THE CENTURY FOUNDATION

Testimony to the U.S. Senate Finance Committee
"Lower Health Care Costs for Americans:
Understanding the Benefits of the Inflation Reduction Act"

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Chairman Wyden, Ranking Member Crapo, and distinguished Members of the Committee, thank you for inviting me to submit testimony for the Senate Finance Committee's hearing on the health provisions of the Inflation Reduction Act.

My name is Jeanne Lambrew. I am a senior fellow and the director of health care reform at The Century Foundation. I am also an adjunct professor of health policy at the Harvard School of Public Health. I have served ten years in the White House, five years in the U.S. Department of Health and Human Services, and five years in the Maine Department of Health and Human Services. In between government positions, I worked in academia and think tanks. I was an associate professor at the Lyndon B. Johnson School of Public Affairs and the George Washington University School of Public Health.

Thank you for the opportunity to discuss the impact of the Inflation Reduction Act's provision to expand and increase advanced premium tax credits in the Health Insurance Marketplace.

This policy is one of the most recent addressing the consequences of lacking health coverage. Coverage facilitates access to health care, reduces health disparities, lowers morbidity, and reduces preventable mortality. For example, studies have found that individuals who are insured, compared to those that are not, are less likely to skip needed care, more likely to manage chronic conditions and receive preventive services, and have better health outcomes.[1] A study of 55- to 64-year-olds found that the Medicaid expansion reduced annual mortality rates between 39 percent and 64 percent for older adults gaining coverage.[2] Affordable, quality health coverage also provides peace of mind to individuals and families that they can afford prevention, see a doctor when they are sick, or, in the worst case scenario, manage the cost of treating cancer or a serious injury.

[1] Sommers B.D., Gawande A.A., and Baicker K. (August 10, 2017). "Health Insurance Coverage and Health: What the Recent Evidence Tells Us," *New England Journal of Medicine*: 377: 586-593.
[2] Broaddus M. and Aron-Dine A. (November 6, 2019). "Medicaid Expansion has Saved at Least 19,000 Lives, New Research Finds." Center on Budget and Policy Priorities.

The Affordable Care Act (ACA) created the Health Insurance Marketplace to offer private, individual market health plans to individuals and families who do not otherwise have access to affordable health coverage. This includes entrepreneurs who are starting their own business, individuals in between jobs or phasing out work toward retirement, and people who work but are not offered job-based coverage. In addition to ensuring that such plans meet standards for quality and benefits, the Marketplace exclusively offers financial assistance in the form of advanced premium tax credits (APTC). Generally, these tax credits are based on individuals' projected income for the next year, are advanced to health insurers to lower the amount they collect from enrollees, and are reconciled with actual income through the tax system after the year is over. As originally designed, APTCs are set so that the amount eligible people with a projected income between 100 percent and 400 percent of the federal poverty level (FPL) pay for a benchmark plan is no higher than a sliding-scale percentage of that income. They can apply this fixed, age-adjusted credit to lower- or higher-premium plans with different levels of cost sharing, including plans with cost sharing reductions that minimize financial barriers to access for low-income enrollees.

The American Rescue Plan Act increased the eligibility for and value of advanced premium tax credits from January 2021 through December 2022. Specifically, it eliminated one of the two limits on the tax credits: the upper-income eligibility limit of 400 percent of FPL. The cap on the tax credit at 8.5 percent of income for a benchmark plan remains. For the average Marketplace enrollee purchasing a benchmark plan in 2024,[3] the tax credit phases out at about $67,350 for a single person, although this can be higher or lower based on a number of individual factors. Second, the law raised the percentage of income that the credit covers in recognition of ongoing concerns about affordability. The Inflation Reduction Act continued this policy through the end of 2025.

In assessing the impact of health coverage tax credit provision of the Inflation Reduction Act and whether it should be extended temporarily or permanently, I reviewed the answer to three questions using nonpartisan sources of information:[4]

1. Has the Inflation Reduction Act's health tax credit provision increased coverage and access to care?

2. Has the Inflation Reduction Act's health tax credit provision lowered costs?

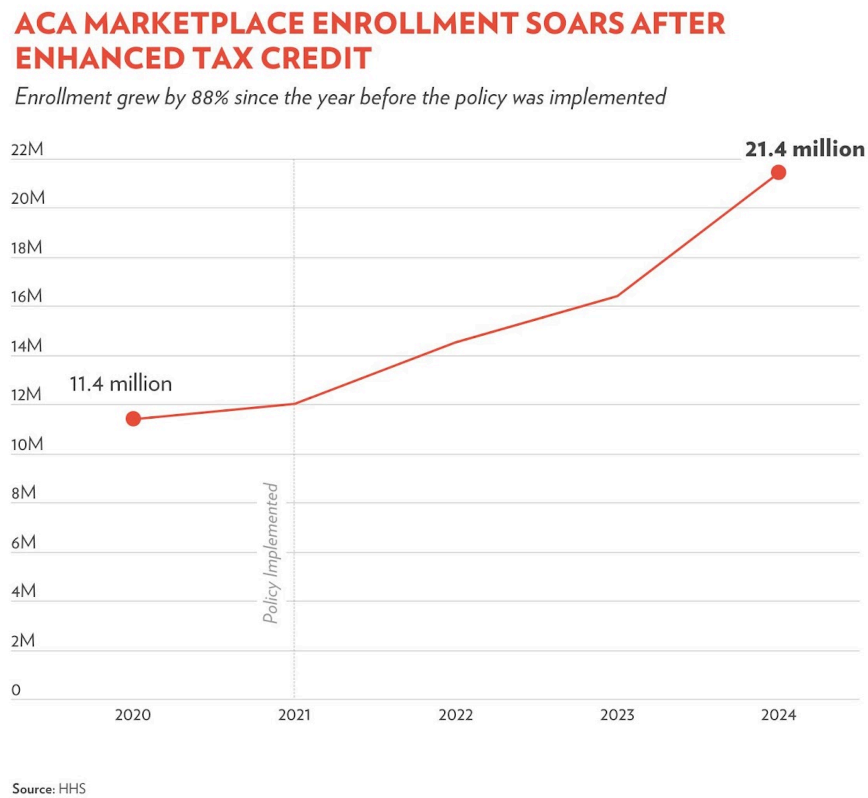
3. Has the Inflation Reduction Act's health tax credit provision been cost effective?

