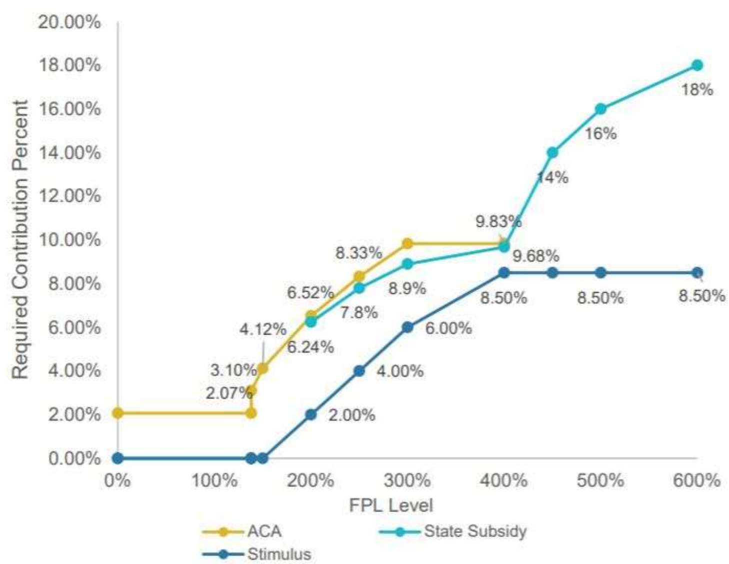
Expanding Affordability Assistance in Covered California

Building on federal subsidies to lower out-of-pocket health costs

With the passage of the federal COVID-19 relief bill, the American Rescue Plan (ARP), Californians will receive unprecedented affordability assistance to offset premiums in the Covered California marketplace. These newly enhanced advanced premium tax credits are the biggest improvement in health coverage affordability since the passage of the Affordable Care Act (ACA), providing significant premium reductions to virtually everyone in Covered California, and potentially hundreds of thousands more Californians who may sign up, effectively eliminating previous subsidy "cliffs."

Required premium contributions

[Covered California Policy and Action Items]



Required contribution curves are for the 2021 plan year.

This assistance will provide premium savings to help Californians at every level of the income scale and goes significantly beyond the state subsidies that California implemented in 2020. But with the state's high cost-of-living, Californians need more help to get coverage and care. The federal subsidies in the ACA have two key elements, the first are the "advanced premium tax credits" which the ARP improves, but the other, "cost sharing reductions," which reduce copays and deductibles for those at the lower end of the income scale, remain unchanged.

Just as California piloted and provided proof of concept for the federal premium assistance, California now has the opportunity to lead again, to redirect existing resources to reduce cost sharing, especially deductibles that discourage both enrollment in coverage and use of necessary care. Health Access proposes the following structure to provide state subsidies to dramatically reduce or eliminate deductibles.

FACT SHEET: Expanding Affordability in CoveredCA

Significant Federal Help on Premiums

Retroactive to the start of 2021, under the American Rescue Plan, people below 150% Federal Poverty Level (FPL) (about $19,000 annually for an individual) will pay no premiums for a standard silver level plan. For incomes from 150% to 400% FPL, premiums will be scaled from zero to 8.5% of income, and that would remain the premium ceiling for income levels. **No Californian will pay more than 8.5% of their income for Covered California premiums.**[i]

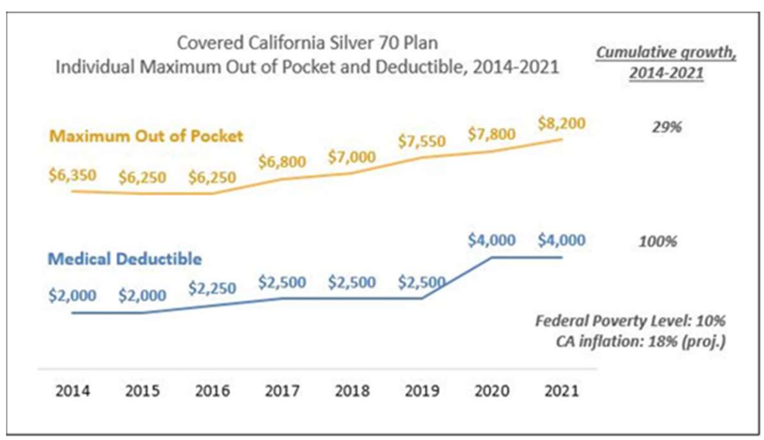
Percent of income paid toward premiums for standard silver plan, 2021				
% of FPL	Average annual income for an individual, 2021	Affordable Care Act	Existing California State Subsides	American Rescue Plan
Under 150%	Under $19,230	3.10% – 4.14%	N/A	0.0%
150% - 200%	$19,320 - $25,760	4.14% – 6.52%	N/A	0.0% – 2.0%
200% - 250%	$25,760 - $32,000	6.52% – 8.33%	6.24% – 7.80%	2.0% – 4.0%
250% - 300%	$32,000 - $51,520	8.33% – 9.83%	7.80% – 8.90%	4.0% – 6.0%
300% - 400%	$32,000 - $51,520	9.83%	8.90% – 9.68%	6.0% – 8.5%
Over 400%	Over $51,520	Not eligible	9.68% – 18.0%*	8.5%
*eligibility for California state subsides capped at 600% FPL				

