EXECUTIVE SUMMARY

Towards Universal Health Coverage:

California Policy Options for Improving Individual Market Affordability and Enrollment

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UC BERKELEY LABOR CENTER

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Executive Summary

California has made historic progress under the Affordable Care Act (ACA) by cutting the uninsurance rate by more than half, resulting in approximately 93% of Californians now having health insurance. Health coverage affordability has improved for many, especially for those who became newly eligible for Medi-Cal or subsidized coverage through Covered California. For those who purchase coverage individually, the ACA has not only provided financial assistance to help eligible low- and middle-income individuals afford premiums and out-of-pocket costs, but has also provided crucial protections to individual market enrollees of all income levels. These protections include requiring insurers to offer insurance to all without charging higher premiums for those with pre-existing conditions, setting a floor for the share of costs that insurers cover, and establishing a ceiling on enrollees' out-of-pocket costs.

However, many Californians continue to face difficulties in affording premium and out-of-pocket costs. Affordability challenges can deter enrollment in and retention of coverage, cause financial difficulties for those struggling to pay premiums or medical bills, and decrease access to care. In this report, we focus specifically on the affordability challenges for the 2.3 million Californians who purchase private insurance individually and for many of the 1.2 million Californians who are eligible to purchase insurance through Covered California but remain uninsured.

We also explore state policy options for improving affordability of individual market premiums and out-of-pocket costs, and consequently helping move the state closer to universal coverage. This set of policy options was developed based on analysis of the available evidence on affordability concerns in California's individual market, as well as on a review of policies used by other states and localities to improve affordability. The options include:

- Adding state premium subsidies to the federal ACA subsidies to further reduce enrollees' premium contributions;
- Providing financial assistance to further reduce deductibles, co-payments, and other cost sharing for some Californians already receiving ACA cost sharing subsidies, and making more Californians eligible for this assistance;
- Capping the percentage of income spent on premiums by Californians who earn too much for ACA premium assistance by providing state-funded premium subsidies;
- Establishing a state reinsurance program to lower premiums for unsubsidized individual market enrollees; and
- Extending eligibility for state-funded premium and cost sharing subsidies to children and spouses affected by the ACA "family glitch."

These policy options assume Covered California and its partners will continue the state's strong outreach and marketing efforts to increase awareness of the financial assistance available.

State policies to improve individual market affordability can help counteract the loss of insurance projected to occur beginning in 2019 as a result of the elimination of the ACA individual mandate penalty. Survey data indicates that subsidies are an even bigger driver of enrollment than penalties. Improved affordability would help to ensure strong enrollment by a broad population and help to minimize the growth in premiums that could occur if healthier people leave the market. Combining improve affordability with a state-level insurance requirement would further secure the stability of the insurance market.

These policy options could help Californians afford health coverage in the near-term in our existing health care system with its current cost structure. High and rapidly growing health care costs are a major driver of the affordability challenges facing Americans with all types of health coverage. Policies to reign in underlying medical costs, which are not the focus of this report, are also necessary.

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The evidence on the extent and nature of Californians' affordability concerns underscores the need for state policy interventions. Based on our examination of survey data, analysis of Covered California enrollment data and premiums, and synthesis of the existing research on affordability, we found that:

Affordability concerns are a barrier to individual market enrollment and renewal of coverage

- Affordability is the top reason that those eligible for Covered California lack insurance, regardless of income level.
- Californians who were potentially eligible for ACA premium subsidies based on income were more likely to be uninsured and more likely to have paid the federal tax penalty for lacking insurance in 2015, compared to those with higher income.
- Many Californians enrolled in the individual market report difficulties affording premiums and out-of-pocket costs.

High out-of-pocket costs can be a barrier to care, cause financial problems, and potentially dissuade enrollment

- Even with ACA subsidies, combined premium and out-of-pocket spending in the individual market can exceed 10% of income for some Californians with median out-of-pocket spending, and can reach 20% to 30% of income for some with very high medical use.
- More than one-third of Covered California enrollees with incomes between $24,120 and $48,240 for a single individual are enrolled in Bronze plans with a $6,300 individual annual deductible.

- The vast majority of Americans eligible for ACA premium subsidies based on income do not have liquid assets sufficient to cover a $6,300 deductible.
- Research has shown that high out-of-pocket costs can be a barrier to care and cause financial problems. Out-of-pocket costs are a major consideration in individuals' enrollment decisions.

The high cost of living in California and broader financial insecurity may exacerbate health insurance affordability concerns for some individuals

- ACA premium subsidies are based on the Federal Poverty Level, but the higher cost of living in California may squeeze some families' ability to afford healthcare.
- The upper income limit for premium subsidies under the ACA—four times the Federal Poverty Level—is equivalent to five times that level in California and six times that level in San Francisco.
- In all California counties, some individuals face an affordability gap in that they earn too much to qualify for Medi-Cal with no premiums or cost sharing, but do not earn enough to afford Covered California insurance even with subsidies, based on a household budget analysis.

Some citizens and lawfully present immigrants lack access to coverage that meets ACA affordability standards

- Affordability can be a challenge for people who earn too much to be eligible for premium subsidies, especially for those age 50 or older and those who have family income between $48,240 and $72,360 for a single individual. In every region of California, premiums for some of these individuals exceed the standard of affordability under the ACA individual mandate.
- Some Californians have access to neither affordable employer-sponsored insurance nor affordable individual market coverage. Under the ACA "family glitch," they are ineligible for subsidies through Covered California because they have an offer of employer-sponsored coverage through a parent or spouse, but that employer-sponsored dependent coverage is unaffordable.

Concerns about affording health insurance and care are common among Americans with all types of health insurance, but affordability challenges are especially prevalent among those who rely on the individual insurance market. California's high cost of living makes affording health care even more challenging for some. California has substantially narrowed its coverage gaps as a result of the state's effective implementation of the ACA. Building on that momentum, California policymakers could take additional steps to make individual market insurance more affordable in the near-term, moving the state closer to universal and affordable coverage.

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