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SUBSIDIES IN SENATE HEALTH BILL WOULD BE INADEQUATE FOR MANY LOW- AND MODERATE-INCOME HOUSEHOLDS, NEED IMPROVEMENT IN CONFERENCE

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Executive Summary

The health reform bills that the House and Senate have passed would make health coverage more affordable for millions of low- and moderate-income households. Both bills would provide premium and cost-sharing subsidies for people to purchase coverage through the new health insurance exchange. They would also expand the Medicaid program to cover the lowest-income uninsured. While the House and Senate bills take the same general approach to making coverage more affordable, however, they would have markedly different effects on low- and moderate-income people's budgets and what they would have to pay for coverage and health services. The Senate bill's affordability provisions raise concern. The premiums and deductibles that many low- and modest-income families would be charged could squeeze their budgets, leaving them with the difficult choice of paying for health care or paying for other necessities.

- For those who make less than 250 percent of the poverty line — about $55,000 for a family of four — the House bill does a better job than the Senate bill in ensuring that people can afford to purchase coverage.
- The House bill also would ensure that individuals and families could seek the care they need without being deterred by overly burdensome deductibles and cost-sharing.
- The House bill would include a broader expansion of Medicaid, coupled with increases in Medicaid provider payment rates for primary care, which would extend affordable coverage to more low-income people than the Senate bill would and better ensure that both new and current Medicaid beneficiaries have access to care.

The Senate bill could create another problem as well: if the bill forces people with modest incomes to spend substantial amounts to buy a health policy and those people then find that the policy does not cover much of their health care costs due to its high deductibles, it could prompt a

voter backlash that adds fuel to expected efforts by opponents to repeal this historic health reform legislation in the years after it is enacted.

Premium Credits for Low- and Moderate-Income People

Both the Senate and House bills provide premium credits to help low- and moderate-income households offset the cost of insurance premiums for coverage that they purchase in the new health insurance exchanges. These premium credits would be available to individuals and families whose incomes are too high to qualify for Medicaid coverage but are below 400 percent of the poverty line (about $88,000 for a family of four).

Under the *Senate* bill, the amounts that households would have to pay for premiums would be based on a sliding scale, under which households' premium contributions would be set at 4 percent of income for households at 134 percent of the poverty line and would rise to 9.8 percent of income for those at 300 percent of the poverty line. The maximum amount that households would be required to pay would remain at 9.8 percent of income for those with incomes between 300 and 400 percent of the poverty line.[1] (See Table 1.)

Under the *House* bill, the amounts that people would have to pay for premiums would start at 3 percent of income for households with incomes at 150 percent of the poverty line. As under the Senate bill, households would pay a higher percentage of their income for premiums as their income increased. The maximum amount that households receiving a premium subsidy would pay under the House bill would be 12 percent of income for those earning up to four times the poverty line.[2]

The premium credits would be tied to the purchase of a "silver" plan in the Senate bill and a "basic" plan in the House bill. Both the silver and basic plans would have an actuarial value of 70 percent, meaning that the plan would be expected to pay 70 percent of covered medical expenses for a typical population.[3]

Some Households in the Lower Portion of the Subsidy Scale Would Pay Much Higher Premiums Under the Senate Bill than the House Bill

For households with incomes between about 250 percent and 400 percent of the poverty line, the premium subsidies would be more generous under the Senate bill. On the other hand, millions of low- and moderate-income households that earn less than 250 percent of the poverty line would have to pay substantially more in premiums under the Senate bill.

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[1] Households with incomes of 133 percent of poverty or less that do not qualify for Medicaid and purchase coverage through the exchange would pay 2 percent of income toward premiums.

[2] For households with incomes of less than 150 percent of poverty that do not qualify for Medicaid and purchase coverage through the exchange, the required premium contribution would equal 1.5 percent of income.

[3] Actuarial value is a method of measuring the level of coverage that insurance plans provide. Generally, plans with higher actuarial values have more comprehensive benefits and/or lower deductibles and co-payments. For further discussion of how the reform bills use actuarial values, see Sarah Lueck, "What Level of Coverage Would Health Reform Likely Provide? The Basics of Actuarial Value," Center on Budget and Policy Priorities, October 13, 2009.

