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Report on Extending Last Dollar Coverage

Pursuant to HB 937, Chapter 56(5) of the Acts of 2022

Maryland Health Benefit Exchange
November 27, 2024

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Executive Summary

House Bill (HB) 937 of the 2022 Session, requires the Maryland Health Benefit Exchange (MHBE) to study extending last dollar coverage to other enrollees in addition to the enrollees receiving last dollar coverage through the State-Based Young Adult Health Insurance Subsidies Pilot Program. In order to inform this analysis, MHBE first studied the impact of extending last dollar coverage on existing recipients, then used that analysis to project the impact of extending last dollar coverage to eligible enrollees of all ages.

Findings from the study demonstrates that this policy has significantly improved enrollment uptake and retention for eligible young adults, and that extending the policy to all eligible enrollees could be a cost-effective affordability measure to improve enrollment and retention Marketplace-wide.

We estimate that, as a result of the last dollar coverage policy, in plan year 2025 approximately 1,670 young adults will activate coverage, and 800 young adults will remain enrolled who otherwise would have dropped coverage mid-year. In total, that means an estimated 2,470 young adults will activate and/or retain coverage due to this policy. This equates to more than 1% of current total Maryland Health Connection (MHC) private plan enrollment. The cost of this policy is estimated at $800,000 for plan year (PY) 2025.

If the last dollar coverage policy were expanded to all eligible consumers regardless of age in plan year 2025, we estimate that an additional 1,400 non-young adults would activate coverage, and 1,000 non-young adult consumers would retain coverage who otherwise would drop coverage mid-year. This would total an additional approximately 2,400 non-young adults activating or remaining in coverage – again, more than 1% of current MHC enrollment. We estimate that this expansion would cost approximately $1.3 million in PY2025, bringing the total cost of providing last dollar coverage to all eligible enrollees to approximately $2.1 million.

While concrete data is not available it's likely that individuals entering or remaining in coverage due to the last dollar coverage subsidy are healthier than average, and therefore contribute to improving the overall morbidity of the individual market and reducing average premiums for all enrollees in the individual market.

The state's ability to offer last dollar coverage has been made possible by the enhanced federal premium subsidies enacted in 2021 that reduce premiums to almost $0 for lower-income enrollees. Those enhanced subsidies are currently set to expire at the end of 2025. If they do expire and subsidy levels revert back to those in place prior to 2021, maintaining and expanding this program would not be feasible. If, however, the enhanced subsides are extended, expansion of last dollar coverage eligibility presents an opportunity to meaningfully improve enrollment and retention among lower-income enrollees.

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Background

The Affordable Care Act (ACA) sets federal standards that require all plans sold in the individual and small group markets to cover Essential Health Benefits (EHBs) which consist of a set of ten comprehensive service categories including, for example, emergency services, preventive and wellness services, and maternity and newborn care.[1] The specific services considered EHBs within each category are determined by each state's EHB Benchmark Plan. The ACA explicitly excludes certain services from being considered EHBs, including adult dental and adult vision coverage as well as abortion care services.[2] The majority of plan premiums are attributable to EHB services, with a relatively small portion of premiums attributable to non-EHB services.

The advance premium tax credit (APTC) is the federal premium financial assistance available to eligible Marketplace consumers which caps the percentage of household income consumers must contribute towards premium for the state benchmark plan, based on a sliding income scale. Many consumers with lower incomes qualify for assistance generous enough to cover the full premium cost for some plans. In particular, under current APTC parameters Marketplace consumers below 150% of the federal poverty level (FPL) have an expected contribution (EC) to the benchmark plan premium of zero percent, thereby theoretically providing options for net-zero dollar premium plans for this cohort.[3]

Table 1: Individual Expected Contribution Percentages under American Rescue Plan Act (ARPA) compared to original ACA parameters

Household Income (% of FPL)	Individual Contribution to Premium (as a % of income)	
	Expanded PTC	Original ACA*
Up to 133%	0%	1.82%
133% - 150%	0%	2.73% - 3.64%
150% - 200%	0% - 2.0%	3.64% - 5.73%
200% - 250%	2.0% - 4.0%	5.73% - 7.33%
250% - 300%	4.0% - 6.0%	7.33% - 8.65%
300% - 400%	6.0% – 8.5%	8.65%
Above 400%	8.5%	Credit not available
*The contribution requirements shown in the "Original ACA" column are those that would have applied in 2025 without the ARPA/IRA expansion.		