[3] KFF. (2024). State Health Facts: Marketplace Average Benchmark Premiums; KFF. (2020, 2023). Employer Health Benefits Annual Survey. KFF estimated the average benchmark using county level enrollment and premiums for a 40 year old. The upper income limit is calculated by dividing the annual average benchmark premium by 8.5%.
[4]Most of the information in this testimony is also available at Lambrew J. (August 7, 2024). "Enhanced ACA Health coverage Marketplace Tax Credits Worked–And Shouldn't Be Taken Away," The Century Foundation.

1. Has the Inflation Reduction Act’s health tax credit provision increased coverage and access to care?

The primary goal of the Health Insurance Marketplace and its premium tax credits is to provide affordable, comprehensive health coverage and care to people for whom cost is a barrier, especially those who historically were disproportionately likely to be uninsured and lack access to care. Information from nonpartisan sources on the experience with the Inflation Reduction Act policy shows it has contributed to this goal.

FIG 2



Higher Enrollment. Health Insurance Marketplace enrollment increased compared to not only estimates of what it would have been at a point in time without the Inflation Reduction Act, but also to what it was before and after the act took effect. The nonpartisan Urban Institute and Congressional Budget Office (CBO) each conducted studies this year on the impact of the tax credit change compared to the baseline without the change.[5] Both found that the change will significantly increase Marketplace enrollment: 7.2 million more in 2025 and 6.9 million more Marketplace enrollees on average from 2025 to 2034, respectively. According to CBO, average enrollment is projected to be 43 percent higher than baseline due to making the tax policy change permanent over the next decade.

Enrollment increased over time as well. After being relatively steady between 2017 and 2020, Marketplace enrollment rose by 88 percent between 2020 and 2024, from 11.4 million to 21 million. Enrollment was higher in all income brackets compared to what it would have been without the Inflation Reduction Act, according to the Urban Institute.[6]

More Working-Class, Older, and Rural Enrollees. The Urban Institute estimates 1.5 million people will be newly eligible in 2025 by extending the income-based cap on tax credits to those with income above 400 percent of poverty, which is about $58,000 for a single person and $120,000 for a family of four. People newly eligible represent less than 10 percent of total Marketplace enrollment, according to the study. Individuals who are older particularly benefit. For example, a 60-year-old with income of $60,241, who would not qualify for assistance without the Inflation Reduction Act, will pay an estimated 57 percent less for health coverage under the policy next year.[7] The Inflation Reduction Act also has helped people in rural areas where premiums tend to be higher. In my home state of Maine, for example, the Inflation Reduction Act is estimated to save a family of three in Caribou with income of $79,000 about $2,000 a year.

More Diverse Enrollees. Official data show that the diversity of Marketplace enrollees also increased after the Inflation Reduction Act tax policy was implemented. Between 2020 and 2023, plan selections for Black enrollees increased by 95 percent, for Latino enrollees by 103 percent, for American Indian and Alaskan Native enrollees by 59 percent, and for White enrollees by 25 percent.[8] According to an Urban Institute analysis focused on enrollment by race and ethnicity, the gains under the Inflation Reduction Act have helped remedy historical disparities in uninsured rates; gains for Black and Hispanic people would likely be reversed if the tax credit policy expires.[9]

