

# ASSESSING THE IMPACT OF A PUBLIC OPTION ON MARKET STABILITY AND CONSUMER CHOICE

The health insurance marketplaces, established under the Affordable Care Act (ACA), rely upon a system of managed competition to ensure access, affordability and consumer choice in the individual and small group markets. This approach has effectively expanded coverage to millions of Americans,<sup>1</sup> the vast majority of whom receive federal subsidies to reduce premiums and, in some cases, other out-of-pocket costs.<sup>2</sup> Health care affordability remains a concern for many Americans, however, and proponents of a “public option” argue that offering a government-run health plan in the marketplaces will improve affordability and access by promoting competition and choice.

FTI Consulting sought to test this theory by modeling a public option and assessing its impact on market stability and consumer choice in the ACA marketplaces. The results suggest that – rather than spurring competition – the introduction of a public option would threaten the long-term viability of existing ACA plans, with half of current enrollees moving to the government plan by 2030. In fact, the large discrepancy in premiums under the public option scenario would eventually cause the elimination of all private plans in the individual market.

## BACKGROUND

The debate around the public option and related policies dates back to the early 20th century, when an earlier generation of progressive reformers sought to advance a compulsory national health insurance program. While the effort was ultimately thwarted by labor leaders concerned about the ability of government to successfully negotiate

## KEY FINDINGS

- Introducing a public option could create a “two-tier” health system where employer-based insurance provides access to a different set of hospitals or services than those available to enrollees in public insurance.
- The government would be expected to set premiums for the public option approximately 25 percent below market value for comparable private insurance plans, squeezing out private competition and diminishing consumer choice. The significant discrepancy in premiums would cause the eventual elimination of all private plans in the individual market.
- By 2028, 20 percent of state marketplaces would not offer a single private insurance option as a result of the introduction of the public option.
- In the first year following introduction of the public option, over 130,000 Americans enrolled in ACA coverage would be forced off of their existing health plan as private insurers exit the marketplaces. Over a decade, up to two million marketplace enrollees could experience a loss of private coverage.

adequate health benefits for workers,<sup>3</sup> similar proposals have since periodically resurfaced, notably during the debate over the ACA in 2009 and 2010. In each instance, the public option plan failed to secure the approval of Congress.

Over 90 percent of Americans have insurance, and the majority (56%) are covered by plans offered in the private market, primarily through employer-sponsored insurance.<sup>4</sup> Further, polling consistently shows that most Americans are satisfied with that coverage,<sup>5</sup> a fact that has served as a deterrent to policymakers considering single payer systems and even more targeted reforms that could have unintended consequences for existing consumers of private health insurance coverage. Given the risks involved – including increased premiums, health care workforce shortages, and the potential for widening health disparities – it is not surprising that government-run public plans have traditionally been less popular in the U.S. than policies that seek to strengthen the existing health care system, including the ACA marketplaces.

### RIPPLE EFFECTS: THE PUBLIC OPTION'S IMPACT ON PREMIUMS

Most iterations of the public option rely on government rate-setting based on Medicare payment systems in order to reduce costs relative to private insurance options. Research indicates this would not only negatively impact access to care for beneficiaries enrolled in the public option but would have ripple effects throughout the health care system.

In 2013, the Congressional Budget Office (CBO) found that the introduction of a public option would create pressure for cost shifting onto employer-sponsored insurance (ESI) and private plans on the ACA exchanges.<sup>6</sup> As patients left the private insurance system for the lower cost of the public option, CBO speculated that physicians would be forced to charge higher rates to private plans, retire early, or provide a lower standard of care.<sup>7</sup> In 2019, independent analysis of a version of the public option known as “Medicare X” conducted by KNG Health Consulting found that the policy would result in a 15 percent drop in ESI enrollment.<sup>8</sup>

