Powering the Future of Healthcare

Public Option – A bid to revive US healthcare?

CitiusTech

Preamble:

The Patient Protection and Affordable Care Act (ACA), also known as Obamacare, has been in the news ever since it came into existence in 2010. Public Option (PO) was initially proposed as a component of the ACA, but was removed in the final regulation. In the lead up to the 2020 elections, candidates deliberated on the following options during the primaries: Single payer system, Medicare for all, Public Option, 'Government-run' healthcare and Universal coverage.

Of these, the Public Option (PO) gained traction in a few states, enacting the version they chose. It is generally believed that the Public Option will promote healthy competition among health insurers, would expand access to care, reduce costs, and enhance quality of care. This white paper will cover:

- A high-level review of the Public Option at the federal and state levels
- Key trends in marketplace enrollment (2014-2021)
- The Public Option's implications on various industry segments
- CitiusTech's thoughts on the role of the Public Option and its impact on health equity

The Proposed Federal Public Option

The Biden-Harris administration conceptualized the Public Option to be offered to marketplace-eligible individuals, people with employer coverage, and low-income adults in the Medicaid coverage gap. Low-income uninsured individuals in coverage gap states would be automatically enrolled.

The Public Option premium rates are proposed to cap at 8.5% of the average household income, which would be accomplished through increased subsidies. Initially, the Public Option could pay slightly above average reimbursement for claims versus what private insurers pay. They may also charge lower premiums than private insurers, creating a more competitive product that could find wider adoption.

The average deductible under a silver-tier marketplace plan is $4,544 per person in 2020 (unweighted), though cost-sharing reduction (CSR) subsidies, available to people with income up to 250% of the federal poverty level (FPL), reduce silver plan deductibles for 52% of marketplace enrollees. The proposed federal Public Option would set the benchmark marketplace plan at the gold level, instead of silver, lowering deductibles and other out-of-pocket costs.

Public Option Goals

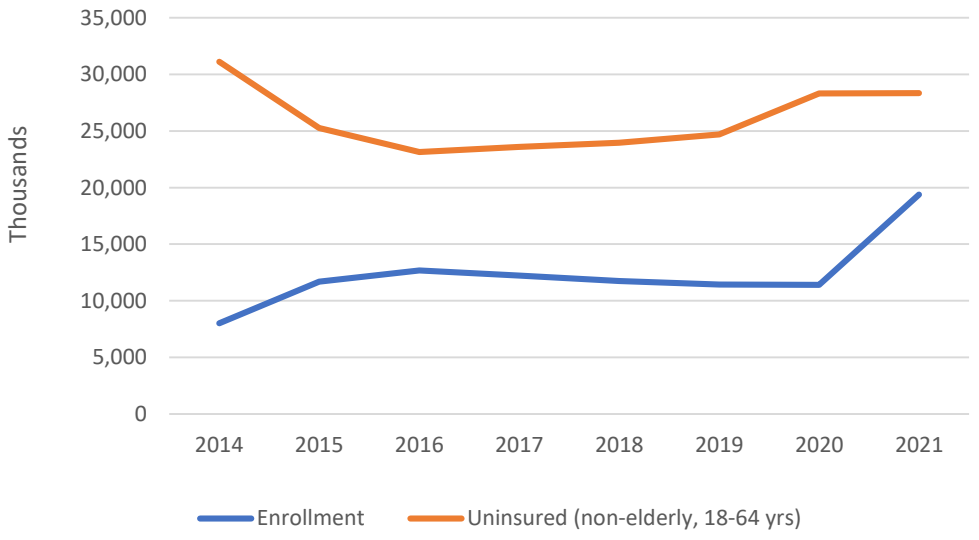
- Affordable and attractive coverage through reduced premiums and cost-sharing (deductibles, co-insurance, etc.)
- Improve access to care for the uninsured
- Focus on wellness and value-based healthcare initiatives to improve health outcomes
- Increase federal and state purchasing power across programs
- Strengthen federal and state marketplaces through competitive product offerings
- Introduce regulations to ensure stable health insurance offerings like coverage in limited-choice regions

Marketplace Enrollment (2014-2021)

Marketplace enrollment trends (Figure 1) indicate steady enrollment, until the recent increase. The Public Option would give members more choices when deciding which health plan product meets their needs. This could create healthy competition among health plans and eventually improve health outcomes while reducing costs. Figure 1 highlights the following trends and insights:

- Between 2019-2020, one of the key reasons for a steep rise in uninsured individuals could be attributed to the pandemic
- Rise in marketplace enrollment during the 2021 special enrollment period (SEP) and the open enrollment period (OEP) has decreased the gap
- It's believed that the Public Option will be a catalyst to further close the gap between insured and the uninsured populations

Figure 1: Number of Uninsured and Federal Marketplace Enrollment 2014-2021



Source: Marketplace Enrollment, 2014-2021 | KFF

A Comparative Analysis of State Public Options

A number of states have enacted their own versions of Public Option with the aforementioned objectives of increasing access to care and providing affordable coverage.

