American Academy of Actuaries

Issue Brief

Ensuring Access, Affordability, Choice, and Competition in the Individual Health Insurance Market

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Key Points

- The individual health insurance market is governed by various laws and regulations that aim to support access to affordable coverage, consumer choice, and insurer competition. These governing provisions include a combination of uniform market rules, premium tax credits, cost-sharing reductions, and consumer protections.
- Changes that might affect the individual market require consideration of the impact on access, affordability, choice, and competition.
- Certain policies, such as allowing the enhanced premium tax credits to expire, increasing the availability of plans that do not adhere to existing rules, and selling insurance across state lines, could lead to higher premiums, and reduced insurer competition and consumer choice.
- Individual Coverage Health Reimbursement Arrangements (ICHRAs) and high-risk pools could improve the individual market but, if not carefully designed and implemented, could lead to higher premiums or market instability.

Access to health care services is often predicated on having health insurance. In particular, health insurance helps protect enrollees from the adverse financial consequences of needing health care, thus lowering a substantial barrier to accessing health care services. Uninsured adults are much more likely than insured adults to forgo needed health care because of costs.[1] Having health insurance is also associated with better health outcomes.[2]

Most people can obtain health insurance through an employer or through government health programs such as Medicare or Medicaid. People who lack access to these sources can obtain coverage through the individual health insurance market. During open enrollment for the 2024 plan year, 21 million consumers enrolled in coverage through the individual marketplaces.[3]

Two pillars of facilitating access to health insurance coverage in the individual market are affordability, both in terms of premiums and cost sharing, and providing meaningful insurance choices, including for people with pre-existing conditions that cover the services they need to optimize their health. The laws and regulations governing the individual health insurance market include various provisions that support these pillars and other goals, including insurer competition, which can put downward pressure on premiums,[4] and consumer choice.

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1 Shameek Rakshit, Krutika Amin, and Cynthia Cox, "How Does Cost Affect Access to Healthcare?" Peterson-KFF Health System Tracker, Jan. 12, 2024. (Accessed Dec. 13, 2024).
2 Benjamin D. Sommers, Atul A. Gawande, and Katherine Baicker, "Health Insurance Coverage and Health—What the Recent Evidence Tells Us," *The New England Journal of Medicine* 377(6): 586-593, Aug. 10, 2017.
3 Centers for Medicare and Medicaid Services, "Health Insurance Marketplaces 2024 Open Enrollment Report" March 22, 2024.
4 John Holahan, Erik Wengle, and Claire O'Brien, "Changes in Marketplace Premiums and Insurer Participation, 2022-2023," Urban Institute, April 3, 2023.

Risk pooling is the foundation that supports these pillars. A health insurance risk pool s a group of individuals whose medical costs are combined to calculate premiums. Pooling risks together allows the higher medical costs that less healthy enrollees incur to be offset by healthier enrollees' lower costs, either within a plan or within a premium rating category. In general, the larger the risk pool, the more predictable and stable premiums will be.

This issue brief provides an overview of how the individual health insurance market's various rules build on this foundation to support the goals of increasing access to coverage, improving affordability, enhancing consumer choice, and encouraging insurer competition. Supporting the availability of insurance coverage enables access to needed care and protects against the financial risks of health care expenses. The issue brief also discusses how changes to the rules could affect access, affordability, choice, and competition.

Supporting the goals of access, affordability, choice, competition

Numerous provisions in current law and regulation are designed to support the provision of affordable health insurance coverage in the individual market, regardless of a person's health status. These laws and rules govern plans in the individual health insurance marketplaces. They include:

- State laws and regulatory oversight: State laws and regulations are an integral component of ensuring fair and competitive health insurance markets. State oversight includes setting financial reporting and risk-based capital requirements, enforcement of consumer protections, and premium rate review.

- Protections against surprise billing: Plan members are protected from balance billing in most common situations where unexpected balance bills have typically occurred (e.g., using out-of-network providers at in-network facilities).

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- Price transparency requirements: Hospital and health plan price transparency requirements enable patients to know the cost of certain health care services prior to receiving care. Such knowledge can facilitate the ability for patients to incorporate price into their decisions on where to receive health care services.

- Premium tax credits: Advance premium tax credits improve premium affordability for eligible individuals, thereby reducing financial barriers to coverage, especially for people with low and moderate incomes. Tax credits can also make coverage more attractive to healthy people (i.e., those with lower-than-average health care needs), which reduces premiums for everyone.