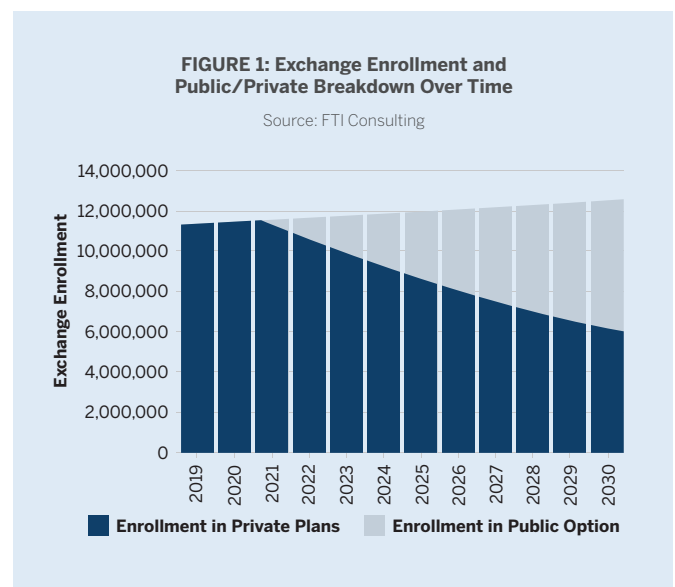
FTI Consulting’s analysis built upon this research to determine the short- and long-term effects of the public option on private coverage and the viability of the ACA marketplaces under a public option scenario. The results suggest that the introduction of the public option would destabilize the ACA’s market for private health insurance, ultimately leading private payors to exit the marketplaces entirely.

Take up of the public option would be gradual in the initial years following implementation, owing to the fact that consumers exhibit a strong behavioral preference for continuing their existing coverage. According to our

“A POTENTIAL DRAWBACK OF THIS OPTION IS THAT THE PUBLIC PLAN'S PAYMENT RATES TO PROVIDERS MIGHT BE MUCH LOWER THAN THE RATES PAID BY PRIVATE PLANS IN MANY PARTS OF THE COUNTRY, WHICH COULD LEAD SOME PROVIDERS WHO PARTICIPATED IN THE PUBLIC PLAN TO REDUCE THE QUALITY OF THE CARE THEY FURNISHED.”

– Congressional Budget Office  
*(Options for Reducing the Deficit: 2014 to 2023)*

estimates, a combination of factors, including reimbursement rates and administrative costs, would result in the government setting public option premiums approximately 25 percent below the market value of comparable private insurance plans, squeezing out private competition and diminishing consumer choice. As providers contend with increasingly insufficient reimbursements in public programs and shift additional costs onto private payors, premiums for private insurance plans could increase even more.



It is possible that due to the large differences in premiums, our assumption for switching underestimates the speed at which people exit the private insurance market. This would cause the transition to occur more quickly but, under either scenario, the large discrepancy in premiums would cause the eventual elimination of all private plans in the individual market.

**VIABILITY OF EXCHANGES**

The notion that fostering robust competition among private plans would ensure the viability of the exchanges while containing costs to consumers was a central premise of the ACA. Today, the relative success of exchanges with multiple insurers appears to affirm that theory. In 2018, premiums in state marketplaces with fewer than two insurers were 50 percent higher than those in states with competitive marketplaces (more than two insurers).<sup>9</sup> Advocates for the public option argue that it would spur more competition from private insurers, lowering premiums across the board and ensuring the long-term viability of the ACA marketplaces.

To the contrary, FTI Consulting found that the introduction of a public plan would drastically reduce – and eventually eliminate – the availability of private plan options.

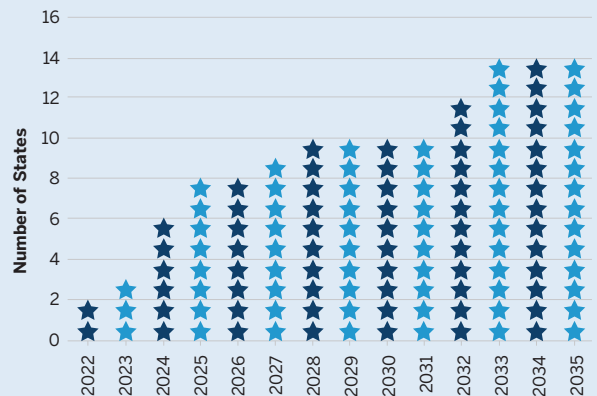
As consumers abandon private plans unable to compete with public option and the market for private coverage shrinks, insurers would be expected to leave the marketplaces altogether, diminishing choice even for those with the resources or subsidies to cover their preferred plan. According to FTI’s analysis, following introduction of the public option, 20 percent of state marketplaces would

no longer offer a single private insurance option by 2028. By 2050, that figure would be expected to reach nearly 70 percent (34 states), representing nearly a quarter of marketplace enrollees.

Insurance markets in rural areas would be particularly hard hit by the public option. Even in the minority of states with one or more insurers remaining in the marketplace in 2050, consumers outside of the states’ population centers may find few, if any, options for private insurance in the marketplaces. This in turn could create a “two-tier” health system where employer-based insurance provides access to a different set of hospitals or services than could be accessed through the public option,<sup>10</sup> exacerbating health disparities and harming the very population the ACA was designed to help.

