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CHANGES IN SENATE HEALTH BILL MAKE COVERAGE MORE AFFORDABLE FOR MILLIONS OF MODERATE-INCOME FAMILIES, ALTHOUGH NOT FOR THOSE ON LOW END OF SUBSIDY SCALE

by January Angeles and Judith Solomon

Executive Summary

The health reform bill that Senate leaders unveiled on November 18 makes health coverage more affordable for millions of households of modest means, as compared to the bill that the Senate Finance Committee approved last month. The amounts that many families and individuals would pay for coverage would be less than under the Finance Committee proposal.

For people between 134 percent and 154 percent of the poverty line, however — people with incomes around $25,000 to $28,000 for a family of three — premiums would actually be *higher* than the already significant amounts they would have to pay under the Finance Committee bill. Modifications are needed at some point as the legislation moves forward to ensure that near-poor families and individuals do not face insurance premiums and cost-sharing charges that many of them could have difficulty affording.

What Low- and Moderate-income Households Would Pay for Premiums

Under the bill, families and individuals with incomes between 133 and 400 percent of the poverty line (between $24,350 and $73,240 for a family of three in 2009) would receive premium credits to help offset the cost of insurance premiums for coverage they purchase in the new health insurance exchanges. The amounts these 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]

[1] The sliding scale for individuals' required premium payments actually would begin at 2.8 percent of income for households with incomes at *100 percent* of the poverty line and rise from that level to 9.8 percent of the poverty line for households at 300 percent of the poverty line. Most households with incomes up to 133 percent of the poverty line, however, would receive coverage through Medicaid and hence would not be affected. For households with incomes of

These premium charges are lower than those that the Senate Finance Committee bill would have set for households between 154 percent and 400 percent of the poverty line. Middle-income households in the 300 percent-to-400 percent-of-poverty range would receive the largest reductions; they would pay a maximum of 9.8 percent of income for coverage under the new bill, as compared to 12 percent of income under the Finance Committee bill. But the premium charges would be *higher* than under the Finance Committee bill for households at the bottom end of the subsidy range. (See Table 1.)

Compared to the premiums under the bill that the *House* passed November 7, households between about 250 percent and 400 percent of the poverty line would pay less under the new Senate bill. Households with incomes below 250 percent of the poverty line would pay more. Some of those at the bottom of the subsidy scale would pay at least twice the amount they would pay under the House bill.

Cost Sharing Charges

Four types of plans would be sold in the exchanges — "bronze," "silver," "gold," and "platinum" plans. Each type of plan would have different levels of cost-sharing (i.e., of deductibles, co-payments, and overall limits on out-of-pocket costs for covered services), expressed in terms of "actuarial value." The actuarial value of a plan represents the average share of costs for covered health services that the plan would pay for a typical beneficiary population, as distinguished from the share of costs that beneficiaries pay through deductibles and co-payments. Actuarial value provides a way to measure the level of coverage that various insurance plans provide. Generally, plans with higher actuarial values have lower deductibles and co-payments and/or more comprehensive benefits.[2]

Under the Senate bill, people with incomes between 100 percent and 150 percent of the poverty line would receive the "platinum" level of coverage, which would have an actuarial value of 90 percent. In other words, it would cover 90 percent of the medical costs of a typical population, with beneficiaries, on average, paying the other 10 percent of costs out of pocket. At that actuarial value, plans would generally have only modest deductibles and co-payments.

People with incomes between 150 and 200 percent of poverty would receive coverage tied to the "gold" level, which would have an actuarial value of 80 percent. People between 200 percent and 400 percent of poverty would generally receive the "silver plan," which would have an actuarial value of 70 percent.

The cost-sharing provisions are the same as those in the Senate Finance Committee bill. The amount of cost-sharing assistance provided would be less than under the House bill for all households below 350 percent of the poverty line.

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up to 133 percent of poverty that do not qualify for Medicaid and purchase coverage through the exchanges, the required premium contribution would equal 2 percent of income.

[2] For details on how the health reform bills use actuarial value, 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.

Fuller Analysis of Premium Costs Under New Senate Bill

The Finance Committee bill would have capped the amount that households earning between 300 and 400 percent of the poverty level would pay at 12 percent of income. Under the new bill, the maximum these households would pay for premiums would be 9.8 percent of income. In fact, for households with incomes between 300 percent and 400 percent of the poverty line, the affordability provisions in the Senate bill are now stronger than those in the House bill.

