

In 2008, 17% (45.7 million) of non-elderly Americans were uninsured and 5% purchased their health insurance through the private market.¹ With the economic recession contributing to an unemployment rate of 9.8%², recently laid-off workers not only lost their jobs, but also their employer-sponsored health insurance. Because of the hard economic times and rising health insurance premiums, many employers are choosing to cut health insurance benefits in order to avoid laying off their workers. As the House and Senate negotiate a final healthcare bill, many Americans wonder how they will benefit from health reform and how much the federal government will improve the affordability of their health insurance premiums and out of pocket costs.

One aspect of the proposed health reform package (the affordability credits and the Exchange) will dramatically improve affordability for individuals with incomes up to 400% of the Federal Poverty Level (see Table 1). It will increase affordability by expanding Medicaid to all the poor and creating a new Exchange for moderate and middle-income individuals and families.³ The Exchange enables individuals who do not have access to employer-sponsored health insurance to buy private health insurance and receive income-based subsidies (called affordability credits) to help pay their premiums and out of pocket health costs.⁴ Those who will qualify for the affordability credits (premium subsidies) in the Exchange include individuals and families with incomes from 133% to 400% of FPL who do not now qualify for government programs in most states.⁵ The Kaiser Family Foundation (KFF) has an interactive calculator that enables individuals to calculate the approximate amount of annual premiums they would pay through a Health Insurance Exchange under the House and Senate proposals, based on their income, standard of living, age and family size.^a

The health insurance premiums shown in the calculator are based on a basic health plan that covers a standard set of services under the House and Senate proposals:^{6 7}

- Hospitalization
- Outpatient hospital and clinical services including emergency department visits
- Professional services of physicians and other health professionals
- Medical and surgical care
- Services, equipment and supplies incident to physician and other health professional care in appropriate settings
- Prescription drugs
- Rehabilitative and ablative services
- Mental health and substance use disorder
- Preventative services, maternity care, durable medical equipment

^a These are average national costs; they are not California costs. The bills adjust premiums in the Exchange, based on geography. Furthermore the bills tie their subsidies to the three lowest priced plans in the region, not to the average cost as the Calculator does. Finally the bills provide both premium subsidies and out of pocket subsidies so that individuals and families who get help will have help both on the premium as well as any co-pays or deductibles.

- Prosthetics
- Well baby and child visits
- Oral health, vision, and hearing services for children less than 21 years of age
- Maternity care
- Durable medical equipment, prosthetics, orthotics and related supplies^b

The basic plan of the Senate Finance Committee will cover 65% of the actuarial value of the covered benefits and limits annual cost sharing to \$5,950 per individual, and \$11,900 per family.⁸ The House bill will cover 70% of the actuarial value of the covered benefits under the basic plan, and limits annual cost sharing to \$5,000 per individual \$10,000 per family.⁹ The Senate HELP bill does not specify the actuarial values of covered benefits.¹⁰ So what is an actuarial value? It's the average expected health care cost of claims per year.

The tables below outline the annual premiums both a 25-year-old individual (Table 2) and a 64-year-old individual (Table 3) would pay under each healthcare reform proposal after affordability subsidies.^c All the proposals also offer affordability subsidies to help individuals with the out of pocket costs for copayments and deductibles.

Table 1. Percentage Federal Poverty Level (FPL) and Income¹¹

% FPL	Individual Income	Family of 4 Income
133%	\$14,404	\$29,327
200%	\$21,660	\$44,100
300%	\$32,490	\$66,150
400%	\$43,320	\$88,200

Table 2. Projected Premiums Paid by a 25-Year-Old Individual

	Annual Income	Annual Premium By Family Size	
		Single	Family of 4
House Bill	\$20,000	\$947	Medicaid
	\$45,000	\$3,169	\$2,567
	\$70,000	\$3,169	\$7,244
	\$100,000	\$3,169	\$8,543
Senate HELP Committee	\$20,000	\$519	Medicaid
	\$45,000	\$3,531	\$1,569
	\$70,000	\$3,531	\$6,092
	\$100,000	\$3,531	\$9,519
Senate Finance Committee	\$20,000	\$1,247	Medicaid
	\$45,000	\$2,258	\$3,242
	\$70,000	\$2,258	\$6,943
	\$100,000	\$2,258	\$6,943

^b This benefit is included in the House bill, but not the Senate bill.

