Centers for Medicare & Medicaid Services
Department of Health and Human Services
Attention: CMS-9916-P

March 2, 2020

Comment on Automatic Reenrollment Process for Individuals with APTC

Dear CMS:

I write to oppose the changes in the automatic reenrollment process in the proposed rule, "Benefit and Payment Parameters; Notice Requirement for Non-Federal Governmental Plans."

The proposed rule solicited comment on "modifying the automatic re-enrollment process such that any enrollee who would be automatically re-enrolled with APTC that would cover the enrollee's entire premium would instead be automatically re-enrolled without APTC." I oppose this change because it is likely to reduce enrollment of individuals eligible for subsidies, increase the uninsured, and increase adverse selection in the Exchange. This portion of the proposed rule also seems unfair to enrollees and may diminish trust the Exchange. As a result of all these considerations, the proposed rule is unlikely to pass a cost-benefit assessment.

I am an academic researcher who has published on the design of health insurance exchanges. In particular, I have studied individual inertia and the role of automatic reenrollment defaults in Medicare Part D, the setting of optimal defaults, and interventions in Exchanges to reduce default taking and increase active decisions.

Under the proposed rule, consumers who were eligible for a zero-premium plan would be automatically reenrolled into a plan with zero APTC (that is, they would receive a bill for the full price) unless the consumer returns to update their application and receive a new determination of their eligibility for subsidies (aka advanced premium tax credits, APTC). This is a type of "default," in that the automatic reenrollment process will determine what happens to an individual who does not make an active decision. I refer to this proposal as the "proposed default into zero-APTC plans."

1. **The proposed rule's default will reduce enrollment in the exchanges and increase the number of uninsured households**

Most of these enrollees subject to the proposed default into zero-APTC plans would likely still qualify for substantial amount of APTC if they completed the eligibility determination process. However, it is likely that many consumers will nonetheless take the automatic reenrollment default. Taking the default often does not reflect consumers' well thought out preferences, but instead results from behavioral frictions, such as inattention, forgetting, or procrastination [1-4]. Evidence indicates that defaults have powerful

effects in many contexts [5-6]. Reenrollment defaults matter for health insurance as shown by evidence from employer-sponsored insurance [7], Medicare Part D [8] and state-based Exchanges [9]. Small barriers or nudges can increase or reduce enrollment [10,11]. Low-income individuals also take the default because it is difficult for them to keep up with the extensive administrative burden of the social safety net.

Enrollees who receive a bill for a zero-subsidy, full price health insurance plans are likely to drop coverage. Even if enrollees would eventually be eligible for subsidies when filing taxes, enrollees are unlikely to have the financial resources to pay for premiums upfront because of liquidity constraints [12]. They may also be confused and averse to the risk that they might not receive subsidies when filing taxes. As a result, enrollees who receive this default are likely to drop coverage.

2. The proposed rule's default will worsen adverse selection into the exchanges

Sick individuals will be less likely than healthy individuals to drop coverage as a result of receiving the proposed default into zero-APTC plans. This will lead to adverse selection. Adverse selection leads to inefficiency in health insurance markets generally. The risk adjustment system helps address adverse selection across plans in the Exchange, but the risk adjustment system does not address adverse selection into the Exchange versus out of the Exchange (e.g. selection between Exchange coverage and no coverage, or some other source of coverage). As a result, it is important to consider the effects on selection into the exchange. Worsening selection into the Exchange can raise premiums and even lead to a "death-spiral."

3. The proposed rule's default is unfair and may reduce trust in the Exchange

The proposed default into zero-APTC plans seems unfair. A zero-APTC amount does not reflect the Exchange's best estimate of the APTC that these enrollees are eligible for. Moreover, it treats similar individuals quite differently: consumers with zero-premium plans get a default into a zero-APTC plan, while consumers with near zero plans continue with their current default. Arguably, many consumers with a zero-premium plan would be better off in a $1 premium plan so that they would not be subject to the proposed default. The proposed rule's default is likely to diminish trust in the Exchange, trust in recommendations, and trust that its defaults are well-chosen.

4. The proposed rule's default is unlikely to pass a cost-benefit test

The proposed default into zero-APTC plans has large costs and few benefits. It is therefore unlikely to pass a cost-benefit test. The only benefit mentioned from this proposed default into zero premium plans is that "automatic re-enrollment may lead to incorrect expenditures of APTC, some of which cannot be recovered through the reconciliation process due to statutory caps." No estimate of this benefit has been made public.

However, the proposed default into zero-APTC plans has clear costs. First, there is a cost in time and effort to the enrollees who must complete the eligibility redetermination process to receive their APTC.

Second, because individuals are likely to take the proposed default due to behavioral frictions and then drop coverage, this policy is likely to increase the number of the uninsured. Being uninsured has negative consequences on the uninsured individuals themselves, such as increased mortality [10] and financial stress. Moreover, becoming uninsured also has negative externalities on others, including on the uncompensated/charity care and lack of access to vaccines and other treatments that would prevent the transmission of infectious disease. The total of these costs likely outweigh any benefits from the reduction of incorrect APTC expenditures.

5. Alternatives to the proposed rule's default, including the status quo, are better

The current automatic reenrollment default is rational, in that it assumes that enrollees have not had a large positive change in income in the absence of any new information. The current automatic reenrollment default for those with zero-premium plans also minimizes administrative costs of billing and collecting small premiums. In the absence of clear evidence that there are large costs to the current automatic reenrollment default, I believe the current default is best.

However, if a change to the automatic reenrollment process needed to be made, there are alternatives to the proposed default into zero-APTC that are superior. I outline these alternative defaults for enrollees who previously received zero-premium plans and briefly discuss their pros and cons.

i. *A default into a $1 premium plan.* The proposed rule mentions the concern that there is a "particular risk associated with enrollees who are automatically re-enrolled with APTC that cover the entire plan premium." A logical alternative is to default them into a plan that requires a small token payment, which would still require action on the part of enrollees to continue coverage.

   The cons of this policy are that it would entail administrative costs to collect a small premium, and that some individuals actually eligible for a zero-subsidy plan would drop coverage altogether because of inattention to small bills. I do not believe that the default into a $1 premium plan would pass a cost-benefit test compared to the status quo default, but I do believe that this default would have benefits far exceeding costs compared to the proposed default into zero-APTC plans.

ii. *A default into the Exchange's best estimate of the enrollees' APTC eligibility.* A zero-APTC amount does not reflect the Exchange's best estimate of the APTC that these enrollees are eligible for. The Exchange could develop an estimate of what enrollees are eligible for given data sources or a statistical model.

   Compared to the status quo default, this default would require developing such an infrastructure to forecast eligibility, adding additional complexity and costs for the Exchange. However, it would be better than the proposed zero-APTC default because it

would reduce overall administrative burden and the consequences of costly mistakes due to dropped coverage.

6. State Exchanges should be given the freedom to define their own reenrollment procedures.

The proposed rule solicited "comment on whether the approaches discussed above should be adopted only for Exchanges using the Federal platform, or whether they should also be required for State Exchanges that operate their own eligibility and enrollment platforms."

Allowing State Exchanges to determine their own automatic reenrollment procedures is consistent with the value of federalism. State Exchanges may experiment with different approaches that inform optimal policy for automatic reenrollment. Allowing flexibility to State Exchanges also allows automatic reenrollment procedures to be tailored to state market conditions.

Finally, State Exchanges that operate their own eligibility and enrollment platforms might find it costly or difficult to modify those platforms to comply with the proposed rule.

Thank you for considering these comments.

Sincerely,

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(This comment represents my views as an academic and not the views of Boston University as an institution.)

References:

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