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[OSCR, CNC, MOH, ELV] Enhanced Obamacare Exchange Subsidies – How Might They Stay?

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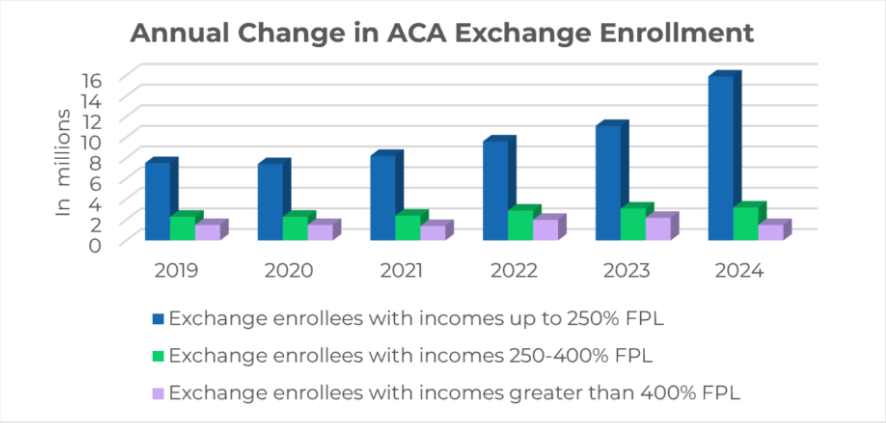
Key Takeaways: We think investors exposed to insurers in the ACA exchange markets (**OSCR, CNC, MOH, ELV**) are underestimating the odds that the next Congress temporarily extends *some* of the enhanced Obamacare subsidies to focus more on poorer enrollees.

Such a path would allow retention of the bulk of current enrollees. While investor concerns about the fate of the enhanced subsidies, CY26+ enrollment growth and higher acuity are not completely unwarranted and likely to persist, the risk should be appropriately sized to reflect the potential for a legislative deal late next year. That deal would likely keep parts of the subsidies and GOP policies to afford greater benefit/financial design flexibility for insurers and expanded promotion of individual coverage health reimbursement accounts (ICHRAs).



Source: CMS, Kaiser Family Foundation, Capitol Policy Partners

As epitomized by the ongoing sell-off in **OSCR** shares (despite announcing this morning positive Q3 earnings, higher revenue guidance and no change to its 2027 EPS outlook of $2.25, which does not assume the enhanced subsidies), investor concerns revolve around Trump and a GOP Congress letting this funding for the enhanced Obamacare premium subsidies lapse at the end of next year. As we previously wrote in our managed care deep-dive note, we think the Dec. 31, 2025, expiration of enhanced premium tax credits forces a debate on their future, especially since the timing coincides with expiration of Trump's 2017 tax cuts. Recall that the enhanced subsidies refer to three components:

1. Removing the subsidy cliff and allowing individuals with household incomes greater than 400% of the federal poverty level (FPL) to be eligible.

- Capping the amount enrollees pay towards Obamacare premiums for a benchmark silver plan at no more than 8.5% of their income.

- Offering zero-premium plans to individuals with incomes less than 150% FPL.

Oscar Health Inc (OSCR)

Price:	$13.82
52-Week High:	$23.79
52-Week Low:	$6.03

Centene Corp (CNC)

Price:	$62.37
52-Week High:	$81.42
52-Week Low:	$59.77

Molina Healthcare Inc (MOH)

Price:	$336.63
52-Week High:	$423.92
52-Week Low:	$272.69

Elevance Health Inc (ELV)

Price:	$427.46
52-Week High:	$567.26
52-Week Low:	$397.98

In letting the extra subsidies expire, they would revert back to the original Obamacare statute where premium tax credits would only be available to those with incomes of 100-400% FPL and enrollee contributions would be nearly 10% of incomes. We doubt that Trump and congressional Republicans want to have on their watch sizable increases in uninsured levels, particularly from red states, or rising health insurance premiums, given the inflation perceptions. Along with the popularity of the subsidies, we think there will be some relief tailored to lower-income enrollees, which would likely occur late in the year and as part of a major legislative deal. A permanent extension is just too expensive, clocking in at $335B/10 years, according to a CBO score earlier this year.

To keep the price-tag low, Republicans could play around with the subsidy duration and generosity, while also pursuing changes to codify cheaper plan alternatives. We suspect the legislative interest will be more focused on the individual premium contributions limits for those making 100%-400% FPL and offering of zero-premium plans for the very poor, more so than offering these subsidies to enrollees with incomes greater than 400% FPL. While this direction would likely lead to disenrollments among upper-income individuals, the bulk of enrollees could still be eligible for subsidized coverage.

We note that 2025 open enrollment just began, and some think tanks are anticipating as much as 10% enrollment growth from 2024 levels of 21 million enrollees. The drivers they cite include the ongoing financial support for outreach, enrollment and navigation, the program's perceived overall stability, and lingering churn from those losing Medicaid coverage during state redeterminations. Offsetting some growth for CY25 will be the intensified efforts to crack down on brokers inappropriately marketing or enrolling people into plans.

While we are not ignoring the GOP threat, based on the rhetoric and right-leaning think tank recommendations to gut the ACA, we just highly doubt that it will come to fruition. However, we expect that Trump's CMS will likely resurrect or seek anew policies for cheaper healthcare coverage alternatives (short-term medical plans, small businesses can join association health plans, state-tailored insurance changes, health ministries/farm bureau memberships, more catastrophic plans). These changes likely dampen future Obamacare enrollment growth and lead to mix-shift, but they alone are unlikely to erase the exchange membership gains.

That said, we expect some other CMS policies that appear to flaunt the desired standardization of Obamacare benefits and design standardization. We have a different take, because while they could be seen as undercutting the ACA, they could prove to support insurers and the program long term. These ideas include efforts to provide cheaper healthcare coverage alternatives and proposals for more individualized care choices as well as affording states and Obamacare insurers more benefit, network and financial flexibility.

The latter could take the form of state waivers to tailor the plans, ability to use remote, telehealth or providers licensed in other states, and design of plans focused on individuals with certain illnesses, changes that could lower insurer costs.

Additional ideas include further promotion of individual coverage health reimbursement account (ICHRAs), a concept finalized by the first Trump administration that has slowly attracted employer participation. In an ICHRA, employees who choice these accounts get reimbursed by their employers with pretax dollars to cover the cost of individual health premiums and expenses, including exchange plans.

OSCR, **CNC** and other insurers have highlighted these accounts as a growth area, though take-up is still a small fraction of overall Obamacare enrollment. We doubt that Trump would reverse course on this policy since it came to fruition under his watch but, rather, try to boost its enrollment with greater marketing and encouragement of states to push this insurance alternative, and convince Congress to make the policy permanent.

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