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RESEARCH SUMMARY

Stabilizing the ACA's Individual Markets: Why State Innovation Is Key

Through its regime of subsidies, penalties, and federal regulations, the Affordable Care Act (ACA) made health insurance affordable to millions of people who were uninsured because they earned too little or had preexisting conditions. But it also made insurance more expensive for millions who used to be able to afford it. Between December 2013 and January 2017, average premiums more than doubled, and individual markets were in turmoil.

How can Washington most effectively address this problem and improve health insurance markets?

That's the question Doug Badger and Rea S. Hederman Jr. seek to answer in "Federal Efforts to Stabilize ACA Individual Markets through State Innovation." Given the failure to pass legislation to repeal and reform the ACA, Congress and the administration should empower states to devise new ways to make health insurance more affordable for more people. The means to do that is through the flexibility provided by section 1332 of the ACA.

Section 1332 authorizes the secretary of Health and Human Services (HHS) to grant states waivers from certain ACA regulatory requirements. The provision enables states to deploy existing federal resources in a more cost-effective way, without the need for new spending.

Most innovation waivers that have been filed seek to redirect federal subsidies from individuals to a reinsurance plan that can reduce premiums. But these waivers have been difficult to obtain under the Obama-era HHS guidance, and some states have withdrawn their requests because of the length of the waiver process. To date, only two waivers have been formally approved (Hawaii and Alaska).

Why is stabilizing individual markets through state innovation a good idea?

- Uniform federal rules have yielded disparate results, with some states tolerating the ACA's regulatory regime better than others. Congress should recognize the primary role of states (not the federal government) in restoring order to their individual markets.
- In addition to variations among states, there are variations within each state. For example, rural counties are often less able to attract insurers willing to offer coverage at affordable rates. States are better positioned than federal policymakers to address these issues.
- States can more effectively direct federal resources in order to lower premiums in the individual insurance market for those who are ineligible for subsidies.

- Section 1332 removes the need for Congress to allocate additional federal money to stabilize individual insurance markets. States can use the waiver process to reduce market turbulence without increasing federal spending.

To succeed, the administration should streamline and improve the ACA waiver process. It should issue new guidance that is less restrictive than the Obama-era guidance and encourage an expedited process.