

# Alaska 1332 Waiver - Economic Analysis

**Prepared for:**

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# 1 Executive Summary

The four guardrails that a successful 1332 waiver must meet are as follows:

1. *Coverage* - There must be at least a comparable number of individuals with coverage under the waiver as would have had coverage without the waiver.
2. *Affordability* – The waiver should not result in an increase in out-of-pocket spending required of residents to obtain coverage, relative to income.
3. *Comprehensiveness* – The waiver should not decrease the number of individuals with coverage that meets the essential health benefits (EHB) benchmark.
4. *Deficit Neutrality* – The waiver should not have any negative impact on the federal deficit.

In this report, the first three guardrails are briefly discussed to reaffirm that the actuarial analysis conducted by Oliver Wyman demonstrates that the proposed waiver meets them. The actuarial report from Oliver Wyman projects that the proposed waiver will lead to a higher number of individuals taking up insurance in the individual market, lower average premiums, and no impact on the comprehensiveness of coverage. The numbers reported in the actuarial analysis are then used to help evaluate the impact that the proposed waiver will have on the federal budget. There are at least four ways in which the waiver will have an important impact on the federal budget, which are summarized in Table 1.

Table 1: Impact of Proposed Waiver on Budget

	<b>Direction of Effect</b>
<b>APTC Savings</b>	+
<b>Individual Shared Responsibility Payments</b>	-
<b>Health Insurance Providers Fee</b>	-
<b>Federal Exchange User Fees</b>	-
<b>Overall Impact on Budget</b>	+

The first and most important impact of the waiver is that it will lead to a reduction in premiums. The reduction in premiums reduces the amount of Advanced Premium Tax Credits (APTC) that individuals will be eligible for and generates savings of \$50 - \$100 million per year from 2018 through 2026. There are also three routes through which the waiver will negatively impact the budget: individual shared responsibility payments, health insurance providers fees, and federal exchange user fees. Because the waiver will lead to more individuals taking up insurance in the individual market, fewer individuals will owe

the individual penalty for not having health insurance. The health insurance providers fee depends on the amount of premiums aggregated to the national level. Because the waiver depresses premiums in the Alaska individual insurance market, it will have a secondary negative effect on the total amount collected through the providers fee for years 2019 through 2026. Lower premiums also reduce the amount collected in federal exchange user fees, a 3.5% tax imposed on premiums sold through the Federally Facilitated Marketplace. The aggregate impact on the budget is positive, because the APTC savings outweigh the combined negative impact of the other three channels. Table 2 summarizes the aggregate impact of the four components on the federal budget.

Table 2: Estimated Savings from Waiver  
(Before Pass-Through Funding)

<b>Year</b>	<b>Final Savings</b>
<b>2016</b>	\$0
<b>2017</b>	\$0
<b>2018</b>	\$48,973,684
<b>2019</b>	\$52,260,336
<b>2020</b>	\$56,108,411
<b>2021</b>	\$61,486,732
<b>2022</b>	\$65,612,013
<b>2023</b>	\$72,213,851
<b>2024</b>	\$77,717,467
<b>2025</b>	\$84,814,665
<b>2026</b>	\$91,785,506

The overall impact through these four components is about \$49 million in savings in 2018. Savings increase in every year thereafter, reaching nearly \$92 million in 2026. The savings listed in Table 2 are before the granting of any pass-through funding, so they suggest that as long as pass-through funding is less than or equal to these figures, the proposed waiver will meet the federal deficit neutrality requirement.

## 2 Introduction

The first three guardrails are discussed extensively in the actuarial analysis conducted by Oliver Wyman. However, we will briefly discuss them here to reaffirm the main points of their analysis, and demonstrate how their analysis lends itself to the evaluation of the fourth guardrail, which we discuss more extensively below. In the actuarial analysis, Oliver Wyman directly modeled the decisions of the residents to forego insurance, or take up insurance in the individual, employer, and public markets. They accomplish this by specifying the decisions

that Alaska residents face, and they use data on the prior decisions of residents to take up insurance in different markets to calibrate a microsimulation model that can be used to project outcomes under different scenarios. They define a waiver and baseline (no-waiver) scenario and compare projected outcomes between those scenarios to determine the impact of the waiver on various outcomes including the number of individuals who take up insurance in each market, the number who choose to forego insurance, average premiums, average advance premium tax credits, and out-of-pocket expenses, among other things. They focus primarily on demonstrating why the first three guardrails are met based on these projections.

**Coverage** The actuarial analysis conducted by Oliver Wyman suggests that the proposed waiver will decrease premiums, inducing more individuals to take up insurance coverage in every year from 2018 to 2026. The waiver will lead to between 741 and 1,641 more individuals being covered each year, thus supporting the first guardrail for the number of individuals receiving insurance coverage. Please refer to Table A, and Table 3 of Appendix B in Alaska 1332 Waiver Application, Actuarial Analyses and Certification for more details.

**Affordability** The actuarial analysis suggest that premiums will be 18 – 20% lower in each year, from 2018 – 2016, under the waiver scenario. The increase in average out-of-pocket premium contributions and expenditures only occurs because the individuals induced to take-up coverage by the waiver are less frequently eligible for subsidies, and does not reflect a real increase in the cost of insurance to particular individuals. The estimated decrease in premiums provided in the actuarial analysis is critical for evaluating the impact on the federal deficit. As discussed below, this premium difference is the main mechanism that generates a positive impact on the federal budget, through decreased costs from lower APTC payments, and justifying pass-through funding to enable the continuation of the Alaska Reinsurance Program (ARP). Please refer to Tables C, D, and E of Alaska 1332 Waiver Application, Actuarial Analyses and Certification for more details.

**Comprehensiveness** Finally, since the proposed waiver will have no impact on the Affordable Care Act (ACA) essential health benefits, or the Medicaid and Children’s Health Insurance Program (CHIP) standards, there is no anticipated impact of the waiver on the comprehensiveness of coverage.

Due to the thorough and comprehensive review given on the first three guardrails in the actuarial analysis, we turn to evaluating the impact of the waiver on the federal deficit. In what follows, we draw on the actuarial analysis provided by Oliver Wyman to evaluate the potential impact of the waiver on the federal budget. Analysis of the impact on the federal deficit will rely heavily on the following estimates generated from the actuarial analysis conducted by Oliver Wyman: The average and total premiums in each market, advanced

premium tax credits, savings in APTC, the number of individuals moving between uninsured status and the individual insurance markets, and movement between uninsured status and the other insurance markets. The figures produced in the actuarial analysis are critical for evaluating the potential impact on the federal deficit, and the accuracy of the following analysis is dependent upon those estimates.

