

FACT SHEET

Our Health Care at Risk: Medi-Cal, Covered California, and the Affordable Care Act

The House Republican Proposal (H.R.1628, AHCA) Covers Less & Costs More

April 27, 2017 (updated)

California's uninsured rate is at an all-time low thanks to the gains we made under the Affordable Care Act (ACA). The House Republican health care proposal ("American Health Care Act" or AHCA), along with the recent April 27th proposed MacArthur amendments, will result in at least four million Californians losing coverage, and many more will pay higher health care costs. The non-partisan and independent Congressional Budget Office's March 13th analysis¹ confirms that AHCA will result in 14 million Americans losing coverage in 2018, 21 million by 2021, and 24 million by 2026.² The proposal will also cut overall Medicaid funding by \$880 billion (a 25% reduction) over the next decade by eliminating the Medicaid expansion and restructuring the Medicaid program. The AHCA will not only reverse the progress that California and the rest of the country has made on health care, it will result in higher uninsured rates than even before the ACA was enacted.

While the House Republican proposal directly threatens the coverage of the five million Californians who directly get coverage and financial assistance through the ACA, it will also greatly impact the 14.1 million Californians who get coverage through Medi-Cal, and everyone who buys coverage as an individual, with or without a subsidy, in or off the exchange.

The MacArthur Amendment: From Bad to Worse

State waivers will eviscerate key patient protections on essential benefits, add surcharges for those with pre-existing conditions. These new amendments leave all the cuts from the AHCA in place (see below), and also permit states to undo key patient protections—specifically, **the essential health benefits standard**, which requires insurers to cover such services as doctors, hospitals, prescription drugs, maternity, mental health or other key elements of a health plan. **The amendment also eliminates community rating**, which would allow insurers to charge patients thousands of dollars more in premiums based on their health status. With the cuts to subsidies and hundreds of thousands of people in the individual market losing coverage as a result, California would face significant pressure to take these waivers up, undoing core protections for those with pre-existing conditions. Insurers could even threaten states that they won't participate in a state's marketplace unless the state submits a waiver to undo patient protections.

Individual Market: Consumers Face Less Coverage, Higher Costs

The AHCA will affect everyone who purchases in the individual market and will leave many with no affordable coverage options, regardless of whether they get a subsidy or not. Nearly 3 million Californians obtain coverage through the individual market in any given year. About half of these individuals purchase insurance in the exchange, Covered California, and the rest purchase insurance off the exchange. Around 90% of the 1.5 million Californians enrolled in Covered California get financial assistance to help them afford coverage—an average premium tax credit of \$440 a month (\$5,280/year).³ The average subsidy covers nearly 77% of the consumer's monthly premium costs.⁴

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- The AHCA significantly reduces the tax credits that many consumers currently receive and effectively results in a **major tax hike on low- and moderate- income families** who get assistance through Covered California.⁵
- **Flat tax credits instead of income-based tax credits mean consumers will face higher premiums:** The AHCA's tax credit is not based on need and is the same size for anyone making up to \$75,000. The subsidies that consumers get through the ACA, on the other hand, are based on need and accounts for a person's income and how much health care costs in a particular region. As a result, lower-income people will lose thousands of dollars in financial help.
- With the age based subsidies, **older adults would get hit particularly hard** since the AHCA includes a provision that would allow insurers to charge older adults five times higher premiums than young people (by going from 3:1 to 5:1 age band). For example, average premiums would rise 20% to 25% for 64-year olds, while dropping 20% to 25% for 21-year olds.⁶
- **No adjustment for high cost areas like Northern California, rural areas:** The ACA's premium tax credits are based on the local cost of insurance, so people in consistently high-cost areas like Northern California and rural areas get larger subsidies than people in lower-cost areas. The House Republican proposal eliminates the ACA's geographic adjustment, resulting in reduced tax credits for people in high-cost areas.
- **Less financial assistance over time:** The AHCA does not adjust tax credits as health care costs rise, which means low- and moderate-income families will receive less help over time and may drop coverage due to lack of affordability.
- **Consumers will see higher out-of-pocket costs without cost sharing assistance:** The AHCA eliminates the financial assistance that helps lower-income people (below 250% FPL) with out-of-pocket costs such as deductibles and co-pays. This means people will be paying more for less coverage and plans that have drastically higher deductibles and other cost-sharing. **The AHCA would eliminate this assistance that half of Covered California enrollees receive. On average, these cost sharing reductions reduce out-of-pocket expenses by more than \$1,500 per household or more than \$1,000 for an individual per year.**⁷
- **Insurance coverage would be much skimpier** because the AHCA eliminates the Actuarial Value (AV) requirements (the share of a person's health costs that a plan covers). The ACA requires plans to cover at least 60% of the cost of care for a standard population. Eliminating the floor on the value of coverage translates into higher out-of-pocket costs for less coverage.
- **Continuous coverage mandate is punitive and undermines risk pool.** The AHCA replaces the individual shared responsibility, also known as the individual mandate, with a far more punitive 30% premium surcharge that would further discourage healthy people from signing up for coverage. Under the AHCA, anyone who goes without coverage for more than 62 days will pay **30% more for their coverage for an entire year**—no matter the reason for going without coverage. On the other hand, the ACA has a cap on the individual mandate payment. The penalty is adjusted based on the length of the gap and those who have short gaps (less than 2 months) don't pay the fee at all. **The AHCA will exacerbate the problem of adverse selection by creating incentives for people to delay signing up for coverage until they get sick.**

