

# Medicaid-focused insurers may benefit from having an ACA line of business post-COVID-19

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Medicaid enrollment increased around the country in 2020 due to the COVID-19 economic shutdowns.<sup>1</sup> As the pandemic subsides and the economy recovers, we expect Medicaid-focused insurers to lose membership to employer-sponsored coverage or the Patient Protection and Affordable Care Act (ACA) marketplace. Many Medicaid-focused insurers have already found success with ACA lines of business, as their enrollees churn between Medicaid and ACA eligibility.

This paper discusses *five reasons* why Medicaid-focused insurers may benefit from having an ACA line of business post-COVID-19.

## 1. Member retention

Medicaid enrollment generally follows the economic cycle.<sup>2</sup> During the 2000 and 2008 recessions, Medicaid enrollment increased much faster than the years immediately prior and then slowly returned to prerecession levels over time. The response to the COVID-19 pandemic resulted in a loss of income for many people around the country, similar to an economic recession.

Figure 1 below displays the increase in California enrollment in both the ACA market and Medicaid from early to mid-2020.

FIGURE 1: ENROLLMENT CHANGE IN CALIFORNIA

	Pre-COVID	Latest Data	Change	
ACA*	1,480,020	1,533,250	3.6%	53,230
Medicaid**	11,590,601	12,148,521	4.8%	557,920

\* Individual on-exchange; pre-COVID as of March 31, 2020; latest data as of June 30, 2020.<sup>3</sup>

\*\* Pre-COVID as of February 1, 2020; latest data as of September 1, 2020.<sup>4</sup>

With the extension of the public health emergency by the U.S. Department of Health and Human Services and another stay-at-home order imposed in most California counties since December 6, 2020, we expect more people to lose income and jobs in the next few months in 2021 and become eligible for Medicaid. A preliminary study from the Kaiser Family Foundation showed that the nationwide Medicaid enrollment increased by 7.4% from February to August 2020<sup>1</sup>.

When the COVID-19 pandemic subsides and the economy recovers, Medicaid enrollment will likely decrease, as experienced following economic recessions in the past. Some individuals will gain coverage through employers. Others may increase their incomes, resulting in a loss of Medicaid eligibility but newfound eligibility for premium tax credits in ACA plans.<sup>5</sup> Insurance companies offering both Medicaid and ACA plans may have a strategic opportunity to retain members transitioning between markets.

<sup>1</sup> Corallo, B. & Rudowitz, R. (January 21, 2021). Analysis of Recent National Trends in Medicaid and CHIP Enrollment. Kaiser Family Foundation. Retrieved January 28, 2021, from <https://www.kff.org/coronavirus-covid-19/issue-brief/analysis-of-recent-national-trends-in-medicaid-and-chip-enrollment/>.

<sup>2</sup> Snyder, L. & Rudowitz, R. (June 21, 2016). Trends in State Medicaid Programs: Looking Back and Looking Ahead. Kaiser Family Foundation. Retrieved January 28, 2021, from <https://www.kff.org/report-section/trends-in-state-medicaid-programs-section-1-medicaid-spending-and-enrollment-trends/>.

<sup>3</sup> Covered California. Data and Research. Retrieved January 28, 2021, from <https://hbex.coveredca.com/data-research/>.

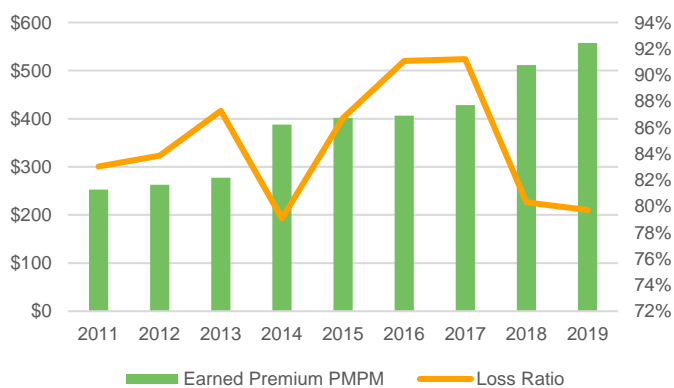
<sup>4</sup> Medicaid. Monthly Medicaid and CHIP Application, Eligibility Determination, and Enrollment Reports and Data. Retrieved January 28, 2021, from <https://www.medicaid.gov/medicaid/national-medicaid-chip-program-information/medicaid-chip-enrollment-data/monthly-medicaid-chip-application-eligibility-determination-and-enrollment-reports-data/index.html>.

<sup>5</sup> In states that have not expanded Medicaid eligibility under the ACA, individuals experiencing an increase in income may enter the coverage gap before being eligible for the ACA plans. See "The Coverage Gap: Uninsured Poor Adults in States that Do Not Expand Medicaid," Kaiser Family Foundation. Retrieved January 28, 2021, from <https://www.kff.org/medicaid/issue-brief/the-coverage-gap-uninsured-poor-adults-in-states-that-do-not-expand-medicaid/>.

## 2. Low pricing risk expected in the ACA market in the near term

Premiums in many states have started to trend toward stabilization in recent years.<sup>6</sup> For example, in the California individual market, the average premium has been stable since 2019.<sup>7</sup> The profitability in this market, implied by the loss ratios, has improved significantly since 2018, as shown in Figure 2. All else equal, both indicators suggest lower health plan pricing risk in the near term. The next couple of years may be a good time for Medicaid-focused insurers to consider entering the ACA market.

