UTAH HEALTH POLICY PROJECT
Quality Health Care Coverage for All Utahns
www.healthpolicyproject.org

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Affordable Health Care: What it means for Utah

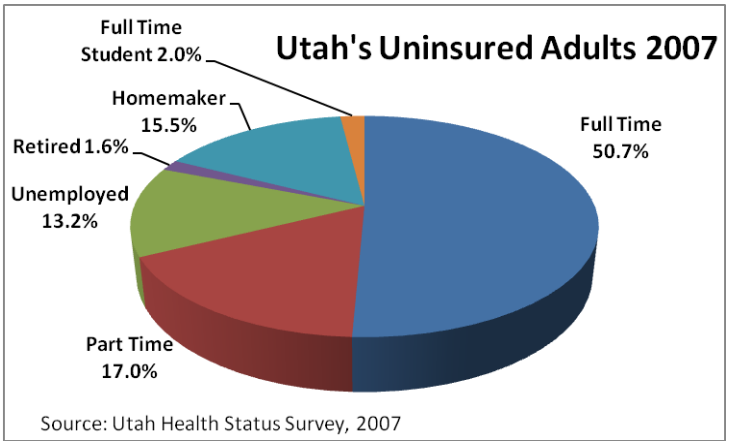
Background

In Utah health care costs have been increasing at double digit rates over the past several years. Low and moderate income families face greater financial strain from the combined pressures of increasing premium costs and out of pocket costs. Employers, for their part, respond to rising costs by dropping coverage altogether or passing more of the costs onto their employees. These trends are making access to insurance that covers basic health care needs less certain, especially for individuals and small business owners. As time goes on, these two groups are paying more for less of the coverage they need to stay healthy.[1] Health care costs continue to escalate for several reasons: cost shifting related to the burden of uncompensated care, a lack of quality, administrative inefficiencies, and deficient market competition. Regardless of the reason, one thing is clear: as costs of insurance continue to escalate for individuals, families, and employers (small and large), the ability to afford insurance only becomes more challenging.

Most of the uninsured do not have health insurance because they cannot *afford* coverage.[2] What is affordable for one person may not be affordable for another. So the question becomes, *what is affordable health care?* As Utah moves down the path of health system reform, one of the first steps must be to define affordability. An affordability study will ensure our reform efforts are successful in achieving the goals of expanding access, containing costs and increasing quality.

Affordability Factors

It is estimated that 10.7%[3] to 17.4%[4] of the Utah population is uninsured. Of these, well over half (68%) are employed part or full time.[5]



According to the *Utah Health Status Survey*, 67% of Utah's uninsured population lives below 200% of the Federal Poverty Level (FPL) and almost 90% fall below 300% FPL (a family of 4 at 200% FPL has a gross annual income of $42,400).

FPL	# of Uninsured	% of Total
<100%	85,400	31%
101-200%	100,500	36%
201-300%	58,700	21%
>301%	34,900	12%
TOTAL	**287,200**	**100%**

Many uninsured Utahns are either not offered insurance in the workplace or they cannot afford their portion of the premium. According to the Utah Health Status Survey 62% of uninsured Utahns claim they cannot afford insurance, while 38% are not offered coverage through their employer.[6] Due to cost, many Utahns are forced to go without insurance. In the past year, families have been facing additional financial pressure due to dramatic increases in energy and food costs, leaving even less disposable income for health insurance and out-of-pocket health care expenses.

Decline in Employers Offering Benefits

Over the past several years Utah has experienced a significant decline in the number of employers offering health benefits. From 2001 to 2005 there was an 8.8% decrease in the number of Utah employers offering health insurance, with the bulk of the cuts coming from small business. That is *11 times* higher than the national decrease of 0.8%.[7]

# of Employers Offering Insurance			
	2001	**2005**	**% Change**
US	3,582,469	3,552,243	-0.8%
Utah	25,321	23,093	-8.8%

Growing Need for State Assistance Programs

Only 17% of low income parents living below poverty have access to employer based coverage.[8] For low-income parents, Medicaid and the State Children's Health Insurance (SCHIP) program play a key role in providing coverage. However the reach of Utah's Medicaid and SCHIP programs is limited, leaving many low-wage earners without affordable coverage options. Low-income adults can only qualify for Medicaid if they are disabled, pregnant, or parents with dependent children. Utah is one of 12 states where eligibility for working parents to qualify for Medicaid is set at 50% of the poverty level or below (*a single mother of two at 50% FPL is earning $8,800 a year, $733 a month*). Thirty-nine states have higher income thresholds for working parents.[9]