However, federal regulations specify that APTC can only be applied to the portion of the premium attributable to EHBs, and cannot be applied to the portion of the premium attributable to non-EHBs.[4] In Maryland, all Maryland Health Connection (MHC) Marketplace plans include some non-EHB services. Among MHC 2024 plan offerings, the average percentage of the premium attributable to non-EHBs was 0.7%. An example scenario: Monthly gross premium (premium before any tax credits applied) = $300.

- 0.7% of premium attributable to non-EHB services x $300 monthly premium = **$2.10/month that cannot be covered by APTC.**

[1] CMS.gov for full EHB list: https://www.cms.gov/marketplace/resources/data/essential-health-benefits.
[2] CMS recently removed a regulatory prohibition so that beginning January 1, 2027, states will be allowed to update their EHB-benchmark plans to include routine non-pediatric dental services (adult dental): https://www.cms.gov/newsroom/fact-sheets/hhs-notice-benefit-and-payment-parameters-2025-final-rule.
[3] In 2021 enhanced federal tax credits were made available under the American Rescue Plan Act (ARPA) and extended under the 2022 Inflation Reduction Act (IRA) through 2025, which increased eligibility for and generosity of Marketplace financial assistance.
[4] 26 CFR § 1.36B-3

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Overview of the Young Adult Subsidy Program

In 2022 the Maryland Health Benefit Exchange established and launched the Young Adult Health Insurance Subsidies Program ("Young Adult Subsidy" or "YAS"), a two-year pilot program to provide a state-funded premium subsidy to help young adults reduce the amount they pay for health plans on MHC.[5] The program provides an additional state subsidy to eligible enrollees that pairs with federal premium subsidies to reduce premiums costs on a sliding scale, with the youngest and lowest income young adults paying the least. Under 2022 and 2023 program parameters young adults were eligible to receive the state subsidy if they were between the ages 18-34, below 400% FPL, and ineligible for Medicaid. The program was extended for an additional two years through plan year (PY) 2025.[6]

Expanded Use of Young Adult Subsidy Funds

In 2022 the General Assembly passed HB 937, which beginning in 2023 required the Exchange to expand the use of the Young Adult Subsidy (YAS) funds to cover 100% of the cost of premium for young adults who would otherwise have a 0% expected contribution (EC) under the subsidy eligibility parameters. In other words, this modification allowed programs funds to cover the cost of the non-EHB attributable portion of premiums that cannot be covered by federal APTC. This policy is commonly referred to as "last dollar coverage."

Basis of last dollar coverage subsidy calculation under the Young Adult Subsidy program[7]:

- For enrollees with a greater than 0% premium contribution based on the program parameters, the subsidy shall be calculated based on, and applied only to, the portion of premium allocated to essential health benefits.
- **For enrollees with a 0% premium contribution** based on the program parameters, the subsidy shall also be applied to non-essential health benefits so that the enrollee's total premium responsibility is equal to $0

Table 2: 2023 Young Adult Subsidy Program parameters, showing age and income brackets with 0% Expected Contribution under the program

Expected Contribution (EC) for Benchmark Plan

% FPL	Federal EC	MD Young Adult EC					
		18-30	31	32	33	34	35
		-2.5%	-2.0%	-1.5%	-1.0%	-0.5%	-0.0%
≤150	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
200	2.00%	0.00%	0.00%	0.50%	1.00%	1.50%	2.00%
250	4.00%	1.50%	2.00%	2.50%	3.00%	3.50%	4.00%
300	6.00%	3.50%	4.00%	4.50%	5.00%	5.50%	6.00%
400	8.50%	6.00%	6.50%	7.00%	7.50%	8.00%	8.50%

5 Pursuant to SB 729 / HB 780 of 2021

6 Pursuant to HB 814 / SB 601 of 2023

7 COMAR 14.35.19.04

Analysis and Findings

For this analysis MHBE tasked contracted actuaries Lewis & Ellis (L&E) with examining the impact on enrollment and retention among the eligible young adult group following the implementation of the last-dollar coverage policy under the YAS Program in 2023. The analysis also includes projected impacts for extending the policy to all income-eligible Marketplace enrollees in addition to eligible young adult subsidy enrollees.