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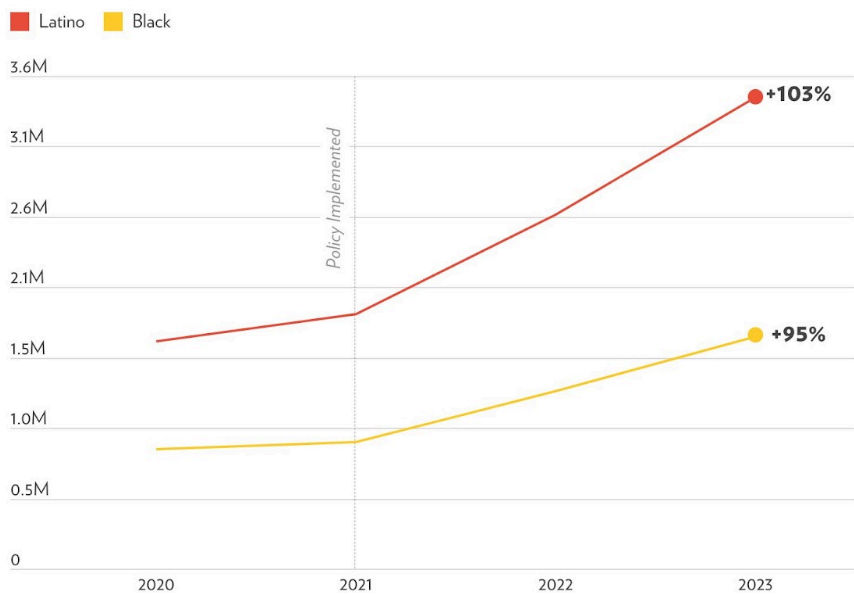
[5] Banthin J et al. (June 2024). "Who Benefits from Enhanced Premium Tax Credits in the Marketplace?" The Urban Institute; Congressional Budget Office. (June 24, 2024). "Letter to Chairman Arrington and Chairman Smith Re. The Effects of Extending the Expansion of the Premium Tax Credits and Costs of the Credit for Deferred Action for Childhood Arrivals Recipients."
[6] Banthin J., Skopec L., and Simpson M. (September 9, 2024). "Enhanced PTCs Help Older Adults and Those in High-Premium States Afford Coverage." The Urban Institute.
[7] Banthin J. et al. (September 9, 2024).
[8] Warrier A. et al. (March 22, 2024). "HealthCare.gov Enrollment by Race and Ethnicity, 2015-2023." Assistant Secretary for Planning and Evaluation Issue Brief HP-2024-07, U.S. Department of Health and Human Services.
[9] Banthin J., Simpson M., and Akel M. (August 12, 2024). "The Impact of Advanced Premium Tax Credits by Race and Ethnicity." The Urban Institute.

FIG 4

COMMUNITIES OF COLOR SEE ENROLLMENT SURGE AFTER ENHANCED ACA TAX CREDIT

Marketplace enrollment for Black and Latino Americans roughly doubles in just four years.



Source: HHS

Fewer Uninsured. Both the Urban Institute and CBO estimate a similar number of uninsured covered by the policy: 4.0 million in 2025 and 3.4 million on average from 2025 to 2034 respectively.[10] The uninsured rate is an estimated 11 percent to 13 percent lower than baseline due to the tax credit policy in the Inflation Reduction Act.

The uninsured rate in the United States also fell over time. It hit a record low in both 2022 and 2023.[11] According to the National Health Interview Survey, the uninsured rate was 7.6 percent in 2023, down from a rate of 9.7 percent in 2020, before the premium tax credit policy took effect,

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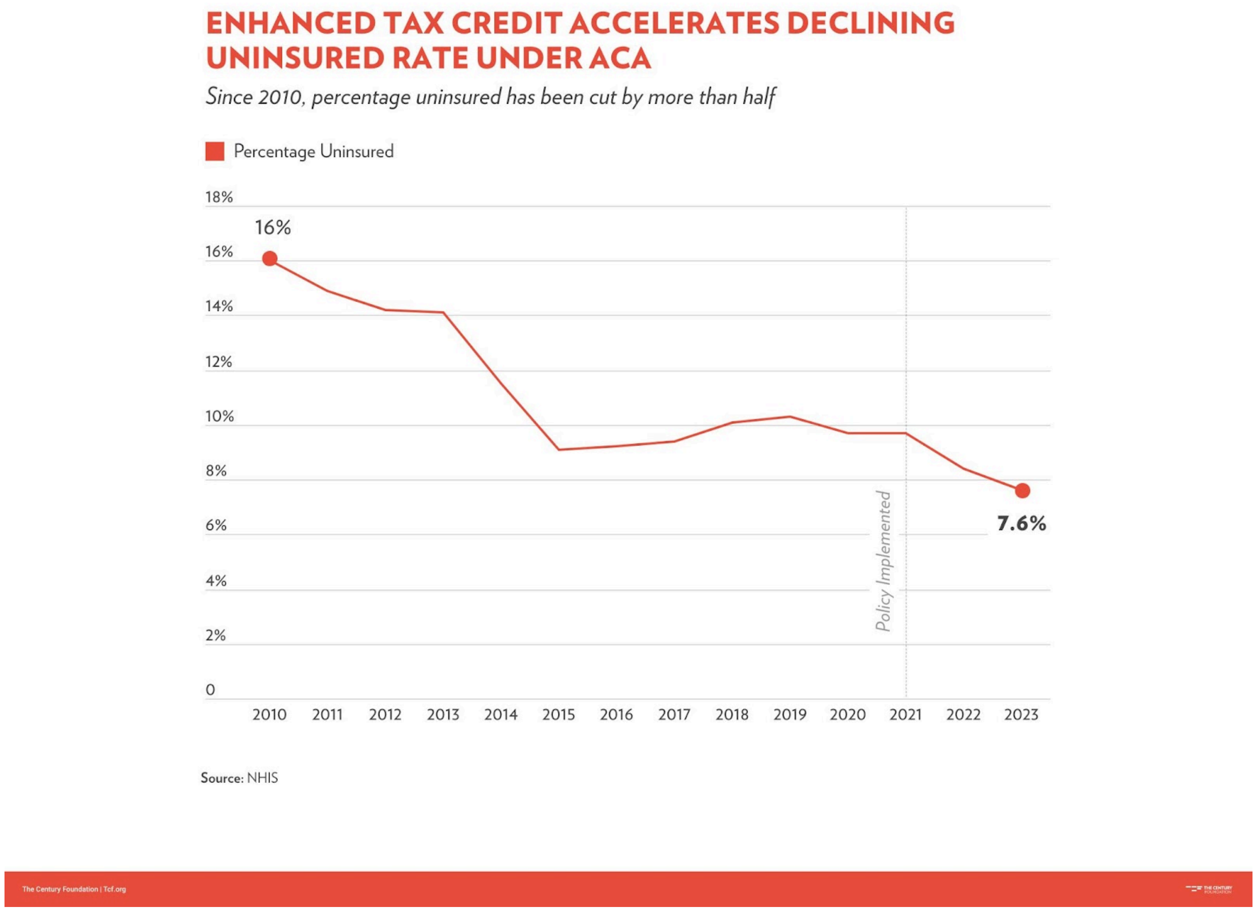
[10] Banthin et al. (June 2024); Congressional Budget Office. (June 24, 2024).
[11] Tsai B. (August 3, 2023). "U.S. Uninsured Rate Hits Record Low In First Quarter of 2023." Blog of the National Center for Health Statistics, U.S. Centers for Disease Control and Prevention.