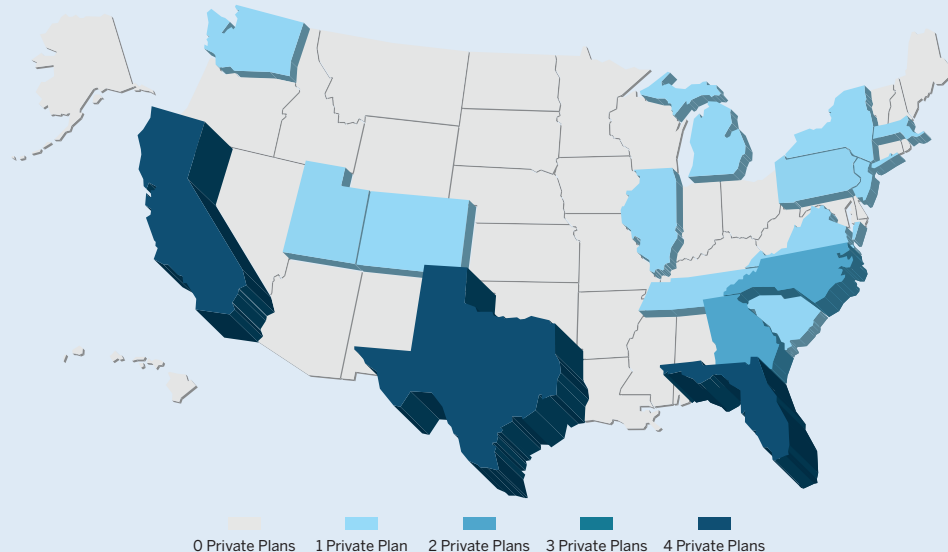
**FIGURE 2: States with No Private Marketplace Plan**

Source: FTI Consulting



**FIGURE 3: Number of Private Plans Remaining by State (2050)**

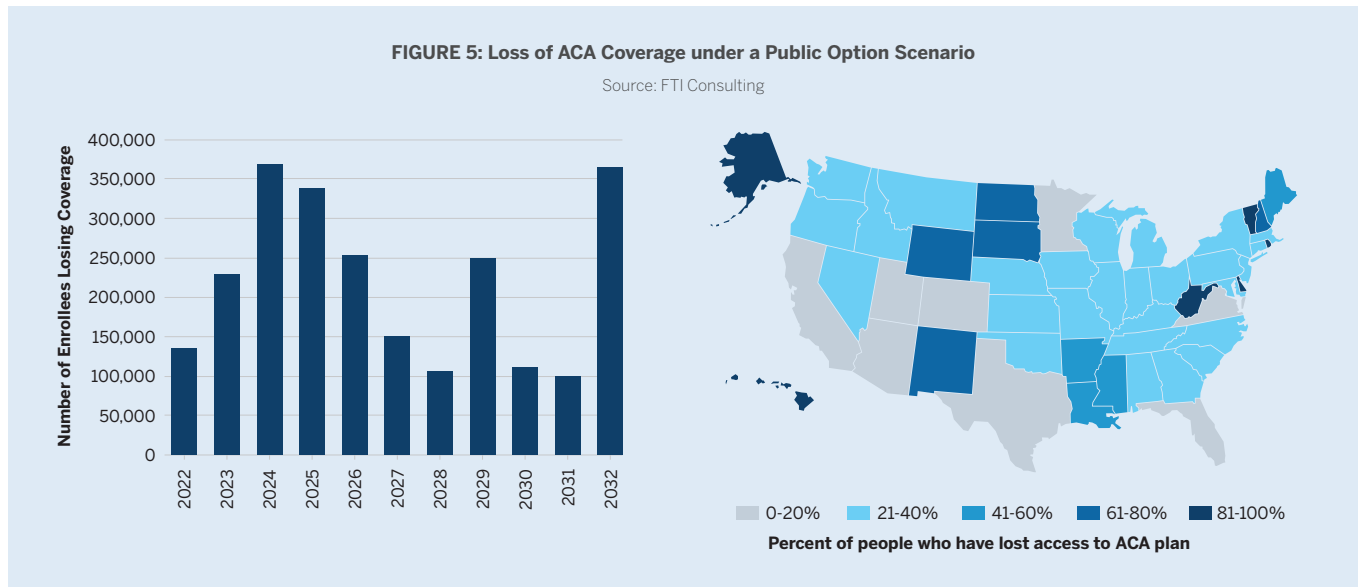
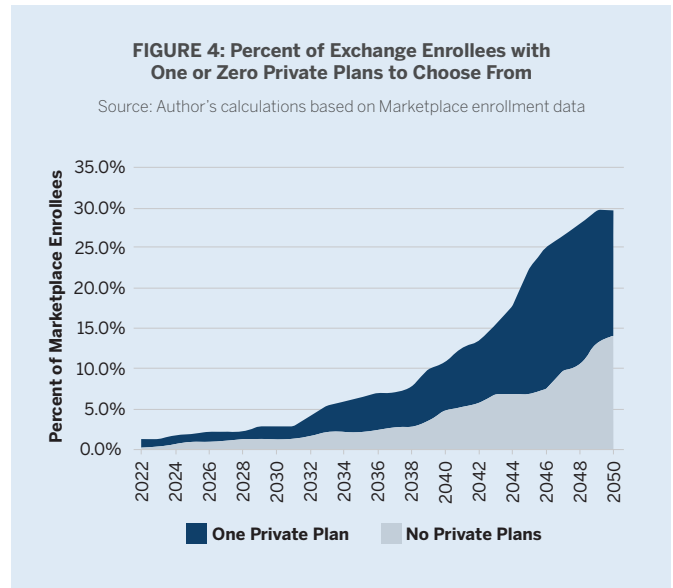
Source: Author’s calculations based on individual claims data



