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Policy Options to Increase Health Care Coverage and Affordability:

Comparing Enhancements to the Affordable Care Act and a Public Option

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In conducting this analysis, the authors relied upon proposals set forth by then President-Elect Joe Biden and his team concerning his plans to reform the American health care system. Our analysis focused specifically on elements of the plan intended to expand coverage to the general population – namely, the public option and enhancements to the Affordable Care Act (ACA).

Since taking office, President Biden has championed policies aimed at strengthening the ACA in an effort to increase access to coverage and lower health care costs in the wake of a devastating surge in COVID-19 infections. On March 11, 2021, the President signed into law the American Rescue Plan Act (ARP), a $1.9 trillion economic stimulus package that included variations on several of the policies examined in this report. The ARP's health care measures include a temporary expansion of eligibility for financial assistance to purchase marketplace coverage, as well as a two-year increase in federal matching funds for states to expand Medicaid eligibility up to 138 percent of the federal poverty level (FPL). Like the policies modeled in our analysis, the law eliminates the "subsidy cliff" for those earning over 400 percent of the federal poverty level and caps premium costs at 8.5 percent of income for a period of one year. The Centers for Medicare and Medicaid Services (CMS) found that, as a result of these reforms, over half of enrollees will be able to obtain ACA coverage for under ten dollars a month in 2021.[1]

While the assumptions underlying our analysis were hypothetical at the time it was performed, we remain confident in our assertion that enacting such reforms on a permanent basis would serve to dramatically increase health care affordability over the long term.

Overview

The health care platform of President-elect Joe Biden aims to expand insurance coverage to the majority of Americans and lower health care costs for consumers. To accomplish these goals, Biden's platform proposes enhancing the ACA, lowering the age of eligibility for Medicare, and introducing a government-run public option. With all new policies come trade-offs, and as policymakers seek to understand the possible effects of new proposals, they should ensure adequate consideration of coverage gains, costs, and the extent to which such proposals would improve the system or upend it.

We analyzed key provisions of Biden's health care plan to determine the impact these changes would have on the uninsured rate and the broader health care system. We also examined how Biden's proposed policies compare to the opportunity under current law to reduce the number of uninsured by expanding Medicaid in all 50 states. The analysis revealed that the Biden plan's ACA enhancements, coupled with full Medicaid expansion, could lead to substantial coverage gains while preserving competition in the market and choice for consumers. However, the public option could upend the private insurance market, reducing choice for consumers while creating financial challenges for providers who would suddenly face an influx of patients on government plans with lower reimbursement rates.

KEY FINDINGS

- Biden's proposed enhancements to the ACA could achieve significant coverage gains – upwards of five million newly insured individuals – even without the creation of a public option or significant disruption to the private market or the health care system writ large.
- Biden's ACA enhancements could reduce net premiums by 24 percent on average, saving consumers approximately $10.6 billion annually. These changes could result in an estimated 5.08 million newly insured individuals on the exchanges, reducing the national uninsured rate by 1.5 percentage points.
- Medicaid expansion, a foundational component of the ACA, remains one of the most impactful ways in which states can reduce their uninsured rates. Twelve states have not expanded their Medicaid programs.[2] If these remaining 12 "non-expansion" states were to expand Medicaid, over 1.76 million individuals would become newly insured, reducing the national uninsured rate by 0.5 percentage points.
- The introduction of ACA enhancements combined with Medicaid expansion could decrease the U.S. uninsured rate by approximately 2.1 percentage points, whereas ACA enhancements combined with the public option could reduce the uninsured rate by approximately 2.7 percentage points.
- The public option could undermine the private insurance market driving 60 million people – or 40 percent of the market – out of employer-sponsored insurance (ESI) and potentially eliminating the private exchange market entirely.
- According to our analysis, implementing Biden's ACA enhancements and expanding Medicaid in the 12 non-expansion states would result in comparable coverage gains among vulnerable populations compared to the public option, without upending the existing health care system. Relative to specialized Medicaid managed care plans, that prioritize care coordination and address social determinants of health, the public option may not provide the coverage necessary to meet the unique health care needs of at-risk low-income populations.

Introduction

As the U.S. grapples with the COVID-19 pandemic, health coverage has become a top issue for millions of Americans, bringing it to the center of policy discussions around the nation. Now, as the country seeks to lower its uninsured rate, lawmakers are debating the future of health reform, including the ACA, which helped more than 20 million Americans gain insurance coverage and reduced the national uninsured rate to 10.4 percent in 2018.[3] Historically, health care reforms, including the ACA, have focused on covering the nation's most vulnerable, including low-income or disabled populations (Medicaid), those without ESI (exchange population), and seniors (Medicare). Ahead of the November presidential election, President-elect Joe Biden released a health care proposal that aims to increase the affordability of coverage for all Americans by building upon the ACA. The proposal would also establish a government-run public option that would extend coverage to low-income Americans living in states that have not expanded Medicaid, as well as other Americans through the exchange. However, the country already has a way to cover that population without establishing a government plan: full Medicaid expansion.