- Cost-sharing reductions (CSRs): CSRs lower cost-sharing requirements for low- and moderate-income enrollees who select silver-tier level coverage, thereby increasing out-of-pocket affordability.

- Single risk pool requirement: Insurers must pool all of their individual market plans when calculating premiums. In conjunction with the risk adjustment program, the single risk pool requirement intends for premiums to reflect the risk profile of the individual market as a whole. This enables insurer competition based on price, provider network, and customer service versus selecting healthier enrollees, and facilitates access to coverage among people with pre-existing conditions.

- Uniform market rules: Guaranteed issue and renewal rules, as well as premium rating rules that limit premium rating factors to age (and how much premiums can vary by age), smoking status, family size, and geographic location, apply to all individual market plans. Essential health benefits requirements ensure that all enrollees receive comprehensive coverage. The uniformity in the rules creates a level playing field among insurers participating in the individual market, thus facilitating competition.

Collectively, these elements support access, affordability, consumer choice, and insurer competition. The market rules and single risk pool requirements ensure that comprehensive coverage is available both to healthy people and those with pre-existing conditions. Helping individuals and families access comprehensive health coverage increases enrollment, including among healthier enrollees, leading to more predictable and stable premiums. Increased stability, along with the level-playing field requirements and state oversight, encourages insurer participation and competition. Together, these elements result in insurance choices for consumers, and the price transparency requirements help provide them with tools to seek cost-effective care.

The impact of potential policy changes on access, affordability, choice, and competition

Due to the inter-relationships among provisions governing the individual health insurance market, policy changes to one provision could have a ripple effect, potentially improving or limiting the efficacy of other provisions and market goals. This section explores the potential impact of various types of proposals or policy changes to the individual market.

- Increased emphasis on ICHRAs: Employers can choose to provide Individual Coverage Health Reimbursement Arrangements (ICHRAs), which workers would use to pay premiums for individual market coverage. Under certain conditions and for certain employers, these arrangements may provide workers with more coverage choices at a more predictable cost for employers, and improve the individual market risk pool, which could lower premiums.

  For instance, offering ICHRAs on a level basis (i.e., for all employees, not only to workers or classes of workers with high health costs) has the potential to lower individual market premiums by improving the risk profile. If, on the other hand, employers limit ICHRA offerings to workers with high health care costs, the risk profile could worsen, potentially increasing individual market premiums.

  In addition, limiting ICHRA use to the purchase of plans that comply with rules governing the individual market health insurance market could further improve market stability. In contrast, allowing ICHRAs to be used toward plans that don't comply with such rules (e.g., short-term limited duration insurance) could increase individual market premiums by skewing the risk pool. Healthier workers could be more attracted to non-compliant plans, which could offer less comprehensive coverage at lower premiums, whereas workers with high health care needs would be attracted to the pre-existing condition protections of compliant plans.

  Notably, employers are more likely to offer ICHRAs when the individual market appears to be affordable and sustainable. As a result, public policies that lower premiums and improve market stability could increase the attractiveness of ICHRAs to certain employers. On the other hand, policy changes that lead to higher premiums or put the marketplaces at risk could reduce the attractiveness of ICHRAs.

- Reduced premium tax credits: If Congress does not extend enhanced premium tax credits beyond 2025, the result would be increased net premiums for both tax credit eligible and ineligible enrollees.[5] Higher net premiums would lead to reduced enrollment, particularly among healthy populations, further driving up premiums, and potentially destabilizing the individual market.

- Increased availability of coverage that doesn't adhere to current individual health insurance requirements: Although the increased availability of coverage that does not meet requirements regarding guaranteed issue, rating, and benefit rules could provide increased consumer choice, the availability of this alternative coverage would likely have a detrimental effect on self-employed individuals and other individuals purchasing coverage that adheres to these requirements, including those with pre-existing conditions. In particular, premiums would likely increase if alternative products pull lower-cost individuals away from coverage adhering to current rules. Such shifts could also reduce stability of the market and limit the availability of affordable coverage for people with pre-existing conditions. When alternative coverage choices are available, transparent information regarding not only price but also coverage specifics such as plan benefits, provider networks, and any limitations, should be available to consumers so that they can make informed purchases.