### 3 Federal Deficit Neutrality

In evaluating any impact on the federal budget, there are many avenues through which a waiver could influence federal spending and revenue. However, results from the actuarial analysis limit the scope of the possible impacts on the federal budget. The analysis suggests that all movement in coverage is between the uninsured category and the individual insurance market.<sup>1</sup> In other words, the waiver will have no impact on the number of individuals taking up employer or government based coverage. The ARP reduces risks to insurance providers in the individual insurance market by removing the risk related to covering high-cost individuals. The reinsurance program is limited to the individual market, and corresponding effects on total premiums are also confined to the individual market, according to the actuarial analysis.<sup>2</sup> The decrease in individual market premiums is unlikely to induce individuals to switch from employer based insurance to individual market insurance, because the cost to the insured in premiums tends to be relatively high in the individual market.<sup>3</sup> For example, in both the baseline and waiver scenarios, the projected average employee monthly premium contributions in 2018 are \$139 and \$170 for small group employer and large group employer coverage, respectively. In contrast, the projected average monthly premium contribution in 2018 for those in the individual market is \$274,<sup>4</sup> so it is reasonable to find that individuals are more likely to take up the employer sponsored insurance when faced with the decision between that and coverage in the individual market in either scenario. Since the waiver will not influence the number of individuals insured through their employer or the government, we do not expect any impact of the waiver on related costs and revenues, such as excise taxes on high-cost employer sponsored plans, small business tax credits, employer shared responsibility payments, tax exclusions related to employer-sponsored insurance, or changes in Medicaid spending. This allows us to focus on a few channels through which the federal budget might be impacted.

Based on the actuarial analysis, the most important impact that the waiver will have on the

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<sup>1</sup>See Table 3 of Alaska 1332 Waiver Application, Actuarial Analyses and Certification, Appendix B.

<sup>2</sup>See Table 21 of Alaska 1332 Waiver Application, Actuarial Analyses and Certification, Appendix B.

<sup>3</sup>See Table 20 of Alaska 1332 Waiver Application, Actuarial Analyses and Certification, Appendix B.

<sup>4</sup>See Table 19 of Alaska 1332 Waiver Application, Actuarial Analyses and Certification, Appendix B.

federal budget is the 20 to 22% reduction in APTC payments. The waiver will allow the state to continue funding the ARP, which reduces premiums, and in turn average APTC, relative to the baseline scenario. In addition, the individuals who are induced to take up coverage in the individual market because of the waiver tend to be healthier, on average, than the non-waiver scenario individual market pool. Nearly 84% of the individuals projected to take up coverage in the individual market in 2018 because of the waiver are of very good or excellent health status.<sup>5</sup> Whereas, only about 51% of the projected 2018 individual market participants are considered in very good or excellent health in the baseline scenario.<sup>6</sup> The addition of relatively healthy individuals to the pool could reinforce downward pressure on premiums. Additionally, the ARP could encourage potential competition in the insurance market, as it reduces risk to the insurers. It is not clear whether the entrance of another competitor would further reduce premiums, but it is possible. In any case, we would not expect a new entrant to increase premiums. However, if the future of the ARP is uncertain, potential competitors might be less likely to make the investments required to enter the market.

In short, the effective reduction in the premiums and resulting decrease in total APTC is large enough to outweigh any possible negative impact on the federal budget by roughly \$49 million in 2018, a figure that increases gradually to almost \$92 million in 2026. There are several other influences on the budget that are worth noting. The movement of individuals from uninsured to insured status could increase the number of anticipated tax credits to be paid out if those individuals are eligible for the credit. This is unlikely to be an important factor, because almost every person induced to take up insurance in the individual market by the waiver is at or above 400% of the poverty line, and therefore will not receive an APTC after joining the individual market.<sup>7</sup> As a result, the increase in APTC eligible individual market participants in any given year is minimal, and in some cases there is a decline anticipated in APTC eligible participants. The decline is a result of the waiver inducing only a small number of APTC eligible individuals to take up insurance, and inducing a slightly larger number of individuals in the 300 to 400% FPL income range to choose no insurance rather than the lowest level of coverage in the individual market. When the ARP and waiver depress premiums, they also depress the APTC, which is based on the second lowest level of coverage (silver). It is possible that individuals in the 300 to 400% FPL income range who would otherwise choose the lowest coverage level (bronze) could then find it optimal to choose no coverage. Nonetheless, it is worth noting that in years 2024 to 2026 there is a small increase in the number of projected APTC eligible individuals who take up coverage, which would have a net negative effect on the federal budget.

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<sup>5</sup>See Table 15 of Alaska 1332 Waiver Application, Actuarial Analyses and Certification, Appendix B.

<sup>6</sup>See Table 13 of Alaska 1332 Waiver Application, Actuarial Analyses and Certification, Appendix B.

<sup>7</sup>See Table 9 of Alaska 1332 Waiver Application, Actuarial Analyses and Certification, Appendix B.

In addition to decreasing costs through APTC payments, the proposed waiver is likely to decrease federal revenues in three important ways: through individual shared responsibility payments, health insurance provider fees, and exchange user fees. There will likely be a decrease in the number of individuals expected to pay the penalty, i.e. the individual shared responsibility payment, which constitutes a net loss to the federal budget. The proposed waiver will also influence federal revenue through the exchange user fee, which is charged to insurers for using the federal exchange system and based on a percentage of the total premiums written through the federal exchange. Because the waiver will decrease total premiums written through the federal exchange, the difference in total premiums multiplied by the fee percentage would represent the decrease in federal revenues. Lastly, the waiver will have an impact on the total amount collected in the health insurance providers fee, although the route through which this occurs is more convoluted. The total size of the health insurance providers fee is pre-determined through fee year 2018 (based on 2017 total premiums). The total fee for 2018 is set at \$14.3 billion, so the waiver will not impact the total collection in 2018. After fee year 2018 the total tax bill is set to increase at the same rate as the aggregate written premiums.<sup>8</sup> Since the waiver will alter the total premiums in the Alaska individual market, and in turn the total premiums aggregated to the national level, it could influence the size of the total fee collected in years 2019 and beyond. Tables 1 and 2 above summarize the overall impact the waiver will have on the federal budget. In what follows, the different channels, APTC savings, individual shared responsibility payments, health insurance provider fees, and exchange user fees, are discussed in more detail. A reasonable estimate is provided for the impact of each on the federal budget. When considering the decrease in total APTC payments, any changes in the number of individuals eligible for APTC payments, and the losses in individual shared responsibility penalty payments, provider fees, and federal exchange user fee altogether, the aggregate impact on the federal deficit, prior to any pass-through funding, is overwhelmingly positive.