Our analysis found that enacting Biden's enhancements to the ACA and expanding Medicaid in all states would offer similar coverage gains as the public option without causing significant disruption to the U.S. health care system. Together, the ACA enhancements and full Medicaid expansion would reduce the country's uninsured rate among low- and middle-income populations and close the insurance coverage gap, all while encouraging competition in the current market and preserving ESI. In addition, as Medicaid is designed for low-income populations specifically, expanding Medicaid in all states would ensure that these Americans have access to benefits tailored to their health care needs. Comparatively, we found that introducing the public option to compete against private marketplace plans would undermine the private market and ultimately eliminate marketplace competition altogether, causing a harmful ripple effect across the health care system. The policy would also have serious implications for providers, who would lose money and resources due to lower reimbursement rates under the public option. When considering enacting a public option, policymakers should consider the adverse effects it may have on the health care system at large.

Biden Health Care Plan – Key Provisions

Enhancing the ACA:

- **Switching the benchmark plan for premium tax credits from silver to gold.** The Biden health care plan will base advance premium tax credits (APTCs) for exchange enrollees on the premium of the higher cost gold plan rather than the silver plan. Our model assumes that the new Biden plan APTC is estimated using a benchmark gold plan premium and the baseline APTC is based on the benchmark silver plan.
- **Limiting the cost of coverage for everyone to 8.5 percent of their income.** The Biden health care plan will eliminate the income cap for all APTCs, currently set at 400 percent of the FPL. His plan will impose a limit on cost of coverage for all families to 8.5 percent of their income.
- **Removing the ESI "firewall."** The Biden health care plan will open the exchanges to people who have the option to enroll in ESI. These individuals will be able to purchase an exchange plan using APTCs.

Creating a Public Option. The Biden health care plan establishes a new, government-run insurance option called the public option. The government plan would be offered premium-free to those in non-expansion states who fall into the coverage gap, which includes individuals who do not qualify for coverage under Medicaid or subsidies to purchase coverage on the exchange. We refer to these individuals as the "coverage gap population." Other individuals will also have an opportunity to purchase the public option. We assume premiums in the public option will be approximately 23 percent below the market value of comparable plans due to government rate setting of provider reimbursements. For our analysis, we assume a public option would be enacted after enhancing the ACA.

Provisions of the Biden Plan

For this analysis, we examined key coverage provisions of Biden's health care plan — focusing on its ACA enhancements and public option — and compared the impact of these provisions with existing opportunities to achieve coverage gains, such as Medicaid expansion, to determine the effect these changes would have on the affordability of coverage and the insured rate. In addition, we assume the "ACA enhancements," which build upon the existing law, would be implemented prior to the introduction of a public option. While enhancements to the ACA could conceivably be implemented in the first plan year following passage of legislation, establishing a new government-run plan would likely require additional time.

Affordable Exchange Coverage: The Key to a Reduced Uninsured Rate

Under the ACA, Americans with incomes below 400 percent of the FPL – an annual income of $51,040 for an individual or $104,800 for a family of four – are eligible for subsidized coverage on the exchanges in the form of APTCs based on family size, expected premium contribution based on income, and the cost of the benchmark plan.[4]

Additionally, premium costs are capped on a sliding scale based on income, with premium contributions ranging from between 2.06 percent to 9.78 percent of household income for this group.[5]

In addition, low-income ACA enrollees (between 100 percent and 250 percent of FPL) who qualify for APTCs are eligible for further financial assistance on the exchanges in the form of cost-sharing reductions (CSRs). CSRs reduce copays, deductibles, and coinsurance for low-income individuals enrolled in the silver-level marketplace plan.[6]

Tax credits and subsidies have elevated the exchange as a critical source of coverage for the lowest-income Americans. The majority of exchange enrollees have incomes below 200 percent FPL, with those between 100 to 150 percent FPL accounting for one-third of all exchange enrollees (Figure 1). In other words, more than half of all exchange enrollees earn less than $26,000 a year, with a significant number earning less than $20,000.