TABLE 1 Required Family and Individual Premium Contributions Under the House and Senate Health Reform Bills					
Income		Family/individual premium contribution			
		House bill[a]		Senate bill[b]	
Percentage of poverty line	Annual dollar amount	Percentage of income	Annual dollar amount	Percentage of income	Annual dollar amount
Family of four					
100%	$22,050	1.5%/0%[c]	$331/$0	2%/0%[d]	$441/$0
134%	$29,547	1.5%/0%[c]	$443/$0	4%	$1,182
150%	$33,075	3%	$992	4.6%	$1,521
200%	$44,100	5.5%	$2,426	6.3%	$2,778
250%	$55,125	8%	$4,410	8.1%	$4,465
300%	$66,150	10%	$6,615	9.8%	$6,483
350%	$77,175	11%	$8,489	9.8%	$7,563
400%	$88,200	12%	$10,584	9.8%	$8,644
Individual					
100%	$10,830	1.5%/0%[d]	$162/$0	2%/0%[e]	$217/$0
134%	$14,512	1.5%/0%[d]	$218/$0	4%	$580
150%	$16,245	3%	$487	4.6%	$739
200%	$21,660	5.5%	$1,191	6.3%	$1,365
250%	$27,075	8%	$2,166	8.1%	$2,180
300%	$32,490	10%	$3,249	9.8%	$3,184
350%	$37,905	11%	$4,170	9.8%	$3,715
400%	$43,320	12%	$5,198	9.8%	$4,245

[a] The initial premium contributions start at 1.5 percent of income at 133 percent of the poverty line and rise to 12 percent of income at 400 percent of the poverty line. The amount of the subsidy would be tied to the cost of the three "basic" plans with the lowest premiums in the area.

[b] Households' premium contributions would range from 2.8 percent of income at 100 percent of the poverty line to 9.8 percent of income at 300 percent of the poverty line and would remain at 9.8 percent of income for households earning between 300 and 400 percent of the poverty line. A special rule would set the premium contributions for households with incomes between 100 percent and 133 percent of the poverty line at 2 percent of income. The premium subsidy would be tied to the cost of the silver plan, which has an actuarial value of 70 percent.

[c] Individuals and families with incomes of less than 150 percent of the poverty line would be covered through Medicaid, which requires minimal or no premium contributions. Legal residents at this income level who do not qualify for Medicaid would be eligible for premium credits in the exchange.

[d] Households with incomes of less than 133 percent of the poverty line would be covered through Medicaid. Legal residents at this income level who do not qualify for Medicaid would be eligible for premium credits in the exchanges.

For example, if health reform were in effect now, households with incomes of 150 percent of the poverty line would pay over *50 percent* more under the Senate bill than under the House bill. A family of four at this income level — which would have gross income of $33,075 in 2009 — would pay $1,521 per year in premiums (or 4.6 percent of its income) under the Senate bill, as compared to $992 under the House bill. A single individual at this income level, who would have income of only $16,245, would pay $747 per year toward premiums under the Senate bill, as compared to $487 under the House bill.

Analyses of basic living expenses in cities across the country, such as analysis conducted by the Economic Policy Institute, indicate that basic housing, food, transportation, and child care costs alone would consume virtually all of the income of such a family in the average city, leaving it little or no discretionary income to afford a $1,500 premium.[4]

People who transition from Medicaid to private coverage purchased in the exchange when their income increases above the Medicaid eligibility limits would face a particularly sharp increase in premiums under the Senate bill. That bill would cover people with incomes up to 133 percent of the poverty line through Medicaid, which generally does not charge premiums. A family of four with earnings just above the Medicaid eligibility threshold would have to pay $1,182 toward premiums.

For many low- and moderate-income households, the amounts they would have to pay under the Senate bill would be difficult to afford. Many individuals and families with modest means already have considerable difficulty making ends meet and have very limited disposable income to spend on health care.