### 3.1 APTC Savings

The actuarial analysis projects the total amount of APTC under the waiver and baseline scenarios for every year from 2018 to 2026. Using the differences in these numbers between the waiver and baseline scenarios, the projected total APTC is substantially lower under the waiver scenario in every year starting in 2018.

In 2018 the estimated savings in APTC payments from granting the waiver is more than \$51.6 million, and reaches \$97.5 million in 2026. The source of the steep growth in savings is

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<sup>8</sup>The premium base calculation is more complex than this, but is essentially the aggregate of all premiums written with exceptions and reductions for companies that meet certain qualifications.



Table 3: Projected APTC Savings from Waiver

Year	Estimated Savings
<b>2016</b>	\$0
<b>2017</b>	\$0
<b>2018</b>	\$51,637,772
<b>2019</b>	\$55,978,906
<b>2020</b>	\$60,181,304
<b>2021</b>	\$65,406,805
<b>2022</b>	\$69,811,961
<b>2023</b>	\$76,720,364
<b>2024</b>	\$82,667,950
<b>2025</b>	\$90,004,673
<b>2026</b>	\$97,550,838

\*Note: See Table 18 of Alaska 1332 Waiver Application, Actuarial Analyses and Certification, Appendix B.

twofold, stemming from both an increasing raw gap in premiums between the baseline and waiver scenarios, and an increasing number of APTC eligible individuals with coverage in the individual market. Although the reduction in premiums as a percentage of the baseline premium remains relatively stable, between 18 and 20%, the actual gap in premiums grows. The projected dollar value of the average gap in premiums goes from \$238 in 2018 to \$363 in 2026. The increase in the spread is mainly due to the one-time large increase projected in the baseline scenario for 2018, when the ARP is set to end in the baseline scenario. After 2018, the average yearly growth in premiums is actually quite similar between the two scenarios, but the shock to premiums in 2018 in the baseline scenario effectively sets them at different baselines leading to an increasing spread in the two numbers over time. The other factor contributing to the increasing estimated savings is the increasing number of subsidy eligible participants expected to take up coverage in the individual market. The total number of individuals expected to take up coverage in 2026 is higher than that number for 2018 in both scenarios, but more importantly the income distribution among those individuals is changing. The number of subsidy eligible individuals expected to take up coverage in the baseline scenario is 15,640 in 2017, but that number is 19,609 in 2026, meaning 3,969 more subsidy-qualifying individuals will have coverage in the individual market.<sup>9</sup> For comparison, the total market is only expected to see an increase of 698 individuals between those two years.<sup>10</sup> In other words, the expected change in the composition of the individual market is such that they are expected to become increasingly eligible for subsidies over time. This

<sup>9</sup>Table 34 of Alaska 1332 Waiver Application, Actuarial Analyses and Certification, Appendix B.

<sup>10</sup>Table 1 of Alaska 1332 Waiver Application, Actuarial Analyses and Certification, Appendix B.

phenomenon is not specific to either the waiver or baseline scenario.<sup>11</sup> The total savings in APTC depends positively on the gap in the average APTC between scenarios, but also depends on the total number of APTC eligible individuals with coverage in the individual market. Even if an equal number of individuals are eligible in the two scenarios, a higher number of eligible individuals increases savings, because more individuals qualify for subsidies. To put it another way, one more subsidy eligible individual taking up coverage in the baseline scenario facilitates more savings, even if they take up coverage in the waiver scenario as well. This is true because baseline scenario premiums are larger than waiver scenario premiums, i.e. subsidy eligible individuals qualify for a larger APTC in the baseline scenario than they do in the waiver scenario.

It is also important to note the relative similarity between the total amount expected in state and federal appropriations and funding through the ARP, and the APTC savings. For example, the projected cost of funding the ARP in 2018 is roughly \$60 million<sup>12</sup> and the anticipated total reduction in APTC payments is \$51.6 million. This is a result of the majority of the increase in premiums in the baseline scenario being funded through APTC. Individuals who are below 400% FPL do not have to cover the full increase in premiums, because they are eligible for APTC. In some cases they would not have to cover any of it. This is evident from comparisons of premium and APTC growth in the individual market for individuals below 400% FPL. The average individual market premium is expected to increase from \$947 in 2017 to \$1,191 in 2018 in the baseline scenario, an increase of \$244.<sup>13</sup> For that same year the projected average APTC increases are \$242, \$240, and \$207 for the 0 to 199% FPL, 200 to 299% FPL, and 300 to 400% FPL income categories, respectively.<sup>14</sup> A projected 15,943 individuals, 75% of the market, will be under 400% FPL in 2018 and eligible for a subsidy. The similarity in the premium and APTC increases for subsidy eligible individuals, in conjunction with a large portion of the market being covered by subsidies, means that the majority of the premium increases in the baseline scenario would be covered by APTC. This is all reflected in the high APTC savings to ARP funding ratio, which is 86% in 2018.

### 3.2 Individual Responsibility Insurance Payments

The estimated savings in APTC produced in the actuarial analysis, and shown in Table 3, capture the impact that the passage of the waiver will have on average APTC, as well as any increase or decrease in the number of individuals eligible for the APTC. They do not capture

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<sup>11</sup>Tables 7 & 8 of Alaska 1332 Waiver Application, Actuarial Analyses and Certification, Appendix B.

<sup>12</sup>Table 23 of Alaska 1332 Waiver Application, Actuarial Analyses and Certification, Appendix B.

<sup>13</sup>Table C of Alaska 1332 Waiver Application, Actuarial Analyses and Certification.

<sup>14</sup>Table 34 of Alaska 1332 Waiver Application, Actuarial Analyses and Certification, Appendix B.

any impact on the federal budget from the decrease in the number of individuals paying the penalty, but the amount of extra revenue from penalties that would be collected absent the waiver is a small percentage of the projected APTC savings. Using Congressional Budget Office (CBO) projections and the size of the flat rate individual penalties, two estimates for the amount of additional penalties that would be collected if the waiver were not granted are obtained. For 2016, an uninsured individual adult without an exemption will pay a penalty of \$695 or 2.5% of income, whichever is higher, and an uninsured child without an exemption would require a payment half that size. However, the average penalty paid by an uninsured individual is much lower than this baseline, presumably because many uninsured individuals are eligible for an exemption. Based on projections from the CBO, Table 4 shows the expected approximate average penalty per uninsured individual for each year.<sup>15</sup>

Table 4: Average Penalty for Uninsured

	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
<b>Uninsured</b>	27m	26m	26m	27m	27m	27m	27m	27m	28m	28m	28m
<b>Total Penalties</b>	\$3b	\$3b	\$3b	\$3b	\$3b	\$4b	\$4b	\$4b	\$4b	\$4b	\$5b
<b>Approximate Average</b>	\$111	\$115	\$115	\$111	\$111	\$148	\$148	\$148	\$142	\$142	\$178

Source:

[https://www.cbo.gov/sites/default/files/114th-congress-2015-2016/reports/51385-HealthInsuranceBaseline\\_OneCol.pdf](https://www.cbo.gov/sites/default/files/114th-congress-2015-2016/reports/51385-HealthInsuranceBaseline_OneCol.pdf)

Estimates for the number of uninsured are based on calendar year. The estimated penalties collected are based on fiscal year.

