Executive Summary: High-Risk Pools Under the AHCA: How Much Could Coverage Cost Enrollees and the Federal Government?

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The debate over alternatives to the Affordable Care Act (ACA) includes discussion of federal funding for high-need populations as a mechanism to support coverage for people unable to access adequate insurance in the central nongroup insurance market. The American Health Care Act (AHCA) includes a provision for federal grants states could use to support high-risk pool or reinsurance programs. The former approach separates the high-cost population into a separate insurance pool while the latter keeps the higher-need population integrated in the broader nongroup insurance pool.

We estimate the government and household costs associated with providing insurance coverage to a high average health care need population via high-risk health insurance pools. High-risk pools require large investments of government dollars, because health care costs for the high-need population are averaged across only the high-need population. Reinsurance takes advantage of cross-subsidization of the low-cost and high-cost populations. The relative government costs of the two approaches are a function of their specific designs, such as reinsurance thresholds and share of costs reimbursed, provider

### Figure 1.
**Number of People Eligible for High-Risk Pool**

<table>
<thead>
<tr>
<th>Eligibility Rules</th>
<th>Millions of People</th>
</tr>
</thead>
<tbody>
<tr>
<td>Narrow Eligibility Rules</td>
<td>2.5</td>
</tr>
<tr>
<td>Broad Eligibility Rules</td>
<td>7.6</td>
</tr>
</tbody>
</table>

### Average Total Health Care Costs Per Person Eligible for High-Risk Pool

<table>
<thead>
<tr>
<th>Coverage Type</th>
<th>Cost Per Person</th>
</tr>
</thead>
<tbody>
<tr>
<td>ACA-Like Approach</td>
<td>$26,480</td>
</tr>
<tr>
<td>Traditional Approach</td>
<td>$22,928</td>
</tr>
</tbody>
</table>

Source: HIPSM 2017

Notes: The **ACA-like** approach provides enrollees with income-related premiums and cost-sharing assistance. Premiums are capped at a percent of family income, with lower caps for lower income enrollees. Actuarial value ranges from 70 percent to 94 percent, with higher values (lower cost-sharing) provided those with lower incomes. The **traditional approach** provides enrollees with 60 percent actuarial value coverage at a premium equal to 200 percent of standard coverage; no income related assistance is provided. **Narrow eligibility rules** include people identified by their high claims experience. **Broad eligibility rules** include the high claims group plus those with a list of identified chronic conditions.
payment rates, benefits provided, cost-sharing requirements, and premium assistance provided.

We estimate government and household health care costs for high-risk pools under the AHCA using two levels of coverage and household subsidies (one similar to that under the ACA and one more typical of traditional high-risk pools) and using two options for identifying the population eligible for a high-risk pool (one that limits eligibility to those who would experience high claims under standardized coverage (narrower eligibility) and one that adds those with chronic conditions (broader eligibility)). In our data, we are only able to identify a limited number of the many chronic conditions that were subject to medical underwriting prior to the ACA. The conditions used in this analysis are: diabetes, asthma, coronary heart disease, angina, heart attack, other heart disease, stroke, emphysema, and arthritis.

All eligible high-risk pool enrollees are drawn from the population that would experience a gap in insurance coverage and thus could be subject to medical underwriting in the nongroup market, depending upon state policy decisions. Our main findings are as follows. Detailed data are shown in our full report.

- Under the AHCA, 2.5 million people or 7.6 million people, depending upon the eligibility rules used, could be eligible for a high-risk pool (Figure 1). These people make up 7 percent or 21 percent of those uninsured under the AHCA, but account for 38 or 57 percent of the health care costs associated with that group.

- The average total health care costs per person associated with providing high-risk pool coverage for this group is over $22,000 for the narrower population, defined by their health care spending, and over $11,000 for the broader population that includes individuals with identified chronic conditions who are not necessarily incurring high claims in a given year (Figure 1).

