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Slowing Down: ACA Insurance Marketplace Growth May Halt In 2017

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Slowing Down: ACA Insurance Marketplace Growth May Halt In 2017

The U.S. Affordable Care Act (ACA) marketplace is heading into its fourth open enrollment (OE4) season. After two successive years of growth in marketplace enrollees, 2017 will likely see a significant slowdown in this pace. S&P Global Ratings is forecasting that the ACA marketplace enrollment (effectuated) will range between 10.2 million and 11.6 million for 2017.

Overview

- We forecast 2017 ACA marketplace enrollment (effectuated) to range between 10.2 million and 11.6 million.
- Increased outreach to eligible uninsured will add to the marketplace, but potential premium increases will deduct for the current nonsubsidy enrollees.
- Our forecasted modest to negative growth is clearly a bump in the road, but doesn't signal "game-over" for the marketplace.

We expect 2017 to be one step forward in increasing penetration to the subsidy-eligible uninsured and off-marketplace population, but one step back for the nonsubsidized marketplace population. The floor to our forecast is the subsidized marketplace enrollees, who remain somewhat hedged against the impact of premium increases.

Historic And Forecast Marketplace Enrollment

(Mil.)	2014 (OE1)	2015 (OE2)	2016 (OE3)	2017 (OE4) forecast
End of open enrollment	8.0	11.7	12.7	11.7 - 13.3
Effectuated for the year	6.3	8.8	11.1	10.2 - 11.6

Source: HHS enrollment numbers for 2014 and 2015 and 2016; 2016 effectuated number is as of March 2016; 2017 forecast is based on S&P Global Ratings' analysis.

Subsidies, Outreach, And Premiums Drive The Forecast

Our forecasted range for 2017 indicates a potential 4% year-over-year enrollment growth on the upper end, and an 8% decline on the lower end. Our forecast is lower than the current Congressional Budget Office estimate (as of March 2016) of 15 million marketplace enrollees for 2017.

We are basing our forecast on multiple factors, including the following five key segments (also see chart):

- High re-enrollment rate for enrollees receiving subsidies. About 85% or 9.4 million marketplace enrollees will be hedged against the full impact of premium rate increases. This group receives income-based subsidies that are tied to the cost of the benchmark (second-cheapest silver) plan on the marketplace. Thus, if everything else remains the same, their subsidies increase with the increased price of the benchmark plan.
- Outreach to subsidy eligible, off-marketplace individuals. As per the U.S. Department of Health and Human Services (HHS), about 2.5 million off-exchange individuals may be eligible for a tax subsidy if they move to the marketplace.

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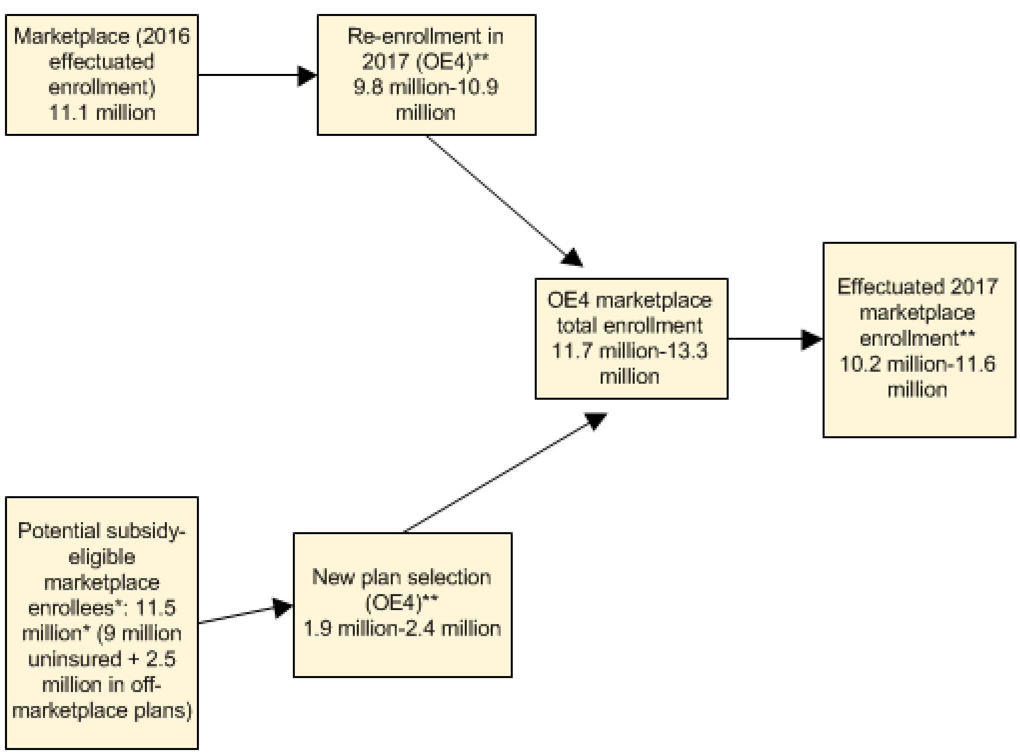
Also, depending on the extent of the premium increase a greater portion may be eligible for a subsidy in 2017. We assume a portion of this off-marketplace population will enroll in the marketplace in 2017.
- Increased outreach to subsidy-eligible uninsured. As per HHS, about 9 million of the uninsured may be eligible for a tax subsidy. Supported by targeted outreach to this uninsured population, we assume a portion of the uninsured population will enroll in 2017.
- Lapses among nonsubsidy marketplace enrollees. About 1.5 million or 15% of the marketplace enrollees didn't receive a subsidy. Somewhat offsetting the positive gains from the outreach activities is our expectation that a portion of the nonsubsidized marketplace enrollees will not re-enroll in 2017. These individuals are the most price-sensitive of the four segments, since they are paying full premiums and will be most affected by the premium rate increases expected in 2017.
- Some enrollees will drop-off after open enrollment. The reason for the difference between our OE4 and full-year 2017 forecasts is that we expect a portion of the enrollees not to maintain coverage for the entire year. We are assuming that close to 85% of OE4 enrollees will have effectuated coverage (meaning they will pay premiums and maintain an active policy) in 2017.

