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The American Health Care Act is a Bad Deal for Tennessee

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On May 4th, the U.S. House of Representatives narrowly passed the American Health Care Act (AHCA), which repeals major parts of the Affordable Care Act (ACA) and radically restructures Medicaid, our nation's largest health insurance program. The bill violates pledges by Congress and President Trump to preserve Americans' health coverage and make care more affordable. The Congressional Budget Office (CBO) estimates that the AHCA would increase the number of uninsured Americans by 23 million, make health coverage more costly, especially for older Americans, and shift \$834 billion in Medicaid costs from the federal government to the states and health care providers.¹ Since the first attempt at the AHCA, it has only gotten worse for many of the people who need health insurance the most: the latest version lets states drop key protections for people with pre-existing health conditions. The American Health Care Act will return us to the days of insurance discrimination on the basis of gender, disability, or health condition.

The bill now moves to the Senate, where Tennessee Senator Lamar Alexander, Chair of the Senate Health Committee, has identified several goals for the AHCA, including lowering premiums, stabilizing health insurance markets, and ensuring access to coverage for people with pre-existing conditions. The AHCA, however, cannot meet any of these goals. Instead, it will have the opposite effect. It will further destabilize the health insurance Marketplace. It will increase premiums, deductibles, and other out-of-pocket costs for millions of people with individual Market coverage. It will cut Medicaid for the children, seniors, and people with disabilities who rely on it. And it will remove crucial protections that the ACA put in place to ensure people with pre-existing conditions have access to affordable coverage.

The AHCA would hit Tennessee especially hard. It would leave over half a million Tennesseans uninsured.² It would substantially increase premiums and out-of-pocket costs, especially for older Tennesseans. It would permanently disadvantage Tennessee's Medicaid program, known as TennCare, relative to other

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states. The AHCA threatens the viability of many rural hospitals in the state. And it will further destabilize Tennessee's health insurance Marketplace. Tennessee's Senators should oppose this hasty, ill-conceived bill. Instead, they should engage with colleagues in a bipartisan fashion to come up with effective solutions that will build on the ACA's progress in making affordable health coverage available to all Americans.

Senator Alexander's Goals for the AHCA in the Senate

Senator Alexander has identified the following four goals for the AHCA in the Senate:

- 1) lowering premium costs, which have increased under the ACA;
- 2) gradually giving states more flexibility on the Medicaid program, but doing this in a way that does not pull the rug out from under people who rely on Medicaid;
- 3) making sure those with pre-existing conditions have access to insurance; and
- 4) rescuing the thousands of Tennesseans and millions of Americans who will be trapped in collapsing Affordable Care Act exchanges with few or even zero options for health insurance in 2018 unless Congress acts.³

Here's how the AHCA measures up to those goals:

1. Lowering Premiums

Senator Alexander has expressed serious concerns about rising health insurance premiums under the ACA, and has promised that the Senate version of the AHCA will reduce premiums. Marketplace premiums did increase significantly in 2016, especially in Tennessee, which saw the second highest premium increases in the country.⁴ Much of the increase, however, was due to a one-time adjustment for initial underpricing of premiums.⁵ In 2014 and 2015, for example, Tennessee had among the lowest Marketplace premiums in the country, so the 2016 premium increase meant that rates in Tennessee caught up with the rest of the country. Experts have concluded that the Marketplace is now poised for greater price stability and success going forward (although the ongoing threat to repeal the ACA and recent actions⁶ by the Trump Administration have already changed this trajectory).