and less than half of the 16 percent rate in 2010, the year the ACA was signed into law.[12] The recent decline was almost exclusively among people with income between 100 and 400 percent of FPL—the income group whose tax credit increased under the Inflation Reduction Act.

FIG 6



Improved Access to Health Care. Access to care for people eligible for the increased and expanded premium tax credits improved between 2019 and 2022 according to survey data from the National Health Interview Survey.[13] For example, the percent of nonelderly adults with income between 138 percent and 249 percent of FPL who reported delaying or foregoing needed medical care in the past year declined from 18.4 percent to 14.9 percent. Similarly, for the same

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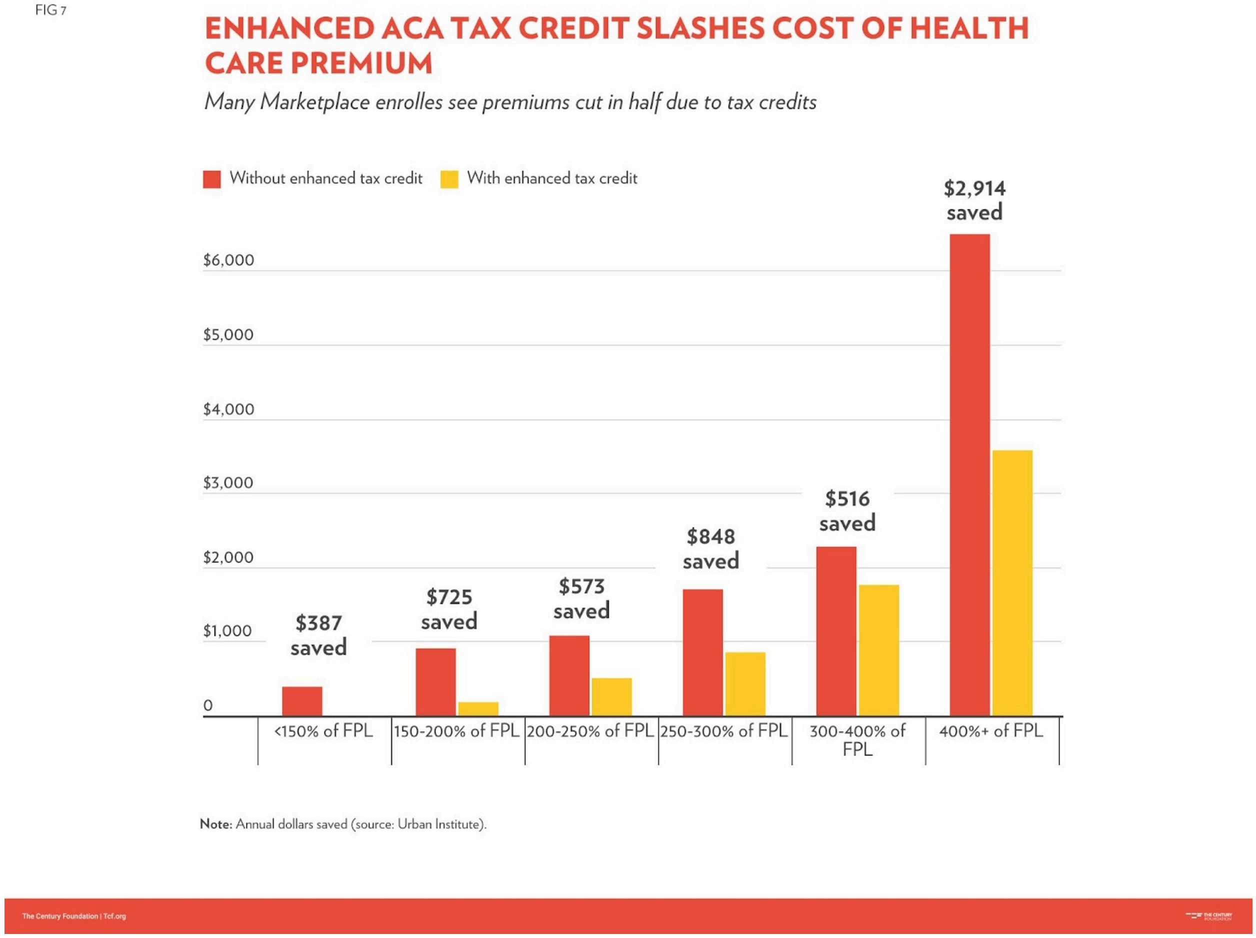
[12] Cohen R.A. et al. (June 2024). "Health Insurance Coverage: Early Release of Estimates from the National Health Interview Survey, 2023." National Center for Health Statistics, U.S. Centers for Disease Control and Prevention.
[13] Karpman M. et al. (July 2024). "Changes in Health Care Cost Barriers with Medicaid Continuous Coverage and Enhanced Premium Tax Credits." The Urban Institute.