In 2021, Washington became the first state to implement and offer Public Option health plans on their state exchange. Washington residents in 19 out of 38 counties could enroll in a Public Option offering during the open enrollment period (OEP).

The Washington Public Option saw only 2.5% enrollment. To date, other state models bear no similarity with the structure of the Washington model, highlighting the importance of monitoring enrollment rates in other states like Colorado, Nevada, etc.

Comparison of Key Components in Select State Public Option Programs

Category	Washington	Colorado	Nevada
Start Date	January 1, 2021	January 1, 2023	January 1, 2026
Uninsured Rate (2021)	5.5%	6.6%	14%
PO Premium Rate	Listed with 4% higher premium on an avg than 2020	Listing Target: at least < 6% of 2021 premium rate	Listing Target: < 5% of private payers on the marketplace
PO Reimbursement Rate	▪ Max Capping - 160% of Medicare ▪ Primary Care – 135% of Medicare ▪ Rural Hosp. – 101% of Medicare	▪ No initial rate setting cap premiums down by <18% by 2025. If not, Rate setting @155% of Medicare ▪ If met - no rate setting cap	▪ Rate equal to Medicare (minimum)
Cost Containment	Payments received by providers exempted from the state business and operations tax	▪ Value-based payments may be used to incentivize addressing SDoH ▪ MLR - Plans are required to achieve 85% up from 80%	N/A
Health Plan's qualifying criteria	▪ Any willing plans to participate ▪ Selection through Request for Application (RFA) process ▪ QHP certified health plans	▪ Mandatory for all plans in the marketplace to participate ▪ QHP Certified health plans	▪ Mandatory for Medicaid managed care plans to submit a proposal ▪ Providers in Medicaid/state employees' health insurance plan required to accept public option patients
Benefit Design	▪ Essential Health Benefits (EHBs) included ▪ Same as offered by other carriers	▪ Essential Health Benefits (EHBs)	▪ Silver & gold-level QHP benefit packages

