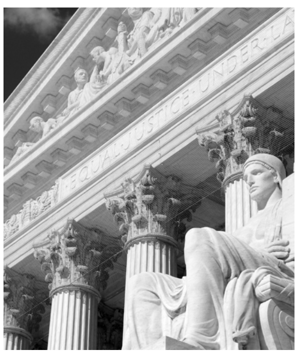
2016 HSR IMPACT AWARDEE:
RAND'S COMPARE MICROSIMULATION MODEL

Situational Overview:

Since its passage, the Affordable Care Act (ACA) has faced court challenges to several of its key components. In the fall of 2014, the Supreme Court announced that it would hear another such challenge in *King v. Burwell,* which was contesting the legality of tax credit subsidies in the 34 states with federally-facilitated marketplaces. The case rested on determining the meaning of the law's ambiguous language about tax-based premium subsidies for consumers in "state-based exchanges." Did the language refer to subsidies in all marketplaces (which function at the state level), or only those in marketplaces actually managed by states? Given that a high percentage of marketplace enrollees during the first enrollment period qualified for subsidies, ACA supporters and opponents alike foresaw that overturning subsidies could threaten the viability of marketplaces in the affected states.



Summary of the Work:

RAND developed the COMPARE microsimulation model to help policymakers understand the likely effects of enacting major health policy reforms, such as the ACA, by using economic theory to fill in gaps where we have little evidence on consumer response. The model is flexible, allowing it to be applied to a variety of reforms and to gauge their respective outcomes; the goal of the work is to help policymakers and the general public understand alternative approaches to redesigning the health insurance system in the United States.

In fall of 2014, Dr. Eibner and her research team used RAND's COMPARE microsimulation model to examine the likely effects of possible changes to the ACA. One such example included examining the potential cost and enrollment effects of eliminating the tax credit subsidy in individual market exchanges while other provisions of the ACA remained in place.

Results showed that this elimination would dramatically reduce the number of insured in the marketplaces—from 19.8 million to 6.3 million nationwide (a 68 percent drop)—while premiums in the individual market would rise sharply (by 43 percent).

Soon after these results were published, the Supreme Court announced in November 2014 that it would hear the *King v Burwell* case. Right away, Dr. Eibner and her team conducted a similar analysis examining the likely effects of eliminating tax credit subsidies in only the 34 states with federally-run marketplaces. The analysis found similar results; if subsidies were eliminated in states with federally-facilitated marketplaces, the number of insured would fall by 70 percent—from 13.7 million to 4.1 million. The net number of uninsured would increase by 8 million and premiums in the marketplaces would rise by 47 percent.

The reason for this effect, the analysis concluded, is that tax credits have a different impact on high- and low-risk populations. High-risk people—those with poorer health and higher health care costs—are likely to sign up for coverage regardless of tax credit eligibility. In contrast, low-risk individuals—typically, younger, healthier adults—may need a tax credit to entice them to enroll. When these individuals sign up for coverage, they improve the risk pool and bring premiums down.

By encouraging enrollment among younger, healthier adults, tax credits in the individual market reduce premium costs for everyone, not just people with tax credits. The modeling results show that, without tax credits to attract low-risk enrollees and to cushion lower-income enrollees from the effect of premium increases, large numbers of potential buyers will not enroll, leading to steep premium hikes for those who remain in the market. The resulting marketplaces will consist of a small number of high-risk enrollees, leaving the majority of potential buyers priced out of the market.

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IMPACT:

This analysis informed the economic reasoning underpinning the Supreme Court's decision in the *King v Burwell* case. In drawing conclusions about whether Congress intended tax credits to be available in states with federally-run exchanges, Chief Justice John Roberts, writing for the majority, cited Dr. Eibner's results showing the sharp increase in premiums in the absence of subsidies, observing that eliminating subsidies "could well push a State's individual insurance market into a death spiral;" "it is implausible," he continued, "that Congress meant for the Act to operate in this manner" (King Et Al. v. Burwell, Secretary of Health Human Services, E Al., No. 14–114).