group, the share of nonelderly adults who reported that they did not get needed medications or did not take medications as prescribed due to cost went from 13.7 percent to 10.5 percent. Skipping medications also fell for those with income above 400 percent of FPL who were newly eligible for tax credits, from 4.8 percent to 3.8 percent.

2. Has the Inflation Reduction Act's health tax credit provision lowered costs?

FIG 7

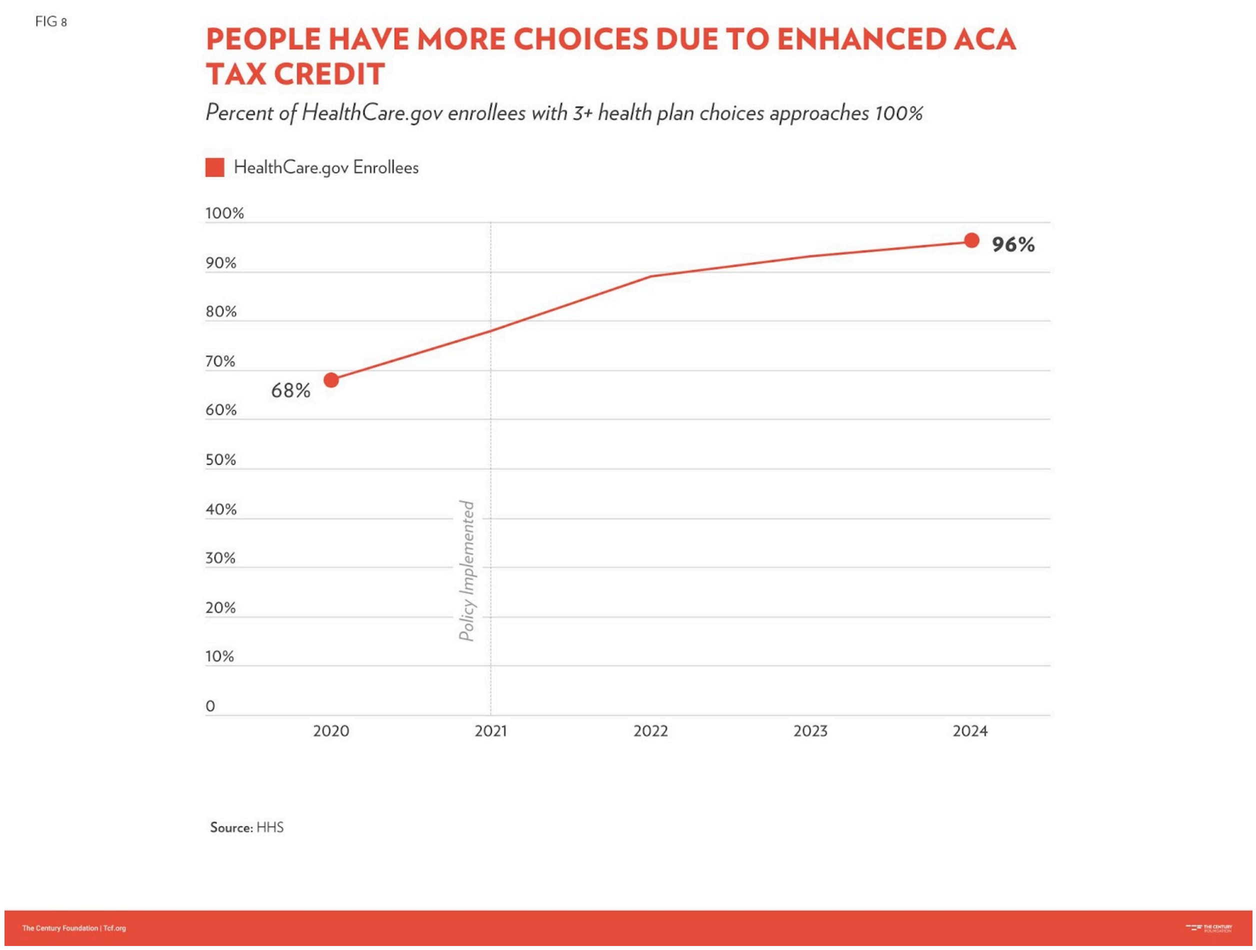


Lower Out-of-Pocket Premiums. By design, the Inflation Reduction Act's tax credits lower premiums paid by individuals and families purchasing health coverage through the Marketplace. The U.S. Department of Health and Human Services estimated that, in 2023, the enhanced APTC provided an average of $800 annually in additional assistance.[14] Compared to what they would have been without the change, the Urban Institute estimates that, in 2025, net premiums for