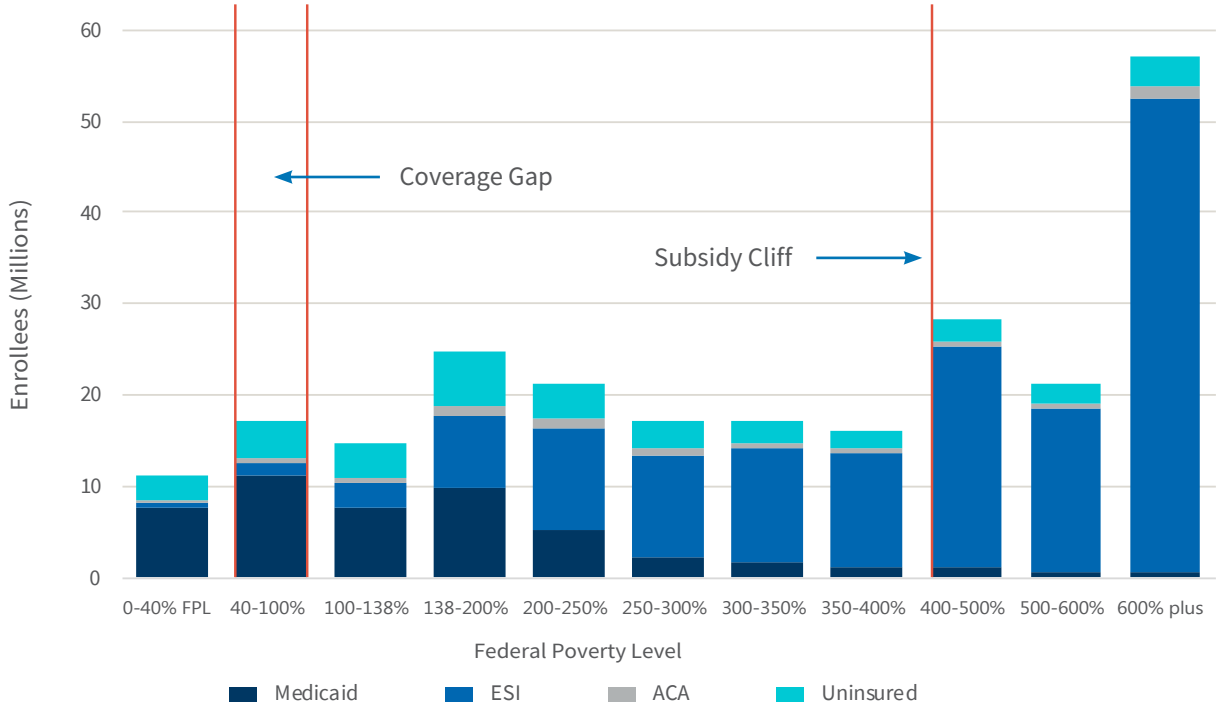
Today, almost 11.5 million Americans are insured through the ACA exchanges. However, 3.5 million people who are eligible for premium tax credits through the exchange remain uninsured. The majority of these uninsured

Figure 1 Exchange Enrollees by FPL

*CMS data does not include people below 100 percent of FPL and above 400 percent of FPL

Source: Health Insurance Exchanges 2020 Open Enrollment Period: State-Level Public Use File, CMS

Figure 2: Type of Coverage by Income



Source: Health Insurance Exchanges 2020 Open Enrollment Period: State-Level Public Use File, CMS

individuals are low-income (Figure 2), and research shows most cite cost as the primary barrier to coverage.[7] In addition, millions of Americans earning just over 400 percent FPL – who are therefore ineligible for tax credits – struggle with the lack of affordable options on the exchanges. This quick drop-off in eligibility is known as the "subsidy cliff." A Kaiser Family Foundation analysis found exchange plan premiums accounted for a much larger share of income for Americans just above and just below the 400 percent FPL cut-off point for tax credits and subsidies and were, therefore, less affordable options. In some counties, the lowest-cost exchange premium available is up to 32 percent of income for people just over 400 percent FPL.[8]

Under current law, individuals who have the option to get coverage through their employer are ineligible to receive APTCs to purchase coverage through the exchange.[9] The policy, known as the ACA "firewall," was designed, in part, to limit insurance churn. The Biden plan eliminates the firewall, opening up both the exchanges and public option plans to all individuals. While removing the firewall may expand coverage options for those with access to ESI, it could also lead to unintended consequences, including encouraging employers to send higher-risk employees to the exchanges to buy coverage or reducing the number and type of plans available to these workers.

Expanding Tax Credit Eligibility: Removing the Income Cap and the ESI Firewall

Recognizing that affordability is a barrier to insurance coverage across all income brackets, the Biden health plan increases the number of enrollees who will benefit from APTCs by removing the income cap, making the vast majority of middle-income Americans eligible for the tax credits. The plan also reduces the limit on the percentage of household income exchange enrollees contribute toward health coverage, ensuring that no enrollee—regardless of income bracket—will pay more than 8.5 percent of their income toward premiums. It is worth noting that the Biden plan does not make changes to the eligibility or generosity of the CSRs. For the purposes of this analysis, we assume that the CSRs are still available and unchanged.