These changes in the Senate bill also would strengthen the bill's mandate for people to have insurance, because it would reduce the number of households that would be exempt from the penalty for failing to have insurance. Households would be exempt from the penalty if coverage would cost them more than 8 percent of their income.[3]

As noted, the percentage of income that households at the low end of the subsidy scale would pay would be higher than under the Finance Committee bill. Households at 134 percent of the poverty line — the income level at which Medicaid eligibility would end — would pay 4 percent of income for premiums.[4] This is up from 3.7 percent under the Finance Committee bill and represents a large amount for near-poor households, which often struggle to pay rent and utilities and put food on the table.

In short, compared to the Finance Committee bill, households with incomes between 154 and 400 percent of the poverty line would pay less for coverage, while households with incomes between 134 and 154 percent of the poverty line would pay more for coverage.

Despite some important improvements for millions of households with modest incomes, concerns thus remain regarding the affordability of coverage for families at the bottom of the subsidy scale. For households with incomes of about one and a third times the poverty line who purchase coverage in the exchanges, premiums would be about two and a half times as large as under the House bill. (See Table 1.)

For example, a family of three with a household income of $25,000 (or 137 percent of the poverty line) would pay $1,025 per year in premiums under the new Senate bill. Such a family would be covered by Medicaid under the House bill and would not pay premiums. Under the Finance Committee bill, this family would have paid $963.

A family of three earning about $32,000 (or 175 percent of the poverty line) would have to pay about $1,738 per year under the new bill. The family would pay about $1,360 under the House bill.

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[3] The bill would require all citizens and legal immigrants to obtain health coverage or pay a penalty, but households would be exempt from the penalty for failing to have insurance if their share of the premium costs for the lowest cost "bronze" plan available in the exchanges exceeded 8 percent of their income. The penalty for not having coverage would be $750 per uninsured adult and $375 per uninsured child in the household, with a maximum penalty of $2,250 per family. The penalties would be phased in between 2014 and 2016.

[4] See January Angeles and Judith Solomon, "Provision Under Consideration for Merged Senate Health Bill Would Harm Needy Families: Would Cut Subsidies to the Near-Poor to Help Fund Larger Subsidies for Families Farther Up the Income Scale," Center on Budget and Policy Priorities, October 26, 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 Finance Bill[b]		Senate Bill[c]	
Percentage of poverty line	Annual dollar amount	Percentage of income	Annual dollar amount	Percentage of income	Annual dollar amount	Percentage of income	Annual dollar amount
Family of three							
100%	$18,310	1.5%/0%[d]	$275/0	2%/0%[e]	$366/$0	2%/0%[e]	$366/$0
134%	$24,535	1.5%/0%[d]	$368/$0	3.7%	$901	4%	$981
150%	$27,465	3%	$824	4.5%	$1,236	4.6%	$1,250
200%	$36,620	5.5%	$2,014	7.0%	$2,563	6.3%	$2,307
250%	$45,775	8%	$3,662	9.5%	$4,349	8.1%	$3,685
300%	$54,930	10%	$5,493	12.0%	$6,592	9.8%	$5,383
350%	$63,085	11%	$6,939	12.0%	$7,690	9.8%	$6,280
400%	$73,240	12%	$8,789	12.0%	$8,789	9.8%	$7,178
Individual							
100%	$10,830	1.5%/0%[d]	$162/$0	2%/$0[e]	$217/$0	2%/0%[e]	$217/$0
134%	$14,510	1.5%/0%[d]	$218/$0	3.7%	$533	4%	$580
150%	$16,245	3%	$487	4.5%	$731	4.6%	$739
200%	$21,660	5.5%	$1,191	7.0%	$1,516	6.3%	$1,365
250%	$27,075	8%	$2,166	9.5%	$2,572	8.1%	$2,180
300%	$32,490	10%	$3,249	12.0%	$3,899	9.8%	$3,184
350%	$37,905	11%	$4,170	12.0%	$4,549	9.8%	$3,715
400%	$43,320	12%	$5,198	12.0%	$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, rising 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 percent of income at 100 percent of the poverty line to 12 percent of income at 300% of the poverty line and would remain at 9.8 percent for households earning between 300 and 400 percent of the poverty line. The premium subsidy would be tied to the cost of the "silver" plan, which has an actuarial value of 70 percent.

[c] 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 for households earning between 300 and 400 percent of the poverty line. A special rule would set the premium contributions for households with incomes above the poverty line up to 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.

[d] Individuals and families with incomes of less than 150 percent of the poverty line would be covered through Medicaid, which requires very 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.

