Making New Law’s Health Insurance Subsidies Permanent Could Cut Uninsured by 4.2 Million, Study Finds

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If lawmakers acted to keep a temporary provision that expands access to affordable health coverage in 2021 and 2022 rather than allow it to expire, it could result in 4.2 million fewer uninsured people in the United States, according to an analysis by researchers at the Urban Institute, supported by the Robert Wood Johnson Foundation.

Among the provisions of the American Rescue Plan Act of 2021, passed by Congress last month, is an expansion of Affordable Care Act (ACA) marketplace subsidies during 2021 and 2022, the first expansion of such subsidies since the ACA was enacted in 2010.

For people who sign up for health coverage through the marketplace and were previously eligible for subsidies, the American Rescue Plan enhances premium tax credits, reducing the amount that households pay for premiums. With the new law’s provisions, everyone who is eligible for tax credits and has an income less than 150% of the federal poverty level can select a free silver-level (midlevel) health plan.

The American Rescue Plan’s other major change for people who seek coverage through the marketplace is its expansion of subsidy eligibility to individuals and families who previously didn’t qualify because their income was greater than 400% of the federal poverty level.

The changes could mean substantial savings. For example, the authors note that the Kaiser Family Foundation estimated that a 64-year-old person with an income just above 400% of the poverty level would pay $4394 per year under the American Rescue Plan, compared with $12 698 per year before the law was in effect.

The researchers used the Urban Institute’s Health Insurance Policy Simulation model to consider the new law’s temporary marketplace enhancements that would be in place in 2022 and estimate their effects if insurers, employers, and consumers had “responded to the new subsidy schedule as if it were fully phased in.” Under this scenario, in 2022, the number of uninsured people would decline by 4.2 million, or nearly 14%. Also, about 317 000 individuals who are enrolled in plans that are not compliant with ACA consumer protections—plans that often pose a risk of high medical bills because of hidden costs and limited coverage—would switch to more comprehensive ACA-compliant plans.

Enrollment in the subsidized marketplace would increase by 5.1 million, an increase of 60% in 2022. “Most of the previously uninsured people would be attracted to the marketplace by the enhanced subsidies,” the report says.

The researchers also predict that approximately 475 000 fewer individuals would be covered through their workplaces if the higher subsidies became permanent. Most would likely move to the ACA marketplace because of the newly enhanced subsidies and lower premiums. Some—estimated to be fewer than 10 000 people—would become newly uninsured because of the new law; most of the newly uninsured would be eligible for Medicaid or marketplace subsidies but would choose not to enroll, the researchers note.

Since the ACA was first proposed, some policy makers have expressed concern that the subsidies available in the nongroup market would encourage employers to stop offering employer-sponsored insurance to their workers, the authors note. “However, research shows that most employers responded to the ACA by increasing the rates at which they offer insurance to their employees.”

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employees, and total [employer-sponsored insurance] coverage increased in the years following implementation of the marketplace in 2014,” they said.

In addition, the model predicts that the influx of new enrollees in the marketplace under the American Rescue Plan’s enhanced subsidies would “reduce the average health risk scores in the entire nongroup market,” reducing premium costs by about 15% in 2022.

The main reason average health risk would decrease under the American Rescue Plan’s enhanced subsidies, the researchers said, is that individuals with greater health care needs are more likely to have already purchased coverage before the new law was enacted. “The enhanced [subsidies], estimated here, are more likely to attract uninsured people with average or lower health needs, including younger enrollees,” they note.

The analysis found that total spending on both premiums and out-of-pocket expenses would decline 23%, from $4926 to $3788 per person, but savings would vary considerably based on income bracket. For example, average spending on premiums and out-of-pocket expenses would fall 32% among people with incomes below 200% of the federal poverty level (from $2496 to $1689 per enrollee), compared with a decline of about 20% among those with incomes above 400% of the poverty level (from $8885 to $7413 per enrollee).

The changes in coverage from making the new law’s enhanced subsidies permanent would increase federal spending by an estimated $17.6 billion in 2022, the report says.

The researchers note that their estimates of the American Rescue Plan’s effects differ from those of the Congressional Budget Office (CBO), which based its estimates on the law as it was written, including the temporary nature of the expanded subsidies. The CBO estimated that number of uninsured individuals would drop by 1.3 million—far short of the Urban Institute’s report projected figures if the new law’s enhanced subsidies became permanent.

“Making the enhanced ACA subsidies in the American Rescue Plan Act permanent would have a dramatic effect on both coverage and affordability,” said Katherine Hempstead, PhD, senior policy adviser at the Robert Wood Johnson Foundation, in a press statement. “Enhancing premium tax credits could positively impact the marketplace, leading to greater insurer participation and resulting in lower premiums. That’s good news for consumers and insurers.”