Table 3 below provides a summary of the program size for the last dollar coverage policy under the YAS Program.

Table 3: The number of YAS recipients eligible for versus enrolled in $0 premium plans with last dollar coverage for Plan Year (PY) 2023 and 2024 [8]

	Number of YAS recipients eligible for last dollar coverage	Number of YAS recipients eligible for last dollar coverage who enrolled in a $0 plan
PY 2023	25,160	**6,168**
PY 2024*	27,401	**5,846**

*Inclusive of MHBE enrollment data as of April 2024.

Impact on Lapse Rates

To start, table 4 below summarizes a comparative analysis of the coverage lapse rates between 2022 (the year prior to the last-dollar coverage policy) and 2023 (the first year of the policy) among young adult enrollees eligible for last-dollar coverage. Health insurance lapse occurs when a consumer either terminates coverage before the end of their plan year, or is disenrolled due to failure to pay premium.

As shown in table 4, the cohort of young adults who were eligible for last-dollar coverage and $0 net premiums in 2023 saw their lapse rates fall from 20% to 13% compared to the same cohort in 2022, the year prior to this policy's implementation. In comparison, the two other enrollee cohorts, young adults not eligible for last-dollar coverage and non-young adults, saw minimal to no change in lapse rates between 2022 and 2023.

Table 4: Changes in Lapse Rates Between 2022 and 2023

	2022	2023
Non-Young Adults	24%	23%
Young Adults **not** eligible for last dollar coverage	22%	22%
Young Adults eligible for last dollar coverage (or would have been in 2022)	**20%**	**13%**

[8] Not all young adults who are eligible for last dollar coverage choose to enroll in an available $0 net premium plan for a variety of reasons. For example, there may be no $0 plans available that meet particular individual consumer criteria, like preference for a particular carrier, or in-network coverage for a specific provider.

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Impact on Effectuation Rates

A similar comparative analysis is provided in table 5 below, for effectuation rates between 2022 and 2023 among young adult enrollees eligible for last-dollar coverage, compared to young adult enrollees not eligible for last-dollar coverage and non-young adults enrollees. After a consumer enrolls in coverage, they must then pay the first month's premium in order for coverage to become active, or effectuate. For Marketplace enrollees, MHC first processes enrollments and premium payments, and transmits enrollment and payment information to carriers to effectuate coverage. Since no payment is required for consumers with $0 premiums, after notice of enrollment is received carriers will automatically initiate a transaction for payment and auto-effectuate coverage, with no other action needed from these consumers.

The results in table 5 below indicate a positive relationship between the introduction of last-dollar coverage in 2023 on effectuation rates among the subsidy-eligible young adult cohort. As explained above, since coverage for enrollees who choose plans with $0 net-premiums is automatically effectuated, we would expect to see higher effectuation rates among this cohort. Effectuation rates did drop for all three cohorts from 2022 to 2023, which we anticipated due to the start of Medicaid redeterminations in May 2023, during which it was expected that consumers re-determined no longer eligible for Medicaid and enrolling in private Marketplace plans would effectuate coverage at a lower rate.[9] However the last dollar coverage policy seemed to buffer the eligible young adult cohort from this effect, evidenced by a significantly lesser decrease in their effectuation rate from 2022 to 2023 (dropped one percentage point from 94% in 2022 to 93% in 2023) compared to a more significant decrease in effectuation rates in 2023 for non-eligible young adults and non-young adults.

Table 5: Changes in Effectuation Rates Between 2022 and 2023

	2022	2023
Non-Young Adults	93%	85%
Young Adults **not** eligible for last dollar coverage	91%	81%
Young Adults eligible for last dollar coverage (or would have been in 2022)	94%	**93%**

To account for the impact of Medicaid redeterminations, 2023 effectuation rates were further broken out between January through April rates, prior to the start of Medicaid redeterminations, and May through December rates (Table 6). Most notably, the effectuation rate for eligible young adults jumped to almost 100% in January through April of 2023, which is closer to the scale of the impact of the last dollar coverage policy that we would expect to see, given the auto-effectuation policy for consumers with $0 premiums. During the 2023 May-December period, effectuation rates decreased for all three cohorts, but again significantly more for the cohorts not eligible for last-dollar coverage. The effectuation rate dropped to 83% in 2023 May-December time period for subsidy-eligible young adults, while in comparison the young adult cohort not eligible for last-dollar coverage dropped to 54% during the same time period.