If the projections in Table 4 are reflective of the average penalty payments that would be made by individuals induced to take up insurance in the individual market, then we can use them, in conjunction with the actuarial projections for the number of individuals moving from uninsured to insurance in the individual market, to obtain a rough estimate of the difference in penalty payments in the waiver and baseline scenarios. The estimated losses in penalty payments are displayed in Table 5. Using the flat rate penalty, which is the minimum twelve-month penalty to be paid by an uninsured individual without an exemption, will produce a more conservative estimate. This rate is \$695 for an adult for 2016, and will be adjusted yearly. This fee is much higher than the national average penalty paid by an uninsured individual shown in Table 4, so we expect these figures to be conservative. One likely reason that the average payment from the CBO projections are so much lower than

<sup>15</sup>[https://www.cbo.gov/sites/default/files/114th-congress-2015-2016/reports/51385-HealthInsuranceBaseline\\_OneCol.pdf](https://www.cbo.gov/sites/default/files/114th-congress-2015-2016/reports/51385-HealthInsuranceBaseline_OneCol.pdf) (See Table 1, *Health Insurance Coverage for People Under Age 65*, of CBO report for the number uninsured. See Table 2, *Net Federal Subsidies Associated with Health Insurance Coverage for People Under Age 65*, of CBO report for the total penalty payments.)

the flat rate is that there could be a large number of individuals who are uninsured but exempt from paying the penalty. The exemption for not having access to affordable coverage is particularly relevant in this case. If an individual does not have access to coverage that costs less than a certain percentage of their income, then they are exempt from the penalty. This is especially relevant in Alaska, because of the high premiums in the state. There could be a relatively large number of individuals who are not eligible for subsidies but would have to pay a high percentage of their income to obtain coverage, and therefore would not be required to make an individual responsibility payment if they forego coverage. It is possible that some of the individuals who move from uninsured status to the individual market in the waiver scenario would not be required to make a penalty payment in the baseline scenario. To the extent that the individuals who make that switch are exempt from penalties, the figure using the flat rate is overestimating the number of individuals who will have to pay the penalty in the baseline scenario. On the other hand, the estimate using the CBO projection is accurate if we assume that the portion of the population making that switch to the individual market in Alaska is comparable to the national uninsured population in terms of exemption status and average penalty payments.<sup>16</sup>

Table 5 shows two estimates for the potential loss in individual penalty payments. The estimates using the average penalty from the CBO projections, shown in the last column of Table 5, range from about \$105,000 in 2025 to more than \$197,000 in 2020. These estimates are much lower than the estimates that assume the average penalty paid by the uninsured would equal the flat rate penalty. In 2018 the estimated loss using the flat rate calculation is almost \$1.2 million, but the estimated loss using the average penalty is only about \$189,000 for the same year. It is difficult to say which is more accurate, because it is not clear from the actuarial analysis which individuals would qualify for an exemption.

One impact of the waiver that is not captured in these estimates is that the lower premiums can also change the number of uninsured individuals who would be required to make an individual responsibility payment. Since the premiums will be lower in the waiver scenario, the income cutoff for whether or not insurance is considered affordable will also differ between the two scenarios. There could be a group of individuals who are not eligible for subsidies and forego insurance in both scenarios, but would only be required to make a penalty payment in the waiver scenario. This is most relevant for the group of individuals who are over 400% FPL, because that is the group that will see the largest change in out-of-pocket premiums. There are more than 14,000 uninsured individuals with income above 400% FPL in the

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<sup>16</sup>Without more details on the characteristics of the individuals who are induced to switch from the uninsured category to the individual insurance market because of the waiver, we cannot accurately evaluate the legitimacy of this assumption.

Table 5: Estimated Loss in Penalty Payments

Year	Change in Insured			Estimated Loss	
	Total	Adults	Children	Using Flat Rate	Using Avg. Penalty
<b>2016</b>	0	0	0	\$0	\$0
<b>2017</b>	0	0	0	\$0	\$0
<b>2018</b>	1,641	1,593	48	\$1,192,255	\$188,715
<b>2019</b>	1,565	1,516	49	\$1,169,925	\$173,715
<b>2020</b>	1,775	1,727	48	\$1,369,682	\$197,025
<b>2021</b>	1,234	1,193	41	\$977,711	\$182,632
<b>2022</b>	1,210	1,168	42	\$986,711	\$179,080
<b>2023</b>	1,182	1,183	-1	\$1,010,756	\$174,936
<b>2024</b>	1,227	1,228	-1	\$1,080,697	\$174,234
<b>2025</b>	741	740	1	\$671,498	\$105,222
<b>2026</b>	742	741	1	\$692,577	\$132,076

\*Note: The projected changes in number insured are from Table 12 of Alaska 1332 Waiver Application, Actuarial Analyses and Certification, Appendix B. The flat rate calculation is based on the \$695 and \$347.50 flat fee for uninsured adults and children in 2016, and assuming 3% growth per year. The calculation using the average penalty uses the approximate averages from Table 3 of the CBO report. The estimated impacts of the reduction in penalty payments on the budget are based on calendar years and attributed to the year that the penalties are based on. However, since penalties are reconciled on tax returns, all or a portion of them may be collected in the following year.

waiver scenario in 2018. To the extent that some uninsured individuals would qualify for an exemption in the baseline scenario, but not in the waiver scenario because of the depressed premiums, this represents a net gain to the federal budget. However, without more precise information on the income distribution and other exemption-relevant characteristics of the uninsured population, we cannot tell the exact size of this gain.