[e] 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.

Deductibles and Co-Payments Could Be Substantial

The cost-sharing charges that low- and moderate-income households would face would be the same as under the Finance Committee bill and would be higher than under the House bill.

The Senate bill would extend cost-sharing assistance to households with incomes up to 200 percent of the poverty line that purchase coverage in the exchange. The House bill would provide such assistance to those up to 350 percent of the poverty line. In addition, the cost-sharing assistance that households with incomes below 200 percent of poverty would receive would be significantly smaller under the Senate bill than under the House bill.

These differences are reflected in the fact that the insurance plans available in the exchanges would have lower actuarial values under the Senate bill than the House bill, particularly for households with low incomes (see Table 2). As noted, plans with lower actuarial values require beneficiaries to pay a larger share of the costs for the health services the plans cover and hence typically carry higher deductibles and co-payments. (A plan with a 90 percent actuarial value would cover 90 percent of the costs for covered medical services for a typical beneficiary population, with beneficiaries paying the other 10 percent of the costs out of pocket. A plan with a 70 percent actuarial value would cover 70 percent of covered medical costs, with the beneficiary population paying the other 30 percent.)

TABLE 2

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

Income for a Family of Three		Actuarial Value of Coverage	
Percent of Poverty Line	Annual Dollar Amount	House Bill	Senate Bill
133%	$24,352	97%	90%
150%	$27,465	97%	90%
200%	$36,620	93%	80%
250%	$45,775	85%	70%
300%	$54,930	78%	70%
350%	$63,085	72%	70%
400%	$73,240	70%	70%

For example, under the Senate bill, a family of three earning $32,000 (175 percent of the poverty line) would have coverage under the "gold plan," which would have an actuarial value of 80 percent. The Congressional Research Service estimates that such an actuarial value is similar to that of a typical employer-sponsored PPO plan, which typically has an annual family deductible of about $700 and cost-sharing of 20 percent for office visits, labs, and other services.[5] The Senate bill would place an annual out-of-pocket cap on how much a family at this income level would have to pay in

[5] Note that the methodology the Congressional Research Service used to measure actuarial value may be different from the one the Senate bill may use, thus making a direct comparison highly uncertain. See Chris L. Peterson, "Setting and Valuing Health Insurance Benefits," Congressional Research Service, April 6, 2009.

deductibles and co-payments at $3,867 if the plan were in effect in 2009.[6] In comparison, this family would receive coverage with an actuarial value of 93 percent under the House bill. A plan with such an actuarial value would likely provide coverage with no deductible, co-pays of $20 for office visits and $250 for inpatient hospitalizations, and no cost-sharing for prescribed lab tests or x-rays. The House bill would also limit cost-sharing for a family at that income level to $2,000 per year, assuming the plan were in effect in 2009.

Under the Senate bill, families with very modest incomes 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 co-payments. The Commonwealth Fund defines people as "underinsured" if their out-of-pocket medical expenses (excluding premiums) exceed 10 percent of income for people over 200 percent of the poverty line or exceed 5 percent of income for people below 200 percent of poverty.[7]

Conclusion

Senate leaders deserve commendation for improving the affordability provisions for millions of households. If additional resources are freed up and become available as the Senate considers the legislation, Senate leaders should target them on improving the premium and cost-sharing credits for people at the low end of the subsidy scale. If that is not possible on the Senate floor, it should be done in conference.

It is particularly important to assure that health care is affordable for families and individuals with incomes between 134 percent and 200 percent of the poverty line, as *half* of all uninsured people have incomes in this range.[8] Many people at this income level already have considerable difficulty making ends meet and have limited disposable income to spend on health care.

[6] Families earning between 100 and 200 percent of the poverty line would have an out-of-pocket limit equal to one-third of the current HSA limit, or $3,867 in 2009. For those with incomes between 200 and 300 percent of the poverty line, the out-of-pocket limit would be set at one-half of the HSA limit, or $5,800 in 2009. Families earning between 300 and 400 percent of the poverty line would have an out-of-pocket limit of two-thirds the HSA limit, or $7,733 in 2009.

[7] The Commonwealth Fund also classifies people as underinsured if their deductibles exceed 5 percent of their income. See Cathy Schoen et al., "Insured But Not Protected: How Many Adults Are Underinsured?" Health Affairs, June 14, 2005.

[8] Center on Budget and Policy Priorities' analysis of the Annual Social and Economic Characteristics' supplements to the 2007, 2008, and 2009 Current Population Surveys.