HEALTH CARE FOR AMERICA NOW!

Will the U.S. Senate Choose to Make Health Care Affordable for Families in California?

<u>Summary:</u> The U.S. Senate will make a choice this month between two health reform options that affect the affordability of health coverage for America's families. One bill does not require employers to contribute to the cost of employees' health insurance but requires a typical family in California to spend an average of 17.1 percent of family income for health insurance premiums and out-of-pocket costs. Another bill requires shared responsibility from employers and asks a typical middle-income family in California to contribute $2,196 less each year toward their family's coverage than the alternative.

<u>Findings:</u> The U.S. Senate is preparing to debate health care reform legislation. In fashioning the bill that goes to the floor, Senate leaders will be choosing from the two bills that passed the committees of jurisdiction One of the bills will make health care affordable to families; the other bill falls far short. This report explains how that choice will affect families in California.

Two Senate committees have passed health care reform legislation. The legislation adopted in July by the Senate Health, Education, Labor, and Pensions Committee (HELP), then chaired by the late Senator Edward Kennedy, largely meets the two key tests of affordability by ensuring that health coverage is affordable both at work and for those without job-based coverage. The legislation passed by the Senate Finance Committee fails both tests. It does not require employers to provide affordable health care coverage, and it leaves a great many families who obtain coverage outside of work with costs that are beyond their means.

Affordable Coverage at Work

Most people in the United States who are under 65 years old, (the age for enrollment in Medicare, our national health insurance program for seniors) receive insurance at work. Sixty percent of Americans under 65 get coverage on the job;[1] in California, 49.1 percent receive coverage at work.[2] To make and keep health insurance affordable to families, to the government, and to employers, it is crucial that health reform legislation include a requirement for all but the smallest employers to contribute to their employees' coverage.

Nationally, 56 percent of employers currently do offer and contribute to the cost of coverage for their workers, but the burden is shifting.[3] More companies are reducing health benefits and passing rising health care costs onto employees. *The Kaiser Family Foundation, in its annual review of health costs, found that 21 percent of about 3,200 companies surveyed nationwide reduced benefits or increased cost-sharing this year because* *of the economy, and 15 percent raised workers' share of premiums.[4] This trend was reinforced by another large survey of employers conducted by Mercer LLC which found that 63 percent of employers will ask their employees to bear a greater share of expenses next year and 18 percent plan to eliminate more generous plans.[5]*

In California, the full cost of employer-sponsored insurance now equals 21 percent of median family income and premiums are expected to grow by 8.4 percent a year, compared to 1.1 percent expected annual wage growth.[6]

Different Standards: To address this problem, health care legislation passed by three committees in the House of Representatives (H.R. 3200) and by the Senate HELP Committee (S. 1679) requires that:

1. All but the smallest employers offer health coverage to their employees.
2. Employers pay at least a specified proportion of employee premiums.

The Senate Finance Committee fails to take these basic steps. The following table compares the provisions of the two Senate bills on the issue of making health care affordable at work.

Table 1: Comparison of Employer Responsibility Provisions

	Senate Finance Bill	Senate HELP Bill
Will employers be required to offer health insurance?	NO	YES For employers with more than 25 workers
Will your employer be required to help pay for your coverage?	NO	YES Employer required to pay 60% of premiums for full-time workers.

Different Incentives: The two bills provide very different incentives for employers. The HELP Committee bill requires all but the smallest employers to offer and help pay for an employee's health coverage or pay an assessment of $750 for each full-time employee and $375 for each part-time employee who is not offered coverage (the first 25 workers are exempted.)

The Finance Committee bill does not require employers to offer health coverage. In fact, the Senate Finance bill provides incentives for employers to engage in hiring discrimination against workers who need health insurance coverage and who may receive a tax credit to help pay for coverage. That is because under the Finance Committee bill, employers of more than 50 full-time workers that do not offer coverage will pay a fee for each full-time employee who receives a federal tax credit that helps pay for that employee's health coverage. The employer is not required to pay the fee for part-time employees, employees with higher family incomes that make them ineligible for the tax credit, and employees who obtain coverage from a spouse's plan. The employer can avoid the assessment altogether by offering coverage and requiring employees to pay up to 10% of their income for coverage. The employer can reduce the likelihood of paying an assessment by avoiding hiring those likely to qualify for assistance, such as full-time workers; older workers; workers with more children; workers who are not married or do not get coverage from a spouse; and workers with lower family income.

