Medicaid expansion is shrinking insurance exchange pools

By Dana Beezley-Smith, Ph.D.

Recent studies of the Affordable Care Act (ACA) show the law’s impact significantly deviating from earlier government predictions.

The Department of Health and Human Services (HHS) provided the first analysis in its final report on third-year enrollment in the ACA’s health insurance exchanges.

By late-2014, HHS had slashed 2015 government enrollment estimates of 13 million by roughly 30 percent, announcing a new target of 9 million to 9.9 million individuals. Year-end exchange participants for 2015 numbered 8.8 million, reflecting a loss of nearly 3 million customers over the year.

Signups grew to 12.7 million during this year’s Open Enrollment period, but as many as 25 percent could drop coverage through 2016, as was seen in 2015. HHS anticipates 10 million exchange enrollees will remain insured by this year’s end.

Attrition has been attributed to various factors, including inaccurate applications, income changes and insurance gained through employment or marriage. National Center for Policy Analysis senior fellow John Graham suggests another explanation. “Some people let their ailments build up throughout the year, wait until open enrollment, sign up for coverage, get medical care and then drop coverage.”

For its March report, the Congressional Budget Office and Joint Committee on Taxation (collectively referred to as CBO) calculated somewhat higher 2016 enrollment. “In any given month, an average of about 12 million people will be covered by insurance purchased through the marketplaces.”

The enrollment numbers, however, are roughly half the 21 million to 22 million 2016 exchange customers CBO had consistently forecast in years past, even as recently as last March.

In 2010, CBO assumed the ACA exchanges would enroll 21 million people in 2016, increasing to 24 million by 2019. This year’s report predicts an additional 3 million enrollees in 2017, topping out at 18 million to 19 million from 2018 through 2026.

Original projections also overestimated by 5 million the reduction in the uninsured in 2016. CBO now believes the non-elderly uninsured will total 27 million in 2016 and rise to 28 million from 2024 through 2026.

The Kaiser Family Foundation believes three factors explain the tepid growth in the exchanges: Most businesses are not yet dropping coverage, Americans ineligible for financial assistance are buying policies elsewhere and exchange plans are still considered too expensive – by as many as 46 percent of the currently uninsured.

However, global legal firm Dentons maintains that Medicaid and CHIP, covering about 68 million Americans in 2016, are edging out exchange enrollment.

“Medicaid and the Children’s Health Insurance Program (CHIP) cover 17 million more people in 2016 than projected, while private insurance through the non-group market, including exchanges … covers 10 million fewer people. Millions of young, healthy people are enrolled in Medicaid and CHIP, rather than in private insurance offered through the exchanges.”

Before the 2012 Supreme Court ruling that made Medicaid expansion optional for the states, CBO’s enrollment projections assumed all Americans with incomes at or below 138 percent of the federal poverty level (FPL) would receive Medicaid. Now, with 19 states opting not to expand the program, a smaller number of Americans are Medicaid-eligible. Still, as Dentons notes, “in the past six years Medicaid and CHIP enrollment has nearly doubled from the 2010 baseline.”

The dramatic increase in Medicaid enrollment is only partially explained by expansion itself. Outreach efforts have produced what is called a “woodwork effect,” adding Americans previously unaware of eligibility. CBO also believes that slower wage growth in the future will qualify more Americans for the low-income programs.

The Medicaid-private coverage contrast is expected to be more pronounced in expansion states than in non-expansion states. In the latter, Americans earning from 100 percent to 138 percent of the FPL are entitled to exchange policies at very little expense, while in expansion states, they are automatically enrolled in Medicaid.

Given the assumption that more states will expand the program in coming years, CBO expects another 6 million people will receive Medicaid by 2026, again at the expense of exchange coverage. “Some of the people who would become eligible for Medicaid through those expansions would have otherwise been eligible to enroll in subsidized coverage through the marketplaces.” CBO expects that “as more people become eligible for Medicaid coverage, enrollment in coverage through the marketplaces will decline.”

Such developments will no doubt heighten concerns of the health insurance companies participating in the ACA exchanges, already alarmed that enrollees are older, sicker and therefore more expensive than they’d hoped. Without a robust and varied population of customers, the exchanges could quite easily devolve into high-risk pools with ever-increasing premiums for those who remain.

Dentons advises insurers who may be planning to participate in the exchanges to “shift expectations. Many of their potential customers, who are overwhelmingly young and healthy, are enrolled in Medicaid.”