^c Rates are calculated under the assumptions that the individuals do not have the option of employer-sponsored health insurance and that he or she lives in a medium cost of living zone.

Table 3. Projected Premiums Paid by a 64-Year-Old Individual

	Annual Income	Annual Premium By Family Size	
		Single	Family of 4
House Bill	\$20,000	\$947	Medicaid
	\$45,000	\$6,339	\$2,567
	\$70,000	\$6,339	\$7,244
	\$100,000	\$6,339	\$17,086
Senate HELP Committee	\$20,000	\$519	Medicaid
	\$45,000	\$7,063	\$1,569
	\$70,000	\$7,063	\$6,092
	\$100,000	\$7,063	\$19,039
Senate Finance Committee	\$20,000	\$1,247	Medicaid
	\$45,000	\$9,032	\$3,242
	\$70,000	\$9,032	\$8,400
	\$100,000	\$9,032	\$22,207

Under all proposals, subsidies (affordability credits) vary depending on income, age, and family size. Individuals can choose from 4 different levels of coverage ranging from 65% of actuarial to 95% of actuarial expenses, but their affordability subsidy is linked to the basic plan.

While all proposals include regulations on insurance companies prohibiting increased premiums based on pre-existing medical conditions, they will allow health plans the flexibility to vary premiums based on age. The House and the Senate HELP Committee have a 2:1 age-rating provision; this means that an older individual's premium can only be twice as high as a younger individual's premium. The Senate Finance Committee has a 4:1 age rating ratio, which means that an older individual's premium can only be four times as high as a younger individual's premium. Results from KFF's premium calculator indicate that unsubsidized individuals and families in older age groups will pay higher annual premiums under the Senate Finance Committee's proposal compared to the other two proposals. Whereas, unsubsidized younger individuals and families would pay less under the Senate Finance version and pay more under the House version of reform.

Since the Calculator is purely a construct, not actual market prices, we wondered how these constructed health insurance premiums compare to what individuals and families currently pay in California's individual market.^d Based on premium quotes from Kaiser Permanente, California, the annual premium for the standard copayment 25 plan costs, on average, \$3,120 for a 25-year-old single individual, and \$9,456 for a family of four.^e This same plan costs, on average, \$6,726 for a 64-year-old single individual and \$15,564 for a family of four.^f These quotes applied for individuals living in the San Francisco Bay Area; the benefits in the Co-payment 25 plan are as follows:¹²

^d The figures are not totally comparable as the Kaiser Family Foundation is for national average premiums while the Kaiser Permanente premiums are for the Bay Area of California with no restrictions on age rating.

^e This family of four premium was estimated with the use of children of the ages 3 and 5.

^f This family premium was estimated with the use of children aged 16 and 14.

- No annual deductibles
- \$2,500 out-of-pocket maximum for individuals
- \$5,000 out-of-pocket maximum for families
- Primary and specialty care
- Well baby visits
- Family planning
- Eye exams
- Hearing tests
- Outpatient surgery
- Maternity benefits
- Hospitalization and emergency room visits
- Prescription drugs

These premiums are based on the assumption that these individuals do not have pre-existing conditions. Sicker individuals are either excluded or pay higher premiums.

How would the health reform bills affect affordability for California’s uninsured and individuals with private individual insurance? In 2007, over 60% of the uninsured have incomes between 0-199% of the Federal Poverty Level (FPL) and over 80% have incomes below 400% of FPL.¹³ California’s Medicaid program only covers parents with minor children up to 100% of the FPL. Adults with no dependent children living at home do not qualify for Medicaid unless they are disabled. Provisions under the House bill would extend Medicaid coverage for all individuals up to 150% FPL who are citizens and legal permanent residents.¹⁴ Many of California’s uninsured will benefit from the proposals because they will become eligible for Medicaid coverage. Many other Californians (both the uninsured and those with individual insurance) become eligible for premium subsidies through the Exchange. We compared uninsured individuals and those now purchasing private individual coverage by income and by age.

