

King vs. Burwell

Implications for health plans

On March 4th, the Supreme Court heard oral arguments in the King vs. Burwell case. The plaintiff argued that the wording in the Affordable Care Act (ACA) prohibits the federal government from paying the tax credit and cost-sharing reduction (CSR) subsidies for individuals in states that do not run their own marketplace but rather use the Federally Facilitated Marketplace (FFM).

Elimination of the tax credits and CSR subsidies would directly impact the affordability of coverage for individuals, potentially exempting them from the individual mandate. Removing these subsidies would increase the cost of coverage for those with household incomes lower than four times the Federal Poverty Level (FPL), resulting in more people opting out of coverage. Those most likely to drop coverage are the young and the healthy.

Potential impact to health plans

A ruling in favor of the plaintiff will likely result in enrollment that is significantly different than that assumed in the 2016 rate filings (as well as the 2015 rating).

Health plans will need to develop and file their 2016 premium rate setting prior to the Supreme Court's decision, which is expected to be delivered in late June or early July. Rate setting will need to include assumptions such as the demographic make-up of the insured population, the risk of the population, the distribution of those choosing to enroll via the exchange, etc.

Due to the expectation that the young and healthy will drop coverage, the cost of those remaining in the risk pool (i.e., in the individual market) is expected to increase. Therefore, health plans need to understand the ramifications of a ruling in favor of the plaintiff and plan accordingly. Some of the options available to health plans include exiting the market, refiling rates or keeping their filed 2016 rates. These decisions will depend on the state(s) in which they operate, their growth strategy and surplus position, and their appetite for risk.

Need for modeling

Modeling will be needed for understanding the implications of a ruling in favor of the plaintiff. Variables to consider include:

- The shift in the demographics of the market (e.g., the shift in age, income, rating regions, on vs. off exchange, Medicaid, etc.)
- The relative risk of the different segments of the market (e.g., current subsidized market vs. non-subsidized)
- The impact of the decision on the "3 Rs" – risk adjustment, reinsurance and risk corridor
- Health plan's surplus position and ability to absorb disruptions that may occur as a result of the decision

Modeling for King vs. Burwell

Modeling will be needed in order to understand the implications of a Supreme Court ruling in favor of the plaintiff.

Optum™ uses its Health Benefit Simulation Model (HBSM) as the basis for its modeling. The HBSM is a micro-simulation model developed by the Lewin Group (a subsidiary of Optum) and Optum actuaries. For over 20 years, it has informed policymakers of the impact of policy decisions on the U.S. Health Care System.

Through the HBSM, "before and after" estimates can be provided by market segment on a state- or county-level basis. Scenarios are created for assessing the impact of the ACA and, in this case, the impact of the Supreme Court's ruling. These scenarios can be tailored to a health plan's specific situation based on different characteristics including relative rate position, current and expected enrollment, income status, geographic regions, etc.

How Optum can help

The Optum Health Benefit Simulation Model (HBSM) and its Financial Assessment Suite of tools uses data including demographic, income, health status and claims/risk score information on a county-level basis to determine the make-up of the market. Imbedded in the models are features that include market movement based on price elasticity, the impact of Medicaid expansion, and the relative risk scores of different markets based on migration patterns. Since it is based on census information that is statistically matched to claims information, the entire market is modeled. These features are of particular importance with King vs. Burwell decision.

About Optum

At Optum, Healthier is our passion and our purpose. We are 80,000 health care experts, turning years of medical data into smarter decision-making. We uncover insights that lead to better outcomes for hospitals, doctors, pharmacies, health plans, employers and the millions of lives they touch.

Modeling for King vs. Burwell

Under one scenario, the following tables were produced for the 34 states this decision may affect:

Percentage taking coverage

Percent of FPL	Percent
Less than 100%	7.2%
100%–138%	11.8%
138%–200%	24.9%
200%–300%	22.8%
300%–400%	12.0%
400% or more	21.3%

Self-reporting health status	Percent
Excellent	80.7%
Good	15.6%
Fair	3.1%
Poor	0.7%

Additional output includes demographics, relative allowed costs and risk scores, prevalence of chronic conditions and education level.

Our Optum models can assist in market assessment and risk-score analyses, pricing analyses and financial forecasting.



11000 Optum Circle, Eden Prairie, MN 55344

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