More choice may lead to higher costs in ACA marketplaces, study finds

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Having more health plan choices may not be better for people who buy subsidized coverage through marketplaces created under the Affordable Care Act.

Researchers from the RAND Corporation found that consumers who used government subsidies to buy coverage in marketplaces where there was significant competition faced higher deductibles than peers who bought policies in regions where there were fewer plans offered.

For example, people who bought the second-lowest-cost silver plan in a region with 20 plans faced an annual deductible nearly $1,000 higher than similar consumers in areas where fewer than 13 plans were offered. The findings are published in the Jan. 6 edition of the journal *Health Affairs*.

"Our findings are somewhat paradoxical in that more choices in health care marketplaces may lead to higher out-of-pocket costs for many consumers," said Christine Eibner, the study's senior author and a senior economist at RAND, a nonprofit research organization. "People who live in areas with more plan offerings may have to pay a higher premium to receive the same deductible when compared to people living in areas with fewer plan offerings."

Researchers say their observations may be the result of health insurers working aggressively to create a discount-priced product that can compete in marketplaces based primarily on the premium cost.

The findings lead to several possible policy suggestions, including limiting the number of health plans offered through the marketplaces and requiring equivalent cost-sharing terms for all plans within a given metal tier, an approach being used by some state-run marketplaces.

Researchers say other options include altering how government subsidies are offered to consumers by either increasing the value of the subsidies or further subsidizing the cost of health insurance in markets where there is significant competition.

Under the federal Affordable Care Act, people with incomes up to four times the federal poverty rate can qualify for federal subsidies to buy health insurance. That support is pegged to the premium of the second-lowest-cost silver plan available in each rating area, which are defined by states. People who quality for a subsidy contribute a percentage of their income to purchase coverage, and the federal government covers the remaining cost up to the price of the premium of the second-lowest-cost silver plan.

People with subsidies can buy more-generous plans, such as those in gold or platinum tiers, but they must pay the difference in the cost between their choice and the premium of the second-lowest-cost silver plan.

In order to assess whether the effective value of subsidies varies geographically, RAND researchers evaluated the cost and coverage provided in marketplaces across the nation as of May 2014. That included marketplaces operated by or with the federal government, as well as those run by states.

Rating areas vary widely in size, population and plan offerings. For example, Florida has 67 rating areas while some states have only one. All rating areas have at least two silver plans, while one rating area offers 67 silver plans. When there is variation within states, urban areas tend to have more plans available than rural areas.

While premiums for the second-lowest-cost silver plan are lower in regions with greater competition, it is unclear that the increased choice improves consumer welfare.

Researchers found that for areas with more than 20 silver plans, enrollees would have to pay an additional $68 per month to purchase the average silver plan instead of the second-lowest-cost silver plan. In regions with fewer than eight silver plans, enrollees would have to pay only an additional $15 per month to upgrade to the average silver plan.

These findings suggest that people in states with fewer plan options, such as California, Georgia and Mississippi, may be more able than others to afford a plan other than the second-lowest-cost silver plan.

Cost differences also were seen in deductibles. In ratings areas with more than 20 silver plans, the deductible for the second-lowest-cost silver plan was more than $700 higher than the deductible for the average silver plan. In areas with fewer than eight silver plans, the deductible for the second-lowest-cost silver plan was lower than the deductible for the average silver plan.

The findings show that subsidized enrollees may have to accept a health plan with a higher deductible in ratings areas where more plans are available.

"The federal subsidy to buy health insurance is effectively more generous in states that have less competition in their insurance marketplaces," said Erin A. Taylor, lead author of the study and a RAND policy researcher. "This raises concerns about enrollees being able to select a plan that both has affordable premiums and provides sufficient protection against financial losses."

Provided by RAND Corporation