AMERICAN ACADEMY *of* ACTUARIES

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December 7, 2016

The Honorable Mitch McConnell
Majority Leader, U.S. Senate
S-230 Capitol Building
Washington, DC 20510

The Honorable Harry Reid
Minority Leader, U.S. Senate
S-221 Capitol Building
Washington, DC 20510

Re: Consequences of Repealing ACA Provisions or Ending Cost-Sharing Reduction Reimbursements

Dear Leader McConnell and Leader Reid:

With plans for repeal of all or part of the Affordable Care Act (ACA) reportedly being prioritized for action early in the 115th Congress, the American Academy of Actuaries'[1] Health Practice Council urges you to consider the potential adverse consequences of repealing provisions of the ACA, such as the individual mandate and enrollee subsidies, without also enacting a replacement approach at the same time. Repealing major provisions of the ACA would raise immediate concerns that individual market enrollment would decline, causing the risk pools to deteriorate and premiums to become less affordable. Even if the effective date of a repeal is delayed, the threat of a deterioration of the risk pool could lead additional insurers to reconsider their participation in the individual market. Likewise, eliminating the reimbursements to insurers for cost-sharing reduction (CSR) subsidies could result in insurer losses and solvency challenges, leading insurers to further consider withdrawing from the market. In either case, significant market disruption could result, leading to millions of Americans losing their health insurance.

Offering pre-existing condition protections requires incentives for enrollment
A sustainable health insurance market depends on enrolling enough healthy people over which the costs of the less healthy people can be spread. To ensure viability when there is a guarantee that consumers with pre-existing conditions can obtain health insurance coverage at standard rates requires mechanisms to spread the cost of that guarantee over a broad population. The ACA's individual mandate encourages even the young and healthy to obtain coverage. In addition, the ACA's premium and cost-sharing subsidies provide enrollment incentives because they make coverage more affordable.

Eliminating provisions that encourage enrollment would threaten sustainability
Eliminating the ACA's individual mandate, premium subsidies, or cost-sharing subsidies would increase the likelihood of adverse selection, in which people who are most at risk of high health care costs would be the most likely to enroll, while many healthier individuals decide not to

[1] The American Academy of Actuaries is an 18,500+ member professional association whose mission is to serve the public and the U.S. actuarial profession. For more than 50 years, the Academy has assisted public policymakers on all levels by providing leadership, objective expertise, and actuarial advice on risk and financial security issues. The Academy also sets qualification, practice, and professionalism standards for actuaries in the United States.

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purchase coverage. Premiums for the remaining pool would increase as a result, further exacerbating adverse selection concerns. A premium spiral could result, with fewer and fewer insureds and higher and higher premiums.

Increasing risks could cause an increase in insurer withdrawals from the market
Increased uncertainty and instability regarding future enrollment, premium rates, and risk pool profiles if coverage incentives are eliminated would increase the risk of insurers incurring losses. Insurers would likely reconsider their participation in the market and some may choose to exit in the near term. This could lead to severe market disruption and loss of coverage among individual market enrollees.

Eliminating CSR reimbursements could also cause insurers to withdraw from the market
Premiums for 2017 have been finalized, and they assume that CSR reimbursements will be made. Without those reimbursements, premiums would have been higher for all individual market enrollees. Regardless of whether CSR reimbursements are made to insurers, the ACA requires insurers to provide cost-sharing subsidies. If those reimbursements are not made, premiums will be too low to cover the costs of care. This creates the potential for insurer losses and solvency concerns. Due to contract provisions, insurers would be permitted to withdraw from the market if CSR reimbursements are not made. The prospect of losses and increased solvency risks could lead to insurers opting to withdraw, leading to severe market disruption and loss of coverage among individual market enrollees—both those receiving CSR subsidies and those not. To date, CSR reimbursements have been made automatically, outside of the annual appropriations process. Subjecting the reimbursements to the appropriations process would increase the uncertainty regarding whether these payments would be made on an annual basis, thereby making it more difficult for insurers to set premiums. This could lead to higher premiums and make insurers more reluctant to participate in the individual market.

Should Congress take up consideration of a repeal of the ACA or elimination of the CSR reimbursements, the American Academy of Actuaries' Health Practice Council strongly encourages you to recognize the potential unintended consequences inherent in leaving the individual market without the certainty it requires to remain sustainable by neglecting to also enact a viable replacement. Delaying the effective date of repeal while a replacement is worked out likely won't be enough to assure the stability and sustainability of the individual market. We would welcome the opportunity to discuss our concerns with you in more detail. We would also be happy to work with you to consider options that can strengthen the individual market so that it can provide coverage to individuals regardless of health status that is affordable to consumers as well as taxpayers.

If you have questions or would like to meet with us, please contact David Linn, the Academy's health policy analyst, at 202-785-6931 or linn@actuary.org.

Sincerely,

Shari Westerfield, MAAA, FSA
Vice President, Health Practice Council
American Academy of Actuaries

cc: Members of the U.S. Senate