price index starting in 2020.
- The CBO estimates that caps on Medicaid spending will result in a national 17% drop in enrollment of Medicaid insureds by 2026.
- New Mexico currently covers 904,258 of lives through Medicaid, 266,700 of which are covered through Medicaid Expansion. Assuming proportional impact in New Mexico, we may see an approximately 153,724 person drop in covered lives for all Medicaid programs, or a 45,339 person drop in the adult Expansion population by 2026. Expanded eligibility for Medicaid amongst the adult population has driven additional enrollment in legacy Medicaid programs.

**Total Uninsured Rate in 2026**

- The CBO estimates that the total uninsured rate in 2026 under the AHCA would be double the estimate under current law.
- Assuming proportionality in New Mexico, the 2017 uninsured rate of 9% would approximately double to 18% in 2026, which was the uninsured rate in the state in 2013, before the current law.

## Subsidies

The changes in subsidized coverage under the AHCA have varying impact on New Mexico health insurance consumers. The CBO estimates that the average subsidy under the AHCA would be approximately 50% of the average subsidy under current law by 2026. Please see the charts below for two examples at different percentages of Federal Poverty Level (FPL) showing the impact of premiums subsidy changes on New Mexico health insurance consumers.

***Single Individual with Annual Income of $21,000 (175% FPL in 2018) living in Carlsbad, NM****

| | *Annual Premium* | *Annual Premium Tax Credits* | *Net Annual Premium* |
|---|---|---|---|
| **Current** | | | |
| 21 years old | $4,501 | $2,801 | $1,700 |
| 40 years old | $5,752 | $4,052 | $1,700 |
| 64 years old | $13,502 | $11,802 | $1,700 |
| **AHCA** | | | |
| 21 years old | $4,501 | $2,450 | $2,051 |
| 40 years old | $5,752 | $3,650 | $2,102 |
| 64 years old | $13,502 | $4,900 | $8,602 |

**Assumes a minimum increase of 5% over 2017 rates.*

***Single Individual with Annual Income of $26,500 (175% FPL in 2026) living in Carlsbad, NM****

| | *Annual Premium* | *Annual Premium Tax Credits* | *Net Annual Premium* |
|---|---|---|---|
| **Current** | | | |
| 21 years old | $3,215 | $2,107 | $1,108 |
| 40 years old | $4,109 | $3,001 | $1,108 |
| 64 years old | $9,644 | $8,536 | $1,108 |
| **AHCA** | | | |
| 21 years old | $3,215 | $2,000 | $1,215 |
| 40 years old | $4,109 | $3,000 | $1,109 |
| 64 years old | $9,644 | $4,000 | $5,644 |

**Assumes a minimum of 40% increase*

## Patient and State Stability Fund Grants

The AHCA proposal includes a "Patient and State Stability Fund," which will transfer $15 billion from the Treasury to the states in each of 2018 and 2019, and then $10 billion per year from 2020 to 2026. States are given considerable flexibility in how they use the funds, however, to receive funds, states will have to provide a matching contribution. For states that do not apply for funds, the federal government will establish a default reinsurance program. The amount each state receives will be based on a formula that takes into account the state's incurred claims, the number of uninsured, and the insurer's participation in the individual market.

The AHCA anticipates states using funds provided through the Patient and State Stability Fund to:

- create or enhance state-based high-risk pools; provide incentives to appropriate entities to help stabilize premiums in the non-group market;
- reduce the costs of proving health insurance coverage in the individual and small group markets for high-cost individuals;
- promoting participation in the non-group and small group markets by insurers; promoting access to preventative services, dental and vision services, or the prevention, treatment, or recovery support for individuals with mental health or substance use disorders after mental health coverage mandates are repealed;
- paying health care providers; assistance in reducing patient cost-sharing amounts for things like deductibles after the repeal of the ACA cost-sharing reduction component.

The actuarial consulting firm, Oliver Wyman, calculated a rough estimate of how much each state may anticipate receiving through the Patient and State Stability Fund for 2018. **For New Mexico, Oliver Wyman projects this amount to be $70.51 million.**

Subsidization of high-risk pools or the creation of state-based reinsurance programs would likely be the most popular state usage of these funds. The following tables show past years' costs for these programs in New Mexico.

## Risk Stabilization Programs

### Reinsurance

**Total Reinsurance Payments to all Major Medical Carriers in NM under the ACA**

| 2014 Reinsurance Payment | 2015 Reinsurance Payment | Available Patient and State Stability Fund Grants |
|---|---|---|
| $27,300,499 | $36,684,810 | $70,510,000 |

### Risk Corridors

Section 1324 of the Affordable Care Act directed the Secretary of the Department of Health and Human Services to establish temporary risk corridors programs that provide issuers of qualified health plans (QHPs) in the individual and small group markets additional protections against uncertainty in claims costs during the first three years of the ACA. Sequestration prohibited full funding for the risk corridor program, which resulted in significant market corrections and increases in premium rates to offset the loss of anticipated risk corridor reinsurance payments.