Increase in the Number of Uninsured

With businesses dropping coverage or passing on more of the costs of coverage to employees, it is no surprise that Utah saw an 8.5% decrease in the number of individuals under the age of 65 covered in the private market from 2001 to 2005. Yet during this same period of time the nation only saw a 6.1% decrease.[10]

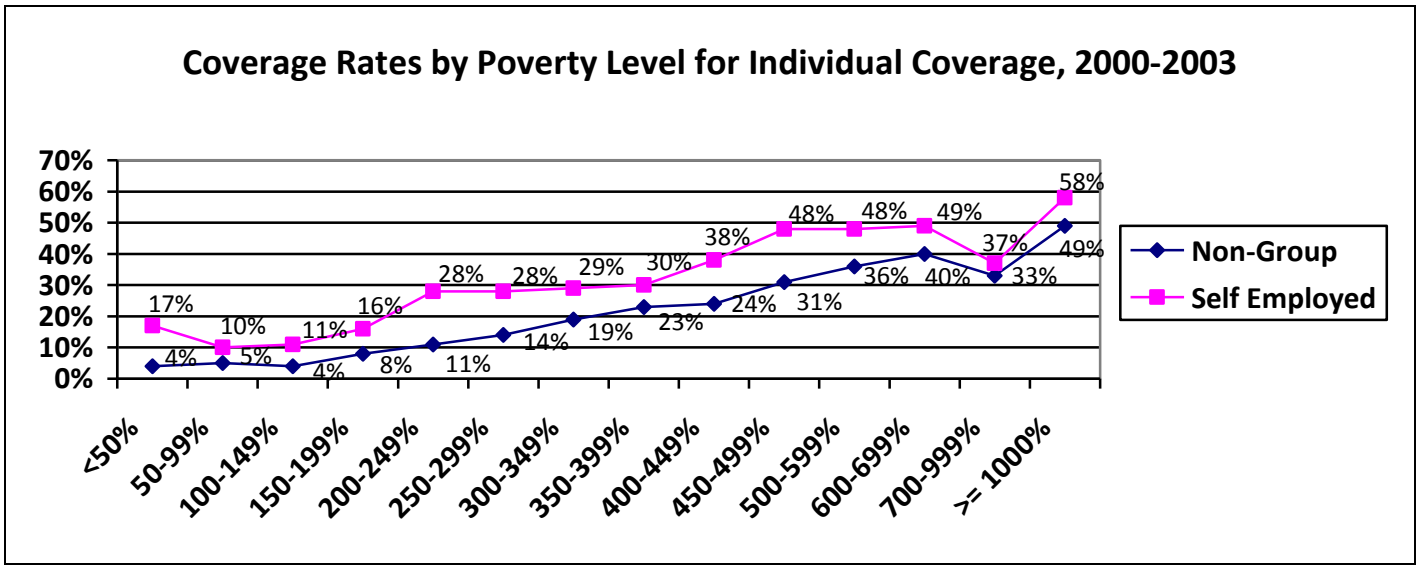
Premiums for employer-sponsored health coverage in Utah increased by 21.5% from $8,460 in 2001 to $10,282 in 2005. Over the same period, employees in Utah were asked to cover a slightly larger portion of premium costs. In 2001 employees paid 23% of their premiums; but in 2005 their share increased to 25%.[11]

Diane Rowland of The Kaiser Commission on Medicaid and the Uninsured recently testified before Congress that employees have seen their share of annual family premiums double in the past seven years. A

recent Kaiser study found that the low-to moderate income uninsured population (below 300% FPL) had very limited liquid financial resources that could be tapped to help pay deductibles and other out-of-pocket expenses.

Increasing coverage by emphasizing private market solutions is possible but only by establishing conservative standards of affordability. This is especially critical if Utah wants to move towards a personal responsibility and portability model wherein individuals are responsible for purchasing their own insurance in a fully transparent marketplace.