### EFFECTS ON CONSUMER CHOICE

The structure of the ACA, in which federal subsidies enable consumers to choose between private plans that compete on cost and quality, is reflective of the values of the society in which it was developed. The law has also been successful in expanding coverage to nearly 20 million previously uninsured Americans. Despite frustrations with the current health care system, Americans continue to value consumer choice and private sector innovation.

A January 2019 poll conducted by the Kaiser Family Foundation found that support for Medicare for All among voters dropped by more than 20 percent when those surveyed were informed that the policy would eliminate private health insurance companies.<sup>11</sup> FTI's analysis demonstrates that, while the effects would be more gradual than under Medicare for All, the public option would eliminate consumer choice for millions of Americans enrolled in the ACA exchanges and force many current enrollees to lose coverage. In the first year following introduction of the public option, over 130,000 Americans enrolled in ACA coverage would be forced off of their existing health plan. Over a decade, up to two million enrollees could experience a loss of private coverage as insurers exit the marketplaces.



## CONCLUSION

The success of the ACA in expanding affordable coverage through increased private sector competition is one reason why it remains popular today. For years, politicians have toyed with the idea of introducing a public option into our nation's health care system. Time and time again, efforts have failed when it became clear that doing so would destabilize health coverage for the millions of Americans satisfied with their existing coverage.<sup>12</sup> The results of FTI's analysis demonstrate that introducing a public option to the ACA marketplaces would not serve to build upon the existing system, but would instead displace private insurance plans in most markets. Instead of bearing the risks associated with public option plans, several states have implemented market stabilization measures, such as reinsurance, that have successfully reduced costs to consumers and state governments.<sup>13</sup> Such programs offer a potential alternative to the public option for policymakers seeking to reduce health care costs while preserving consumer choice.