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[9] In response to the Covid-19 pandemic, states paused Medicaid terminations under the federal Medicaid continuous coverage requirement during the Public Health Emergency, for individuals who reported being over-income for Medicaid. May 2023 marked the beginning of the Medicaid "Unwinding" and the end of the continuous coverage requirement, when states began redetermining Medicaid eligibility again and terminating coverage for those who are over-income.

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Table 6: 2023 Effectuation Rates between January-April compared to May-December

	January-April	May-December
Non-Young Adults	96%	**55%**
Young Adults – No $0 Net Premium	94%	**54%**
***Young Adults - $0 Net Premium**	**99%**	**83%**

To provide more context for why the effectuation rate for the eligible young adult cohort was not similarly closer to 100% in May-December of 2023, in preparation for Medicaid redeterminations MHBE implemented a Medicaid to Private Plan Enrollment Program which auto-enrolled Medicaid consumers who were determined eligible for qualified health plans (QHPs) during a redetermination, into an MHC plan.[10] The purpose of the policy was to simplify the coverage transition for Medicaid-disenrolled consumers. However, unlike consumers who actively select to enroll in a $0 plan and are auto-effectuated, consumers who were determined eligible for and auto-enrolled into $0 plans through this auto-enrollment program were still required to affirmatively effectuate coverage. This provision would likely explain the drop in May-December effectuation rate for the eligible young adult cohort in 2023.

Impact of Last Dollar Coverage and Potential Expansion

Based on the improved lapse rates observed in the results of the lapse rate analysis earlier in this report, in PY2025 MHBE estimates that approximately 800 young adults who otherwise would have dropped coverage during the year will retain coverage due to receiving last dollar coverage. If eligibility for last dollar coverage were expanded to all income-eligible individuals in PY25, MHBE estimates that an additional 1,000 non-young adults who otherwise would drop coverage during the year would instead remain in coverage.

Based on the improved effectuation rates observed in the analysis earlier in the report, in PY2025 MHBE estimates that 1,670 young adults will effectuate coverage as a result of the last dollar coverage policy, who otherwise would not have activated their coverage. If eligibility for last dollar coverage were expanded to all income-eligible individuals in PY25, MHBE estimates that an additional 1,400 non-young adults would effectuate coverage in PY2025.

Providing last dollar coverage is disproportionately likely to benefit historically underinsured populations. While eligibility for the last dollar coverage subsidy varies for young adults by age and income, generally the eligibility threshold is below 200% FPL for most young adult enrollees. Data shows that Black and Hispanic residents of Maryland are more likely to live in households below 200% FPL (Table 7). Expanding the last dollar coverage subsidy offers an opportunity to increase access to health coverage and advance equity in Marketplace policies.

[10] More information on the Medicaid to Private Plan Enrollment Program is available in the presentation from the May 15, 2023 MHBE Board meeting.

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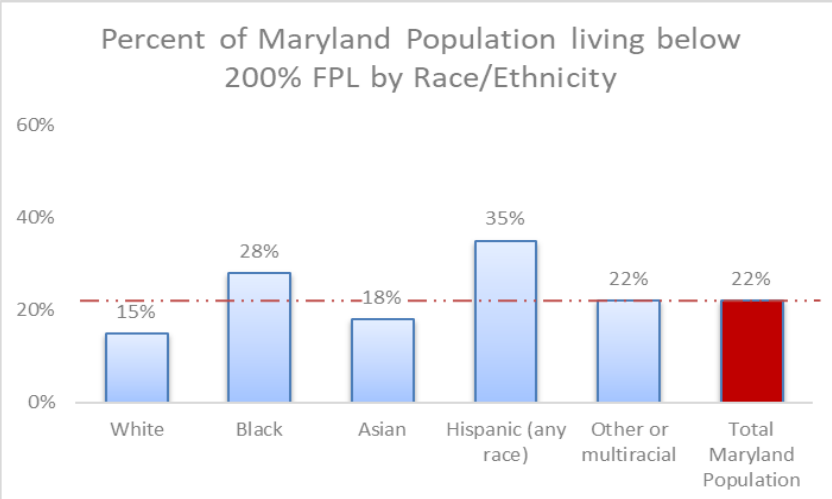
Table 7: Percent of Marylanders Living Below 200 Percent of the federal poverty level (FPL) by Race/Ethnicity [11]