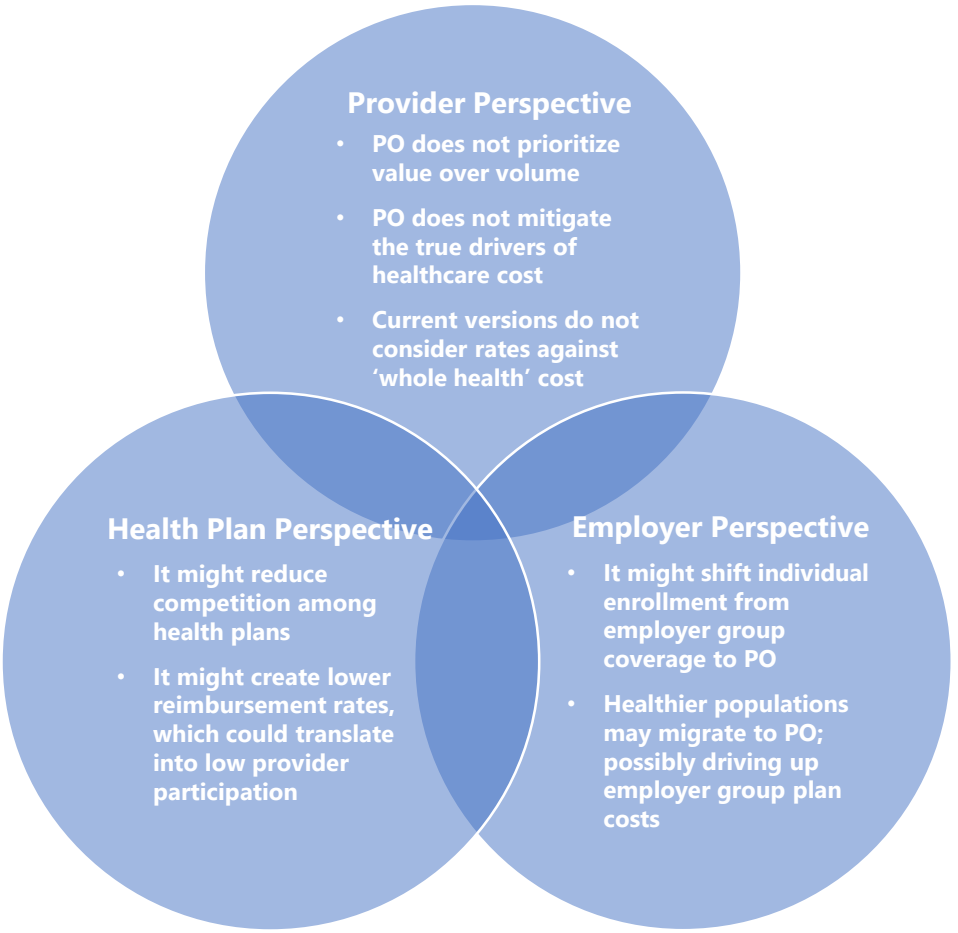
Source: State Public Options

Public Option Implications and Expectations for U.S. Healthcare

As of this publication, there are approximately 12.1 million uninsured Americans. The Public Option can be a viable choice to purchase affordable healthcare with potential government subsidy.

While the Public Option could provide coverage for millions of uninsured individuals, implementation and operationalization of federal or state Public Options will require significant legislative effort. Major stakeholders hold varying views and have valid concerns regarding the PO's impact on them.

The Figure 2 highlights the concerns of providers, payers and employers



Migration from Employer Group Coverage to Public Option: Employee and Employer Perspectives

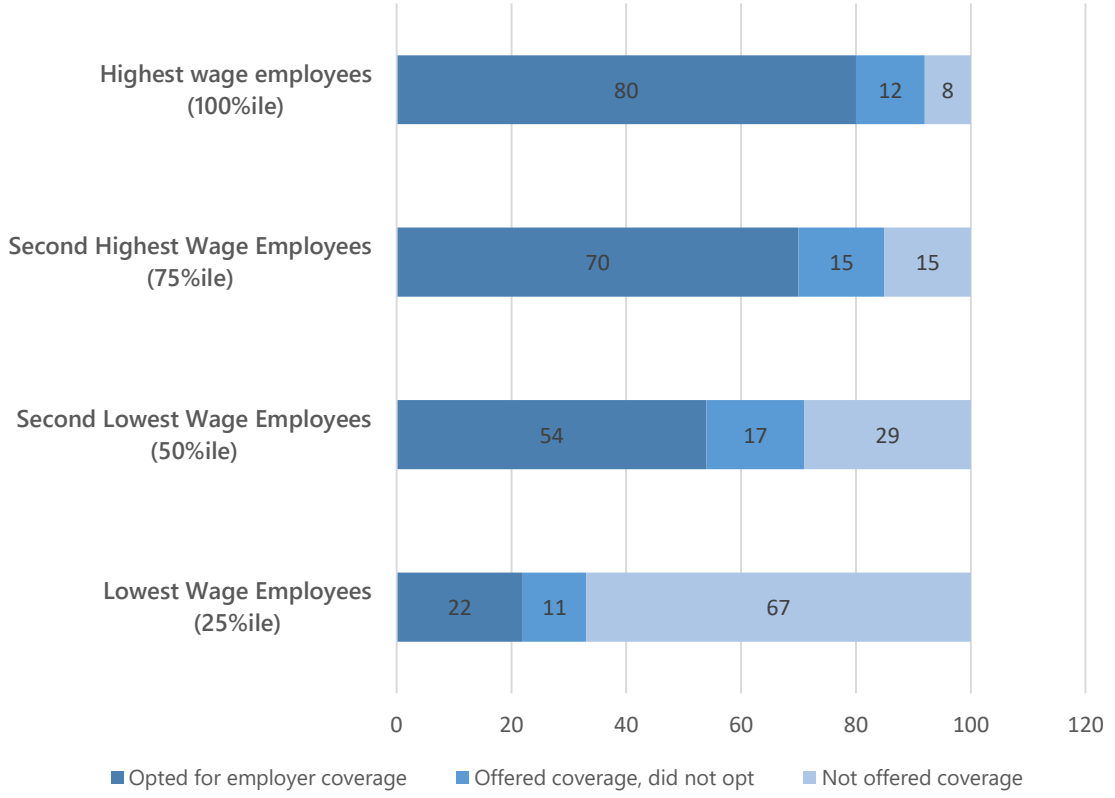
Many of the current proposals make a Public Option available for any eligible individual, allowing them to purchase through the marketplace. This implies that the state-based PO health plans would compete against, both, market-based private insurance plans, as well as employer-based group insurance plans. There have also been growing concerns about allowing employees to choose government-sponsored coverage as it would impact employer-based group insurance plans in several ways:

