AFFORDABLE HEALTH CARE

The only way to avoid a mandate

A Utah Health Policy Project Issue Update

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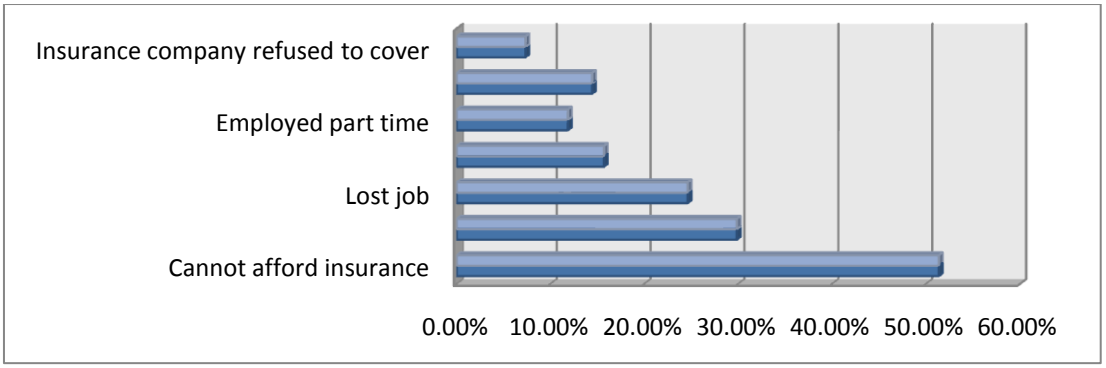
Summary

The cost of health insurance has been on the rise for more than a decade, and Utahns are finding it more and more difficult to pay their premiums—especially people who buy their insurance in the individual market, like self-employed entrepreneurs and small businesses. As health insurance gets more and more expensive, many try to control their costs by moving into high deductible policies, though they may be gambling on good health when they shift their cost away from predictable premiums to less predictable out-of-pocket costs. Others, especially young healthy Utahns (often called the "young invincibles") and low income workers, just drop coverage altogether and cross their fingers that they won't have an accident or get sick. In fact, when asked, Utahns without insurance say they don't have it because it is *too expensive!*



Reasons for Lack of Health Insurance, Utah Department of Health, Health Access Survey, 2008

There are downsides to shifting costs to consumers. People with no or inadequate health insurance end up costing everyone else more in the end. They delay care until they are really sick and require more costly intervention. If they can't pay, the costs are shifted to people who do buy insurance as providers charge more in medical claims to cover their loss and insurance companies pass on the cost in the form of higher premiums. Milliman Inc., an independent actuarial consulting firm, found that 1/3 of the average family premium pays for uncompensated care.[i] This "hidden health tax" is one of the principal motivations for health reform.

Utah's health reform is based in the private market (private health insurance) and relies on Utahns bearing more personal responsibility for their own health insurance[ii] but Utah's leaders have stated time and again that they do not want a mandate (also known as "individual responsibility"). Without

a mandate the only way to get people covered by private health insurance—and keep them covered—is to make it *affordable!*

Just What is "Affordable?"

Affordability is a standard of how much of someone's income is reasonable to be spent on health care. It is not simply a function of income and the price of insurance. It requires a more difficult calculation of "available" income or income that "should" or "could" be available to purchase health insurance and pay for health care costs.[iii] Better questions might be: "What is affordable healthcare? How much of a household's income should really be devoted to overall healthcare costs?"

In 2009, total healthcare costs accounted for 6.4% of the average household budget.[iv] This amount is too high for many families, especially those who are near or under the poverty level. Health care spending does not simply include insurance premiums, but also deductibles and out-of-pocket costs. If a family cannot afford the co-pay or deductible, then having health insurance will not incentivize that family to seek primary and preventive care. Health care cannot be considered affordable if an individual could afford insurance but is unable to afford all the elements of the potential health care expenses.

Affordability should be defined as the percentage of income that a household could devote to health care while still having sufficient income to address other basic necessities. **Out-of-pocket costs, co-pays, and deductibles must be considered in the equation.** Whatever the standard, Utahns who facing difficulty affording insurance will need help: that's what premium subsidies are for.

