Public option would lower health premiums, but not greatly expand coverage

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Offering a government-sponsored health plan with publicly determined payment rates to people who buy their own insurance could lower the cost of premiums, but on its own it is unlikely to substantially increase the overall number of people with coverage, according to a new RAND Corporation study.

Modeling four scenarios for adding a public option for individual coverage available nationwide, researchers found that premiums for public plans could be 10% to 27% lower than private insurance plans because of lower provider payment rates in the public option.

A public option had much less impact on boosting the number of people with insurance. Under three of the scenarios, the number of uninsured people fell 3% to 8%, while the number of uninsured declined marginally under a fourth scenario studied.

The analysis also found that lower-income people are less likely to benefit from the public option because of the tax credit structure of the federal Affordable Care Act.

"Since higher-income people pay the full cost of insurance on the individual market, they could receive substantial savings under a public option," said Jodi Liu, the study's lead author and a policy researcher at RAND, a nonprofit research organization. "But policymakers should consider how the design of a public option could decrease the tax credits lower-income enrollees receive under the ACA."

State and federal lawmakers have expressed interest in creating a public health insurance option, broadly defined as an insurance plan for individuals under age 65 that provides access to publicly determined payment rates.

Four different bills that would create a federal public option were introduced in the Congress in 2019 and several Democratic presidential candidates (including presumptive nominee Joe Biden) included public options in their health reform platforms.

RAND researchers used a microsimulation approach to estimate how the addition of a federal public option for individual market insurance could affect overall insurance coverage, individual market enrollment and premiums for individual market enrollees. About 14 million people buy plans on the individual market each year.

The analysis considered four designs that vary based on what rates providers are paid, whether the public option is considered "on-Marketplace" or "off-Marketplace" coverage that affects premium tax credit amounts under the ACA , and whether premium tax credits are available to higher-income individuals. Researchers assumed that the public option for individual market insurance would offer bronze, silver, gold and platinum tiers of actuarial-based coverage.

Payment rates were set at 79 percent of the current commercial rates (between Medicaid and commercial rates) for two scenarios and at 93 percent of commercial rates (between Medicare and commercial rates) for the other two scenarios.

The analysis assumes that providers are willing to contract at lower payment rates and that adequate provider networks can be formed. (The work was conducted prior to the coronavirus pandemic and does not assess its impact on participating providers and payment rates.)

The findings suggest that most enrollees in the individual market would switch from private plans to public plans in these scenarios.

A relatively small pool of sicker and more-expensive people would remain enrolled on private plans because of assumptions that higher spenders would have lower preference for public plans because of real or perceived access barriers related to lower payments to providers. As a result, researchers found that some individual market premiums increased when they modeled the public plan.

Federal spending fell under all of the scenarios, with savings ranging from $7 billion to $24 billion annually. The savings occur as premium tax credit amounts decline, because the silver-level public option becomes the benchmark for setting subsidy levels in some scenarios and because of changes to the risk pool and competition effects.

To gauge the welfare effects on individuals, researchers estimated the number of people who would be "better off" (becoming newly insured or paying less for an equivalent or more generous plan) or "worse off" (becoming uninsured or paying more for an equivalent or less generous plan) in each scenario. Across the public option scenarios analyzed, 5.1 million to 12.1 million people were better off, and 2.2 million to 6.8 million people were worse off.

Those who were worse off have incomes below 400 percent of federal poverty level. Because tax credits were tied to the public silver premium in most of the RAND scenarios, individuals' tax credits fell when the public plan was introduced. As a result, for many subsidized individuals, the introduction of the public option did not reduce out-of-pocket premiums.

Researchers say that one option to ease this burden would be to reinvest the cost savings from a public option into programs that would benefit lower-income people, such as providing a larger tax credit to lower-income people who buy individual health insurance policies.

More information: The report, "Public Options for Individual Health Insurance: Assessing the Effects of Four Public Option Alternatives," is available at www.rand.org

Provided by RAND Corporation

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