Table 4. Health Insurance Coverage of Adults Under Age 65 by Federal Poverty Level in California

Poverty Level	Uninsured			Privately Purchased		
	Est. N	%	95% C.I.	Est. N	%	95% C.I.
0-99% FPL	1,491,000	31	(28.7 - 33.2)	150,000	7.6	(5.8 - 9.3)
100-199% FPL	1,494,000	31	(28.8 - 33.2)	224,000	11.3	(9.4 - 13.1)
200-299% FPL	733,000	15.2	(13.7 - 16.8)	260,000	13.1	(11.1 - 15.0)
300% - 399% FPL	397,000	8.2	n/a	253,000	13	n/a
≥400% FPL	701,000	14.6	n/a	1,101,000	55	n/a
Total	4,817,000	100	n/a	1,988,000	100	n/a

Source: 2007 California Health Interview Survey

Up to 86% percent of California’s uninsured have incomes below 400% of FPL and might qualify for affordability subsidies through either the Exchange or Medicaid expansion. Up to forty-five percent of individuals with private individual insurance have incomes under 400% of FPL may also qualify for affordability credits (premium subsidies) through the Exchange or Medicaid expansions.

The uninsured and those with private individual insurance also differ by age. Sixty percent of Californians who are uninsured are younger adults between the ages of 18-39.¹⁵ Fifty percent of Californians with private insurance are older adults between the ages of 40-64.¹⁶ The larger number of younger uninsured adults and the smaller numbers of young adults with private individual insurance and incomes below 400% of FPL can receive subsidies through the exchange. Because their premiums are lower due to their youth, their per capita subsidy (affordability credit) is lower for younger adults than for older adults. Older adults (both uninsured and those with private individual coverage) will benefit the most on a per capita basis from the affordability credit because their individual premiums would be higher absent the subsidies and purchasing powers of the Health Insurance Exchange.

Table 5. Health Insurance Coverage of Adults by Age in California

Age Groups	Uninsured			Privately Purchased		
	Est. N	%	Prevalence	Est. N	%	Prevalence
Adult 18-24	819,000	19.8	27.3%	342,000	23.3	11.4%
Adult 25-39	1,670,000	40.4	22.0%	395,000	26.9	5.2%
Adult 40-46	1,644,000	39.8	14.1%	730,000	49.8	6.2%
Total	4,134,000	100	n/a	1,466,000	100	n/a

Source: 2007 California Health Interview Survey

Many details of the final healthcare bill have yet to be determined. The following lists some critical details that will eventually need to be compromised and clarified.

- **Basic Coverage and Affordability Credits:** The House and Senate bills each suggest four different levels of benefits (for example ranging from the “young invincibles” coverage, through bronze, silver, gold and platinum in the Senate). The affordability credits are tied to basic coverage and will help with both the premiums and out of pocket costs, but there are big differences between the House and the Senate on what the benefit levels and the extent of the affordability credits will be.
- **The Health Insurance Exchange and Delivery Systems:** It has yet to be determined whether or not the Exchange will be structured as one large national entity (House), as various regional entities or as state-run entities (Senate). States have very different cost structures; for example, Utah is a low cost state and Massachusetts a high cost state. California has far more extensive enrollment in HMOs than most other states and HMOs are typically less costly than PPOs for comparable levels of benefits and cost sharing. Whether the Exchange will serve the nation as a whole with geographic variations or be arranged by state/region could affect premiums.
- **Age rating:** The Senate Finance Committee has a 4:1 ratio and the House uses a 2:1 ratio. The advantage of the Senate Finance version is lower premiums for the young (a higher percentage of the uninsured). The advantage of the House version is lower premiums for older adults (a higher percentage of the individually insured). A workable compromise might be a 3:1 ratio.

To access the health reform subsidy calculator visit:
The Kaiser Family Foundation Health Reform Subsidy Calculator
<http://healthreform.kff.org/SubsidyCalculator.aspx>

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