Both bills provide tax credits to small, lower-wage employers who provide coverage. The HELP Committee bill provides credits to organizations with fewer than 50 employees and average wages of less than $50,000. The Finance Committee bill provides tax credits to employers with fewer than 25 workers and average wages of less than $40,000.

Conclusion:

- ***The Senate HELP Committee bill will result in Americans getting more affordable coverage at work, with all but the smallest employers required to contribute to quality, affordable health coverage.***
- ***The Senate Finance Committee bill fails to make health coverage affordable at work and provides incentives to discriminate against the hiring of workers who may get tax credits to help pay for insurance.***

Affordable Coverage Outside the Workplace

While most Americans will continue to get health coverage through their employers after reform legislation is enacted, many others will obtain it either by purchasing coverage through a new health care marketplace, called an "exchange," or by enrolling in state Medicaid programs for low-income people. Here, too, the bills are strikingly different.

Under both committees' bills, individuals who purchase insurance through the exchange will be given tax credits based on income to enable them to buy health insurance coverage. However, for most individuals and families:

1. The amount families will be required to pay for premiums is less under the HELP bill than under the Finance Committee bill.
2. The value of the policies offered under the HELP bill is higher, which means individuals will have lower out-of-pocket costs than under the Finance Committee bill.[7]

Table 2: Comparison of Affordability Provisions for Typical Middle-Income American Family[8]

Based on an income of $55,100 and typical medical expenses for a four-person family	Senate Finance Bill Annual Family Costs	Senate HELP Bill Annual Family Costs	HELP is more affordable by
Premiums	$5,200 (9.4% of income)	$3,100 (5.6% of income)	$2,100
Out-of-pocket	$3,900 (7.1% of income)	$2,100 (3.8% of income)	$1,800
Total family costs	***$9,100 (16.5% of income)***	***$5,200 (9.4% of income)***	***$3,900***

The Finance Committee bill requires the average American family to spend $3,900 a year more than the HELP bill.

Table 3: Comparison of Affordability Provisions: California Median-Income Family

Based on the median income ($77,014) and typical medical expenses for a four-person family	Senate Finance Bill Annual Family Costs	Senate HELP Bill Annual Family Costs	HELP is more affordable by
Premiums	$9,242 (12% of income)	$7,830 (10.2% of income)	$1,412
Out-of-pocket	$3,918 (5.1% of income)	$3,134 (4.1% of income)	$784
Total family costs	***$13,160*** (17.1% of income)	***$10,964*** (14.2% of income)	***$2,196***

The HELP bill will save $2,196 a year compared to the Finance bill for a California family with $77,014 in annual income.

Medicaid Coverage and Affordability: Under both bills, the lowest income individuals and families will receive coverage through Medicaid. Here again there are stark differences between the bills:

1. Under the HELP Committee bill, individuals at or below 150 percent of the federal poverty level are to be covered under Medicaid ($16,245 for an individual and $27,465 for a family of three). The Finance Committee bill extends Medicaid

eligibility to only 133 percent of the federal poverty level ($14,404 for an individual and $24,352 for a family of three).

2. Under current law and the approach recommended by the HELP Committee, low-income individuals on Medicaid will receive affordable coverage with no premiums and low out-of-pocket costs. But under the Finance Committee bill, low-income adults without dependent children could end up with substantially higher out-of-pocket costs as states are given a new option to offer only barebones Medicaid coverage.[9] Under such a plan, out-of-pocket costs would be even greater than the levels required of moderate-income individuals in the health insurance exchange.

Conclusion:

- ***The Senate HELP Committee bill makes coverage much more affordable outside of work, with lower premiums and out-of-pocket costs and better benefits.***
- ***The Senate Finance Committee bill would be unaffordable for too many families who do not get coverage at work.***

Other Affordability Issues in Reform

This brief does not address all the legislative issues affecting affordability in health reform. Two other issues remain of vital importance:

Choice of a public health insurance option: The Senate HELP Committee bill includes offering people in the exchange the choice of a public health insurance option. This choice will lower premiums for families in the health insurance exchange, saving them and taxpayers money. Various academic reports indicate premiums in the public health insurance option will be as much as 30 percent lower than private insurance.[10] The Congressional Budget Office estimates that the government will save at least $25 billion through the public health insurance option offered under the HELP Committee bill.

