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Sicker-Than-Expected Obamacare Enrollees Causing Market Turmoil

By Sara Hansard
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Sicker-than-expected Obamacare enrollees caused many insurers to lose money and leave the exchanges, increasing premiums for remaining enrollees.

A study of state individual marketplaces by the Brookings Institution and the Rockefeller Institute found higher-than-expected claims costs for enrollees caused much of the marketplace turmoil, resulting in substantially decreased competition for the 2017 enrollment period in Florida, North Carolina and Texas in particular. California and Michigan retained a reasonable number of insurers through 2017, it said.

Carrier losses throughout the life of the Affordable Care Act exchanges, as well as sharp premium increases in 2017, have bolstered efforts by congressional Republicans and President Donald Trump to try to repeal and replace the 2010 health-care law.

Young adults haven't signed up for ACA plans in expected numbers, leaving an older, sicker pool of enrollees. Moreover, the number of enrollees has lagged well behind original Congressional Budget Office projections, and for 2017—after the Trump administration stopped funding marketplace ads at the end of the open enrollment period—only 9.2 million people enrolled, according to the Centers for Medicare & Medicaid Services.

Need for Provider Competition Highlighted

The need for hospital and provider competition to bring down premiums in many markets—including some urban areas—was highlighted in the study as well as at a briefing Feb. 9.

To be successful in a local market insurers must have networks of hospitals, physicians and other providers that agree to competitive prices, Michael Morrisey, head of the Department of Health Policy & Management at the Texas A&M University School of Public Health, said at the briefing.

The study found significant differences in competitiveness not only between urban and rural areas, but among urban areas, with midsize metropolitan areas often having far less competition than large cities.

Even among large cities there are big differences in competitiveness in health-care markets. Insurance and provider competition in San Francisco is "much less intense than it is in Los Angeles," where there has been less hospital consolidation, Morrisey said. Houston is more competitive than Dallas and Miami is more competitive than Tampa, he added.

Premiums are lower in areas with greater numbers of hospitals and other providers, Morrisey said. "Without that competition at the provider level, it's difficult to see lower prices at the insurer level." Decades of consolidation in provider markets have made it difficult for insurers to compete, he said.

Opportunities for Regional, Medicaid-Type Insurers

The current state of the marketplaces appears to be chaotic, with declining carrier participation and 22 percent nationwide average premium increases for the most popular plans in 2017, speakers said at the briefing.

But most carriers are still waiting in the wings in the individual market outside of the ACA exchanges, and regional carriers may be able to provide more competition in the future, no matter what types of health-care policies are implemented, they said.

Medicaid managed care-type insurers, such as Molina Health, WellCare in Florida and Community Health Choice in Texas, also may be the future of the marketplaces, the study said.

Those plans contract with a narrow network of providers who accept Medicaid levels of payment and who use stringent utilization management strategies, it said. While it's not clear that model can work with a broader population, "It is conceivable that these plans will be major players, and perhaps the dominant players, on the exchanges," the study said.

In California, which the study said had the most successful ACA exchange, Medicaid managed care-type plans provided more competition to the market, Micah Weinberg, president of the Economic Institute of the Bay Area Council, said at the briefing.

In Los Angeles Molina Healthcare Inc., which primarily provides Medicaid managed care plans and competes in the ACA marketplaces, lowered premiums in absolute dollar terms in 2016, he said.

"This is creating a tremendous amount of pressure on the higher-cost hospitals in Los Angeles, and we are seeing them negotiate absolute rate concessions with the insurers to remain competitive in these networks," which is reducing health-care costs, Weinberg said. "If we really care about competition, we need to care about competitors, and the competitors we care the most about are actually not the insurance plans, but rather the providers."

Narrow Networks

There has been a substantial shift to narrower provider networks in the exchanges as carriers moved away from offering higher-cost preferred provider organizations, the study found. Medicaid managed-care plans, which specialize in contracting with a narrow network of low-cost providers, have seen success in the ACA marketplaces, it said.

In North Carolina, Blue Cross and Blue Shield of North Carolina, the state's dominant individual market insurer, has responded to the new network structures by creating its own limited networks in Raleigh and Charlotte, Mark Hall, director of the health law and policy program at Wake Forest University's School of Law, said at the briefing.

Health-care providers may also form their own insurance companies, Hall said. And steep premium increases over the past several years may stabilize the markets and result in carriers re-entering them, he said.

For 2017, S&P Global Ratings forecasts closer to break-even results for the individual market after what the financial ratings company called a one-time pricing correction under the ACA.

Interstate Sales Not Helpful

The idea of encouraging interstate health insurance wasn't seen as aiding competition. Since health insurance markets are primarily local, "meaningful interstate competition among health insurers may be very difficult to achieve," because it would be difficult to put networks together, Morrisey said. President Donald Trump has called for boosting interstate health insurance sales, and House Speaker Paul Ryan (R-Wis.) included it in his Better Way health care plan.

Better programs to compensate insurers for covering sicker patients may be needed.

A permanent reinsurance program to cover very high-cost claims, paid for through a broad-based tax, is necessary, Linda Blumberg, a senior fellow in health policy at the Urban Institute, said. More financial assistance is needed to bring more people into the risk pool, she said.

The geographic rating areas also could be realigned.

Under the ACA, insurers had to sell plans based on risk pools only for each of the many rating areas created in the states.

If Michigan was treated as a statewide market, premiums for rural areas could be lower because they would be subsidized by other regions of the state, which would have a "relatively small impact on a health plan's profit margins in total," Marianne Udow-Phillips, executive director of the Center for Healthcare Research and Transformation at the University of Michigan. said.

That would allow insurers to pay higher rates to providers and keep premiums lower, Udow-Phillips said.

"The way the ACA is set up now, each market stands on its own," she said. "Another way to look at this problem is to think about rating area structure and think about state-wide plans where there can actually be some cross-subsidy."