The real threat to the affordability of health coverage is the AHCA. Millions of people — especially older people — would pay far more for coverage under the AHCA than they do under the ACA. Setting aside its provisions raising costs for people with pre-existing conditions (discussed below), the bill would raise total out-of-pocket costs — premiums, deductibles, copays, and coinsurance — by an average of \$3,600 in 2020 for people who buy health insurance through the ACA marketplaces.⁷ Tennessee would be hit especially hard by these cost increases. The average increase in total out-of-pocket costs for Tennesseans buying insurance on the Marketplace would be even higher, around \$5,709 in 2020.⁸

- **The AHCA would sharply reduce premium tax credits.** Under the ACA, low- and middle-income individuals without access to other health coverage are eligible to receive tax credits to offset some or all of the cost of health insurance premiums for coverage purchased through the Health Insurance Marketplaces. The amount of the tax credit is based on an individual's income and the cost of insurance available through the Marketplace for an individual of a similar age living in the same geographic area. Thus, people who live in high-cost states, who are older, or who have lower incomes receive larger tax credits. The AHCA would change this formula, providing a flat credit based only on an individual's age, ranging from \$2,000 for people under 30 to \$4,000 for people over 60. Thus, tax credits under the AHCA would be the same regardless of an individual's income or the cost of insurance. This change would reduce tax credits to help people pay premiums by an average of \$1,500 nationwide in 2020, but the reductions would be dramatically larger in Tennessee, where credits would fall by an average of \$4,158.⁹
- **The AHCA would increase deductibles and other out-of-pocket costs.** The AHCA would repeal the ACA's cost-sharing reductions (CSRs), which allow households earning less than 250 percent of the federal poverty level to enroll in plans with substantially lower deductibles, co-payments, coinsurance, and out-of-pocket limits. Without CSRs, many working families would have difficulty paying the deductibles and other cost sharing necessary to access their coverage. For example, an individual earning under \$18,000 per year would face an average deductible of \$3,063, about 17 percent of income, before receiving any benefits. Experts consider household spending of more than 10 percent of family income on premiums or deductibles to be a "catastrophic" level of spending.¹⁰ The burden of repealing CSRs would fall disproportionately on working Tennesseans. Nearly 60 percent of Tennesseans with Marketplace coverage receive cost-sharing reductions (CSRs), compared with only 16 percent of Minnesotans, 18 percent of New Yorkers, and 35 percent of Vermonters.¹¹
- **Older people would be hit the hardest by cost increases under the AHCA.** The ACA limits the amount insurers can charge older people for premiums to three times more than the amount charged to younger enrollees. The AHCA would change that, allowing insurance companies to charge older people five times more than younger people. This would cause premiums for individuals ages 50 to 59 to increase by an average of \$1,524 (a 13 percent increase) and premiums for individuals ages 60 and over to increase by an average of \$3,192 (a 22 percent increase).¹²

2. Preserving Medicaid for People Who Rely on It

The AHCA would cut federal funding for Medicaid, which we call TennCare, by \$839 billion over ten years. It would do this by making two major changes to the program.¹³ First, it would effectively end the Medicaid expansion that has allowed 31 states and Washington, DC to provide coverage to 11 million low-income adults. This would ensure that the 280,000 Tennesseans who would be eligible under Governor Haslam's Insure Tennessee plan would remain uninsured.

Second, the AHCA would radically restructure the way Medicaid is funded by converting it to a block grant or per capita cap. For 50 years, Medicaid has operated as a federal-state partnership. States run their own Medicaid programs within broad guidelines set by the federal government. In return, the federal government pays a significant portion of the costs of the program. In Tennessee, the federal government pays about 65 percent of the cost of running the TennCare program. Federal spending increases in response to the rise in the cost of providing care to enrollees, sharing the costs equitably with states. This financing structure allows states to respond to changing demographics, economic downturns, natural disasters, epidemics and the development of new medical treatments.

The AHCA would replace this partnership with an arbitrary cap on federal Medicaid spending, either through a federal block grant to the states or a “per capita cap,” in which federal funding would be capped based on how much states spent per enrollee in 2016. Under either a block grant or a per capita cap, federal funding would cover a decreasing share of actual medical costs over time. Because federal funding would be capped, Medicaid populations would be forced to compete for fixed resources from the federal government, leading states to make difficult decisions about who to cover (for example, states may have to choose between covering children or their parents or people receiving home and community based care).