Overall, the Biden plan's new affordability standard will extend access to subsidized coverage to the majority of Americans and will reduce net premiums for all individuals under 700 percent FPL. By reducing the maximum required premium contribution from between 9.04 and 9.78 percent of household income to 8.5 percent, the policy will increase the affordability of exchange plans for a large portion of the 785,307 individuals currently eligible for subsidies on the exchange. In addition, by expanding tax credit eligibility for

Table 1: Net Premiums Under the Biden Plan[10]

Federal Poverty Level (FPL)	≥100% to ≤150	>150 to ≤200	>200 to ≤250	>250 to ≤300	>300 to ≤400	>400 to ≤500	>500 to ≤600	>600 to ≤700
Average Monthly Income	$15,950	$22,330	$28,710	$35,090	$44,660	$57,420	$70,180	$82,940
Current Expected Contribution (%)	3.09%	5.31%	7.39%	9.04%	9.78%	N/A	N/A	N/A
Biden Plan Expected Contribution (%)	3.09%	5.31%	7.39%	**8.50%**	**8.50%**	**8.50%**	**8.50%**	**8.50%**
Current Net Premium	$1,916	$2,694	$3,552	$4,609	$5,810	$6,987	$6,987	$6,987
Biden Plan Net Premium	$1,113	$2,080	$2,981	$2,983	$3,796	$4,881	$5,965	$6,096
Decrease in Net Premium	**-$803**	**-$614**	**-$571**	**-$1,627**	**-$2,014**	**-$2,106**	**-$1,021**	**-$891**
Change in Net Premium (%)	**-42%**	**-23%**	**-16%**	**-35%**	**-35%**	**-30%**	**-15%**	**-13%**

Source: Author's calculations using Health Insurance Exchanges 2020 Open Enrollment Period: State-Level Public Use File, CMS.

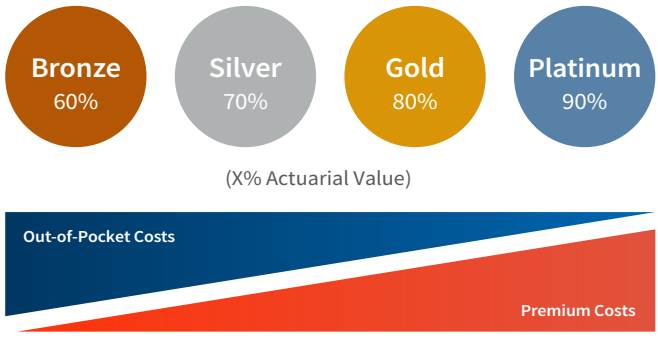
those over 400 percent FPL, the Biden plan will decrease net premiums by between 13 and 42 percent for low- and middle-income Americans making up to 700 percent FPL (Table 1). In addition, people who were previously ineligible for exchange subsidies due to the ESI firewall may obtain lower net premiums.

It is important to note that the original Biden plan does not address the ACA's "family glitch." Due to the family glitch, if an employee seeks marketplace coverage for themselves and their dependents, the affordability of the coverage for that family—and therefore their eligibility for subsidies—will be based on the cost of the employee's ESI. For instance, if the employee is offered ESI at a cost less than 9.78 percent of their household income, then the employee and their dependents would be ineligible for subsidized coverage on the exchange, even if covering additional family members would increase the cost of insurance to more than 9.78 percent of the employee's household income.[11] Since a solution to the family glitch is absent from the original Biden plan, we do not estimate changes in affordability or coverage that would occur if it were removed. However, the Biden Administration is currently considering an administrative fix that would address or eliminate the family glitch.[12] Changing this policy would likely improve affordability and coverage beyond the estimates included in our analysis.

A New Tax Credit Benchmark

Premium tax credits are based on the cost of the benchmark plan—which is currently the second lowest-cost silver plan available to the consumer.[13]

Figure 3: Exchange Plan Metal Levels



To make coverage more affordable for exchange enrollees making between 100 and 700 percent of the FPL, the Biden plan changes the benchmark to the second-lowest priced gold plan, which has a higher premium and actuarial value. The new benchmark plan would increase the average tax credits exchange enrollees will receive, and therefore decrease their net premiums.[14] We estimate the Biden plan's monthly benchmark premium will cost $514 — 10 percent higher than the benchmark silver plan premium — resulting in a 20 percent decrease in net premiums, on average. Table 2 demonstrates the differences in the range of tax credits

today compared to those that would be available under the Biden plan.

By reducing upfront costs, especially among middle-income groups who will see the biggest increase in credits, we project the lower net premiums under the Biden plan will extend coverage to 358,364 previously uninsured Americans. In addition, this policy will increase affordability for individuals up to approximately 600 percent FPL, at which point 8.5 percent of income is roughly equivalent to the gold benchmark premium, rendering those populations ineligible for tax credits.