Cost of Expanding Last Dollar Coverage

The last part of the analysis provides cost estimates for expanding last-dollar coverage to income-eligible Marketplace enrollees of all ages, in addition to currently eligible young adults under the YAS program. This expansion would include non-young adult consumers with an expected contribution of zero, which under current federal APTC parameters is all Marketplace consumers below 150% FPL. The cost analysis includes total estimated enrollment of eligible young adult and non-young adult cohorts and total estimated subsidy costs for each cohort in plan year 2025.

Table 8 below includes the results of this analysis, with an explanation of the methodology used for the cost analysis in Appendix A. In sum, the analysis projects, based on current enrollment, that almost 30,000 young adults enrollees will be eligible for last-dollar coverage in 2025, with a cost to the program of a little over $800,000. The analysis further estimates that an additional 27,682 non-young adult enrollees would be income-eligible for last dollar coverage in 2025, at a total additional cost of around $1.3 million if MHBE were to expand the last dollar coverage subsidy to all ages. This analysis includes the costs for the individuals who are projected to retain coverage as a result of expanding last-dollar coverage to all eligible enrollees, that would have otherwise lapsed.

Table 8 : Cost of Extending Last Dollar Coverage to All Eligible Marketplace Enrollees

Expected 2025 Eligible Enrollment

FPL	Young Adults	Non-Young Adults	Total
0%-150%	10,728	**27,682**	38,410
151%-212.5%	18,848	N/A	18,848
Total			**57,258**

[11] Data from Center on Budget and Policy Priorities analysis of U.S Census Bureau's 2021-2022 American Community Survey public use files.

2025 Per Member Per Year (PMPY) Cost

FPL	Young Adults	Non-Young Adults
0%-150%	$25.88	$47.32
151%-212.5%	$28.42	N/A
Total		

Expected 2025 Cost

FPL	Young Adults	Non-Young Adults	Total
0%-150%	$277,608	**$1,309,951**	$1,587,559
151%-212.5%	$535,723	N/A	$535,723
Total			**$2,112,580**

Conclusion

Providing last dollar coverage under the Young Adult Subsidy program significantly improved both lapse and effectuation rates for eligible young adults. Eligible young adults saw lapse rates fall from 20% in 2022 to 13% in 2023, compared to negligible changes during the same period for other groups not eligible for last dollar coverage. The effectuation analysis showed similar results, with the effectuation rate for young adults eligible for last dollar coverage jumping to almost 100% during the first half of 2023.

Translated into more concrete terms, we estimate that approximately 1,670 young adults will effectuate coverage as a result of last dollar coverage and 800 young adults will retain coverage in PY2025 who otherwise would have lapsed. In total, that means an estimated 2,470 young adults will effectuate and/or retain coverage who otherwise would not have entered the individual market, or would have dropped out mid-year. With total MHC Marketplace enrollment currently at about 217,000 individuals, this equates to more than 1% of current enrollment.

Expanding the last dollar coverage policy has the potential to further significantly improve Marketplace enrollment and retention. If the last dollar coverage policy were expanded to all eligible consumers regardless of age in PY2025, we estimate that an additional 1,400 non-young adults would effectuate coverage, and 1,000 non-young adult consumers would retain coverage who otherwise would have lapsed. This would total an additional approximately 2,400 non-young adults – again, more than 1% of current MHC enrollment - who would effectuate and/or retain coverage who otherwise would not have entered the individual market, or would have dropped out mid-year. We estimate that this expansion would cost approximately $1.3 million in PY2025. With the PY2025 estimated $800,000 cost of providing last dollar coverage for young adults, the total cost of providing last dollar coverage to all eligible enrollees would be at most, approximately $2.1 million.