[14] Centers for Medicare & Medicaid Services. (October 24, 2023). "Biden-Harris Administration Launch Window Shopping Ahead of 11th ACA Open Enrollment Period." U.S. Department of Health and Human Services.

enrollees will be lower by 23 percent for enrollees with income between 300 percent and 400 percent of FPL, 50 percent lower for enrollees with income between 200 percent and 300 percent of FPL, and 80 to 100 percent lower for those with income below 200 percent of FPL. For enrollees with income above 400 percent of FPL who do not qualify for tax credits under current law, the tax credit policy reduces premiums by an estimated 45 percent.[15]

In both 2023 and 2024,[16] 80 percent of Marketplace consumers could find a plan at HealthCare.gov for $10 or less per month, compared to only 36 percent of APTC-eligible enrollees in 2020,[17] the year before the time-limited policy took effect.



[15] Banthin et al. (June 2024).
[16] Centers for Medicare & Medicaid Services. (October 24, 2023).
[17] Centers for Medicare & Medicaid Services. (November 23, 2020). "Plan Year 2021 Qualified Health Plan Choice and Premiums in HealthCare.gov States." U.S. Department of Health and Human Services.

Lower Overall Premiums. Evidence also suggests that the premium tax credit increases have lowered overall premiums. Since it went into effect, competition has increased. The percentage of HealthCare.gov enrollees with a choice of three or more plans rose from 68 percent in 2020[18] to 96 percent in 2024.[19] Research suggests that competition in the Marketplace lowers overall premiums,[20] which in turn reduces the federal costs of the tax credits and premiums for enrollees not eligible for them. Indeed, the growth in the benchmark premium in the Marketplace between 2020 and 2024 was 0.8 percent, less than general inflation. For comparison, single premiums for employer-sponsored insurance increased by 4.1 percent between 2020 and 2023.[21] Additionally, a recent study found that the prices paid for self-insured plans were higher than those for state-regulated plans such as those in the Marketplace, even when controlling for differences in patient characteristics, plan type, and geography.[22]

Lower Cost Sharing. The tax credit change also has enabled individuals and families to choose plans with lower cost sharing. An analysis of Marketplace data found that, among people who selected a plan on HealthCare.gov, median individual deductibles dropped by almost half, from $750 to $400, between 2021 and 2023.[23] The Urban Institute estimates that the total spending (premiums and cost sharing) for an enrollee with income below 150 percent of FPL will be $619 lower under the tax credit change due to lower premiums, switching to lower cost sharing plans, and lower cost sharing as more healthy people join the Marketplace.[24]

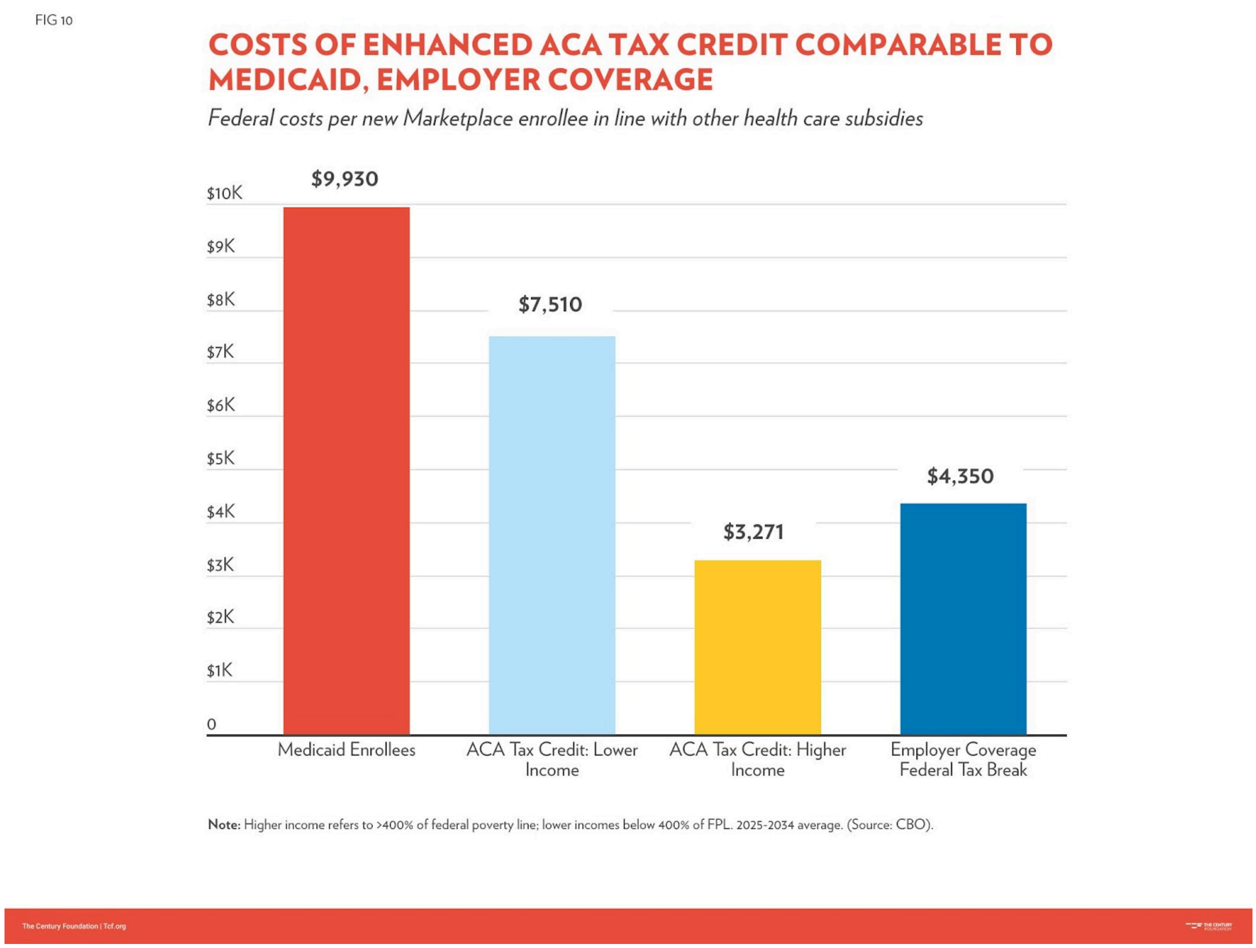
3. Has the Inflation Reduction Act's health tax credit provision been cost effective?