The increase in APTCs and the resulting decrease in net premiums will also vary across regions. As shown in Figures 4 and 5, the ACA enhancements will have a significant impact on APTCs and net premiums in states with higher uninsured rates that did not expand Medicaid. For instance, Texas, which has the highest uninsured rate in the nation at 18 percent, will experience a net premium decrease of between $60 and $80 per month.[15] Georgia, Oklahoma, Florida, and Mississippi, which have the next highest uninsured rates in the nation, will also see significant decreases in net premiums.[16] In these states, a sizable portion of the population at the lower end of the income scale currently falls into the coverage gap and would therefore require more federal subsidies to bring down net premiums to an affordable level.

Table 2: APTC Changes by Federal Poverty Level When Benchmark is Based Upon Gold Plan

Federal Poverty Level (FPL)	≥100% to ≤150	>150 to ≤200	>200 to ≤250	>250 to ≤300	>300 to ≤400	>400 to ≤500	>500 to ≤600	>600 to ≤700
Average Annual Income	$15,950	$22,330	$28,710	$35,090	$44,660	$57,420	$70,180	$82,940
Current Expected Contribution	$493	$1,185	$2,122	$2,983	$3,796	$4,881	$5,965	$7,050
Current Premium Tax Credit	$5,139	$4,305	$3,438	$2,560	$1,775	N/A	N/A	N/A
Biden Premium Tax Credit	$5,941	$4,915	$4,008	$3,091	$2,298	$1,286	$201	$0
Increase (%)	**+16%**	**+14%**	**+17%**	**+21%**	**+29%**	**N/A***	**N/A***	**N/A***

*Previously ineligible for APTC

Source: Author's calculations using Health Insurance Exchanges 2020 Open Enrollment Period: State-Level Public Use File, CMS.

Figure 4: Increase in APTC

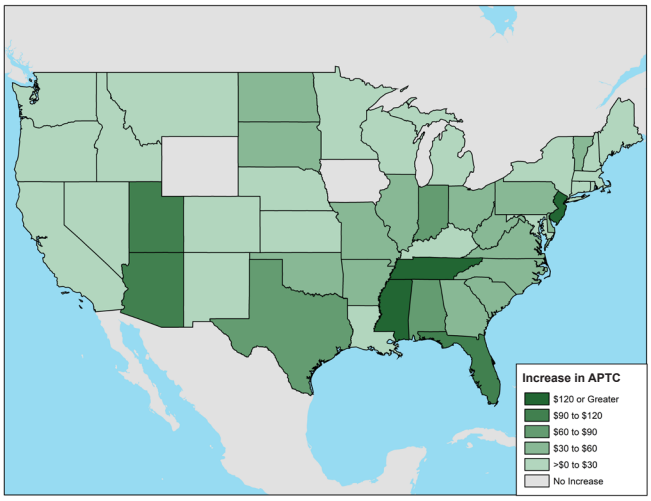
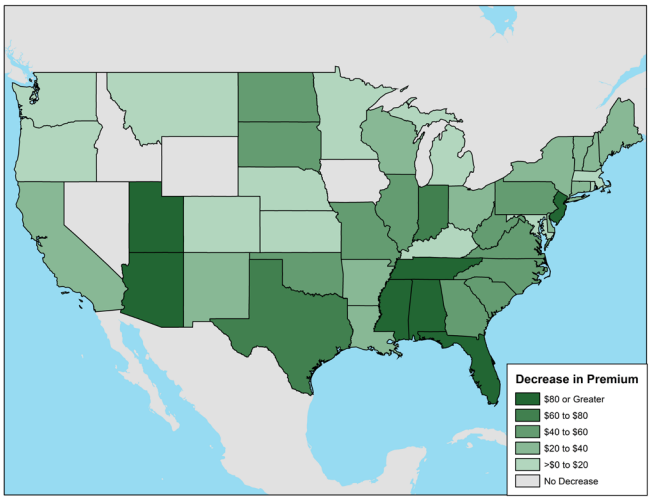


Figure 5: Decrease in Net Premium



Source: Author's calculations using Health Insurance Exchanges 2020 Open Enrollment Period: State-Level Public Use File, CMS.

Projected Impact of ACA Enhancements

By building on the existing system, we find that ACA enhancements will newly insure more than five million Americans while preserving a competitive private market.

Although insurance take-up and impact are often somewhat unpredictable, the implementation of similar provisions in some states supports our findings that the enhancements could effectively reduce the uninsured rate and cut costs on a national scale. Massachusetts, for instance, offers a $0 premium plan for its lowest-income enrollees and an $85 low-cost plan for those between 200 percent and 250 percent FPL. As a result, the state's uninsured rate among non-elderly adults is only 3.2 percent – the lowest in the nation. In fact, all states that offer additional income assistance to low-income consumers – including Minnesota, New York, and the District of Columbia – tend to have lower uninsured rates relative to other expansion states.

