MedicalXpress

Silver loading and switching: Unintended consequences of pulling health policy levers

June 20 2019

A move by the White House in 2017—decried by many health policy analysts as an attempt to undercut the Affordable Care Act (ACA)—had unanticipated consequences that improved the affordability of health insurance for Marketplace enrollees, a University of Pittsburgh Graduate School of Public Health-led analysis confirms.

The findings, reported today in the journal *Health Services Research*, show that the Trump Administration's cut of the ACA's cost-sharing reduction payments to health insurers caused insurance providers to compensate by changing the distribution of premiums in ways that increase federal government subsidies to Marketplace enrollees. And, surprisingly, geographic markets where a single insurer has a monopoly resulted in the best pricing for low income enrollees.

"The narrative about monopoly markets has largely been doom and gloom," said Coleman Drake, Ph.D., assistant professor in Pitt Public Health's Department of Health Policy and Management. "But actually, in terms of affordability, monopoly insurance markets are resulting in very low- to no-cost premiums for Marketplace enrollees. On the other hand, this is a really inefficient way to spend federal tax dollars to create affordable health insurance."

The federal government provides premium tax credits to people with incomes at or below 400% of the federal poverty level who buy health insurance through HealthCare.gov or similar state-based Marketplaces. The amount of the tax credit or subsidy varies depending on the market,

or region, where the person is buying health insurance, because different insurers offer different plans with different premiums.

Every health insurer participating in the Marketplace offers health insurance plans that correspond to a "metal level"—bronze, silver, gold and platinum—with bronze costing the least and offering the lowest benefit generosity. The subsidy is determined based on each market's "premium spread," defined as the difference between the second lowest cost silver plan—the "benchmark"—and the lowest cost plan offered in the market.

For example, a single enrollee in 2018 whose income is 180% of the federal poverty limit would be expected to pay $100 per month for health insurance. If the premium on the benchmark plan in their region was $200 per month and the lowest cost plan was $140, then the premium spread would be $60. That enrollee would pay $40 for the plan with the lowest cost premium, which is equal to that person's $100 expected monthly contribution less the $60 subsidy for the premium spread.

When it was first enacted, the ACA also provided additional help to Marketplace enrollees with incomes at or below 250% of the federal poverty level by enabling them to obtain policies with lower co-payments and deductibles, also known as cost-sharing reduction subsidies. In turn, the government compensated insurers for the additional costs associated with offering these more generous benefits to very low-income enrollees. These cost-sharing reduction subsidy payments to insurers are what the Trump Administration cut in October 2017.

In response, state insurance commissioners in 42 states instructed insurers to "silver load," which means increasing the premium for benchmark silver plans to cover these additional costs, thereby increasing the premium spread and creating larger premium subsidies.

Silver loading works best in markets with only one insurer because that monopoly insurer sets the premium for both the benchmark silver plan and the lowest cost plan.

The average monthly premium spread before the cost-sharing reduction cut was about $60. Following the cut, the average monthly premium spread jumped to $133.52 in 2018 and $147.94 in 2019.

But that approach did not benefit individuals who bought their insurance outside of the Marketplace or who did not qualify for premium tax credits. As a result, insurance commissioners are increasingly encouraging "silver switching," whereby insurers are allowed to sell off-Marketplace plans that are very similar, but not identical, to on-Marketplace plans in terms of benefits, but only the on-Marketplace plans are silver loaded. This allowed the off-Marketplace plans to retain lower premiums and was permitted in 24 states in 2018 and 29 in 2019.

States that allowed both silver loading and silver switching saw a 121% jump in premium spreads, compared to a 71% jump in states that only allowed silver loading, indicating that insurers were cautious about losing off-Marketplace customers with the increased premiums in states that allowed silver loading but not silver switching.

Coupling silver loading and silver switching thus maximizes premium affordability for enrollees on and off the Marketplace.

"States that are taking this second step and allowing both silver loading and silver switching are trying to ensure that insurers continue to operate in the individual market and that consumers at middle and higher incomes can afford health insurance," said coauthor Jean Marie Abraham, Ph.D., Wegmiller Professor of Healthcare Administration in the Division of Health Policy and Management at the University of Minnesota School of Public Health. "Of course, an important trade-off is

that such policy responses ultimately lead to higher federal government spending than would have otherwise occurred under the original policy."

Provided by University of Pittsburgh