## END NOTES

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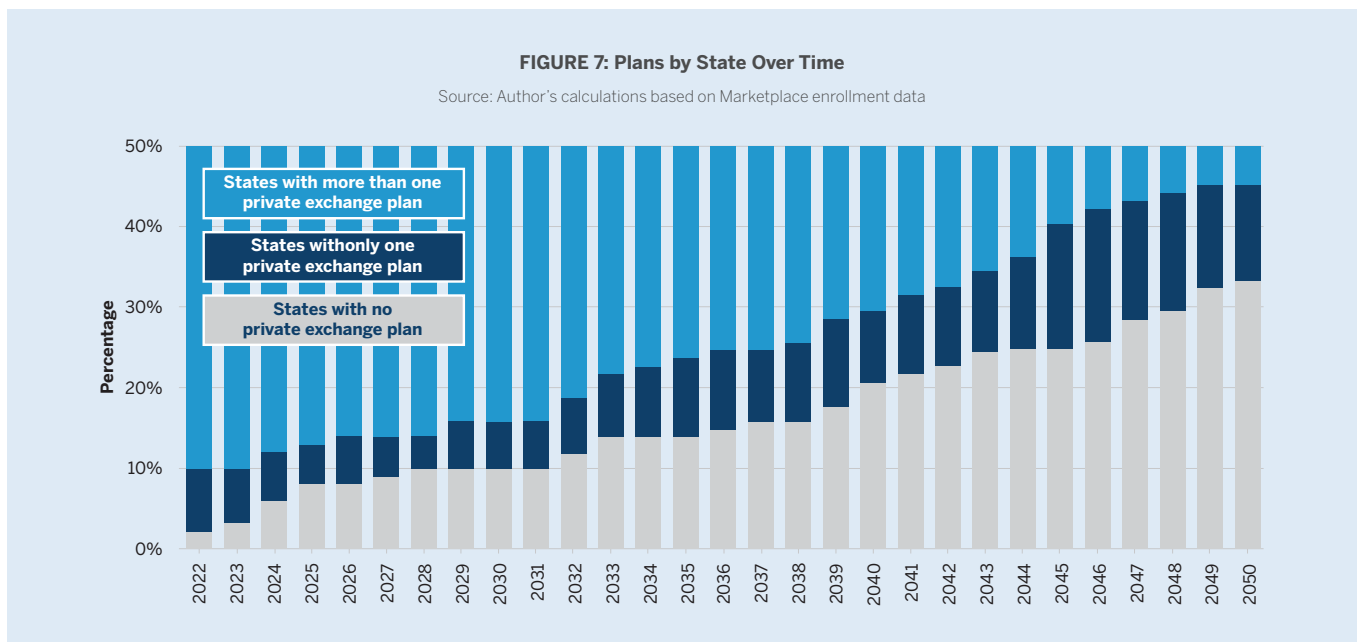
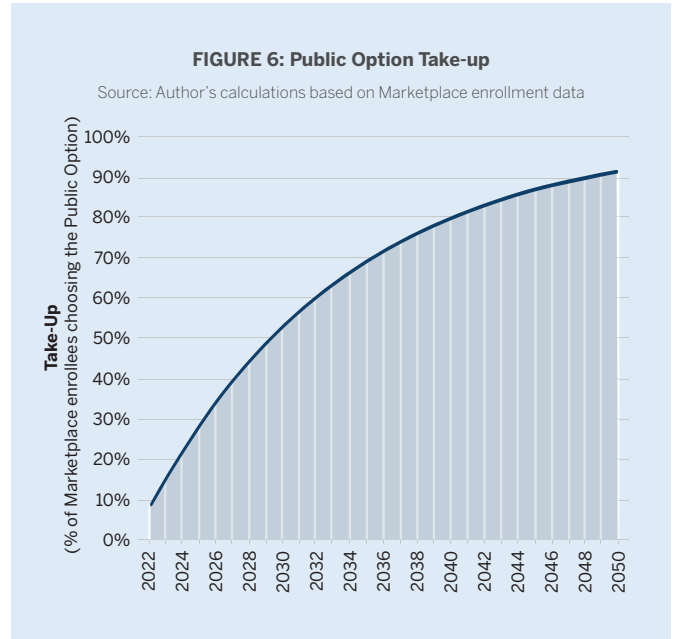
**APPENDIX: NOTES ON METHODOLOGY**

Analysts used individual-level claims data to model the offering of a public option that adheres to the restrictions of other exchange plans, but with lower reimbursement rates leading to lower premiums. The analysis is based on the addition of a silver-level public option to the health insurance exchanges, similar in design to Medicare, in which the premium is set to cover 100% of benefits and administrative costs for people on public plan. Reimbursement rates for public plan are set to Medicare rates plus 5% and eligibility for coverage and subsidies remain consistent with existing marketplace rules.

We then offered a choice between the public option or any of the available private plans to enrollees and determined who and how many would switch to the public option. Individuals could switch between public and private plans once per year. We modeled the evolution of premiums and take-up using this population based on the enrollees in both the public and private plans. The analysis assumed no change in access, quality or quantity of care.

The magnitude of the difference in premiums is large enough that it would be difficult for private plans to compete without drastic changes to their business model or the ability to pay the same reimbursements as Medicare does. In this analysis, we assume that does not occur. Because we do not assume that private plans can attract specific patients, healthy enrollees are just as likely to switch as unhealthy, and the

relative premiums don't change much over time. The results are confined to enrollees in the exchanges and have no impact on and are not affected by Medicare, ESI, Medicaid, or other non-exchange activities.





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