- Roughly 70 percent of eligible people are estimated to enroll in the high-risk pool when ACA-like coverage and financial assistance are offered. When coverage and subsidies consistent with traditional high-risk pools are offered, only 19 to 26 percent of eligible people enroll.

- Government costs for supporting the high-risk pool using ACA-like coverage and subsidies would range from $37 to $56 billion in 2020 and $437 to $656 billion over 10 years (2020–2029), depending upon the eligibility rules used (narrower versus broader). Government costs for the

Figure 2. Government Costs Under Alternative High-Risk Pool Options, Compared to Maximum Government High-Risk Pool Funds Available Under the AHCA (in Billions)

Source: HIPSM 2017

Notes: The ACA-like approach provides enrollees with income-related premiums and cost-sharing assistance. Premiums are capped at a percent of family income, with lower caps for lower income enrollees. Actuarial value ranges from 70 percent to 94 percent, with higher values (lower cost-sharing) provided those with lower incomes. The traditional approach provides enrollees with 60 percent actuarial value coverage at a premium equal to 200 percent of standard coverage; no income related assistance is provided. Narrow eligibility rules include people identified by their high claims experience. Broad eligibility rules include the high claims group plus those with a list of identified chronic conditions.
coverage and assistance typical of traditional high-risk pools would range from $25 billion to $30 billion in 2020 and from $359 to $427 billion over 10 years (Figure 2).

- The current version of the AHCA suggests that if all federal funds that could be used for high-risk pools were drawn down, approximately $128 billion in government funds ($108 billion federal plus $20 billion-state matching dollars) would be available over 9 years (2018-2026). Yet the least expensive option simulated, in which high-risk pool eligibility is defined narrowly and lower actuarial value coverage is provided without income related-subsidies, would cost $359 billion over 10 years. This least expensive approach leads to the lowest enrollment, the highest financial burdens for high-risk pool enrollees, and the highest number of uninsured, yet it would cost more than double the government funds under consideration for such a program.

- This analysis was undertaken at the national level. While not all states would take up the AHCA’s option to develop high-risk pools, the critical issue of insufficient funding for individual states remains. Each state would face a share of the high-risk pool costs we estimate here, and each state is entitled to only a share of the federal funds based on a formula. So regardless of how many states take the high-risk pool option, the relative funding shortfall shown here applies.

- The approach that provides ACA-like coverage and subsidies not only leads to substantially higher enrollment, but also to much lighter financial burdens for those enrolling in the high-risk pool. There is a clear tradeoff between government spending and household spending. The median high-risk pool enrollee would spend 8 to 10 percent of income on health care (premiums plus out-of-pocket costs) under the ACA-like approach, while the median enrollee under the more traditional high-risk pool design would spend 35 to 41 percent of income on health care. The ranges reflect differences under the alternative eligibility rules. The differences in financial burdens between the ACA-like approach and the traditional risk pool design are greatly exacerbated for lower-income enrollees and those with the highest health care needs.

- As a result of substantially higher financial burdens under the traditional high-risk pool approach, many fewer people would enroll, and more would remain uninsured, compared to the ACA-like approach. Assuming the broader eligibility rules, 2.2 million people with high-cost medical needs and/or a chronic condition would be uninsured under the AHCA if ACA-like coverage and subsidies were provided in the high-risk pool. If the lower government cost approach were taken instead, 6.2 million high-need people would remain uninsured under the AHCA.

- The estimates presented here are likely to be conservative because only a limited number of chronic conditions can be identified in the data, and we assume that those with nongroup coverage under the AHCA’s main reforms do not lose that coverage in the future—some certainly will. As a result, larger numbers of people than we estimate are likely to become eligible for high-risk pool coverage over time.

The full report is available at: [http://www.rwjf.org/content/dam/farm/reports/issue_briefs/2017/rwjf437342](http://www.rwjf.org/content/dam/farm/reports/issue_briefs/2017/rwjf437342)

ENDNOTE

1. These funds could also be used for other purposes, such as cost-sharing subsidies and promotion of preventive services.