As a result, in anticipating the costs of any effective market stability program, it may be useful to review the amounts carriers anticipated receiving from risk corridor payments. The amount of reinsurance payment combined with anticipated risk corridor payments is listed below, showing the true amount carriers anticipated assisting with market stabilization of the new risk pools under the ACA.

**Total Risk Corridor Amount Due to all Major Medical Carriers in NM under the ACA**

| 2014 Risk Corridor Amount Due | 2015 Risk Corridor Amount Due | Available Patient and State Stability Fund Grants |
|---|---|---|
| $12,546,007 | $37,216,590 | $70,510,000 |

**Total Risk Corridor and Reinsurance Amounts Combined**

| 2014 Reinsurance/Risk Corridors | 2015 Reinsurance/Risk Corridors | Available Patient and State Stability Fund Grants |
|---|---|---|
| $39,856,505 | $73,901,4000 | $70,510,000 |

### High-Risk Pool

Another popular proposal for the use of proposed Patient and State Stability Fund grants is creation or subsidization of high-risk pools. New Mexico has had a long-standing high-risk pool program.

- Implementation of the Affordable Care Act saw the state high-risk pool enrollment drop from 6858 enrollees to approximately 2000.
- New Mexico's high-risk pool currently operates at a $73.8 million loss in medical claims for enrollees, which it recoups through assessments on various insurance products.
- The AHCA's changes would likely mean increases in high pool enrollment.
- The Patient and State Stability Fund Grant may be used to offset $70,510,000 of those costs.

## Regulatory Impact

The Health Policy and Consumer Education Bureau (HPCEB) addresses health care reform implemented at the federal level and the subsequent impact within NM. The HPCEB team coordinates policy initiatives and consumer awareness campaigns to address health care issues in an ever-changing health care reform environment and engages in research and evidence-based policy making to ensure that changes are effectively and efficiently implemented in NM. Below is a preliminary analysis of the AHCA bills' proposed changes to current ACA provisions, and how NM's regulatory needs will be impacted.

| ACA Provision | ACA Regulatory Oversight | AHCA Regulatory Oversight | Impact on NM's Regulatory Needs |
|---|---|---|---|
| ***Market Stability Regulation*** | Federal: Regulatory oversight exercised through federal risk-adjustment, reinsurance, and risk corridor programs. | States: States must apply for a pool of money to use to stabilize markets.<br><br>States required to assess best use for funding to create market stability and selecting from a menu of options to include: reinsurance programs, high-risk pools, subsidies for higher claim enrollees, etc. | OSI staff to develop yearly application for market stabilization funding.<br><br>OSI staff to develop plan for utilization of funds.<br><br>Contract services for actuarial staff/consultants on best utilization of funds to create market stability. |
| ***Insurance Standards and Consumer Protections****<br><br>****Will take additional legislative action outside of the budget reconciliation process.*** | Federal government creates overarching standards for plan benefit design and cost-sharing structures.<br><br>Enforces plan structures that prohibit out-of-pocket spending limits, annual and lifetime benefit limits, and elimination of cost-sharing of preventative care services. | Eliminates federal oversight of overarching standards for plan benefit design and cost-sharing structures. | OSI staff needed to analyze and promulgate state-based regulation to plan design and cost-sharing structures and access to care standards.<br><br>OSI staff needed to develop and produce outreach to consumers on changes. |
| ***Plan Value*** | Establishes four standard tiers of health insurance coverage based on actuarial values (plan covers 60%, 70%, 80%, and 90% of the expected costs). | Repeals actuarial value standards specified by the ACA.<br><br>Gives the states the authority to set plan standards for actuarial value. | OSI staff and actuarial resources needed to evaluate, develop, and implement potential state-based actuarial value structures. |
| ***Easing Purchasing and Transparency*** | Establishes exchanges to allow consumers to compare plan structures and costs.<br><br>Exchanges set up to administer tax credits to eligible consumers to assist in health insurance purchases. | Uses current Exchange platform structure to empower Treasury to create new system to deliver tax credits.<br><br>Creates a Patient and State Stability fund through which financial assistance for individual and small group markets will be distributed. | OSI staff needed to define the parameters of individual and small group market premium assistance.<br><br>OSI staff needed to evaluate implications of premium assistance structures on market stability. |

## Resources


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10. Centers for Medicare and Medicaid Services, Center for Consumer Information and Insurance Oversight, *Summary Report on Transitional Reinsurance Payments and Permanent Risk Adjustment Transfers for the 2014 Benefit Year*, https://www.cms.gov/CCIIO/Programs-and-Initiatives/Premium-Stabilization-Programs/Downloads/RI-RA-Report-Draft-6-30-15.pdf, June 30, 2015.
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