**FIGURE 2: AVERAGE PREMIUMS PMPM (BARS) AND LOSS RATIO (LINE) IN THE CALIFORNIA INDIVIDUAL MARKET<sup>8</sup>**



California is one example where state-level guidance promoted premium stability, as the state provided guidance to plans for funding the cost-sharing reduction subsidies and implemented a state-level individual mandate. However, similar trends were observed in a nationwide analysis done by the Kaiser Family Foundation,<sup>9</sup> indicating lower pricing risk in states other than California as well.

<sup>6</sup> Society of Actuaries (March 2020). Fifty States, Fifty Stories: A Decade of Health Care Reform Under the ACA. Retrieved January 28, 2021, from <https://www.soa.org/globalassets/assets/files/resources/research-report/2020/50-states-50-stories.pdf>.

<sup>7</sup> The average premium change is 0.8% from 2019 to 2020 and 0.5% from 2020 to 2021. See <https://www.coveredca.com/newsroom/news-releases/2019/07/19/covered-california-releases-regional-data-behind-record-low-0-8-percent-rate-change-for-the-individual-market-in-2020/> and <https://www.coveredca.com/newsroom/news-releases/2020/10/30/covered-california-starts-open-enrollment-and-consumers-can-begin-signing-up-for-2021-health-care-coverage-on-sunday/#:~:text=For%20consumers%20who%20need%20to,rate%20change%20of%200.5%20percent> (both retrieved January 28, 2021).

<sup>8</sup> CMS. 2011-2019 Medical Loss Ratio Data and System Resources. Retrieved January 28, 2021, from <https://www.cms.gov/CCIIO/Resources/Data-Resources/mlr>. Loss ratios shown in the graph are defined as incurred claims divided by earned premium.

## 3. Advantage of negotiating lower provider payments

Medicaid-focused insurance companies may be able to leverage their existing relationships with Medicaid providers when setting up provider networks for other lines of business. Providers participating in Medicaid are generally more likely to accept reimbursement below traditional commercial reimbursement levels. To the extent that Medicaid-focused insurance companies can negotiate lower provider payment rates than competitors, they may be able to offer lower premium plans in the ACA market. This advantage is key for obtaining a high market share in some service areas.

## 4. Claims data availability for risk adjustment and quality performance reporting when enrollees churn between Medicaid and ACA eligibility

Similar to Medicaid, membership churn is high in ACA plans as an individual's eligibility for premium tax credits fluctuates. A health plan with only ACA business or only Medicaid business may have only a partial year of data and an incomplete care management history for the portion of its membership transitioning between those markets. The current ACA market is primarily made up of individuals who are eligible for premium tax credits, and nearly half of the enrollees have incomes below 250% of the federal poverty level (FPL).<sup>10</sup> Prevalence of chronic diseases and poor health status is higher in low-income communities.<sup>11</sup> With a few months of coverage, ACA insurers may not have all the opportunities to provide care for all of their chronic conditions, therefore capturing all the diagnosis codes. Medicaid-focused companies may own a tremendous amount of the claims and medical history data of these members, which helps identify missing diagnosis records for reporting and analyzing data to improve risk adjustment outcomes and the quality of the ACA plans offered by the same entity.

<sup>9</sup> Fehr, R., McDermott, D., & Cox, C. (May 13, 2020). Individual Insurance Market Performance in 2019. Retrieved January 28, 2021, from <https://www.kff.org/private-insurance/issue-brief/individual-insurance-market-performance-in-2019/>.

<sup>10</sup> CMS. 2020 Marketplace Open Enrollment Period Public Use Files. Retrieved January 28, 2021, from <https://www.cms.gov/Research-Statistics-Data-and-Systems/Statistics-Trends-and-Reports/Marketplace-Products/2020-Marketplace-Open-Enrollment-Period-Public-Use-Files>.

<sup>11</sup> Centers for Disease Control and Prevention (September 1, 2016). Chronic Disease Disparities by County Economic Status and Metropolitan Classification, Behavioral Risk Factor Surveillance System, 2013. Retrieved January 28, 2021, from [https://www.cdc.gov/pcd/issues/2016/16\\_0088.htm](https://www.cdc.gov/pcd/issues/2016/16_0088.htm).

## 5. Care integration

Fragmented care is an ongoing issue in healthcare. Insurers may find it challenging to integrate care for members who frequently switch to different plans, coverage, and providers. Furthermore, it is not easy for insurers to carry out long-term care management plans and meet treatment goals. Medicaid-focused insurance companies may enable continuity in care for members transitioning between markets, thereby improving health outcomes and controlling costs by offering both Medicaid and ACA plans.

## Conclusion

Based on the reasons discussed above, Medicaid-focused insurers may find that adding an ACA line of business will help them better serve the Medicaid membership they gained during the COVID-19 pandemic. This strategy may help stabilize the membership of Medicaid-focused insurance companies when the COVID-19 pandemic begins to subside and the economy begins to recover. In addition, new carriers may benefit from lessons learned by the Medicaid-focused plans that have already been operating in the ACA market. The Medicaid and ACA individual market landscapes vary substantially by state and county; therefore, any potential business opportunity should be assessed on a case-by-case basis.

## Caveats and Limitations

The analysis provided in this brief is based on public information made available by the Centers of Medicare and Medicaid Services (CMS), Covered California, and other entities. We have not audited or verified this data and other information. If the underlying data or information is inaccurate or incomplete, the results of our analysis may likewise be inaccurate or incomplete.

The authors of this brief are members of the American Academy of Actuaries and meet its qualification standards to provide the analysis in this issue brief.



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