### 3.3 Health Insurance Providers Fee

The proposed waiver will also impact the federal budget through the health insurance provider fee,<sup>17</sup> which is essentially a tax on insurance providers based on the amount of premiums that they wrote in the previous year. However, the tax is assessed in such a way that the total collection amount from all providers adds up to a pre-specified amount, which is already determined through fee year 2018.<sup>18</sup> The total amount collected through this tax will equal \$14.3 billion for 2018. Since the total amount collected is pre-determined, the decrease in premiums under the waiver scenario will have no impact on federal revenues

<sup>17</sup>Affordable Care Act Section 9010

<sup>18</sup>[https://www.irs.gov/irb/2013-51\\_IRB/ar12.html](https://www.irs.gov/irb/2013-51_IRB/ar12.html) (see section 57.4 *Fee Calculation*)

through this channel for fee year 2018 (collected in 2018 for premium revenues in 2017). For years 2019 and beyond, the proposed waiver could decrease the size of total fee, because the total amount of the fee depends on growth in national aggregate premiums for every year after 2018. The waiver will impact total national premiums through changes in premiums in the individual market in Alaska. The slowed growth in premiums only impacts the individual market in Alaska, a market of between 23,500 and 25,300 individuals for the years 2019 through 2026.<sup>19</sup> That represents a small fraction of the number of insured individuals across the country, but still changes the amount of premiums aggregated to the national level.<sup>20</sup> Table 6 shows yearly estimated losses to the budget that the waiver would cause through this channel. Please refer to the appendix for more detail on the health insurance provider fee and further explanation on the calculations in Table 8.

**Table 6: Estimated Loss in Health Insurance Providers Fee**

<b>Year</b>	<b>Differences in Health Insurance Providers Fee</b>
<b>2016</b>	\$0
<b>2017</b>	\$0
<b>2018</b>	\$0
<b>2019</b>	\$900,354
<b>2020</b>	\$1,012,503
<b>2021</b>	\$1,037,013
<b>2022</b>	\$1,173,585
<b>2023</b>	\$1,256,216
<b>2024</b>	\$1,382,168
<b>2025</b>	\$1,539,377
<b>2026</b>	\$1,853,635

\*Note: Estimated losses are for calendar years and based on premiums from the prior year. Please see the appendix for details on how these differences were calculated.

The waiver will have no impact on the total amount collected through the insurer tax in 2018, because the total amount is already set at \$14.3 billion for 2018. The waiver will lead to an estimated loss in the total amount collected through the insurer tax of about \$900,000 in 2019. The amount lost increases each year after that, as the size of the market in terms of total premiums increases, rising to over \$1.9 million in losses for 2026. While these losses are substantial, much like the loss in individual penalty payments, they are less than 2% of the size of the savings from the reduced APTC in any given year. On average, the size of the loss in the insurer tax is about 1.5% of the savings in APTC. This table does not

<sup>19</sup>See Table 2 of Alaska 1332 Waiver Application, Actuarial Analyses and Certification, Appendix B.

<sup>20</sup>[https://www.cbo.gov/sites/default/files/114th-congress-2015-2016/reports/51385-HealthInsuranceBaseline\\_OneCol.pdf](https://www.cbo.gov/sites/default/files/114th-congress-2015-2016/reports/51385-HealthInsuranceBaseline_OneCol.pdf)

capture any differences in provider fees for years after 2026. Since the estimates provided in the table are based on premiums in the prior year, and aggregate premiums are lower in 2026 in the waiver scenario, we should expect that the waiver will also lead to a reduction in the providers fee in 2027 as well.

### 3.4 Exchange User Fees

The decrease in premiums written in the individual market will also have a direct impact on the amount collected through the exchange user fee. A 3.5% tax is imposed on all premiums that are written through the federal exchange marketplace. Since the Alaska individual market uses the federal marketplace, there will be a negative impact on the federal budget of 3.5% of the difference in premiums between the baseline and waiver scenario. The yearly differences in total premiums in the Alaska individual market between the baseline and waivers scenarios and the corresponding loss in exchange user fees are listed in Table 7.

Table 7: Estimated Loss in Exchange User Fees

Year	Difference in Total Premiums	Loss in Exchange User Fees
2016	\$0	\$0
2017	\$0	\$0
2018	\$42,052,366	\$1,471,833
2019	\$47,094,038	\$1,648,291
2020	\$48,305,929	\$1,690,708
2021	\$54,438,525	\$1,905,348
2022	\$58,275,748	\$2,039,651
2023	\$63,986,881	\$2,239,541
2024	\$71,074,775	\$2,487,617
2025	\$85,118,080	\$2,979,133
2026	\$91,974,844	\$3,219,120

\*Note: The projected changes in total premiums come from Table 18 of Alaska 1332 Waiver Application, Actuarial Analyses and Certification, Appendix B. The calculation for loss in exchange user fees is based on a 3.5% fee on premiums for every year. The estimated losses in this table are based on calendar year and attributed to the same year as the premiums that they are attached to. In practice, a portion of the fee may be collected in the following calendar year.

The waiver leads to about \$42 million less in aggregate premiums in the Alaska individual market in 2018. The corresponding loss in exchange user fees is 3.5% of the difference in premiums, leading to a loss in user fees of almost \$1.5 million in 2018. The loss increases gradually as the difference in total premiums increases, reaching over \$3.2 million in 2026. Much like the expected losses in insurer tax revenues and individual penalty payments, the size of the loss in exchange user fees is small relative to the APTC savings. On average, the

loss in exchange user fees is about 3% of the savings in APTC.

### 3.5 Overall Impact on Budget

Comparing the estimates for the losses in individual shared responsibility payments, health insurance provider fees, and exchange user fees with APTC savings indicates that the net impact on the federal budget is positive and large. Table 8 shows yearly estimates for the combined impact of the channels through which the waiver will influence the federal budget, savings in APTC payments, and decreases in individual shared responsibility payments from uninsured individuals, health insurance provider fees, and exchange user fees. These losses in individual penalties in this table are from the calculations using the flat rate penalties, which are much higher than projected national average penalty, so the estimates in Table 8 are relatively conservative.

Table 8: Estimated Savings From Waiver (Before Pass-Through Funding)

Year	APTC Savings	Individual Penalties	Provider Fees	Exchange User Fees	Final Savings
<b>2016</b>	\$0	-	\$0	-	\$0
<b>2017</b>	\$0	-	\$0	-	\$0
<b>2018</b>	\$51,637,772	-	\$1,192,255	-	\$0
<b>2019</b>	\$55,978,906	-	\$1,169,925	-	\$900,354
<b>2020</b>	\$60,181,304	-	\$1,369,682	-	\$1,012,503
<b>2021</b>	\$65,406,805	-	\$977,711	-	\$1,037,013
<b>2022</b>	\$69,811,961	-	\$986,711	-	\$1,173,585
<b>2023</b>	\$76,720,364	-	\$1,010,756	-	\$1,256,216
<b>2024</b>	\$82,667,950	-	\$1,080,697	-	\$1,382,168
<b>2025</b>	\$90,004,673	-	\$671,498	-	\$1,539,377
<b>2026</b>	\$97,550,838	-	\$692,577	-	\$1,853,635

\*Note: The estimated losses in individual penalties and exchange user fees in this table are based on calendar year and attributed to the same year as the premiums that they are attached to. In practice, all or a portion of those fees may be collected in the following calendar year.