Financing Issues: The HELP Committee bill does not include proposals for new revenue to help pay for health care reform, since tax policy is outside the committee's jurisdiction. However, the Senate Finance Committee proposes to raise the cost of coverage to individuals and families with health insurance. The Finance Committee would generate some $201 billion in revenue by placing a 40 percent tax on the portion of an annual health plan premium that exceeds $8,000 for an individual or $21,000 for a family. (There are higher thresholds for plans that serve pre-retirees and for plans covering workers in hazardous occupations). According to an analysis of data from the Joint Committee on Taxation, the tax will affect more than 30 million households, including more than one-quarter of households earning between $50,000 and $75,000, and the cost of the tax will be shifted to employees, forcing them to pay even higher premiums and/or out-of-pocket costs. Instead of raising revenues by making health coverage less affordable to families, the

Senate should enact one of a number of revenue proposals that would raise funds from families that earn more than $350,000 a year.

Conclusion: The Senate HELP Committee bill would make health coverage substantially more affordable for Americans, whether they get coverage at work or outside of the workplace. The Senate Finance Committee bill fails to provide a guarantee of good, affordable coverage for Americans. The Senate leadership and the full Senate must choose which course to take. People in California and across the country will judge health care reform by whether their families have a guarantee of good coverage they can afford. To meet this test, the Senate should choose the Senate HELP Committee proposals on employer responsibility, affordability in the exchange, and expansion of Medicaid. In addition, the Senate should enact the choice of a public health insurance option and finance the bill by raising revenues from those who earn $250,000 or more.

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[1] RAND COMPARE, "US Health Care Today," 2009. Accessed at http://www.randcompare.org/current/dimension/coverage.

[2] Kaiser Family Foundation, "Health Insurance Coverage of the Total Population, states (2007-2008), U.S. (2008)."Accessed at http://www.statehealthfacts.org/comparebar.jsp?typ=2&ind=125&cat=3&sub=39.

[3] Kaiser Family Foundation, "Percent of Private Sector Establishments That Offer Health Insurance to Employees, 2008." Accessed at http://www.statehealthfacts.org/comparetable.jsp?ind=175&cat=3&sub=46&yr=63&typ=2&sort=a.

[4] Kaiser Family Foundation, "Employer Health Benefits 2009 Annual Survey." Accessed at http://ehbs.kff.org/.

[5] Mercer LLC, "Tough economy leads employers to cut health benefit cost increases in 2010." Accessed at http://www.mercer.com/summary.htm?idContent=1357570; Avery Johnson, "Firms Reducing Health Benefits, Surveys Find,"September 16, 2009. Accessed at http://online.wsj.com/article/SB125306132331814219.html.

[6] Health Care for America Now, "Health Insurance Coverage Keeps Shrinking as Premiums, Family Costs Climb Ever Higher," June 2009. Accessed at http://hcfan.3cdn.net/3eef72e458b4473804_6am6btbhk.pdf.

[7] For instance, for an individual or family earning $55,100 per year the HELP Committee bill provides tax credits to purchase a health insurance plan with an actuarial value of 84 percent, whereas the Finance Committee proposal provides tax credits to purchase a health insurance plan with an actuarial value of only 70 percent. By contrast, according to the Congressional Research Service, the actuarial value of the most popular health plan for members of Congress and other federal employees is 87 percent, for the standard Blue Cross and Blue Shield plan.

[8] $55,100 is the income for a family of four at 250 percent of the federal poverty level, which approximates the national median family income of $52,029. The full cost of the national average employer-sponsored health insurance plan for a family of four is $13,375, according to the Kaiser Family Foundation. Kaiser Family Foundation, "Employer Health Benefits 2009 Annual Survey." Accessed at http://ehbs.kff.org/.

[9] The Finance Committee bill allows states to offer health insurance coverage under Medicaid with an actuarial value of as little as 65 percent.

[10] Cathy Schoen, "The Path to a High Performance U.S. Health System: A 2020 Vision and the Policies to Pave the Way," The Commonwealth Fund, February 19, 2009. Accessed at http://www.commonwealthfund.org/Content/Publications/Fund-Reports/2009/Feb/The-Path-to-a-High-Performance-US-Health-System.aspx?page=all.