Similarly, basing APTCs off a higher-cost plan has also been shown to increase take-up of marketplace plans. Silver loading, which occurred in 2017 when insurers increased premiums for silver plans to make up for a lack of CSR payments, unintentionally resulted in an increase in tax credits in some states because the credits were tied to those premiums. States where silver loading substantially increased tax credits saw an increase in marketplace enrollment.[17]

Table 3: Newly Insured Under Biden ACA Enhancements

Federal Poverty Line (FPL)	≥100% to ≤150	>150 to ≤200	>200 to ≤250	>250 to ≤300	>300 to ≤400	>400
Total Enrollees	3,371,222	2,332,260	1,715,393	1,101,395	1,233,203	955,169
Total Eligible But No Insurance	684,009	678,519	571,183	383,812	401,495	4,827,538
Newly Insured	172,012	92,159	51,636	92,672	96,773	644,749

Source: Author's calculations using Health Insurance Exchanges 2020 Open Enrollment Period: State-Level Public Use File, CMS.

We estimate that, as a result of the new tax credit benchmark and change in income cap, approximately 1,150,000 previously uninsured individuals without access to ESI would gain coverage in the exchange market, representing a 0.4 percentage point reduction in the national uninsured rate. Furthermore, nearly 4 million previously uninsured individuals with an offer of ESI would gain coverage due to these changes coupled with the removal of the ESI firewall. In total, Biden's enhancements to the ACA will result in an estimated 5,077,267 Americans gaining coverage, reducing the national uninsured rate by 1.5 percentage points and generating $10.6 billion in annual savings to consumers.[18]

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The Public Option

The Biden plan also establishes a government-run public option designed to compete against private marketplace plans.

Our model assumes that premiums under the public option would be approximately 23 percent lower than the market value of comparable plans due to government rate setting for provider reimbursements. Furthermore, we assume that eligibility for tax credits and subsidies on the exchanges would extend to those enrolled in the public option. As a result, those enrolled in private insurance, either through the exchange or their employer, may also switch to the public option. Therefore, offering the public option through the exchange would result in approximately 1.9 million newly insured individuals.

For the two million uninsured individuals in the coverage gap in non-expansion states, public option premiums will be fully subsidized. These individuals would be automatically enrolled in this premium-free plan when they interact with

certain institutions like public schools or programs for low-income populations, like the Supplemental Nutrition Assistance Program.[19] By providing a premium-free option to individuals in the coverage gap, the public option would achieve the same coverage gains as full Medicaid expansion at 1,759,300 previously uninsured individuals.

In total, offering a premium-free public option to individuals in the coverage gap, as well as pricing the public option below market value on the exchange, would further reduce the uninsured rate by 1.1 percentage points.

Comparing Approaches to Covering the Medicaid Population

While the ACA enhancements in the Biden plan, coupled with the public option, would extend access to insurance to Americans in the coverage gap, nationwide Medicaid expansion would likely extend coverage to the same population without disrupting private markets while ensuring that low-income Americans have access to specialized coverage that is tailored to their needs.

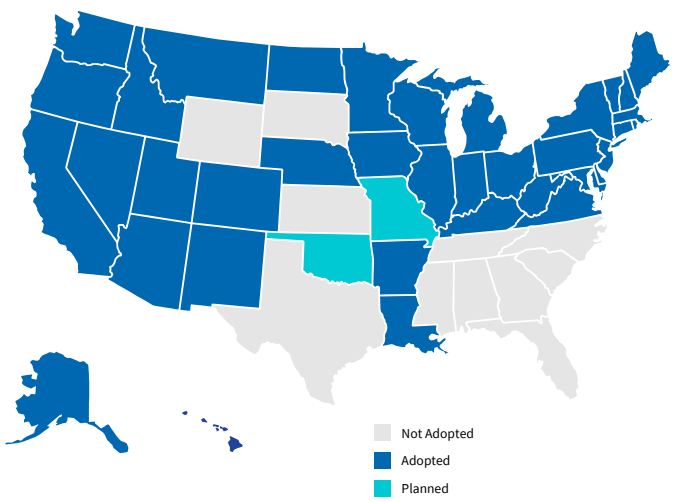
We sought to compare the coverage gains of the public option with full implementation of Medicaid expansion, which is gaining traction even in conservative states as evidenced by recently passed ballot measures in Oklahoma and Missouri.[20,21]

Expanding Medicaid to Americans in the Coverage Gap

Under the ACA, states can expand Medicaid to allow individuals below 138 percent of the FPL, including childless adults who were previously excluded, to qualify for the program based on income. However, in most states that have not expanded Medicaid, or "non-expansion states," Medicaid eligibility is limited to parents earning up to around 40 percent FPL or $8,688 for a family of three. Furthermore, individuals must be at or above 100 percent FPL to be eligible for tax credits that lower their monthly exchange premiums, leaving many adults below the poverty level in each of the 12 non-expansion states ineligible for both Medicaid and subsidized exchange coverage. This is known as the "coverage gap."[22]

Currently, over two million low-income, uninsured individuals in the United States fall into the coverage gap, and most of these individuals live in southern states.[23] Using data from the Urban Institute, we estimated the predicted take-up of Medicaid for people in the coverage gap in non-expansion states and found that about 73 percent would enroll in Medicaid upon expansion.[24]

Figure 6 : Status of State Action on Medicaid Expansion Decision



Note: Oklahoma and Missouri have passed ballot measures to expand Medicaid. Implementation of the expansion in both states is expected by 7/1/2021

Source: Kaiser Family Foundation: Status of State Medicaid Expansion Decisions: Interactive Map, May 2021.