The positive impact of implementing last dollar coverage that we have observed is consistent with a body of research highlighting the positive effects that eliminating consumer responsibility for small net premiums can have on enrollment uptake and retention.[12,13] A study by Coleman Drake and colleagues found that selecting a zero-premium plan increased the number of days a consumer was covered over the course of the year by 8-16% in the Colorado Marketplace.

The observed impacts on lapse and effectuation rates can be attributed in part to the last dollar coverage

[12] Drake, Coleman and Cai, Sih-Ting and Anderson, David and Sacks, Daniel W. Financial Transaction Costs Reduce Benefit Take-Up: Evidence from Zero-Premium Health Plans in Colorado (2021).
[13] Fiedler, Matthew. Eliminating small Marketplace premiums could meaningfully increase insurance coverage (2022).

policy effectively eliminating the cognitive burden of having to manage negligible premium payment transactions each month, which can create procedural obstacles for consumers to maintain coverage. Providing $0 net premiums through last dollar coverage eliminates the monthly payment required to maintain coverage, whereby otherwise failure to make the first payment or missed payments would result in loss of coverage.

Finally, while concrete data is not available, it's likely that individuals entering or remaining in coverage due to the last dollar coverage subsidy are healthier than average, and therefore contribute to improving the overall morbidity of the individual market and reducing average premiums for all enrollees in the individual market. Expanding the last dollar coverage subsidy to all ages could increase the number of healthier individuals who enroll in and retain coverage, further improving the average health of individual market enrollees and positively impacting premiums by offsetting higher-cost enrollees. Pairing the cost analysis for expanding the program to income-eligible enrollees of all ages with these findings suggests that implementing the last dollar coverage policy Marketplace-wide could be a cost effective measure to improve enrollment and retention among lower-income enrollees, and affordability and equity in access to health coverage. The feasibility of expanding eligibility for last dollar coverage is contingent on the extension of the enhanced federal premium subsidies that are currently set to expire at the end of 2025. If those enhanced subsidies do expire and subsidy levels revert back to those in place prior to 2021, there would be no enrollees with a 0% expected contribution to premium, and thus few enrollees would be eligible for a $0 plan. Therefore, we recommend reevaluating potential expansion of last dollar coverage eligibility once post-2025 subsidy levels are clearly determined.

Appendix A: Full Lewis and Ellis Cost Analysis

2024 enrollment through April was used as the basis for the analysis. It was completed to represent a full year based on historical May-December enrollment patterns.

- To be eligible for the last dollar coverage subsidy, an individual must have a $0 contribution for EHB portion for the benchmark plan. This is all individuals under 150% FPL, young adults 18-30 under 212.5% FPL (where the contribution is 2.5%) who receive the full 2.5% reduction, and 31-34 year olds who have a reduced contribution and FPL seen in the table below.
- Lapse rates were calculated and applied using historical data including the expected impact when enrollees' net premium reach $0 as a result of the subsidy

Table 1: YAS parameters eligible for last dollar coverage subsidy

Age	YA Subsidy Reduction	FPL Resulting in 0% Required Contribution
18-30	2.5%	212.5%
31	2.0%	200.0%
32	1.5%	187.5%
33	1.0%	175.0%
34	0.5%	162.5%

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Enrollment was assumed to grow 0.5% from 2024 to 2025. This was applied uniformly and did not differ by FPL/age etc.

It was assumed each individual would select the same plan in 2025 as they were in as of April 2024. Or in other words, the enrollment distribution by plan was not expected to change in 2025.

- Wellpoint is entering the market in 2025 and is expected to gain enrollment, however, it is likely to be modest. Additionally, Wellpoint's non-EHB portion of premium is similar to the other carriers so any shift to their plans is not likely to have a material impact on costs.

The non-EHB portion of premium for each plan was calculated using data from each carrier's 2025 URRT. It was then age adjusted based on the enrollee's age using the federal age curve in the same manner the entire premium is.

https://www.irs.gov/pub/irs-drop/rp-21-23.pdf

Table 2 : Cost analysis for extending last dollar coverage subsidy to all eligible Marketplace enrollees

Expected 2025 Eligible Enrollment

FPL	Young Adults	Non-Young Adults	Total
0%-150%	10,728	**27,682**	38,410
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Total			**57,258**

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151%-212.5%	$535,723		$535,723
Total			**$2,112,580**