The final legislation would be stronger if it adopts the premium credits in the House bill for households earning less than 250 percent of the poverty line.

Cost-Sharing

Both of the health reform bills also would provide help with families' out-of-pocket costs through lower deductibles and co-payments. This cost-sharing assistance would vary on a sliding scale so that as a family's income declined, the cost-sharing assistance that it received would increase. The degree of cost-sharing assistance that a family would receive would be reflected in the "actuarial value" of its health plan. Plans available in the exchange that had a higher actuarial value would have lower out-of-pocket costs.

Under the *Senate* bill, people with incomes between 100 and 150 percent of poverty would receive the "platinum" level of coverage, in which plans would have an actuarial value of 90 percent. Such plans, on average, would cover 90 percent of the medical costs that a typical beneficiary population incurred, with the beneficiaries paying the other 10 percent of costs out of pocket. A plan with a 90 percent actuarial value would have relatively modest deductibles and cost-sharing.

People with incomes between 150 and 200 percent of poverty would receive coverage with an actuarial value of 80 percent. Such plans would carry much more substantial deductibles and cost-

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[4] See the Economic Policy Institute's Basic Family Budget Calculator at http://www.epi.org/content/budget_calculator.

sharing. (Employer coverage typically has an actuarial value of about 85 percent, so the deductibles and cost-sharing would be somewhat higher than in the typical employer plan.) People with incomes above 200 percent of the poverty line would receive *no* cost-sharing assistance under the Senate bill and hence would have plans with a lower actuarial value (likely 70 percent) and much higher deductibles and cost-sharing. (See Table 2.)

In comparison, the *House* bill would provide cost-sharing subsidies to households earning up to 350 percent of the poverty line. The House bill also would provide more substantial cost-sharing assistance to people below 200 percent of the poverty line than the Senate bill would.

TABLE 2

Actuarial Value of Coverage in the House and Senate Health Reform Bills

Income for a family of four		**Actuarial value of coverage**	
Percent of poverty line	Annual dollar amount	House bill	Senate bill
133% – 150%	$29,327 – $33,075	97%	90%
150% – 200%	$33,075 – $44,100	97%	90%
200% – 250%	$44,100 – $55,125	93%	80%
250% – 300%	$55,125 – $66,150	85%	70%
300% – 350%	$66,150 – $77,175	78%	70%
350% – 400%	$77,175 – $88,200	72%	70%
400%	$88,200	70%	70%

Out-of-Pocket Costs Substantial for Modest-Income Families Under Senate Bill

As noted, the House bill would provide cost-sharing subsidies to families with incomes up to 350 percent of the poverty line (now $77,000 for a family of four), while the Senate's cost-sharing subsidies would cut off at 200 percent of the poverty line (or $44,000 for a family of four). A study by Karen Pollitz of the Georgetown University Health Policy Institute, based on estimates produced by the Actuarial Research Corporation, indicates that under the Senate bill, people with incomes modestly over 200 percent of the poverty line — such as an individual making $22,000 a year or a family of four making $50,000 — would face deductibles five or six times higher than under the House bill.

As a result, under the Senate legislation, many people with limited incomes would be required to pay large premiums to buy coverage that did not do very much to help them cover their health care costs (other than for preventive services, which would be provided without any cost-sharing) because their health expenses during the year would be less than the deductibles in their plans. M.I.T. economist Jonathan Gruber has termed this aspect of the Senate bill a "doughnut hole" in which little coverage is provided between preventive care services and the out-of-pocket maximum.

Under the Senate bill, families with very modest incomes thus could encounter challenges if they experience a serious illness or injury. Some families might forgo using various needed health care

services because they were stretched to their limits and felt they could not afford the deductibles and cost-sharing.

In developing the final legislation, policymakers would be wise to significantly strengthen the Senate bill's cost-sharing subsidies so that families with modest incomes are not forced to buy plans that would require them to spend very large sums out-of-pocket before providing any coverage for their health care costs (other than costs for preventive services).