All of the estimates shown in Table 8 are for savings prior to any pass-through funding. The savings in 2016 prior to any pass-through funding is about \$49 million. Moreover, the estimated savings increase every year thereafter and are expected to reach almost \$92 million in 2026. So long as the amount of pass-through funding granted in the waiver does not exceed these estimates, the proposed waiver will not have any anticipated negative impact on the federal deficit, and could instead have a large positive impact.



## 4 Other considerations

We have considered the most important mechanisms through which the proposed waiver will directly impact federal spending and revenues. One indirect avenue through which granting a waiver could impact the federal budget is through administrative costs. However, the proposed waiver will only require granting of pass-through funding and granting a greater number of premium tax credits, neither of which are expected to have large impacts on administrative costs.

There are a few small fees collected based on the number of insured individuals. Since the waiver will increase the number of insured individuals, it would increase revenue through these channels, but the impact would be marginal. One fee that helps to fund the Patient-Centered Outcomes Research Institute (PCORI) is scheduled to equal \$2.28 per member per year in 2017. This fee is set to increase the following years based on increases in health care expenditures, but phase out after 2019. Another per member fee, the risk adjustment administration fee, is set for \$1.80 per member per year for 2017. Between these two fees, the waiver would increase revenue by almost \$7,000 in 2018 based on the expected increase in number of individuals covered. Given the small increase in total revenue, due to the low amount and phasing out of the PCORI fee in 2019, this difference is omitted from the analysis. However, the waiver would have a slight positive impact on government revenue through this channel.

## 5 Conclusion

This report considers the different ways in which the proposed waiver may impact the federal budget to assist in evaluating whether the waiver will meet the fourth guardrail, that it have no adverse impact on the federal deficit. Projections from the actuarial analysis related to this waiver proposal are used to rule out a number of mechanisms through which a waiver could influence the budget. Because the proposed waiver will only impact movement of individuals between the uninsured category and the individual insurance market, and will only impact premiums in the individual insurance market, we can focus on a few channels through which the waiver will impact federal costs and revenues. The most important impact of the waiver is that by depressing premiums, it will also drastically decrease the amount of APTC payments. The savings generated through this channel are large enough to overpower any negative impact on revenues through other channels. With that being said, the proposed waiver will likely decrease revenues through at least three channels: individual shared responsibility payments, health insurance provider fees, and exchange user fees. The increased number of individuals taking up insurance in the individual market means that fewer indi-

viduals will be required to make individual responsibility payments. The waiver also reduces the aggregate premiums written in the Alaska individual market, which has an impact on the total premiums aggregated to the national level, and in turn decreases the total amount collected in the health insurance providers fee for years 2019 and beyond. Lastly, revenue collected through the exchange user fee, a tax on premiums generated through the federal exchange marketplace, will be lower in the waiver scenario, because the waiver decreases premiums in the Alaska individual market, which uses a federal exchange marketplace. The savings from decreased APTC is much greater than the estimated decreased revenue through the other three channels combined, lost penalties paid by uninsured individuals, decreased provider fees collected from insurers, and decreased exchange user fees. The analysis of the impact of the waiver on the federal deficit suggests that the waiver can meet the fourth guardrail of no negative impact on the deficit, although the final impact is dependent on the amount of pass-through funding granted. Prior to any pass-through funding, the waiver generates savings of about \$49 million in 2018. The savings gradually increases all the way up to almost \$92 million in 2026. So long as the amount of pass-through funding granted by the waiver does not exceed these estimated savings (final column of Table 8) then we expect the proposed waiver to have no negative impact on the federal deficit.

## Appendix

### Health Insurance Providers Fee Estimates

Disentangling the impact of the waiver through the health insurance provider fee is complex because of the multiple moving parts and dynamic feature of the fee calculation. The total fee for fee year 2019 can be written as a function of the market share of the Alaska individual market multiplied by the growth rate in premiums in the Alaska individual market, added to the rest of the national market share and growth rate (premiums written in other markets, aggregated nationally). Using the projections of total premiums written in the Alaska individual market produced by the actuarial analysis, along with an assumption about the initial total market size and growth rate of the aggregate premiums in all other markets, we can calculate the impact of the waiver on federal revenues through this channel.

The total insurer tax is of a pre-determined size through collection year 2018. It is important to distinguish between the year of collection and the year that the collection is based on. In 2018 the total fee will be \$14.3 billion, split across the national industry based on share of total premiums written. The \$14.3 billion collection will be based on the premium revenues in 2017. Thereafter, the total fee will increase at the same rate as the total premiums. Consider the following equations describing the nature of the fee for collection year 2019 (the first in which the fee size has not yet been determined):

$$Premium\ Growth_{2018} = \frac{National\ Premiums_{2018} - National\ Premiums_{2017}}{National\ Premiums_{2017}} \quad (1)$$

$$Total\ Fee_{2019} = (\$14.3\ billion) \times (1 + Premium\ Growth_{2018}) \quad (2)$$

This is how the total size of the fee collected in 2019, based on revenues from 2018, will be determined.<sup>21</sup> Every year after 2019 will follow a similar calculation, where the increase in the total fee collected will be tied to growth in premiums. The proposed waiver will impact the growth in total premiums because it changes the growth in premiums in the Alaska individual insurance market. In order to understand this channel and to calculate the difference in total premiums resulting from the passage of the proposal, it is instructive to re-write equation (1) as the weighted summation of the growth in the individual Alaska market and the growth in all other markets combined.

