Summary of the Work:
RAND developed the COMPARE microsimulation model to help policymakers understand the likely effects of enacting major health policy reforms, such as the ACA, by using economic theory to fill in gaps where we have little evidence on consumer response. The model is flexible, allowing it to be applied to a variety of reforms and to gauge their respective outcomes; the goal of the work is to help policymakers and the general public understand alternative approaches to redesigning the health insurance system in the United States.

In fall of 2014, Dr. Eibner and her research team used RAND’s COMPARE microsimulation model to examine the likely effects of enacting major health policy reforms, such as the ACA, by using economic theory to fill in gaps where we have little evidence on consumer response. The model is flexible, allowing it to be applied to a variety of reforms and to gauge their respective outcomes; the goal of the work is to help policymakers and the general public understand alternative approaches to redesigning the health insurance system in the United States.

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Results showed that this elimination would dramatically reduce the number of insured in the marketplaces—from 19.8 million to 6.3 million nationwide (a 68 percent drop)—while premiums in the individual market would rise sharply (by 43 percent).

Soon after these results were published, the Supreme Court announced in November 2014 that it would hear the King v Burwell case. Right away, Dr. Eibner and her team conducted a similar analysis examining the likely effects of eliminating tax credit subsidies in only the 34 states with federally-facilitated marketplaces. The analysis found similar results; if subsidies were eliminated in states with federally-facilitated marketplaces, the number of insured would fall by 70 percent—from 13.7 million to 4.1 million. The net number of uninsured would increase by 8 million and premiums in the marketplaces would rise by 47 percent.

The reason for this effect, the analysis concluded, is that tax credits have a different impact on high- and low-risk populations. High-risk people—those with poorer health and higher health care costs—are likely to sign up for coverage regardless of tax credit eligibility. In contrast, low-risk individuals—typically, younger, healthier adults—may need a tax credit to entice them to enroll. When these individuals sign up for coverage, they improve the risk pool and bring premiums down.

By encouraging enrollment among younger, healthier adults, tax credits in the individual market reduce premium costs for everyone, not just people with tax credits. The modeling results show that, without tax credits to attract low-risk enrollees and to cushion lower-income enrollees from the effect of premium increases, large numbers of potential buyers will not enroll, leading to steep premium hikes for those who remain in the market. The resulting marketplaces will consist of a small number of high-risk enrollees, leaving the majority of potential buyers priced out of the market.
The Johns Hopkins ACG Case-Mix System

**IMPACT:**
This analysis informed the economic reasoning underpinning the Supreme Court’s decision in the *King v Burwell* case. In drawing conclusions about whether Congress intended tax credits to be available in states with federally-run exchanges, Chief Justice John Roberts, writing for the majority, cited Dr. Eibner’s results showing the sharp increase in premiums in the absence of subsidies, observing that eliminating subsidies “could well push a State’s individual insurance market into a death spiral;” “it is implausible,” he continued, “that Congress meant for the Act to operate in this manner” (*King Et Al. v. Burwell, Secretary of Health Human Services, E Al., No. 14–114*).

In addition to the quality of the research, why do you believe your research had the effect it did at the time it did?

- **Timing.** Because we were able to analyze the impact of eliminating the ACA’s tax credits soon after the Supreme Court released its decision to hear the *King v Burwell* case, our analysis was able to inform the Court’s reasoning.
- **Specificity.** The COMPARE model was able to provide quantitative estimates specific to the ACA, rather than drawing on past smaller-scale state reforms, which added substance to the debate.
- **Key Connections.** RAND’s Office of External Affairs was able to ensure that the research reached key audiences, including policymakers, academics, and the media.

**Published Papers Encompassing the Work Described:**


**Related Readings:**


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**Estimated Impact of Eliminating Subsidies in Federally-Facilitated Marketplaces**

- **4.1 M** individual market enrollees, if subsidies available
- **8M** increase in uninsurance
- **13.7 M** individual market enrollees, if subsidies available
- **47%** Individual market premiums rise
- **-70%** drop