These groundbreaking federal subsidies build upon and surpass the California standard set in 2019, when we provided first-in-the-nation affordability assistance to remove the subsidy "cliff" and extended help to those at 400 to 600% FPL, ranging from 10% of income to 18% of income and averaging $475 per month in state affordability help.

Existing Federal Help on Copays and Deductibles Unchanged

The federal American Rescue Plan does not make improvements to cost sharing and deductibles, although those could potentially be envisioned by President Biden in a future federal package.

Since 2014, deductibles for standard silver plans have doubled from $2,000 to $4,000 in Covered California. Co-pays for office visits to primary care doctors range from as low as $5 to as high as $40 for those enrolled in silver plans. Visits to specialists require co-pays up to $80 for people in standard silver plans. Over a third of Covered California enrollees are in bronze plans, which only provide three office visits for $65 each before full price must be paid until the deductible of $6,300 or $7,000 is met.



FACT SHEET: Expanding Affordability in CoveredCA

About half of those enrolled in Covered California make $24,000-$48,000 a year—and a big chunk of this group, over a third, buy bronze plans, choosing lower premiums but deductibles of $6,300 or $7,000. For people making between $24,000 to $48,000 per year, deductibles of $4,000 or $7,000 far exceed the savings they are likely to have on hand.

California Can Continue to Lead the Nation in Affordability Assistance by Lowering Copays and Deductibles

Our Governor and state Legislature forged a path forward on premium assistance in 2019 because it was clear that rising premiums put health coverage out of reach for too many California families already struggling to make ends meet in our high cost of living state. Now that the new federal investment will improve on state-level premium subsidies, we have the opportunity to reinvest our state affordability funds so that cost-sharing can be reduced and Californians can get the most out of their coverage.

Option One: Use Cost Sharing Reductions to Level-Up All Covered California Enrollees (into next value tier, illustrated using the recently approved 2022 standard benefit designs)

Under this proposal, starting in January 2022, state affordability funds would be reinvested to bump all Covered California enrollees below 400% FPL into the next highest value level of cost-sharing. Families want to buy health coverage they can use, and this will ensure deductibles and co-pays don't put care out of reach. These increased cost sharing reductions can be accomplished within Covered California's existing benefit design, and will simply shift consumers into better-value cost-sharing tiers.

- 150%-200% FPL would upgrade from Silver 87 to Silver 94 cost sharing value
- 200-250% FPL would upgrade from Silver 73 to Silver 87 cost sharing value
- 250%-400% FPL would upgrade into Gold cost sharing value

Option One: Use 2022 Benefit Designs[ii]				
% of FPL	Average annual income for an individual, 2021	Medical Deductible	Primary Care Visit	Tier I Generic Rx
150%-200%	$19,320 - $25,760	$800 → $75	$15 → $5	$5 → $3
200%-250%	$25,760 - $32,200	$3,700 → $800	$35 → $15	$15 → $5
250%-400%: (silver)	$32,200 - $51,520	$4,000 → $0	$35 → $35	$15 → $15
250%-400%: (bronze)	$32,200 - $51,520	$6,300 → $0	$65 → $35	$18 → $15

FACT SHEET: Expanding Affordability in CoveredCA

Because of the federal rules on how "cost sharing reduction" subsidies are structured, the current benefit design includes deductibles for those at the lower end of the income scale. This is because "cost sharing reduction" subsidies are tied to a silver plan—which covers 70% of the cost of care on average and there is just no way to construct a plan at that actuarial value level without a deductible. (Advocates tried: it just was not actuarially possible.)

