11 million will lose health insurance if ACA subsidies are eliminated, study finds

21 October 2014

Eliminating subsidies that help low- and moderate-income people purchase coverage through government-run health insurance marketplaces would sharply boost costs for consumers and cause more than 11 million Americans to lose their health insurance, according to a new RAND Corporation study.

Modeling the likely effects of ending subsidies offered to individuals under the federal Affordable Care Act, researchers found that such a move would increase premium costs in the individual marketplaces by as much as 43 percent and cause enrollment to drop by 68 percent.

"If subsidies are eliminated entirely, our research predicts substantial disruption in the individual health insurance market," said Christine Eibner, the study's lead author and a senior economist at RAND, a nonprofit research organization. "Without the subsidies, prices would jump sharply and many people simply could not afford to enroll."

The research suggests that an ACA-compliant market that did not provide tax credits to low-income people would consist of a relatively small number of high-risk individuals, which would drive prices higher and prevent the majority of potential enrollees from purchasing affordable coverage.

The tax subsidies have been challenged in court on the grounds that the wording of the law allows such aid only to those people who buy policies through state-run marketplaces. (Marketplaces in most states are operated by the federal government.) This issue is now being considered by several federal courts across the nation.

Eibner and study co-author Evan Saltzman used an updated version of the RAND COMPARE microsimulation model, which predicts the effects of health policy changes at state and national levels, to estimate the effects that eliminating subsidies and other potential changes would have on premiums and enrollment in the individual health insurance market in 2015.

The analysis found that ending the mandate requiring individuals to have health coverage would cause enrollment in the individual market to fall by more than 20 percent, with 8.2 million Americans becoming uninsured. While premiums would rise by just 7 percent, the sharp decline in enrollment suggests the mandate is important to achieving the Affordable Care Act's goal of near-universal medical coverage, according to RAND researchers.

The study's findings underscore the effects that both the tax subsidies and the individual mandate have in encouraging healthy people to enroll in the individual health insurance market. Such strategies are key to keeping prices stable and avoiding a scenario where only sick people sign up for individual health insurance.

The study also modeled the impact of replacing the tax subsidies, which cap individual spending as a percentage of income, with vouchers or other programs that would provide a fixed government subsidy.

Replacing the existing subsidies with alternatives such as vouchers would make the health insurance marketplaces more sensitive to changes in the age mix of those enrolling, according to the study. For example, with vouchers instead of tax credits, each 1 percentage point reduction in young adult enrollment would trigger a premium increase of about three-quarters of 1 percent on the insurance marketplaces. A 1 percentage point reduction in young adult enrollment would trigger a smaller premium change—less than one-half of 1 percent—with the ACA's current tax credit structure.

More information: The report, "Assessing Alternative Modifications to the Affordable Care Act: Impact on Individual Mark Premiums and Insurance Coverage," is available at http://www.rand.org. The research was sponsored by the Office of the Assistant Secretary for Planning and Evaluation in the U.S. Department of Health and Human Services.

Provided by RAND Corporation