All states will be hurt by capping federal funding for Medicaid under the AHCA, but Tennessee will be hit harder than other states. Tennessee already gets less federal funding per Medicaid enrollee than most other states. Massachusetts, for example, gets an average of \$5,545 in federal funding per Medicaid enrollee. New York gets an average of \$5,153 per enrollee. Tennessee, in contrast, only gets an average of \$3,644 in federal funding per enrollee. The disparity in federal funding is even greater for Medicaid enrollees with disabilities and older Medicaid enrollees. New York gets an average of \$16,904 in federal funds per Medicaid enrollee with a disability and \$14,168 per older enrollee, while Tennessee only gets \$9,542 and \$10,234 for these enrollees respectively.¹⁴

Under a per capita cap, states like Tennessee that receive less federal funding per enrollee in their Medicaid program will fare worse because future federal funding will be based on how much states have received per enrollee in the past, and these inequities will be locked in for the future. Thus, if Tennessee wants to pay doctors more for treating TennCare patients, we would not be able to do so unless the state paid 100 percent of the cost. States that already spend more per enrollee will begin with more federal funding, so they will be able to pay providers more. Similarly, if the costs of critical drugs or devices, such as EpiPens, increase or if treatment needs rise through, for example, increased diagnoses of autism, Tennessee would be at a disadvantage because our federal funding would be capped at a lower rate than other states.

The AHCA’s cuts to Medicaid will also threaten Tennessee’s healthcare infrastructure, especially in rural areas. Tennessee is already a national leader in the rate of rural hospital closings.¹⁵ These hospitals get most of their revenues from federal programs,¹⁶ so changes to those programs can spell the difference between survival or extinction. There are 108 general medical and surgical hospitals in Tennessee. If the AHCA is implemented, 32 are at risk of major cuts or even closure because they have, on average, lost money over the past three years.¹⁷

If cuts to the Medicaid program cause these hospitals to close, it would leave 26 more Tennessee counties without a hospital and would have a devastating effect on Tennessee's economy. The loss of a community's only hospital is disastrous. It diminishes access to care for everyone, whether or not they have health insurance. It takes longer to get to an emergency room after a stroke or car crash. Cancer patients must travel farther for chemotherapy. Doctors move away to communities with hospitals available to care for their patients.

The impact goes beyond health care. Hospitals are among the largest employers.¹⁸ When a hospital dies, it hemorrhages jobs. These at-risk hospitals directly employ over 14,000 Tennesseans, and indirectly sustain tens of thousands more jobs. Without a hospital, it's hard to recruit new industry.¹⁹ Young people move away. Communities wither, a cherished way of life fades.

3. Ensuring Access to Coverage for People With Pre-Existing Conditions

The AHCA removes key protections that the ACA put in place nationwide to let people with pre-existing conditions get affordable coverage. It would allow states to waive both the ACA's standards for what health benefits insurance plans must offer and its prohibition on charging people more based on their medical history. This would be devastating for the 1.25 million Tennesseans with pre-existing conditions.²⁰ Insurance companies could once again discriminate against people based on their medical history. They could increase premiums by unlimited amounts for people with a history of cancer, hypertension, asthma, depression, or other conditions. If insurers charged people the full expected cost of their conditions, that would mean premiums exceeding \$100,000 per year for people with metastatic cancer, premiums in the tens of thousands per year for people who are pregnant or need treatment for substance use disorders, and large premium increases for people with common pre-existing conditions like asthma, depression, or diabetes.²¹

The AHCA would also allow states to waive the ACA's Essential Health Benefits standards starting in 2020. Under the ACA, health plans are required to cover key services, such as inpatient and outpatient care, prescription drugs, mental health treatment, substance use disorder treatment, and maternity care. Waiving Essential Health Benefits would create an incentive for insurance companies to drop coverage for expensive services like cancer treatment, high-cost drugs, or mental health treatment in order to discourage sicker, higher-cost people from enrolling in their plans. As a result, people with pre-existing conditions may not be able to find a plan covering the services they need.