While Covered California has designed silver products so that the deductible applies only to hospital stays, for standard silver plans any stay at a hospital will cost $4,000 before coverage kicks in. Most Californians do not have $4,000 in the bank to cover an unexpected hospital bill—and even more don't have $7,000 to cover routine medical costs if they go with the cheaper premium and pick the bronze product.

If this proposal were to come to fruition, it would be worth considering how more extensive changes to Covered California benefit design could further reduce deductibles at a later point. The changes proposed in Option One build towards a future when Californians in all tiers can use their coverage free from deductibles. For example, we would suggest looking towards changes that would allow those in the 150% to 250% FPL range enrolled in standard silver and bronze plans to benefit from the same zero deductibles enjoyed by those in gold-level plans.

Option Two: Zero Deductibles (but less help for other cost-sharing)

An alternative proposal would use the state subsidy dollars to buy out deductibles for those under 200% FPL who are already eligible for federal cost sharing reductions which includes deductibles, as well as using state subsidies to move those who are 200%-400% FPL up from silver cost sharing (70% of the cost of care on average) to gold (80% of the cost of care on average). What does this look like for the consumer?

Option Two: Zero Deductibles[iii]				
% of FPL	Average annual income for an individual, 2021	Medical Deductible	Primary Care Visit	Tier I Generic Rx
150%-200%	$19,320 - $25,760	$800→ $0	$15 (unchanged)	$5 (unchanged)
200%-250%	$25,760 - $32,200	$3,700 → $0	$35 (unchanged)	$15 (unchanged)
250%-400%: (silver)	$32,200 - $51,520	$4,000 → $0	$35 (unchanged)	$15 (unchanged)
250%-400%: (bronze)	$32,200 - $51,520	$6,300 → $0	$65 → $35 (move to silver)	$18 → $15 (move to silver)

Some consumers may question whether coverage with a high deductible is even worth having: for them, no deductible or a much lower deductible would provide more incentive to enroll. Reducing or eliminating deductibles would significantly remove major financial barriers to getting care, and provide financial relief for those who do get care at a time of stress and often one of financial uncertainty.

Repurposing Existing Funding More than Covers the Cost

Option One, the improved state cost sharing reduction subsidies, was estimated to cost about $670 million in the AB 1810 report[iv]. This would be funded out of a combination of recapturing the $550 million in state premium subsidies and an estimated $335 million annually in the individual mandate revenues.

Option Two, zero deductibles under 200% FPL and gold for those 200%-400% FPL, costs an estimated $485-$550 million.[v] It would also be funded out of redirecting the existing state subsidies and the individual mandate revenues.

Reinvest Individual Mandate Penalty Revenue into Making Coverage More Affordable

California's individual mandate took effect in 2020, and initial revenue from the penalty will become available in 2021 through personal income tax filings. These funds should be targeted back towards the affordability assistance that will keep costs down and help more Californians enter the Covered California marketplace. Though actual penalty revenue amounts are pending, when the mandate was enacted, the Department of Finance estimated it to provide $335 million annually.[vi]

Conclusion

This proposal provides direction for California to continue leading the way on making coverage and care affordable for all. Despite the generosity of the new federal subsidies, affordability will remain a barrier until we address out-of-control deductibles and co-pays. Simply by reinvesting our state's existing affordability resources, we help keep doctor visits and prescriptions within reach for Covered California enrollees.

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[i] https://www.congress.gov/bill/117th-congress/house-bill/1319/text
[ii] https://hbex.coveredca.com/resources/PDFs/2021-Health-Benefits-table.pdf
[iii] https://hbex.coveredca.com/resources/PDFs/2021-Health-Benefits-table.pdf
[iv] AB1810 report, Option 2, p. 29: Options to Improve Affordability in California's Individual Health Insurance Market
[v] For gold for 200%-400%FPL, AB1810 report, Option T2, p. 40. For zeroing out deductible for those under 200% FPL, used 2022 benefit design of $75 deductible for those under 150%FPL and $800 deductible for those 150%-200%FPL multiplied by number enrolled in CSR87/94 ($485 million) or those eligible ($550 million)
[vi] Assembly Budget Subcommittee on Health and Human Services, May 8, 2019: DOF estimate: AGENDA (ca.gov)