The AHCA Continuous Coverage Penalty and Young Adult Coverage

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Background

In March, House Republicans released a proposal, the American Health Care Act (AHCA), to end major provisions of the Affordable Care Act (ACA) – including the individual mandate. The AHCA attempts to replace this provision with a continuous coverage penalty;[1] however, this penalty differs in many respects, raising premium prices and disproportionately preventing younger consumers from enrolling in coverage.

Under the ACA, an individual faces a fine at tax time if she did not enroll in coverage for at least 9 months of the previous year.[2] The fine is assessed for each of the months that the individual lacked coverage.[3] Individuals who cannot find affordable coverage or face other financial hardships can seek an exemption to the ACA's penalty.[4]

The AHCA takes the opposite approach, raising costs prospectively for certain individuals when they try to enroll in coverage. Under the proposed continuous coverage penalty, individuals who have a gap in their health insurance coverage for more than 63 days during the previous year may face a 30 percent premium surcharge when they seek to enroll in coverage on the individual or small group market.[5] Unlike the ACA, the continuous coverage penalty would apply for a full 12 months regardless of how long an individual lacked coverage and would not include an income hardship or other hardship exemption. This provision would have an impact on cost for young consumers in two significant ways:

- First, as many as one-third of young consumers experience a gap in coverage over the course of a year, which could force them to pay higher premiums because of the 30 percent surcharge.
- Second, the surcharge will make healthy consumers – especially cost-sensitive young adults – less likely to enroll, ultimately harming the risk pool and increasing premiums.

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[1] "American Health Care Act, 115th Cong. (2017). p. 61-65. http://energycommerce.house.gov/sites/republicans.energycommerce.house.gov/files/documents/AmericanHealthCareAct.pdf.
[2] See Patient Protection and Affordable Care Act § 1501, I.R.C. § 5000A (2011).
[3] "If you don't have health insurance: How much you'll pay", HealthCare.Gov, accessed March 13, 2016, https://www.healthcare.gov/fees/fee-for-not-being-covered/.
[4] "Find health coverage exemptions", HealthCare.gov, accessed March 14, 2016, https://www.healthcare.gov/exemptions-tool/#/.
[5] "American Health Care Act, 115th Cong. (2017). p. 63. http://energycommerce.house.gov/sites/republicans.energycommerce.house.gov/files/documents/AmericanHealthCareAct.pdf.

Young Consumers More Likely to Face Continuous Coverage Penalty

The recent CBO analysis of the AHCA shows that the continuous coverage penalty will over time result in fewer consumers enrolled. It states that the penalty would create an initial increase enrollment of 1 million consumers due to people rushing to enroll and avoid the surcharge, but that in most years following about 2 million fewer consumers would enroll due to the penalty.[6] Given the data on coverage lapses, many of those 2 million discouraged consumers would be young.

Studies show that young people are far more likely to experience gaps in coverage. In fact, analysis of MEPS data looking at coverage transitions of 19- to 34-year-olds shows that as many as one-third of that age cohort could face a coverage surcharge under the AHCA.[7] Specifically, before the ACA, about 20 million young people, or 33.3 percent of young adults, experienced a gap in coverage over the course of a year because they were either uninsured already, lost coverage at some point in the year, or started the year uninsured but then gained coverage through the individual market.[8] In contrast, 19.7 percent of 34- to 65-year olds were uninsured at some point in the year. This makes young people almost 70 percent more likely to have a lapse in coverage than older generations, making them far likelier to face the surcharge.[9] A recent study using American Community Survey data showed similar results: of those who had insurance but lost coverage in the course of 24 months, almost half were young people,[10] despite being about one-third of the under-65 adult population and an even smaller percentage of the insured population.[11]

These coverage gaps reflect many of the unique circumstances Millennials face in their 20s and early 30s, particularly around major life transitions like moving or changing jobs, and less general financial security. Transitions in family living situations, job and career prospects, and the need at times to move for educational opportunities, mean that young people move at twice the national rate. Almost 25 percent of young people move at some point over the course of a year.[12] In addition, young people are more likely to change jobs,[13] at times losing

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[6] "Congressional Budget Office Cost Estimate: American Health Care Act", Congressional Budget Office, March 13, 2017, 12, accessed March 14, 2017, https://www.cbo.gov/sites/default/files/115th-congress-2017-2018/costestimate/americanhealthcareact.pdf.

[7] US Department of Health and Human Services Agency for Healthcare Research and Quality; Medical Expenditure Panel Survey (MEPS), Transitions in Health Insurance Coverage for Non-Elderly Adults in the U.S. (2011), generated by Sherry Glied. These numbers were pulled from 2011, before many of the changes from the ACA took effect, in order to better reflect a health market without a mandate or Medicaid expansion available.

[8] Ibid.

[9] Ibid.

[10] John A. Graves and Katherine Swartz, Understanding State Variation in Health Insurance Dynamics Can Help Tailor Enrollment Strategies for ACA Expansion, (Bethesda, MD: Health Affairs 32, no. 10, 2013), 1832-1840, accessed March 14, 2017, http://content.healthaffairs.org/content/32/10/1832.full.pdf+html.

[11] U.S. Census Bureau; American Community Survey, 2009-2011 Age and Sex 3-Year Estimates, generated by Colin Seeberger, using American FactFinder.

[12] Young Invincibles, "Young Adults More Likely To Qualify For Special Enrollment", accessed March 14, 2017, http://younginvincibles.org/wp-content/uploads/2014/04/Young-Adults-and-Special-Enrollment-FINAL.pdf.