If the 12 non-expansion states were to expand Medicaid, approximately 1,759,300 individuals would become newly insured, representing a 0.5 percentage point reduction in the national uninsured rate.

Although some states are resistant to Medicaid expansion,[25,26] policymakers should consider ways to capitalize on existing ACA expansion incentives to achieve 100 percent coverage of the Medicaid-eligible population. To encourage states to take advantage of Medicaid expansion and extend coverage to more of their population, federal lawmakers could consider temporarily increasing the Federal Medical Assistance Percentage.

In addition, policies like auto-enrollment, increased outreach, or a "No Wrong Door" system[27] could help reduce the number of uninsured among the Medicaid-expansion population. Auto-enrollment, a tool already used in the Medicare Part D low-income subsidy program, has been largely successful and could be used in the Medicaid program.[28] Strengthened outreach and enrollment strategies employed by other states – including promotion of Medicaid by state officials, marketing by local public personalities, targeted outreach to specific difficult-to-reach populations, and enhanced one-on-one enrollment assistance – have also successfully increased Medicaid enrollment.[29]

Comparing Coverage Gains Among the Medicaid-Expansion Population

Policymakers should note that approximately half of the individuals who would gain coverage under the public option would also become insured if all 12 non-expansion states were to capitalize on the existing opportunity to expand their Medicaid programs and aim to achieve 100 percent coverage of the Medicaid-eligible population.

Full Medicaid expansion would result in more than 1.7 million newly insured[30]— the same increase that we find would be achieved by offering a premium-free public option to the coverage gap population (Table 4).[31] Medicaid expansion, combined with Biden's ACA enhancements, would result in 6.8 million newly insured, therefore reducing the overall uninsured rate by 2.1 percentage points, compared to a 2.7 percentage point reduction through the ACA enhancements and the public option combined. The higher public option number would be a result of more individuals over 400 percent FPL gaining insurance coverage through the exchange.

While the public option would disrupt plan competition and choice on the ESI and exchange markets, which we detail in the "impact" section below, Biden's ACA enhancements coupled with full Medicaid Expansion would protect the current health care system while achieving comparable coverage gains among vulnerable populations.

Considerations for Covering Vulnerable Populations

Given that half of the coverage gains under the public option are driven by the coverage gap population, policymakers should also weigh the differences between the two government programs to determine the implications of these policies for low-income Americans. With an annual income of less than $12,490 for an individual, people in the coverage gap are some of the most vulnerable Americans, which means they often need more than just basic insurance to meet their health care needs. The Medicaid program is specifically designed to meet the needs of the program's vulnerable populations — including low-income adults, parents, children, and people with disabilities.

In 2010, Medicaid helped 2.6 million people out of poverty, accounting for a 0.7 percent decrease in the national poverty rate.[32] The decreases in poverty were most prevalent among adults with disabilities, seniors, children, and Black and Hispanic beneficiaries. Medicaid coverage has also almost eliminated catastrophic out-of-pocket medical costs among the program's beneficiaries.[33] In Arkansas and Kentucky, for example, Medicaid expansion has reduced the share of people having difficulty paying their medical bills by 25 percent.[34]

Additionally, under Medicaid, states are granted the flexibility to design programs and benefits that will ensure access to health care, improve health outcomes, and lower costs for

Table 4: Coverage Gains Under ACA Changes, Public Option, and Full Medicaid Expansion

Policy Proposal	Newly Insured	Change in Uninsured (percentage points)
ACA Enhancements	5,077,267	1.5
Full Medicaid Expansion	1,759,300	0.5
ACA Enhancements + Full Medicaid Expansion	**6,836,567**	**2.1**
Public Option Total	3,633,942	1.0
Public Option (Exchange Population)	1,874,642	0.6
Public Option (Coverage Gap Population)	1,759,300	0.5
ACA Enhancements + Public Option	**8,711,209**	**2.7**

Source: Author's calculations using Health Insurance Exchanges 2020 Open Enrollment Period: State-Level Public Use File, CMS.

at-risk populations through specialized managed care plans that prioritize care coordination and address the social determinants that impact health outcomes. For instance, Missouri has achieved great success through its Health Homes program, which provides care coordination for people with multiple chronic conditions or serious mental illness, leading to decreases in emergency department visits and preventable hospitalizations among patients.[35] Similarly, Missouri and 11 other states are using Medicaid Accountable Care Organizations to provide coordinated, high-quality mental and physical health care, which has also been shown to reduce emergency department visits and improve outcomes for vulnerable populations.[36]

Although the Biden plan provides limited details on the proposed public option, based on our analysis, a newly implemented, one-size-fits-all approach to coverage is unlikely to address the social determinants of health that often influence health outcomes for this population. On the other hand, full Medicaid expansion is an existing solution to addressing these special needs that would achieve comparable coverage gains for this population with minimal disruption to the U.S. health care system.

