Report: ACA Marketplace Turmoil Due to Sicker-Than-Expected Enrollees

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A recent report from the Brookings Institution and the Rockefeller Institute suggested that claims costs for Affordable Care Act (ACA) enrollees were higher than expected, causing many insurers to either leave the ACA marketplaces or increase premiums substantially in 2017.

The report, entitled "Five-State Study of ACA Marketplace Competition," was prepared in order to summarize the health of the ACA marketplace in five states: California, Michigan, Florida, North Carolina, and Texas. To understand why certain stakeholders made decisions to leave the marketplace, while others remained, the researchers conducted field interviews with insurance carriers, provider groups, state regulators, and consumer engagement organizations. The researchers were primarily focused on why marketplaces in certain states were more successful than others.

According to the study, enrollees were sicker than insurers had expected, resulting in higher-than-expected claims costs. The report noted that insurers had little information about the health of exchange enrollees, many of whom were not previously insured, and were therefore unable to predict their health care utilization needs accurately. Another contributing factor was that fewer young adults signed up for ACA plans than expected, leaving the pool to consist primarily of older, sicker patients. Additionally, the overall number of enrollees fell short of the Congressional Budget Office projections.

As a result, many plans incurred losses that exceeded insurers' risk mitigation mechanisms, leading some of them to exit marketplaces in certain states for the 2017 enrollment period. The researchers noted that marketplace competition for the 2017 enrollment period differed state by state; while many insurers pulled out of exchanges in Florida, North Carolina, and Texas, a reasonable number of insurers in California and Michigan markets remained through 2017.

Researchers also noted that these changes occurred in the run-up to the 2017 open enrollment period. "As recently as the 2015 and 2016 open enrollment periods, all of the states had what appeared to be promising, if not always robust, insurance competition," the researchers wrote.

As a result of declining carrier participation in 2017, a 22% average premium increase is expected for the most popular health care plans.

Better programs to compensate insurers for covering sicker patients may be needed, the report suggested. For example reinsurance program could be implemented to cover very high-cost claims, paid for through a broad-based tax.

Another possible solution is to move away from the local market structure currently in place. Under the current marketplace set-up, insurers have to sell plans based on risk pools only for each of the many rating areas created in a particular state. “The way the ACA is set up now, each market stands on its own,” Marianne Udow-Phillips, executive director of the Center for Healthcare Research and Transformation at the University of Michigan explained. “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.”

Until such a change occurs, the report sheds light on how insurers can be most successful within local markets. At a recent Brookings Institute briefing, Michael Morrisey, head of the department of health policy and management at the Texas A&M University School of Public Health, explained that a key to insurers’ success is having networks of hospitals, physicians, and other providers that agree to competitive pricing. “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,” Micah Weinberg, president of the Economic Institute of the Bay Area Council, said at the briefing.