California slaps surcharge on ACA plans as Trump remains coy on subsidies

October 11, 2017

California’s health exchange said Wednesday it has ordered insurers to add a surcharge to certain policies next year because the Trump administration has yet to commit to paying a key set of consumer subsidies under the Affordable Care Act.

The decision to impose a 12.4 percent surcharge on silver-level health plans in 2018 means the total premium increase for them will average nearly 25 percent, according to Covered California. Taxpayers, not consumers, will bear the brunt of the extra rate hike because federal premium assistance for policyholders, which is pegged to the cost of coverage, will also increase.

Statewide, rate increases will vary by insurer and region. What consumers pay depends on where they live, their income, what level of coverage they want and which insurer they choose.

Californians can get their first look at next year’s health plan prices and options on the state’s rate calculator, released Wednesday.

The state’s open enrollment period, which is longer than that for the federal exchange, runs from Nov. 1 to Jan. 31. About 1.4 million Californians buy their own coverage through the state marketplace and nearly 90 percent receive financial assistance that reduces what they pay.

In August, Covered California announced that 2018 premiums would rise by 12.5 percent, on average, statewide. That ticked down slightly to 12.3 percent during regulatory review. But the exchange also warned that the additional increase, averaging 12.4 percent, would be added to the silver-tier plans if President Donald Trump failed to commit to continued funding for the so-called cost-sharing subsidies that help reduce some consumers' out-of-pocket expenses. Those payouts total about $7 billion this year nationwide.

Trump has continued paying them on a month-to-month basis while repeatedly threatening to cut them off and repeal the entire health law. He has referred to the payments as "bailouts" for insurance companies.

Peter Lee, executive director of Covered California, said the surcharge is far from ideal but that the uncertainty in the nation's capital left the state with no other option.

"Covered California worked hard to come up with a plan that ensures a stable market and protects as many consumers as possible from an unnecessary price hike," Lee said in a statement Wednesday.

The exchange took several measures in an attempt to shield consumers from the effects of the surcharge. One of them was to create a new silver plan to be sold outside the exchange to individuals and families who make too much money to qualify for federal subsidies. The surcharge will not be applied to those plans, sparing unsubsidized consumers that extra cost.

The surcharge will apply only to the silver-level plans, the second-least expensive option among the exchange's four tiers of coverage. That's because only people enrolled in silver plans benefit from the cost-sharing subsidies that Trump has threatened to terminate.

Covered California said that 78 percent of subsidized consumers will see no change in what they pay or may pay even less despite the surcharge being imposed. The remaining 22 percent of consumers will see higher net premiums. About half of those consumers will get increases of less than $25 per month, according to the exchange.

John Baackes, chief executive of L.A. Care Health Plan, said his 2018 rates will be 11 percentage points higher because of the added surcharge — a 23 percent average increase instead of 12 percent. His health plan has about 26,000 exchange enrollees. He said the higher premiums would be “totally avoidable” if the Trump administration implemented the ACA.

“We have to lay the blame for this at the foot of the Trump administration for being so irresponsible about this major portion of the law,” Baackes said. “This will not be a burden on most consumers, but it will be a higher cost to the U.S. Treasury. It all seems so ridiculous.”

Anthony Wright, executive director of the advocacy group Health Access California, criticized the Trump administration for playing “political games” with people’s health coverage and forcing Covered California’s hand.

“Even with Covered California’s workaround, consumers are facing additional complexity and confusion, if not costs, all because of the Trump administration’s contemptuous actions,” Wright said.

The last-minute changes, less than three weeks before the start of open enrollment, are likely to confuse some consumers.

In addition to higher rates, Covered California faces the loss of a major insurer across much of the state. In August, Anthem Blue Cross said it was pulling out from about half of California’s counties, forcing 153,000 customers to find new coverage.

The state has boosted its marketing budget by $5.3 million for the coming year to help Anthem customers research their options and to deal with questions stemming from the surcharge.

California’s Obamacare rates have been a key barometer of how the Affordable Care Act is working since coverage began in 2014. The state held rate increases to 4 percent the first two years and then premiums jumped 13.2 percent, on average, for 2017.

These rate increases apply to people who purchase their own coverage in the individual market, not the majority of Americans who get their health insurance through work or government programs such as Medicare and Medicaid.

Some members of the U.S. Senate have attempted to craft a bipartisan deal to fund the cost-sharing subsidies for up to two years in a bid to stabilize the exchange markets nationwide. But those negotiations stalled last month when Senate Republicans pursued the Graham-Cassidy legislation, the latest GOP attempt to roll back President Barack Obama’s signature law. Like previous repeal attempts, it failed to muster enough support in the Senate.

State officials and health insurers across the U.S. have faced tough decisions on whether to proceed with higher rates to compensate for the uncertainty swirling around the Affordable Care Act. Deadlines were pushed back repeatedly as insurance commissioners and exchange directors pleaded with Trump and Congress to shore up the existing market so insurers would stick around and rate increases could be minimized.

“Carriers across the country need certainty, and a federal commitment to funding [cost-sharing reduction] payments would lower rates in many states,” Lee said Wednesday.

In Idaho, for example, the average rate for silver plans will increase 40 percent in 2018, double what the rate hike would have been had the Trump administration committed to funding the cost-sharing subsidies, according to Dean Cameron, director of the state’s Department of Insurance.

If the cost-sharing subsidies are continued into next year, the added surcharges could mean insurers will end up collecting too much in premiums, and some arrangement will have to be made to return the excess money.

Trump has continued to rail against Obamacare, pointing to huge rate increases around the country and insurance companies fleeing the market. Rather than amending the Affordable Care Act, Trump favors other proposals to help make health insurance more affordable for individuals and families.

This week, he is expected to issue an executive order that would allow people and small businesses to join together and buy health insurance through what are known as association health plans.

Details haven't been released yet, but some health-policy experts say these new health plans could further destabilize the ACA's insurance markets if they aren't subject to the health law's regulations.

On Tuesday, Trump tweeted that "since Congress can't get its act together on HealthCare I will be using the power of the pen to give great HealthCare to many people – FAST."

Kaiser Health News reporter Rachel Bluth in Washington, D.C., contributed to this story.

This story was produced by Kaiser Health News, which publishes California Healthline, an editorially independent service of the California Health Care Foundation.