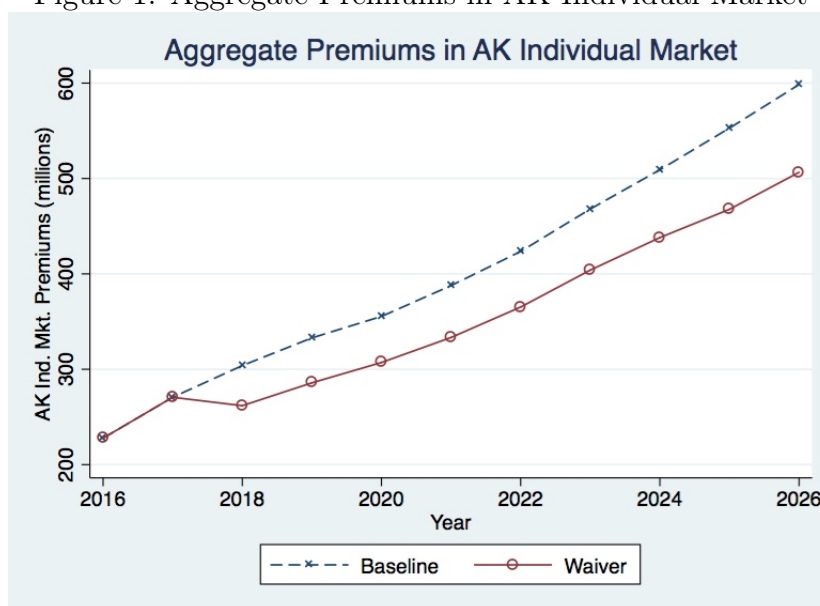
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<sup>21</sup>[https://www.irs.gov/irb/2013-51\\_IRB/ar12.html](https://www.irs.gov/irb/2013-51_IRB/ar12.html)

$$\begin{aligned}
 \text{Premium Growth}_{2018} = & (\text{Market Share}_{2018}^{\text{AKIndividual}}) \times (\text{Growth}_{2018}^{\text{AKIndividual}}) \\
 & + (1 - \text{Market Share}_{2018}^{\text{AKIndividual}}) \times (\text{Growth}_{2018}^{\text{Else}}) \quad (3)
 \end{aligned}$$

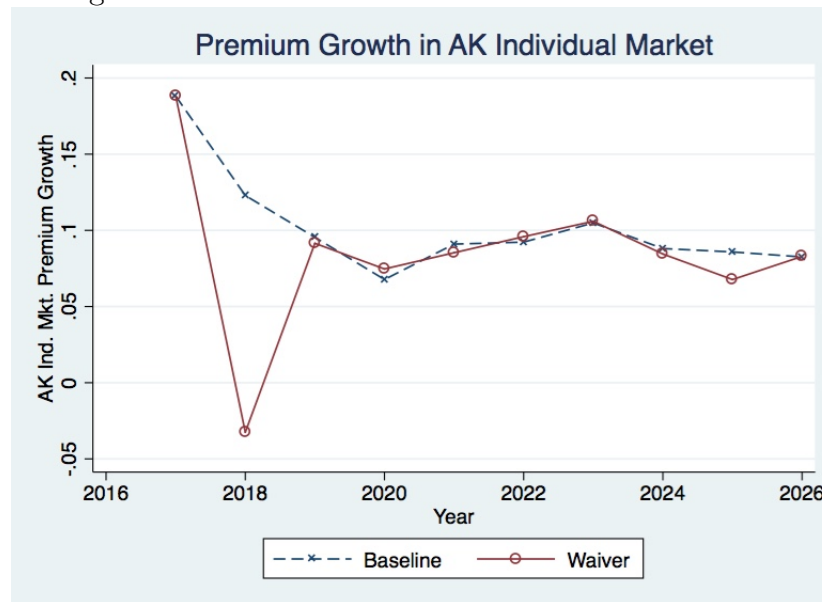
In other words, the changes in the Alaska individual market influence the overall growth in premiums through the change in share of the total market that the Alaska individual market makes up, as well as any change in the growth rate of premiums in the Alaska individual market. The actuarial analysis provides projected total premiums in the Alaska market in Table 18 of the Alaska 1332 Waiver Application, Actuarial Analyses and Certification, Appendix B, and those numbers are represented in Figure 1.

Figure 1: Aggregate Premiums in AK Individual Market



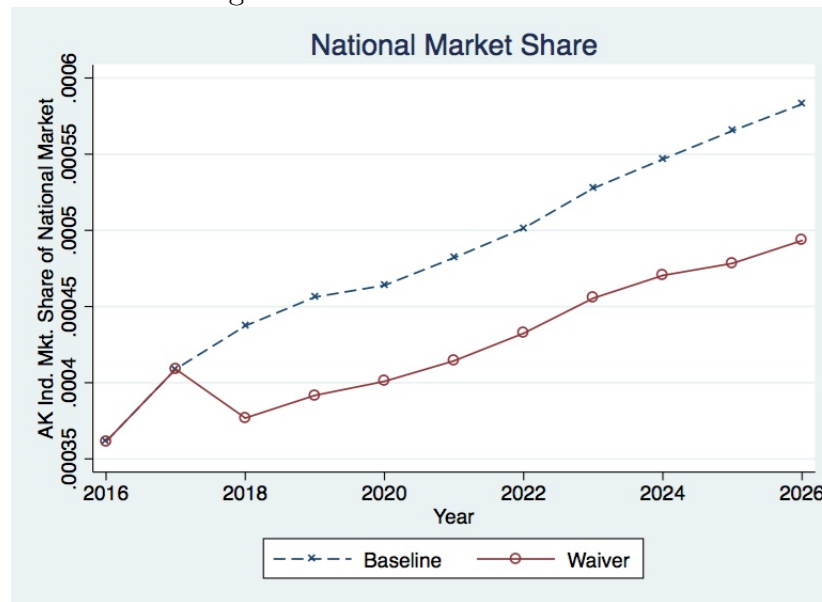
As shown in Figure 1, the proposed waiver will decrease the total (aggregate) premiums written in the Alaska individual market. This just means that the waiver depresses premium rates enough to overpower the impact from inducing more individuals to join the market, so that aggregate total premiums decrease. The total premium projections were used to calculate the growth in total premiums written in the Alaska individual market for both the baseline and waiver scenarios, and are displayed in Figure 2.

Figure 2: Premium Growth in AK Individual Market



The biggest deviation of premium growth in the waiver scenario from the baseline scenario occurs in 2018, because that is the year that ARP is scheduled to run out if the proposed waiver is not granted. As shown in Figure 1, under the waiver scenario aggregate premiums actually decrease from 2017 to 2018. On the other hand, in the baseline scenario aggregate premiums increase from 2017 to 2018, which is driven by an increase in premium rates. Because of this difference in the two scenarios, growth in 2018 is 12% of the baseline scenario, but negative in the waiver scenario, about -3%. In the years after 2019, total premiums in the Alaska individual market grow at similar rates in the two scenarios. However, this one time difference in growth leads to differences in market size that are reflected in the relative shares of the national market. The market shares under the waiver and baseline scenarios are shown in Figure 3.