- Healthy populations, switching to a PO plan, might increase employer group plan cost, impacting affordability

- Employers would be required to pay an 8% payroll tax if their employees migrate to a PO health plan
- On the contrary, employers with a less healthy or higher-risk employee population might encourage employees to a more affordable PO health plan, saving employer and employee money

Figure 3 presents findings from the Center on Budget and Policy Priorities. As depicted, PO is mostly oriented to those workers who aren't offered coverage or cannot afford any of the available options. Taking this into consideration, many employer and employee concerns can be addressed with proper guidelines for choosing PO versus employer-based coverage, maintaining strong competition in respective markets.

Figure 3: Public Option will be most beneficial for two-thirds of lowest wage workers who aren't offered coverage



Source: Center on Budget and Policy Priorities (CBPP.ORG)

Public Option Impact on Providers:

While PO reimbursement rates vary from state-to-state, they are usually lower than private insurance rates. Will providers be happy with potentially lower reimbursement, and would there be enough impetus to focus on improving the quality of care provided?

Perhaps the biggest advantage of the PO for health systems would be lowering uncompensated care and bad debt.

According to the American Hospital Association (AHA), U.S. hospitals estimate that they provided more than $702 billion in uncompensated or charity care over the last 20 years. Approximately 21% of all hospitals, roughly 1,505 facilities, reported $10 million or more in bad debt in 2018 with one hospital claiming ~$909 million in unrecoverable costs. The Public Option could help reduce cases of bad debt by reducing the number of uninsured.

Impact of State Model Variations on the PO Goal

Different states that offer the public option have varied approaches in structuring their policies. One variation offered by Colorado and Washington states is optional health plan participation.

The Washington option invited interested health plans to participate in offering a PO after conducting a formal process.

Alternatively, the Colorado option mandates that each health plan on the state-based marketplace must offer a PO. Unwillingness to participate in a public option would force the payer out of the marketplace.

The mandated approach could adversely affect competition among health plans in the marketplace. This would conflict with one of key the PO objectives to offer competitive product offerings.

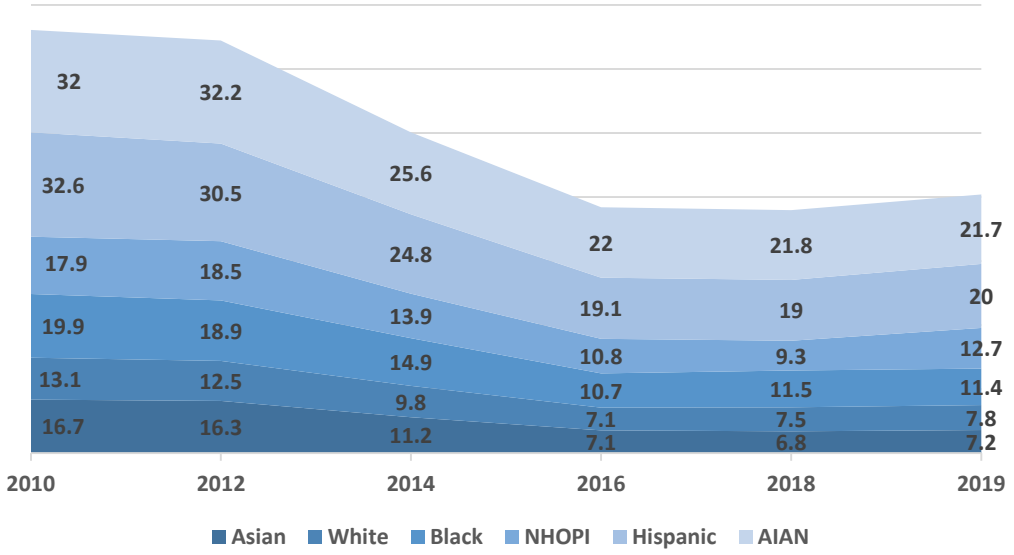
Public Option Impact on Health Equity

Health and healthcare disparities are often related to race and ethnicity, yet they occur due to a broad range of factors, including socioeconomic status, age, geography, language, gender, disability, citizenship, and sexual identity and orientation.