In addition to the quality of the research, why do you believe your research had the effect it did at the time it did?

- **Timing**. Because we were able to analyze the impact of eliminating the ACA's tax credits soon after the Supreme Court released its decision to hear the *King v Burwell* case, our analysis was able to inform the Court's reasoning.
- **Specificity**. The COMPARE model was able to provide quantitative estimates specific to the ACA, rather than drawing on past smaller-scale state reforms, which added substance to the debate.
- **Key Connections**. RAND's Office of External Affairs was able to ensure that the research reached key audiences, including policymakers, academics, and the media.

Published Papers Encompassing the Work Described:

Christine Eibner and Evan Saltzman, "How Do ACA Tax Subsidies Affect Premiums and Enrollment?" RAND, 2015. http://www.rand.org/pubs/research_briefs/RB9812z1.html

Evan Saltzman and Christine Eibner, The Effect of Eliminating the Affordable Care Act's Tax Credits in Federally Facilitated Marketplaces, RAND, 2015. http://www.rand.org/pubs/research_reports/RR980.html

Christine Eibner and Evan Saltzman, Assessing Alternative Modifications to the Affordable Care Act, RAND, 2014. http://www.rand.org/pubs/research_reports/RR708.html

Related Readings:

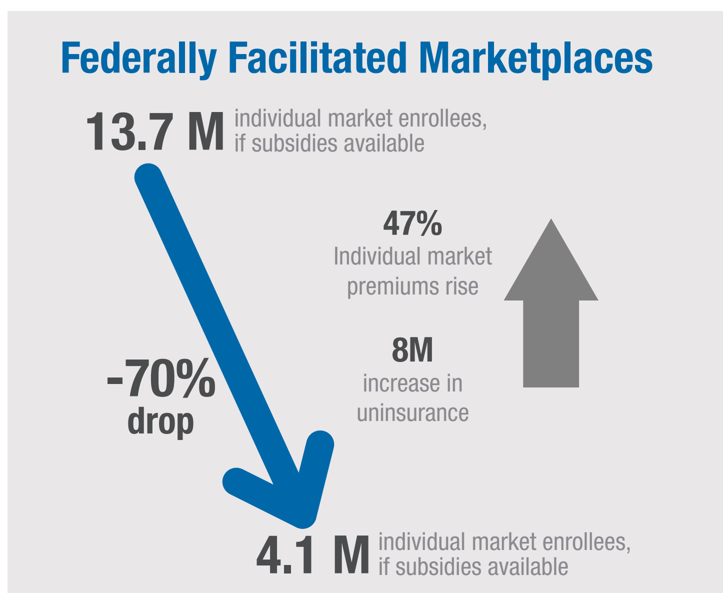
David M. Cutler and Richard J. Zeckhauser, Adverse Selection in Health Insurance. *Frontiers in Health Policy Research*, Vol. 1 (pp. 1-32), ed. Alan Garber, MIT Press, 1998.

Linda J. Blumberg, Matthew Buettgens, and John Holohan, "The Implications of a Supreme Court Finding for the Plaintiff in King v. Burwell: 8.2 Million More Uninsured and 35% Higher Premiums, The Urban Institute, 2015." http://www.urban.org/research/publication/implications-supreme-court-finding-plaintiff-king-vs-burwell-82-million-more-uninsured-and-35-higher-premiums

Anthony T. Lo Sasso and Ithai Z. Lurie, Community Rating and the Market for Private, Non-Group Health Insurance, *Journal of Public Economics*, 93(1-2): 264-279, 2009.

Alan Monheit, Joel C. Cantor, Margaret Koller, Kimberly S. Fox. Community Rating and Sustainable Individual Health Insurance Markets in New Jersey, *Health Affairs*, 23(4): 167-175, 2004.

Mark V. Pauly and Bradley Herring, Risk Pooling and Regulation: Policy and Reality in Today's Individual Health Insurance Market, *Health Affairs*, 26(3): 770-779, 2007.



Estimated Impact of Eliminating Subsidies in Federally-Facilitated Marketplaces