Impact of the Public Option on Exchange Insurance Markets

In the U.S. today, nearly half of individuals receive insurance coverage through their employer,[37] and under current law, individuals who are offered ESI are ineligible to receive premium tax credits to purchase coverage through the exchanges. The Biden plan would open up the exchanges to these individuals. However, under the Biden plan, the public option would also be available on the exchange, which would force private plans to compete with a low-cost, government plan, undermining existing commercial insurance markets.

The government plan could crowd out other exchange plans…leading to the potential elimination of the exchange market.

Furthermore, as significant numbers of individuals transition away from their private coverage to the public option, the government plan could crowd out other exchange plans, forcing those enrolled in ACA coverage off of their existing private health plans and leading to the potential elimination of the exchange market. Ultimately, individuals without access to ESI coverage will have no private coverage options and will be left without a choice but to enroll in the government plan.

Impact of the Public Option on the Employer-Sponsored Insurance Market

Once the public option is in place, employees on ESI and employees who previously switched to the exchanges would likely consider the plan, which we assume will be priced below market value due to government rate setting of provider reimbursements. To determine the impact of the public option on ESI, we examined the number of employees with ESI that will switch to the public option when it is fully implemented, as well as the implications for the market as a whole. Historically, elasticities for take-up of insurance have ranged from –0.2 to –1.[38,39] We estimated an elasticity of .75, an estimate derived from a recent analysis of the effects of a public option in Colorado.[40]

Our analysis finds that the public option will lead to significant erosion of the employer-sponsored insurance market. Once fully implemented, the public option will likely push approximately 40 percent of those with employer-sponsored coverage to abandon their employer plans for the public option. Based on today's ESI market, this would represent more than 60 million beneficiaries.

Once fully implemented, the public option will likely push approximately 40 percent of those with employer-sponsored coverage to abandon their employer plans for the public option.

This market erosion has significant consequences for consumers who currently have multiple private insurance options to choose from in a competitive marketplace. Declining enrollment in ESI plans could lead some employers to significantly reduce or eliminate the options available to workers, particularly those with high numbers of low- to middle-income workers who stand to benefit from government-subsidized coverage.

Impact on Access to Health Care Providers

The proposed expansion of government health coverage under the public option represents a significant disruption to the U.S. health care system and carries potentially serious implications for providers. According to the RAND Corporation, private insurers paid, on average, 241 percent of Medicare rates in 2017.[41] Reimbursements that fall below commercial rates are often insufficient to cover the full cost of care, which is why providers frequently lose money when they treat patients insured under government plans. According to a

2020 MedPAC report, hospital Medicare profit margins remain deeply negative.[42]

Providers generally need to treat a combination of publicly and privately insured patients to maintain operations within the current health care system, but offering a public option to the exchange and ESI populations would result in a sudden shift in payer mix, leading to revenue losses for many providers. This is especially pertinent during times of economic distress, such as the current global pandemic and related economic downturn, in which providers are already struggling to operate under tight margins. To make up for the decline in average reimbursements under the new system, providers may be forced to limit the number of individuals they accept on public plans or reduce the number of offered services, disrupting access to care, particularly in rural and underserved communities.[43]

Conclusion

Most of the Biden health plan is grounded in the foundational elements of the ACA, a law that expanded coverage to 20 million Americans. Our analysis finds that implementation of enhancements to the ACA similar to those enacted on a temporary basis under the American Rescue Plan Act will increase coverage and reduce costs for most Americans. The ACA exchanges, coupled with full Medicaid expansion, offer a solid, sustainable basis for federal and state leaders to reduce the U.S. uninsured rate while preserving employer-sponsored insurance. Making these policy changes permanent would effectively close the coverage gap while maintaining competition and choice in the current health care system and ensuring that all Americans, particularly low- and middle-income Americans, have access to coverage tailored to meet their needs.

The introduction of a public option, however, could negatively affect other critical elements of the U.S. health care system by undermining the ESI market, eliminating private competition in the exchange market entirely, and threatening the viability of health care providers. Further, half of the coverage gains realized by the public option could be achieved if states opt for Medicaid expansion – an existing policy that was developed to improve coverage among low-income Americans. Upon considering the new program, policymakers must carefully weigh the potential benefits of the program against its potentially harmful implications for other stakeholders across the health care system.

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