Comparable Public Cost Per Capita. One way to assess the cost effectiveness of the Inflation Reduction Act's tax change is to compare its federal cost per person to that of other health coverage. CBO projects that the average annual premium tax credit is $7,510 for new Marketplace enrollees with income below 400 percent of FPL from 2025 to 2034.[25] CBO projects that, for the same time period, the average federal per-capita cost of Medicaid for the

[18] Centers for Medicare & Medicaid Services. (November 23, 2020).
[19] Centers for Medicare & Medicaid Services. (October 24, 2023).
[20] Holahan J., Wengle E., and O'Brien C. (April 2023). "Changes in Marketplace Premiums and Insurer Participation, 2022-2023." The Urban Institute.
[21] State Health Facts. "State Health Facts: Marketplace Average Benchmark Premiums;" KFF. (2020, 2023). *Employer Health Benefits Annual Survey*.
[22] Sen A.P., Change S.Y., and Hargrave J. (September 2023). "Health Care Service Price Comparison Suggests that Employers Lack Leverage to Negotiate Lower Prices," *Health Affairs*, 42(9).
[23] Sullivan J., Orris A., and Lukens G. (March 25, 2024). "Entering Their Second Decade, Affordable Care Act Coverage Expansions Have Helped Millions, Provide the Basis for Further Progress." Center on Budget and Policy Priorities.
[24] Banthin et al. (June 2024).
[25] Congressional Budget Office. (June 24, 2024).

expansion group (which is most comparable to enrollees in the Marketplace) will be $9,930,[26] with some of this difference likely due to the difference in health status of enrollees.

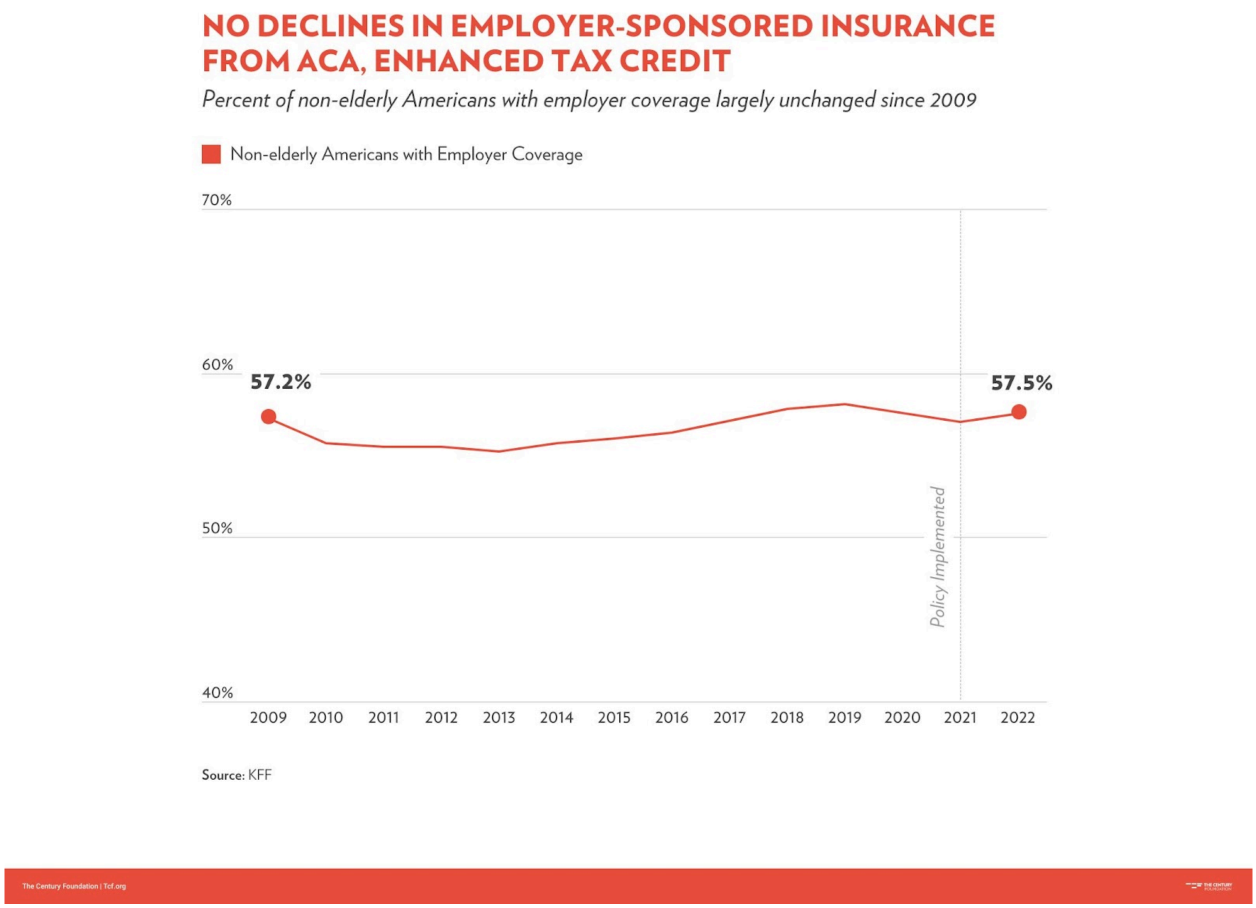
CBO estimates that, if the Inflation Reduction Act tax credit change were made permanent, some people would newly enroll because their employers no longer offer coverage. It notes that people affected by the change in employer-based coverage tend to have higher income than other Marketplace enrollees. CBO's projected average premium tax credit for new Marketplace enrollees with income above 400 percent of FPL is $3,271. This compares to CBO's estimates of $4,350 in annual tax benefit provided for employer coverage for those moving from it to the Marketplace.[27]