A recent study by the Kaiser Family Foundation on individual market trends found that take-up rates increased as income increased. Yet, contrary to expectations, even at higher incomes the take-up rate for individual coverage was still very low, with only about 25% of people purchasing insurance at income levels as high as 400% of the poverty level and increasing to only 50% at 1000% FPL.[12]



*Graph recreated from the *How Non-Group Health Coverage Varies with Income,* Kaiser Family Foundation Report, Feb. 2008.

The Need for an Affordability Study

As Utah moves forward to cover more of our uninsured, an affordability study will provide information on which strategies will benefit Utahns at different points along the income scale. The study should be designed to address the following questions:

- What percentage of income is reasonable to expect people to pay at varying income levels?
- What is the income threshold beyond which a person can afford health insurance without a subsidy?
- For low and moderate wage earning Utahns, is it smarter to lower the cost of coverage by expanding Medicaid or the Children's Health Insurance Program 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 and what are the best strategies for making coverage truly affordable?

Many states have conducted affordability studies in order to better understand and define standards for affordability. An analysis of six studies produced the following conclusions for Massachusetts:

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

3. For people between 300% and 600% FPL a progressive sliding scale should be created between 4% and 8.5% of income. [13]

Yet, what is affordable in Utah will be different than what is affordable in other states. Therefore, Utah cannot take another state's measures and apply them to our own population. We can however learn from the lessons of other states to set the parameters for our own study.

Recommendations

To ensure that Utah moves towards the goals of expanding access, containing costs, and increasing quality, an affordability study specific to Utah is needed. The study will provide policymakers with valuable information regarding the overall direction of state reform efforts: the appropriate populations to benefit from public programs, the subsidies that individuals may need to participate in cost-effective care, what to expect in take-up rates during and after the reforms, and incentives that may be needed to encourage people to enter the private market of their own free will. The study should include general parameters similar to those developed by Community Catalyst, *Affordable Health Care for All: What Does Affordable Really Mean*[14]:

- Affordability should be defined as some percentage of income that a household can devote to health care while still having sufficient income to address other basic necessities.

- Premium costs are only one part of the cost of health care. Out of-pocket-costs, co-pays and deductibles must also be considered in the equation. If a family cannot afford the co-pay or deductible, then their health insurance will not incentivize them to seek primary and preventive care.

- To encourage higher take-up rates of insurance, the affordability scale should be conservative. This will lend much-needed political legitimacy to the otherwise controversial concept of personal responsibility for obtaining insurance coverage. The public, even the so-called "young immortals" will be able to *voluntarily* respond to incentives to purchase insurance if coverage is truly affordable.

- Finally, the study should be conducted by or in conjunction with an independent actuary.

A uniquely Utah perspective and study on household income and family budgets, costs of living, and costs of insurance will provide a common framework for understanding to develop the best solutions for Utahns.

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[1] Miller, Michael. *Access to Affordable Insurance for Individuals and Small Businesses: Barriers and Potential Solutions*. Community Catalyst, June 2005.
[2] Utah Department of Health, *Health Status Survey*, 2007.
[3] Ibid.
[4] U.S. Census Bureau, Current Population Survey, 2006.
[5] Utah Department of Health, *Health Status Survey*, 2007.
[6] Ibid.
[7] State Health Access Data Assistance Center and Robert Wood Johnson Foundation, *Squeezed: How Costs for Insuring Families are Outpacing Income*, April 29, 2008.
[8] Dubay, L. and Kenney, G. *Addressing Coverage Gaps for Low Income Parents*," *Health Affairs* 22, No. 2 (Mar./Apr.2004).
[9] Kaiser Family Foundation. Chart: Authorized Medicaid Eligibility for Working Parents by Income, January 2008.
[10] *Squeezed: How Costs for Insuring Families are Outpacing Income*, State Health Access Data Assistance Center and Robert Wood Johnson Foundation, April 29, 2008.
[11] Ibid.
[12] Jacobs, Paul and Claxton, Gary. *How Non-Group Health Coverage Varies with Income*. Kaiser Family Foundation, February 2008.
[13] Barber, Christine and Miller, Michael. *Affordable Health Care for All: What Does Affordable Really Mean?* Community Catalyst, April 2007.
[14] Ibid.

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