Strategies to Achieve Market Stability in the Individual Health Insurance Market

The individual health insurance market provides comprehensive health insurance coverage for people who don't have access to employer coverage or government programs, such as Medicare or Medicaid—and 24 million consumers signed up for coverage in 2025.[1] This market operates under laws and regulations intended to promote stability. A stable market supports consumer choice, insurer competition, and access to affordable coverage. Any potential policy changes should be assessed based on their potential impact on market stability.

Key Components of a Stable Market

Attracting a diverse range of insurers that offer sufficient consumer choices among plans with meaningful benefits requires three essential elements:

- **Adequate enrollment** to generate stable, predictable claims;
- **A balanced risk pool** that includes not just those with high expected health care costs; and
- **A reliable and predictable regulatory framework** to support fair competition among financially viable insurers.

Risk pooling—the practice of grouping individuals together when calculating premiums—underpins these elements and allows the higher medical costs of less healthy enrollees to be offset by the lower costs of healthier ones. In a voluntary market, adverse selection is more likely, as people with greater health needs are more inclined to seek coverage. Policies that promote participation across the health spectrum help mitigate adverse selection and support a more stable market. Larger risk pools tend to be more predictable and can lower average costs by attracting lower-risk enrollees.

Current Policies that Support Market Stability

Several existing laws and regulations help stabilize the market and promote access to affordable coverage, regardless of health status. These include:

- **State laws and regulatory oversight,** including rate review, consumer protection enforcement, and financial solvency requirements;
- **Premium tax credits**, which make premiums more affordable for eligible enrollees;
- **Cost-sharing reductions**, which lower out-of-pocket costs for eligible low-income enrollees in silver-tier level plans;
- **Single risk pool requirement**, which ensures that premiums reflect the market's overall risk profile and enables competition based on price, provider networks, and customer service, rather than on risk selection;
- **Uniform market rules,** such as guaranteed issue and renewal, a prohibition on health status rating, and limits on other premium rating factors;
- **Risk adjustment**, which compensates insurers based on the relative health status of their enrollees and reduces the incentives to avoid higher-cost enrollees; and
- **Essential health benefits requirements,** which ensure comprehensive coverage across all plans.

1 "Marketplace 2025 Open Enrollment Period Report: National Snapshot"; Centers for Medicare and Medicaid Services; Jan. 17, 2025.

Policy Changes that Could Improve Market Stability

Certain public policy changes could enhance stability by improving the risk pool or by directly lowering premiums. These include:

- **Expanded use of Individual Coverage Health Reimbursement Arrangements (ICHRAs),** particularly when offered to employees broadly and used for Affordable Care Act (ACA)-compliant plans, could improve risk pooling and reduce premiums in the individual market. Employers are more likely to offer ICHRAs when the individual market is affordable and stable.
- **Reinsurance or invisible high-risk pools** that offset high-cost claims could lower premiums and increase enrollment, especially among those ineligible for premium tax credits, depending on how such programs are structured and funded.

Policy Changes that Could Threaten Market Stability

Some changes could undermine market stability, reduce insurer participation, and limit access to affordable coverage. Examples include:

- **The expiration of enhanced premium tax credits,** which would raise net premiums for tax-credit eligible enrollees, likely reducing enrollment—particularly among healthier individuals—thus worsening adverse selection and ultimately raising premiums for those ineligible for tax credits.
- **Stricter eligibility verification requirements,** such as those recently finalized by the U.S. Department of Health and Human Services, could make enrollment more difficult for eligible individuals and may worsen adverse selection by disproportionately discouraging enrollment among healthier individuals.
- **Increased availability of non-compliant plans** may expand consumer choice in the near term but could draw healthier individuals out of the regulated market. This would raise premiums and may reduce insurer participation, limiting access to ACA-compliant plans, which are often the only option for those with pre-existing health conditions.
- **Incentivizing cross-state insurance sales,** which are already permitted, but face obstacles such as varying consumer protections and provider network challenges. Weakening state oversight could undermine stability in states with stronger regulations, reducing access to comprehensive, affordable coverage for people with pre-existing health conditions.

Market stability is essential to ensuring affordable coverage, robust insurer competition, and meaningful consumer choice in the individual market. Policy changes should be carefully assessed for their potential impact on the underlying dynamics that support a stable and functional insurance market.

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