Federal efforts to reduce disparities focus on more vulnerable populations, including people of color, low-income populations, women, children/ adolescents, older adults, individuals with special healthcare needs, and those living in rural and inner-city areas.

Figure 4 – Social Determinants of Health

Figure 5: Inequitable health coverage across ethnicities



Source: KFF

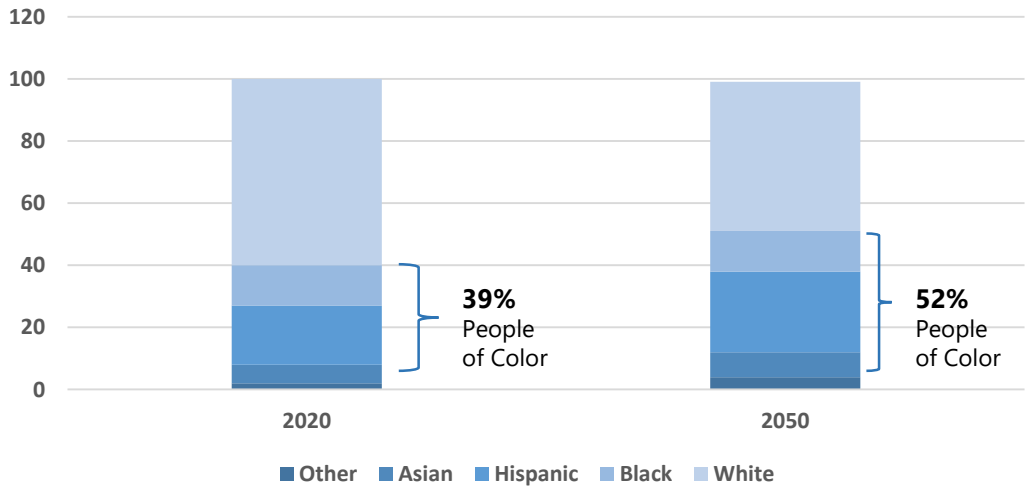
Note: AIAN – American Indians and Alaska Natives
NHOPI – Native Hawaiians and Other Pacific Islanders

The pandemic further exposed the depth of inequitable conditions to providing care, particularly along racial, ethnic, and socioeconomic lines. While these inequities manifested over time, there is renewed focus on decreasing inequity and bridging socioeconomic gaps to care.

In theory, the Public Option could be an important tool to reduce healthcare costs with the negotiating powers of the federal government. Then, these savings could be passed on to members and undeserved communities, possibly creating significant and sustainable equity improvements.

The Public Option also provides states with an opportunity to integrate benefits, services, and other investments into their health policy plans.

Figure 6: By 2050, more than half of the U.S. population will be non-white



Source: US Census Bureau, 2017 National Population Projections, Race by Hispanic Origin, 2017-2060

Looking Forward: A CitiusTech Perspective

A Public Option would encourage greater competition among health plans, particularly in markets with limited choices within the federal marketplace.

Historically, private insurance companies have catered to employer groups, and a relatively healthier sections of the population, partially leading to the current state of health disparities in the country. The Public Option would provide a way for uninsured individuals to secure affordable, quality care while encouraging the insured to choose a competitive health plan on the marketplace. Depending on how regulators design the policy, it could also pave the way to address many elements of health equity.

Additional regulatory efforts would be needed to maintain a steady focus on health equity and put constraints on how plans can select members, ensuring more individuals can receive coverage. With such guidelines in place, the Public Option could very well realize its full potential and create strong competition in the market while improving overall care.

The impact of Public Option policy could be minimal if it is designed only for a limited subset of the population, with benefits, cost-sharing, and subsidies similar to marketplace coverage. Conversely, the public option could have a substantial impact on coverage and costs if it is made widely available, offers comprehensive benefits at lower costs, extends coverage option for those in employer-covered plans, and uses Medicare provider payment rates as the benchmark.

Ultimately, such nuances and supporting details will define the impact of a Public Option policy on coverage, affordability, and, perhaps most importantly, on health equity.

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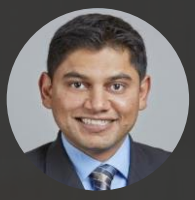

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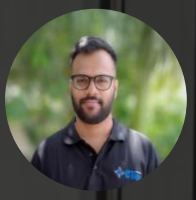

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