Medi-Cal: Capping Coverage for Seniors, Children, Adults, and People with Disabilities

The AHCA radically restructures Medicaid financing and effectively rolls back the ACA's Medicaid (Medi-Cal in California) expansion, cutting \$880 billion over the next ten years. The proposed amendments do not change the Medicaid provisions. By 2026, the annual cut in federal spending would rise to \$155 billion, a 25% cut. As a result, the number of Medicaid beneficiaries would fall by 14 million in 2026.⁸ Most of those losing Medicaid would likely end up uninsured because they would not have access to affordable coverage. Medi-Cal covers 14.1 million Californians, over 1/3 of our state, of which four million adults are enrolled through the Medicaid expansion.

- **California already has one of the lowest per capita costs of any Medicaid program in the nation**, and there are few opportunities for additional efficiencies or savings. Any additional costs to the state would

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force cuts to eligibility, benefits (such as adult dental and in-home supportive service/IHSS), and provider rates, which are already among the lowest in the nation.

- **Ending the Medicaid expansion results in California losing \$22 billion in federal funding by 2027:**⁹ The AHCA effectively ends the Medicaid expansion by phasing out the enhanced funding that has allowed California to enroll over four million low-income adults who were previously ineligible. **This change alone would cost California over \$15 billion a year out of a \$100 billion Medi-Cal budget** in current dollars (\$66 billion of which is federal dollars) and \$22 billion by the year 2027 unless the State of California finds another \$8-\$10 billion to draw down the reduced federal dollars.¹⁰ These funding cuts will force the state to leave millions of low-income Californians uninsured.
- **Medicaid funding caps would result in deeper cuts:** The House Republican proposal radically restructures the Medicaid program by capping federal funding. It undoes the federal commitment to match state funding dollar-for-dollar, resulting in tens of billions of dollars in deeper cuts to Medi-Cal. The CBO estimates that Medicaid funding caps, coupled with elimination of the expansion, will reduce federal Medicaid spending by 25%.
- **Per capita cap does not account for increasing health care costs or public health emergencies:** Today, the federal government matches every dollar California spends on Medi-Cal. The House Republican proposal undoes the guarantee of federal funding by capping federal funding per beneficiary, and the state would be responsible for all costs above that per beneficiary cap. A per-capita cap would not be sufficient to cover an aging population, medical inflation, or public health emergencies:
 - As the number of people over age 80 increases, California would still get the same amount per person, even though people over age 80 need more long-term care, which costs more.
 - If we have an epidemic like Zika, or if a new drug like Sovaldi got introduced that cost \$84,000, or if EpiPen hiked its prices to over \$600 per pen, California would still get the same amount per person—no matter how much the cost of health care climbs.