[13] Ibid.

employer-sponsored insurance coverage as a result. One study showed 21 percent of young people changed jobs over the course of the year; some studies show job changes can occur even more frequently.[14]

Additionally, many Millennials are low-income and do not have savings needed to pay for premiums when facing income volatility. Young people have less savings and lower wages than their older counterparts – even when comparing those financial indicators to the circumstances prior generations faced when they were young. Wages have dropped by 20 percent and net wealth by 56 percent for young people since the 1980s.[15] As a result of these and other trends, this generation has savings rates at negative 2 percent.[16] The financially precarious situation that many young people face means that several bad financial months or just one personal crisis, such as the death of a loved one or cutting back on work hours to care for a sick parent or child, could mean a loss in coverage lasting longer than 63 days.

Finally, millions of young people are on a parent's plan,[17] and could encounter delays in enrolling in coverage as they age off that parent's plan and navigate the individual market for the first time. The bill appears to create a limited exception for young people who are aging off their parent's plan.[18] Under this exception, young people who lose access to a parent's plan because they turn 26 can avoid the penalty by enrolling in coverage during the first open enrollment period after their dependent coverage ended.[19] As a result, a small cohort of young people—those who recently turned 26—could experience a gap in coverage that is longer than 63 days without being subject to the penalty *so long as* they enroll during the next open enrollment period.[20] If they do not, they would still be subject to the penalty. However, this limited exception does nothing to address the challenges outlined for most young people.

Continuous Coverage Penalty Will Discourage Healthy Enrollees, Negatively Impacting Premiums

[14] Amy Adkins, "Millennials: The Job Hopping Generation, Gallup, May 12, 2016, accessed March 14, 2017, http://www.gallup.com/businessjournal/191459/millennials-job-hopping-generation.aspx; "Gen Y on the Job," Payscale, Inc., accessed April 15, 2014, http://www.payscale.com/gen-y-at- work; https://blog.linkedin.com/2016/04/12/will-this-year_s-college-grads-job-hop-more-than-previous-grads.

[15] Young Invincibles, "Financial Health of Young America: Measuring Generational Declines between Baby Boomers and Millennials," (Washington, DC: 2017), accessed March 14, 2017, http://younginvincibles.org/wp-content/uploads/2017/01/FHYA-Final2017-1.pdf.

[16] Josh Zumbrun, "Younger Generation Faces A Savings Deficit," Wall Street Journal, November 9, 2014, accessed March 14, 2017, https://www.wsj.com/articles/savings-turn-negative-for-younger-generation-1415572405.

[17] See Kara Brandeisky, "Why Millennials Are Turning Down Health Coverage At Work," Time, April 15, 2015, accessed March 14, 2017, http://time.com/money/3821525/health-insurance-age-26/.

[18] American Health Care Act, 115th Cong. (2017). p. 63-64. http://energycommerce.house.gov/sites/republicans.energycommerce.house.gov/files/documents/AmericanHealthCareAct.pdf.

[19] Ibid.

[20] Ibid.

If young adults are discouraged by the penalty and cannot afford to enroll, it could hurt the risk pool. While a recent RAND analysis showed that young people as a whole moving in or out of coverage may not have a large impact on the risk pool, when the healthiest and least-expensive young adults do not to enroll, it could result in a significant negative impact on the pool.[21] This policy creates that exact scenario. For a young consumer in particularly good health, the prospect of monthly premiums that are 30 percent higher for the following year may make them far less likely to enroll, while a less healthy young adult may do everything they can to pay for the increased cost. This would result in a less healthy risk pool, driving premiums higher than they would be without the penalty.

Young consumers will not be the only ones to impact premiums. The continuous coverage penalty would hurt all consumers who experience a gap in coverage – typically millions of people every year – and could particularly discourage enrollment among the high proportion of healthy enrollees of all ages who would have had a positive impact on the risk pool and therefore premiums.[22] The recent CBO analysis confirms this projection, stating that those who are deterred from enrolling due to the continuous coverage provision will tend to be healthier.[23] As a result, the penalty could have a significant negative impact on the risk pool and make premiums more expensive for everyone than they would be without the penalty.[24]

Conclusion

The continuous coverage penalty works directly against encouraging universal enrollment, despite the fact that drafters of the AHCA have stated an interest in bringing down costs for young people and consumers in general. By crafting a stringent penalty that punishes primarily younger consumers for trying to enroll after brief, common lapses in coverage, this proposed change would make it more difficult for millions of young people to obtain health insurance. Doing so is also likely to discourage the healthiest enrollees, ultimately raising premiums for everyone.

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[21] Christine Eibner and Evan Saltzman, "Assessing Alternative Modifications to the Affordable Care Act", RAND Corporation, 17, accessed March 14, 2017, http://www.rand.org/content/dam/rand/pubs/research_reports/RR700/RR708/RAND_RR708.pdf.
[22] Ibid., 24.
[23] "Congressional Budget Office Cost Estimate: American Health Care Act", Congressional Budget Office, March 13, 2017, 12, accessed March 14, 2017, https://www.cbo.gov/sites/default/files/115th-congress-2017-2018/costestimate/americanhealthcareact.pdf.
[24] See Blue Cross Blue Shield Association, "Key BCBSA Recommendations for the American Health Care Act", March 7, 2017, accessed March 14, 2017, http://big.assets.huffingtonpost.com/BCBSAletterAHCA.pdf.