A Utah Solution to Affordability

Affordability has been defined both in Massachusetts and at the federal level (as part of federal health reform). An analysis of six studies produced the following standard for Massachusetts:

- For people at 300% FPL and below a "lower-bound" of affordability should be set at 4% of income.
- For people between 300% and 600% FPL a progressive sliding scale should be created between 4% and 8.5% of income.
- Health care costs, premiums, co-pays and deductibles can consume 8.5% of income for families at or above 600% of the poverty level. [v]

The federal guidelines for affordability (which become the law of the land in 2014 when American Benefit Exchanges—health exchanges for the individual market-- are open for business) are as follows:

- Households with incomes between 100-400% of the FPL will be eligible for a premium subsidy in the form of an advance premium tax credit.
- Households with incomes at the low end of the scale will be expected to pay no more than 3% of their income for a "benchmark plan" premium, while households at 400% will be expected to pay no more than 9.5% of their income (with a sliding scale in between).[vi]

As Utah moves forward on state health reform, policymakers need a better understanding of who is not insured and what the state can do to help them acquire health care insurance. The first step toward health care reform is a comprehensive, **state-specific** affordability study that can help policymakers decide which strategies will benefit individuals and families across the income scale. This study should include consumer input, and the process should be as transparent as possible.

Utah will need to approach the issue of affordability differently than other states. Utah has a proportionally higher young population and lower wage rates than other states and is one of 12 states where eligibility for working parents to qualify for Medicaid is set at 41% of the poverty level.[vii] A uniquely Utah perspective and study on household income and family budgets, cost of living, and cost of insurance will provide a common framework for understanding how to develop the best solutions for the current economic realities in Utah.

An affordability study would need to address:

- What percent of income is reasonable to expect people to spend on healthcare at varying income levels?
- What is the income threshold at which subsidies are necessary?
- What are the costs of implementing federal strategies to cover the currently uninsured?
- What are the costs of not implementing federal strategies to cover the currently uninsured?
- For low and moderate wage earners in Utah, is it smarter to lower the cost of coverage by expanding Medicaid or CHIP to certain income groups and populations?
- For poverty-level parents and moderate-income families who do not have a reasonable offer of coverage at the workplace, what is affordable coverage?
- What incentives can be offered to encourage young invincibles to enroll in private insurance?
- At what level do small businesses need subsidies in order to provide affordable insurance to their employees?
- What are the best strategies for making coverage truly affordable for people covered and not covered by the Affordable Care Act?

Good for Utah: Utah Premium Partnership

Utah already has a premium subsidy program, the Utah Premium Partnership (UPP), for low income workers who have access to employer sponsored insurance. To qualify, employees must have an

income below 150% of the FPL (approx. $22,000/year for a family of 3), be uninsured for 3 months, and the cost of the least expensive premium available must be more than 5% of their income. This program is underutilized to date (only 236 adults receive UPP subsidies as of August 2011—there is enough money to serve 1000).[viii] Utah needs a similar program to assist those who do not have the option of employer sponsored insurance—like the 144,000 self-employed Utahns who, with our 67,000 small businesses, are the drivers of our economy.

Utah has unique demographics and economics (a proportionately higher young population and lower wage rates than other states). This means that affordability is Utah's only option for successful private market based reform without a mandate. Affordability, linked with subsidies, is absolutely essential to incentivize Utahns to buy insurance—not only bringing costs down as the "hidden health tax" decreases, but ensuring a healthier population.

Jen Abouzelof assisted in the preparation of this issue update.

[i] Families USA (2009) *The Hidden Health Tax*, http://www.familiesusa.org/resources/publications/reports/hidden-health-tax.html

[ii] As presented in the July 2011 Health System Reform Task Force meeting, the principles of Utah's Health Reform include 1) individuals and families should own their own health insurance, which should be portable and not tied to their employer, 2) Utahns should be able to choose the plan that best suits their situation, 3) families should be able to aggregate premium contributions from multiple sources to pay for one policy, 4) insurers should compete on risk—not avoid it, and 5) the government should act as facilitator. (www.le.utah.gov/asp/interim/Commit.asp?Year=2011&Comm=TSKHSR

[iii] http://onlinelibrary.wiley.com/doi/10.1111/j.1468-0009.2010.00589.x/full

[iv] US Department of Labor, (2011) *Consumer Expenditures in 2009.* http://www.bls.gov/cex/csxann09.pdf

[v] Barber, Christine and Miller, Michael (2007) *Affordable Health Care for All: What Does Affordable Really Mean?* Community Catalyst. www.communitycatalyst.org

[vi] www.healthcare.gov

[vii] UHPP (2009) *The Case for Affordable Health Care; Financial Security & Peace of Mind for Utah Families*. http://www.healthpolicyproject.org/Publications2009.html

[viii] UPP numbers stated at UHE Broker Training session, Aug 11, 2011