Broader Medicaid Expansion Protects Low-Income People from Facing High Premiums and Cost-Sharing in the Exchange

To cover the lowest-income people who are uninsured, both bills would expand Medicaid. The House would set a new income limit for Medicaid eligibility at 150 percent of the poverty line; the Senate would set eligibility at 133 percent of the poverty line. These new limits would apply to children and adults under age 65 who are not eligible for Medicare. Low-income adults who do not have dependent children (and are not elderly or disabled) would qualify for Medicaid for the first time.

Medicaid is the most effective way to provide comprehensive and affordable coverage to people with very low incomes and to thereby ensure that they gain coverage. Medicaid beneficiaries generally do not pay premiums, and co-payments are small. Medicaid also covers an array of services and supports (such as case management) that are well-suited to the needs of people with very low incomes, who are more likely than people with higher incomes to be in fair or poor health and also more likely to have disabilities.

Expanding Medicaid to cover children and adults up to 150 percent of the poverty line, rather than up to 133 percent of the poverty line, would ensure that coverage is affordable for more low-income people. This is particularly important if the premium and cost-sharing subsidies in the legislation resemble those in the Senate bill more than those in the House bill. A broader Medicaid expansion would protect many near-poor individuals and families from the hefty premium and cost-sharing charges they otherwise would have to pay in the exchange, which many of them could have difficulty affording.

For example, a family of four with income just over 133 percent of the poverty line ($29,550) would have to pay $1,182 for coverage under the Senate bill. This large sum would enable the family to purchase a plan that would likely require it to pay 15 or 20 percent of the cost of doctors' visits and other health services. In comparison, if Medicaid were expanded to cover families with incomes up to 150 percent of the poverty line, this family would not have to pay premiums and would face very modest co-payments. Most families with incomes this low already have a difficult time making ends meet. Providing them with Medicaid coverage would keep them from having to stretch their limited budgets even further — and from either failing to obtain some basic necessities in order to free up money to pay for health care, or having to pay a penalty for failing to obtain coverage because of its cost. Providing these families and individuals with Medicaid also would make it more likely that if insured, these families would actually seek health care when they need it.

Raising the Medicaid eligibility limit would also have the benefit of providing more comprehensive health services to more low-income children. Children enrolled in separate state

Children's Health Insurance Programs (CHIP) who have incomes below 150 percent of the poverty line would move from CHIP to Medicaid and receive an expanded benefits package that includes Medicaid's Early Periodic Screening, Diagnostic, and Treatment benefit (EPSDT).[5]

To ensure that new and current Medicaid beneficiaries have access to health care services, the House bill also requires states (with additional federal financial assistance) to increase Medicaid payments so that providers would eventually receive the same payments for providing primary care services to Medicaid beneficiaries as they receive for providing such services to *Medicare* beneficiaries. This is important to ensure that there are a sufficient number of primary care providers who will accept the expanded number of Medicaid beneficiaries.

Conclusion

To require people of modest means to stretch their budgets to pay substantial amounts for coverage that provides many of them with only modest help in meeting their health care costs, because of the high deductibles it carries, would pose various problems. As the House and Senate move forward to hammer out final legislation, Congress should accord priority to improving the affordability provisions in the Senate bill.

Relative to the Senate legislation, the final bill should move as close to the House provisions as possible on premium subsidies for households with incomes below 250 percent of the poverty line, strengthen the Senate's cost-sharing assistance for individuals and families with incomes up to about 300 percent of the poverty line, and expand Medicaid to cover children and adults with incomes up to 150 percent of the poverty line while adopting the House provisions on raising primary care provider payments in Medicaid. The final legislation also should include measures that produce the necessary savings and revenues to fully cover the costs of these improvements.

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[5] EPSDT is Medicaid's comprehensive and preventive child health program for individuals under the age of 21. EPSDT requires states to assess a child's health needs through initial and periodic examinations to ensure that problems are detected, diagnosed, and treated early, before they become more complex and result in permanent, lifelong disabilities.