[26] Congressional Budget Office. (June 2024). Medicaid Baseline Projections.
[27] Congressional Budget Office. (June 24, 2024).

Unlike APTC, the employer coverage tax benefit increases with income. A critic of the employer tax break estimates its value in 2021 at $7,333 for a worker with a typical family policy at the 33 percent tax bracket.[28] The employer tax break has few rules for eligibility, benefits, or the quality of coverage, unlike APTC. Comparisons to federal subsidies for both Medicaid and employer-sponsored insurance suggest a relatively reasonable public cost of coverage for the Inflation Reduction Act tax credit policy.

FIG 11



Little to No Employer "Dropping." A longstanding concern about expanding health coverage through the Marketplace is that it will "crowd out" employer-based coverage. While the Urban Institute and CBO analyses estimate a small percentage reduction relative to the baseline, actual trends over time show that employer-based coverage did not erode either after the launch of the Marketplace in 2014, or in 2022 and 2023 when the additional tax credits were fully implemented. The percentage of nonelderly Americans with employer-sponsored coverage has

[28] Cannon M.F. (May 24, 2022). "End the Tax Exclusion for Employer-Sponsored Health Insurance." Cato Institute.

remained steady between 2009 (57.2 percent) and 2022 (57.5 percent).[29] The percentage of workers at firms that offer some type of health benefit has also been steady: 92 percent in both 2008 and 2023.[30]

Conclusion: Continue and Build on the Inflation Reduction Act

In conclusion, information from nonpartisan sources indicate that the Inflation Reduction Act tax credit changes for the Health Insurance Marketplace expanded health care coverage and access, lowered premiums, and did so cost effectively. Specifically, it contributed to relatively higher and more diverse Marketplace enrollment, reduced uninsurance, lower overall and family premiums, and lower cost sharing. Its federal cost per enrollee has been reasonable relative to other benchmarks and it has not resulted in significant disruption of employer coverage.

With its expiration 15 months from now, Congressional inaction would reduce or take away this tax credit from around 20 million Americans. An estimated 4 million would lose coverage altogether. The National Association of Insurance Commissioners has urged Congress to act by the end of 2024.[31] Failing to do so, the commissioners explain, would "roil insurance markets." In addition to the effects previously described, they anticipate higher premiums will drive out younger enrollees which won't just put them at risk, but raise the cost for those remaining covered, including people who are older and have pre-existing conditions. Costs will also rise because state reinsurance funding would be reduced with an end of the Inflation Reduction Act tax policy. In my home state of Maine, this reinsurance stabilizes our merged individual and small-group market; as such, failing to continue this provision would significantly raise the cost of coverage for Maine's small businesses. Insurance commissioners also warn that the impact will extend to health care providers—hospitals, physicians, nurses, and pharmacies—since more Americans will become uninsured.

In addition to extending this tax policy, policy makers should consider having the Health Insurance Marketplace serve as a platform for further health system improvements. Last week's news[32] that 50 million Americans have received health coverage through the Marketplace since 2014 is proof that it has successfully filled a gap in the U.S. health system. The Marketplace could do more such as covering people in states that have not expanded Medicaid or offer more efficient coverage for small businesses. In short, the recent Marketplace changes have improved the health system and could continue to do so with an extension and expansion.

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[29] State Health Facts. "Health Insurance Coverage of Nonelderly 0-64." KFF.
[30] KFF. (2023). *Employer Health Benefits Annual Survey*.
[31] National Association of Insurance Commissioners. (July 18, 2024). "Letter to Chairmen Wyden and Smith and Ranking Members Crapo and Neal."
[32] U.S. Department of the Treasury. (September 10, 2024). "U.S. Department of the Treasury Releases New Data Showing Nearly 50 Million Americans Have Been Covered through Affordable Care Act Health Insurance Marketplaces Since 2014."