Medi-Cal: Eligibility Changes Make It Harder for Vulnerable People to Get Coverage

The House Republican proposal also imposes draconian requirements for Medicaid eligibility and permits severe cuts in benefits. These changes would cut Medicaid spending by an additional \$19 billion nationally over ten years.¹¹ The AHCA would:

- **Requires Medi-Cal expansion adults to renew every 6 months:** States currently re-determine eligibility for expansion adults once a year, and Medi-Cal beneficiaries are already required to immediately report changes that affect their eligibility, such as changes in their income. **Requiring people to renew twice a year will lead eligible people to lose coverage or experience gaps in coverage** because they moved or missed paperwork. This provision would also **speed up repeal of the ACA's Medicaid expansion** because starting in 2020, states would no longer receive enhanced federal matching funds for people enrolling in the expansion who have been off Medicaid for one month or more.
- **Ends presumptive eligibility for expansion adults, jeopardizing hospital care for most vulnerable:** Presumptive eligibility is a process that allows people to quickly enroll in Medi-Cal at a hospital or other safety net provider based on basic income information, and allows them to submit a complete application later. Without this rule, many will go without care because they cannot afford the costs of hospital care, increasing medical bankruptcies. Hospitals will face unpaid bills for emergency care.
- **Increases medical debt for most vulnerable by eliminating periods of retroactive eligibility:** Medi-Cal currently allows beneficiaries to submit claims for up to 3 months prior to when they applied if the applicant would have been eligible those months. Retroactive Eligibility is an important tool to fight medical debt for people who apply during or after a hospitalization, helping to cover costs they would have been eligible for within the retroactive eligibility period—for both the patient and the hospital.
- **Eliminates the requirement that Medicaid cover “essential health benefits”, effectively canceling coverage of mental health and substance abuse treatment in Medi-Cal:** One of the major improvements of the ACA for the Medicaid program was adding coverage of comprehensive mental health and substance

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abuse treatment. Before the ACA, Medi-Cal generally covered mental health and substance abuse treatment only for the most seriously ill, not for people whose lives could be turned around with earlier interventions.

Reducing Coverage and Care for Low- and Moderate-Income People to Fund a Massive Tax Break for the Wealthiest and the Health Industry

The House Republican proposal repeals a long list of taxes on the affluent and the health care industry, benefitting those with incomes above \$200,000, drug companies, health insurers, and other parts of the health care industry while taking away benefits from millions of Americans.¹² It even removes an ACA-imposed tax deduction cap which allows more tax savings for health insurance executives earning more than \$500,000, while at the same time cutting tax credits for low-income consumers.

Danger for Medicare

The revenues and reforms in the ACA extended the life and solvency of the Medicare program. Repealing the ACA Medicare taxes on the affluent will negatively impact Medicare's financial underpinnings. This funding cut sets up a future effort to undo the Medicare guarantee, change the program to a voucher system, reduce benefits, and increase costs to older Americans, as proposed by Health and Human Services Secretary Tom Price. Also, the proposal will directly impact the millions of seniors and persons with disabilities who rely on Medi-Cal as well as Medicare because of the Medicaid cuts and caps.

We should keep what works in the ACA and the whole health system, like covering the benefits people need, and fix what needs fixing, which includes lowering co-pays and providing consumers with more help to afford coverage. The House Republican proposal does the opposite. It funds a massive tax break for the wealthiest, drug, and insurance companies, all while stripping coverage from millions of people and driving up health care costs for everyone else.

About Health Access California

Health Access California is the statewide health care consumer advocacy coalition, advocating for the goal of quality, affordable health care for all Californians. Health Access represents consumers in the legislature, at administrative and regulatory agencies, in the media, and in other public forums. For more information, please visit www.health-access.org.

Endnotes

¹ Congressional Budget Office, American Health Care Act Cost Estimate, March 13, 2017.

² Center on Budget and Policy Priorities, CBO: 24 Million People Would Lose Coverage Under House Republican Health Plan, March 14, 2017.

³ Covered California, Active Member Profile (June 2016).

⁴ Covered California, Income Guidelines Use Through March 2017, September 2016.

⁵ Kaiser Family Foundation, How Affordable Care Act Repeal and Replace Plans Might Shift Health Insurance Tax Credits, March 1, 2017.

⁶ Congressional Budget Office, American Health Care Act Cost Estimate, March 13, 2017.

⁷ *Id.*

⁸ *Supra*, note 2.

⁹ Medi-Cal Expansion under the AHCA, UC Berkeley Labor Center, forthcoming March 2017.

¹⁰ Governor's Budget Summary 2017-18, p. 53: \$18.9 billion total funds in 2017-18 for the 4.1 million Californians in the "optional" Medi-Cal expansion. Estimate of loss of \$15 billion assumes state general fund spending of \$1.9 billion, 10% of total spending under ACA with 50% FMAP of \$1.9 billion for total spending of \$3.4 billion.

¹¹ *Supra*, note 1.

¹² *Ibid.*