- Selling insurance across state lines: States already have the option to allow the sale of individual-market products across state lines within health care choice compacts, but there are practical barriers that have limited implementation of this option. Differences in consumer protections and potential difficulty in establishing networks at competitive rates makes selling insurance across state lines complicated. Policies encouraging and incentivizing insurers to sell coverage across state lines, and especially policies *requiring* states to permit such sales, could cause an unlevel playing field and threaten the viability of markets in states with more restrictive rules. As a result, while allowing cross-border sales of individual health insurance products may theoretically meet the goals of affordable coverage with enhanced consumer choice, cross-state insurance purchases could ultimately reduce choice to consumers and may result in less affordable coverage, particularly for people with pre-existing conditions.[6]

5 Congressional Budget Office, "The Effects of Not Extending the Expanded Tax Credits for the Number of Uninsured People and the Growth in Premiums," Dec. 5, 2024.
6 American Academy of Actuaries comment letter to CMS on the sale of insurance across state lines through health care choice compacts, May 2019, and the February 2017 issue brief "Selling Insurance Across State Lines."

- Using high-risk pools to cover high-risk enrollees: High-risk pools could be structured in various ways to cover the costs of high-risk enrollees, including a traditional high-risk pool in which enrollees are moved into a separately run insurance pool. Another option is a high-risk pool reimbursement program, which keeps enrollees in the insurance marketplaces and uses funds to reimburse insurers for a portion of their claims. Such a program, sometimes referred to as an invisible high-risk pool, can be cost-based or condition-based. Similar programs operate today in Alaska[7] and Maine[8], both of which leverage Section 1332 waivers to further enhance the programs' effects.

  The impact of any high-risk pool approach on access to coverage, premiums, protections for people with pre-existing conditions, and government spending depends on the specific approach and how details are structured. Eligibility criteria, benefit coverage requirements, and funding sources are a few of the design elements. It's also important to consider how a high-risk pool approach would interact with other insurance market rules pertaining to insurance issuance, benefit coverage requirements, and premium rating.[9]

There may be different ways to support the goals of increasing access, affordability, choice, and competition than those in current law and regulation. Information in this issue brief aims to help policymakers understand the potential implications of some alternative proposals that have been raised in the past. It is important for policymakers to assess these or other options not only for their impact on consumers and insurers within the individual market, but also how they could affect other health insurance coverage sources and other health system stakeholders, such as health care providers.

The individual health insurance market is where people who lack access to other sources of health insurance can get coverage, and 21 million people selected individual market coverage in 2024. The laws and regulations governing the individual health insurance market include various provisions that support access to affordable coverage, including for people with pre-existing conditions, consumer choice, and insurer competition. These include state oversight, protections against surprise billing, price transparency requirements, premium tax credits, cost-sharing reductions, single risk pool requirements, and uniform market rules, which work together to create stable and sustainable risk pools that are essential for a viable market.

7 For information regarding Alaska's 1332 waiver, see https://www.cms.gov/files/document/1332-evaluation-alaska-2021.pdf
8 A fact sheet for Maine's State Innovation Waiver application is available at https://www.cms.gov/cciio/programs-and-initiatives/state-innovation-waivers/downloads/maine-fact-sheet.pdf
9 For more information on high-risk pool approaches, see the American Academy of Actuaries issue brief, "Using High-Risk Pools to Cover High-Risk Enrollees," February 2017.

When considering policy initiatives that would change the rules applying to the individual market, it is important for policymakers to consider how the changes would affect the market's effectiveness in achieving the goals of access, affordability, choice, and competition. Certain policies, such as allowing the enhanced premium tax credits to expire, increased availability of plans that do not adhere to existing rules, and selling insurance across state lines, would likely lead to a deteriorated risk pool, higher premiums, and reduced insurer competition and consumer choice.

ICHRAs have the potential to improve the individual market risk pool, particularly if they are provided to workers on a level basis and ICHRA funds are used to purchase coverage that complies with rules governing the individual health insurance market. Because employers may be more likely to offer ICHRAs when the individual market appears affordable and sustainable, policy changes that lead to higher premiums or put the market at risk could reduce ICHRAs' appeal.

High-risk pools could potentially be used to cover the costs of high-risk enrollees. How such pools would affect the individual market would depend on the design specifics.