Figure 3: National Market Share



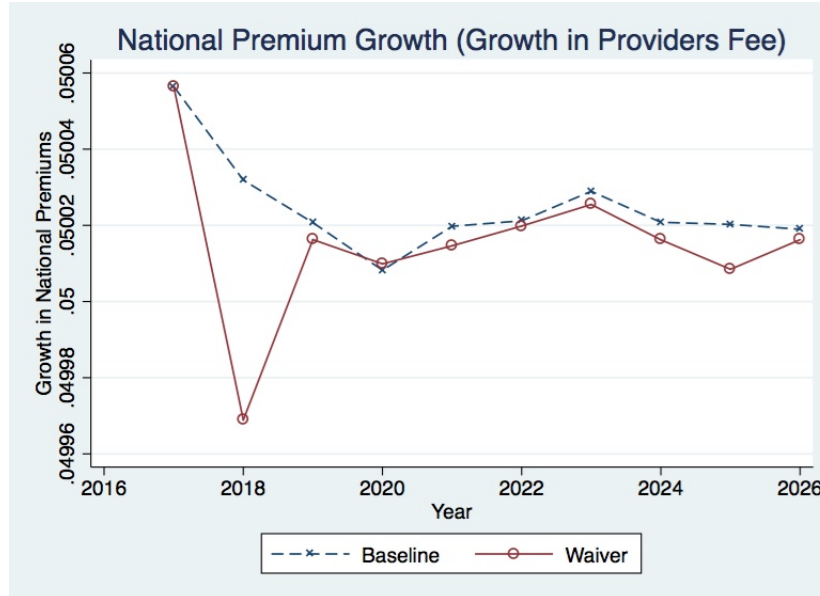
The market shares were estimated by assuming an initial market size and growth rate. The initial market size is based on the size of the market in 2013, which comes from an estimate of the health insurance providers fee in 2014 as a percentage of total premiums. The total providers fee was \$8 billion in 2014, estimated to be 1.47% of total premiums. That estimate is used to calculate an estimated initial market size ( $\$8 \text{ billion} / (0.0147)$ ) in 2013. A growth rate of the total market premiums of 5% is used to project market size in every year after 2014. The 5% figure is roughly the average growth rate from 2018 to 2026 in the projected total health insurance provider fee, based on the CBO report projecting ACA related figures.<sup>22</sup> The differences displayed in Figure 3 may seem small, e.g. market shares in 2018 are about 0.00038 and 0.00044 in the waiver and baseline scenarios, respectively, but they still influence the total growth in the market. The weighted growth in the national market is shown in Figure 4, which is also the growth rate used to calculate the increases in the insurer tax each year.

The impact on the national premium growth rate mirrors that difference in the rate in the Alaska individual market. The biggest difference is in 2018, for which the national premium growth rates are 0.04997 and 0.05003 in the waiver and baseline scenarios, respectively. Again, rates are similar in the years that follow. However, this one time difference leads

<sup>22</sup>[https://www.cbo.gov/sites/default/files/114th-congress-2015-2016/reports/51385-HealthInsuranceBaseline\\_OneCol.pdf](https://www.cbo.gov/sites/default/files/114th-congress-2015-2016/reports/51385-HealthInsuranceBaseline_OneCol.pdf) (See Table 2, *Net Federal Subsidies Associated with Health Insurance Coverage for People Under Age 65*, of CBO report for projected taxes on health insurance providers for this group of individuals.)

to differences in fee size calculated for the 2018 premium revenues (collected in 2019). The market shares and growth rates in the Alaska individual market, along with figures for the size of the national market and growth rates, were used in Equation 3 to calculate the total size of the health insurance providers fee in the waiver and baseline scenarios.

Figure 4: National Premium Growth (Growth in Providers Fee)



Although the difference in growth seems small, it results in meaningful differences in the total fee, because the base for the fee is so large (\$14.3 billion for the 2017 premium revenues, collected in 2018). A 5% growth rate for the national aggregate premiums is also assumed used when using equation (3) to determine the total impact of the waiver on providers fee size. Table A1 displays the total providers fee under each scenario, and the difference in those fees. The waiver will not impact the total fee in 2018, because the size of the 2018 fee is already determined. In collection years 2019 to 2026, the proposed waiver will reduce the size of the total fee collected. The proposed waiver will reduce the amount collected in the insurer tax by \$900,353 in fee year 2019. The reduction in total fees collected is larger with each year, because the size of the market increases and the difference in total premiums between the waiver and baseline scenarios increases as well (See Figure 1). However, the size of the reduction in insurer taxes collected is small relative to the size of the APTC savings. For example, the reduction in insurer taxes is about 1.6% of the APTC savings in 2018. The projected reduction in insurer taxes caused by the waiver is figured in to the total savings shown in Table 8.

Table A1: Estimated Loss in Insurer Tax

<b>Year</b>	<b>Total Tax Baseline</b>	<b>Total Tax Waiver</b>	<b>Difference</b>
<b>2018</b>	\$14,300,000,000	\$14,300,000,000	\$0
<b>2019</b>	\$15,015,455,719	\$15,014,555,365	\$900,354
<b>2020</b>	\$15,766,539,567	\$15,765,527,064	\$1,012,503
<b>2021</b>	\$16,554,996,233	\$16,553,959,220	\$1,037,013
<b>2022</b>	\$17,383,073,059	\$17,381,899,474	\$1,173,585
<b>2023</b>	\$18,252,595,183	\$18,251,338,967	\$1,256,216
<b>2024</b>	\$19,165,753,265	\$19,164,371,097	\$1,382,168
<b>2025</b>	\$20,124,439,606	\$20,122,900,229	\$1,539,377
<b>2026</b>	\$21,131,069,242	\$21,129,215,607	\$1,853,635

\*Note: The size of the aggregated market, excluding the Alaskan individual market, is estimated by assuming that the total market premiums were equal to roughly \$550B in 2013 and applying a 5% growth rate. The estimated size of the market in 2013 is based on an Association for Community Affiliated Plans report in which it is stated that the \$8B fee in 2014 was equivalent to a 1.47% tax rate. See <http://www.communityplans.net/Portals/0/Exchanges/Fees%20and%20Taxes%20Report%20Update%20for%20the%20Exchange%20Requirement%20Reports.pdf> for more details. The assumed 5% growth rate is roughly equal to the average growth in the total tax on insurance providers from 2019 - 2026 projected by the CBO. See [https://www.cbo.gov/sites/default/files/114th-congress-2015-2016/reports/51385-HealthInsuranceBaseline\\_OneCol.pdf](https://www.cbo.gov/sites/default/files/114th-congress-2015-2016/reports/51385-HealthInsuranceBaseline_OneCol.pdf) for more details (Table 2). Projected total premiums (outside of the Alaska individual market) are calculated by applying the estimated growth in premiums at the national level in each scenario. Total premiums in the Alaska individual market come from Table 18 of Alaska 1332 Waiver Application, Actuarial Analyses and Certification, Appendix B.