Key Forecast Elements



*Data on potential eligible marketplace population is based on HHS/ASPE publication, "About 2.5 million who currently buy coverage off-marketplace may be eligible for ACA subsidy." **Represents S&P Global Ratings forecast for 2017 marketplace enrollment.

Risks To Our Forecast

Our forecast could be different from the actual 2017 enrollment number if "take-up rates" among the eligible uninsured or off-marketplace population are much higher or lower than we assume in our analysis. We analyzed multiple data points, including previous take-up rates by states, income distribution of the eligible population, and the potential impact of active outreach by the government. But actual experience can be different from our assumptions.

Actual enrollment may be lower than our forecast if re-enrollment rates among individuals receiving subsidies are lower than we have assumed. We took into account the income-based premium tax credit that works somewhat like a shock absorber to the potential premium rate increases. Additionally, we observed the HHS issue brief that illustrated that tax credits limit the impact of premium changes on most marketplace enrollees ("The effect of shopping and premium tax credits on the affordability of marketplace coverage," published by HHS August 2016).

Another factor that would lead to a difference between the actual enrollment and our forecast would be price sensitivity of nonsubsidy marketplace enrollees. We have assumed that these individuals are highly price sensitive and a portion would not re-enroll in 2017 because of the increased premium rates. If the nonsubsidy marketplace population turns out to be less price-sensitive, actual enrollment numbers may be higher than our forecast.

It's Not Game Over For the Marketplace

The marketplace would benefit from growth in enrolment, especially if it helps improve the morbidity of the risk pool. But 2017 will likely not be the year the marketplace sees significant expansion.

Despite our expectation of a slow-down in exchange enrollment, we don't view this as "game over" for the marketplace. As we have said previously, we expect a five-year path to stability in the exchange business (see "Growth At A Cost: A Look At U.S. Insurers’ Expansion And Profitability in The Individual Market," published April 12, 2016, on RatingsDirect). During this period, pricing corrections by insurers are an unwelcome, but somewhat needed side-effect of the evolving insurance marketplace. But there remains a floor to the marketplace population. The subsidized population will not feel the full brunt of the premium rate increases and will likely re-enroll each year. And although the sticker shock of the premium increases will slow overall growth rates in 2017, continued targeted outreach, regulators' attempts to improve marketplace rules as they affect insurers, and moderation of premium rate increases beyond 2017 will likely bring growth back to the marketplace in future years.

Related Criteria And Research

Related Research

- Deal Or No Deal: What Effect Could The DOJ Decision On U.S. Health Insurer Mega-Mergers Have On Credit Quality?, July 21, 2016
- Industry Economic And Ratings Outlook: U.S. Health Insurer Midyear 2016 Outlook: Stable With A Tilt To The Downside, July 18, 2016
- Mixed Feelings: The ACA's 3Rs Affect U.S. Health Insurers Differently, July 18, 2016

- Growth At A Cost: A Look At U.S. Insurers' Expansion And Profitability in The Individual Market, April 12, 2016