



Stabilizing the Individual Health Care Market

BY RACHEL GOODMAN AND SAMANTHA SCOTTI

Many individuals who purchase their own health insurance shop for health care plans through a state or federal marketplace, or “exchange,” established by the Affordable Care Act (ACA). Since the inception of the individual marketplace in 2013, [policymakers have focused on exchanges](#) as they look to control rising health care costs and ensure access for the more than 10 million Americans who buy their insurance on these exchanges. While consumer health care costs have steadily increased across [coverage types](#), rising premiums have had a particularly strong effect on the individual marketplace, which has experienced declining enrollment in recent years.

Between 2014 and 2018, the [average premium](#) for individual marketplace plans increased by roughly 75%, growing from \$273 to \$481 per person. Since 2018, the average premium dropped slightly to \$462. Furthermore, between 2016 and 2019, [total enrollment](#) in individual marketplace

plans fell from 12.7 million to 11.4 million—a drop of nearly 10%.

In 2017, the federal government [eliminated the tax penalty](#) associated with the ACA’s individual health insurance mandate requiring most Americans to have health insurance coverage. In late 2019, the 5th Circuit Court of Appeals held that the mandate was unconstitutional. Some argue that the repeal of the mandate’s tax penalty and rising insurance premiums may be connected to declining enrollment in the [individual marketplace](#) established by the ACA. However, just a year after the individual mandate penalty was eliminated, [new data shows](#) premiums, on average, holding steady in 2019, and individual market enrollment falling by 5% percent, less than many experts anticipated.

State Action

State policymakers have reacted to rising premiums and decreasing individual market enrollment in different ways. Some hope to [do away with the](#)

Did You Know?

- Over 10 million Americans—an estimated 32% of potential enrollees—purchased health insurance from marketplaces in 2019.
- [Over half the states have taken action](#) to promote access to their individual marketplaces, while other states worked on alternative plans.
- [One recent study](#) found state-run reinsurance programs reduce ACA premiums by an average of 20% in their first year.

[individual market](#) and the ACA more broadly, while others seek to stabilize the marketplace through various mechanisms.

A number of states have established reinsurance programs using federal Section 1332 waivers to stabilize their marketplaces. Reinsurance programs, sometimes described as insurance for insurers, provide money to insurers to cover an individual's medical expenses if they exceed a predetermined amount known as an "attachment point." This lowers insurance companies' costs and therefore allows them to charge lower premiums.

For example, the Alaska Legislature enacted [HB 374](#) in 2016 establishing the [Alaska Reinsurance Program \(ARP\)](#). Alaska in 2017 became the first state to [receive Centers for Medicare and Medicaid Services \(CMS\) approval for federal pass-through funding](#) to partially subsidize its reinsurance program through a Section 1332 waiver. The waiver runs through December 2022. ARP is a state-operated program covering claims in the individual market for people with one or more of 33 identified high-cost conditions.

CMS has approved reinsurance programs for [12 states through Section 1332 waivers](#). Alaska, Colorado, Delaware, Maine, Maryland, Minnesota, Montana, New Jersey, North Dakota, Oregon, Rhode Island and Wisconsin have implemented their reinsurance programs. At least [seven additional states have passed legislation](#) initiating a reinsurance program through Section 1332 waivers, but the waiver has yet to be submitted or approved. [One recent study found](#) state-run reinsurance programs reduce ACA premiums by an average of 20%.

Some states, including [California](#), [Massachusetts](#), [New Jersey](#) and [Rhode Island](#), have attempted to strengthen the individual market by implementing their own state-level individual mandates. Each of these states established a [financial penalty](#) for those who fail to obtain qualifying health coverage. [Vermont](#) also established an individual mandate, but officials have yet to decide on the details of the associated tax penalty.

In addition to implementing an individual mandate, California, Massachusetts and Vermont now offer [state subsidies](#) for individual marketplace enrollment. Massachusetts and Vermont provide subsidies to people earning up to 300% of the federal poverty level (FPL). California provides temporary subsidies to those earning up to 600% of the FPL and will further enhance subsidies for consumers with incomes from 200% to 400% of the FPL for 2020 and 2021. The subsidies are designed to

incentivize enrollment in individual marketplace plans by offsetting a portion of enrollees' costs.

Several states have also attempted to facilitate individual marketplace enrollment by [extending the open enrollment period](#). This gives consumers more time to compare and purchase insurance plans. Generally, this option is only available to states that run their own marketplaces. California, Colorado, Massachusetts, Minnesota, New York, Rhode Island and Washington, D.C., lengthened the open enrollment period for 2019.

Finally, some states have taken steps to eliminate the individual market in order to restructure the health care system. In February 2018, 20 states banded together to [sue the federal government](#) over the constitutionality of the ACA. These states, led by Texas, argued that the ACA is unconstitutional and should be struck down. In December 2019, the 5th Circuit held that the individual mandate is unconstitutional. All the other provisions of the ACA remain in effect until the Supreme Court rules on the case. The court will hear the case in the fall of 2020 and likely rule on it in 2021.

Federal Action

Mirroring the states' differing approaches to regulating the individual marketplace, the federal government has put in place various policies affecting individual market enrollment. Since 2014, the federal government has offered "[premium tax credits](#)" to those who purchase insurance through the individual marketplace and whose [incomes](#) fall between 100% and 400% of the FPL. The tax credits are meant to cover part of a person's health insurance premiums, thereby [lowering](#) the cost and removing barriers to enrollment. A [2018 CMS report](#) found that enrollment among those not receiving a premium tax credit had fallen more sharply than among those who did receive the credit, suggesting that premium tax credits act as an enrollment incentive.

In 2017, the federal government decreased funding for two initiatives related to enrollment through marketplaces. Funding for [navigator programs](#), which offer free assistance to consumers to help them find and enroll in health plans offered through the marketplace, was [reduced](#) from \$63 million to \$36 million. That same year, the administration decreased the open enrollment advertising budget from \$100 million to \$10 million. State lawmakers can learn from other states' experiences as they consider action on marketplace stabilization.

Additional Resources

- [NCSL's State Actions to Address Health Insurance Exchanges](#)
- [NCSL's Innovations in Health Care: Alternative Coverage Options](#)
- [State Action on Their Individual Markets, The Commonwealth Fund](#)

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