

Adverse Selection in ACA Exchange Markets: Evidence from Colorado

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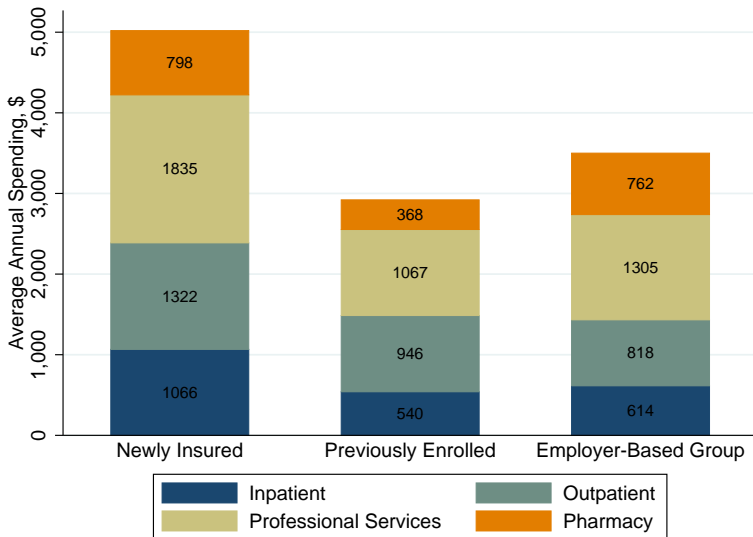
Motivating Questions

- **Adverse Selection** occurs when high cost individuals have the highest demand for insurance
 - Leads to **under-provision** of insurance, or even market unraveling
- Is there adverse selection in Colorado's non-group insurance market, including the ACA Exchange?
- Important implications for:
 - How to think about consumer welfare in these markets
 - How to evaluate the potential policy interventions

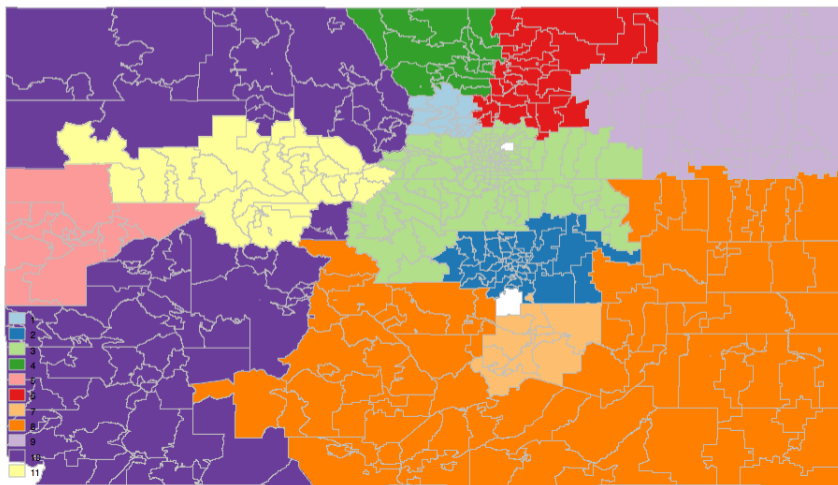
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- Colorado's APCD: Broad and detailed enough to look this question

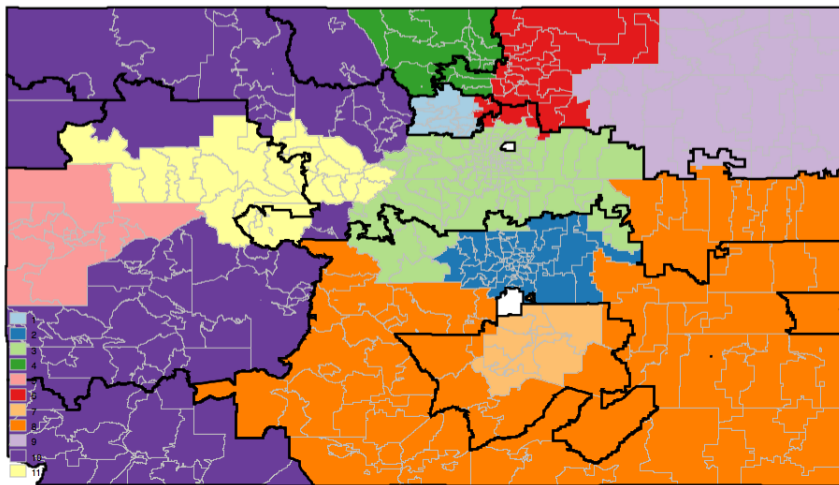
Descriptives



2014 Rating Areas in Colorado



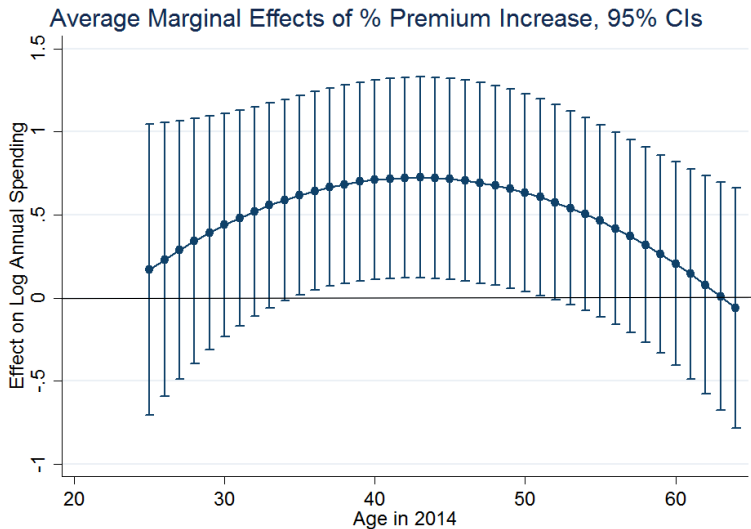
Hospital Referral Regions in Colorado



Results

- Evidence of Adverse Selection
 - 1% increase in premiums is associated with a 0.8% higher average medical spending in insured population
- Reflects large amount of welfare loss
 - Welfare loss due to selection of at least \$25 per person per month
 - Selection raises monthly premiums by at least \$44 (from \$358 to \$402)
- Heterogeneity across age groups

Breakdown by Age



Policy Conclusions

- Increasing coverage in adverse selected insurance markets can increase consumer welfare
- Premium subsidies are one tool that can be used
- Results suggest that additional subsidies would be cost effective
- Age-targeted subsidies may be an even more cost-effective policy
 - 35-44 age group has greatest potential gains from intervention