Even if the Senate removes these damaging provisions, many people with pre-existing conditions will find insurance no longer affordable under the AHCA. The AHCA's elimination of cost-sharing reductions and its increase in premiums for older people hit hardest groups with higher medical expenses and who are most likely to have chronic illness.

4. Stabilizing Tennessee's Health Insurance Marketplace

Governor Bill Haslam recently described Tennessee as "ground zero" for insurers pulling out of the ACA Marketplaces.²² In 2018, 16 Tennessee counties may not have any health insurance

companies selling plans on the Tennessee Marketplace. Reflecting on this situation, Senator Alexander recently stated that 40,000 Knoxville residents “may have an ObamaCare subsidy next year, but it’ll be like holding a bus ticket in a town where no buses run.”²³ Uncertainty about the future of the ACA and the rules for the marketplace is creating similar problems in other states.

The AHCA does nothing to stabilize the market but instead ensures its collapse. Insurers have warned that the elimination of cost-sharing reductions – a core feature of the AHCA – makes their insurance products unaffordable to many of their customers. [That provision alone is enough drive them out of the market.](#)

Senator Alexander and Senator Bob Corker have filed their own bill to try to address the market instability problem. To provide options for people in counties without any Marketplace insurers, they proposed the Health Care Options Act of 2017 (HCOA). This bill would allow people who live in counties without Marketplace insurers to use federal premium subsidies, which are currently only available for people buying coverage on the Marketplace, to purchase any individual plan available in the state.

Even if the HCOA were enacted as part of an ACA replacement package, it would not address the unaffordability of coverage resulting from the elimination of cost-sharing reductions. And, in any event, it is unclear whether there would be enough time for insurance companies and regulators to implement the law before Marketplace enrollment reopens in November.²⁴ More fundamentally, the proposal won’t work and will likely further destabilize health insurance markets in Tennessee and around the country.

The HCOA would allow insurance companies to receive federal subsidies for plans that do not comply with the important consumer protections of the ACA. These “off-Marketplace plans” could charge higher premiums to people with preexisting medical conditions or exclude coverage for preexisting conditions altogether. They could omit coverage of essential health benefits, such as emergency services. They could impose annual and lifetime limits. Those are all practices prohibited for Marketplace plans. Indeed, the HCOA would subsidize plans that do not even satisfy the definition of “individual health insurance coverage” under federal law.

Allowing federal subsidies to pay for such skimpy plans would radically undermine the consumer protections put in place by the ACA. People with preexisting health conditions may still be unable to find affordable coverage, because health insurance companies may charge them far higher premiums or simply deny them coverage. People with substance use disorders or mental health problems may not be able to get treatment because their health plans may not cover those services – a particular problem in counties where the opioid epidemic is raging and the need for treatment is great.

Moreover, the HCOA could further destabilize Tennessee’s health insurance markets by creating an incentive for insurers to exit the Marketplace and still receive Marketplace subsidies for plans that don’t meet Marketplace standards. If the Act is implemented, more insurers will likely withdraw from the Marketplaces, in other parts of Tennessee and around the country.

Conclusion

The AHCA fails to meet any of the goals Senator Alexander has set for health reform in the Senate. If it is enacted, over 578,000 Tennesseans will lose health coverage. Those Tennesseans able to remain covered through the Marketplace will face increased out-of-pocket costs averaging over \$5,000 per person, unless they have a pre-existing condition, in which case their premiums could be much higher. The Tennessee state budget would sustain a loss of over \$5 billion in Medicaid funding over 10 years, forcing TennCare to make major cuts affecting TennCare's 1.5 million enrollees and the providers who care for them. And these things will continue to destabilize the health insurance Marketplaces, with rising premiums causing more healthy individuals to opt out of the Marketplace altogether, causing the Marketplace to completely unravel.

If the Senators really want to make sure that all Tennesseans have access to affordable health insurance, they should abandon their plans to repeal the ACA and end the uncertainty about the future of the law. Instead, they should engage with colleagues in a bipartisan fashion to come up with effective solutions that will repair the problems with the ACA and make affordable health coverage available to all Americans.

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