Summing Up the Special Session:

Technical Observations and Design Issues for Health Care Reform in ABx1-1

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Topics We'll Cover Today

- Key features of ABx1-1
- Population coverage (who gets covered where)
- Affordability
- Tax credit administration and pool
- Viability of the pool ("Cal-CHIPP")
- Individual market
- Other brief observations
- Conclusions

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Key Features of ABx1-1

- **Individuals required to have coverage.**
- **Employers required to "pay" at least a defined minimum percent of Social Security payroll.**
- **Subsidies to make coverage more affordable for low- and moderate-income populations.**
- **Healthy Families expansions for all children* under 300% FPL; Medi-Cal for all under 100% FPL.**

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*** Not on employer coverage**

Key Features of ABx1-1

- **New "Cal-CHIPP" pool for:**
  - > **Employees (and dependents) of "pay" employers**
  - > **Adults 100 - 250% FPL***
  - > **Older individuals and large families up to 400% FPL (receiving tax credits to help with affordability)***
- **Reformed individual market with guaranteed access**

Overall, ABx1-1 would cover 70% of Californians currently uninsured.

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*** Not on employer coverage**

Coverage Status Before and After Reform under ABx1-1

Population under Age 65 [Counts of people in millions]	Before Reform	Change	After Reform
Total	31.8	n/a	31.8
Medi-Cal and Healthy Families	5.9	1.4	7.3
Employer Provided	18.8	0.1	18.9
Non-Group	2.0	(0.4)	1.6
Uninsured	5.1	(3.6)	1.5
New Pool	-0-	2.5	2.5

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Where the Uninsured Get Covered under ABx1-1

[Counts of people in millions]	Adults	Children	Total
Total Reduction in Uninsured:	2.87	0.76	3.63
They Become Covered by:			
Public Insurance	0.61	0.55	1.16
Employer-Provided	0.71	0.14	0.85
Non-Group Insurance	0.24	0.02	0.26
Pool (Cal-CHIPP)	1.31	0.05	1.36

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Overarching Goals for Subsidy and Pool Design

- **Ensure affordable coverage is available.**
- **Ensure solvency / viability for the pool and the state.**
  - > **Avoid encouraging "mainstream" employers with high-medical-cost workforces to drop coverage and join the pool.**

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Affordability

- **For low-income workers and dependents, worker contributions set as a sliding-scale percentage of family income:**
  - > **Under 150% FPL: No premium contribution**
  - > **150% - 200% FPL: 4% of family income (less tax savings from use of 125 plan)**
  - > **200% - 250% FPL: 5% of family income (same)**
- **People above 250% FPL receive:**
  - > **Tax credits (up to 400% FPL),**
  - > **Section 125 tax savings, and**
  - > **(For workers at "pay" employers only) a 20% "premium credit" based on the premium for single coverage under the lowest benefit package offered by the pool.**

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Affordability Example 1:

Single 62-year-old worker at 275% FPL with 125 plan only (no "pay" employer credit)

--Purchasing a $2,500 deductible plan--

For a SINGLE worker aged:	60-64	Percent of Income	Percent of Premium
Earnings = Family Income:	$ 28,078		
Annual Premium (for coverage actually purchased):	$ 6,888	24.5%	100.0%
"Premium Credit" for workers at "pay" employers:	$ -	0.0%	0.0%
Tax Savings from Use of 125 Plan :	$ 1,877	6.7%	27.3%
Tax Credit Amount:	$ 3,622	12.9%	52.6%
Effective marginal tax rate:	*27.3%*		
Net Cost to Purchaser, after Tax Savings:	$ 1,389	4.9%	20.2%
Total Premium Subsidy:	$ 5,499	19.6%	79.8%

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Affordability Example 2:

Single 27-year-old worker for a "pay" employer at 275% FPL

--Purchasing a $2,500 deductible plan--

For a SINGLE worker aged:	25-29	Percent of Income	Percent of Premium
Earnings = Family Income:	$ 28,078		
Annual Premium (for coverage actually purchased):	$ 1,392	5.0%	100.0%
"Premium Credit" for workers at "pay" employers:	$ 185	0.7%	13.3%
Tax Savings from Use of 125 Plan :	$ 344	1.2%	24.7%
Tax Credit Amount:	$ -	0.0%	0.0%
Effective marginal tax rate:	*28.5%*		
Net Cost to Purchaser, after Tax Savings:	$ 863	3.1%	62.0%
Total Premium Subsidy:	$ 529	1.9%	38.0%

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The ABx1-1 Affordability Tax Credit

- **Well targeted to assist those above 250% FPL with biggest "affordability" problem**
- **Designed to ensure modest-income people can afford to buy health insurance they are required to purchase**

  (also allow individual to apply it to choice of private plan)

To achieve affordability goal, tax credit needs to be:

- **Advanceable**
  > *So recipients have the funds in time to offset their premium payments* (ABx1-1 sets up the structure for this but only expresses legislative intent to authorize it at a later date)
- **Refundable**
  > *So they receive the tax credit amounts needed even if their "pre-credit" income tax is zero or less than the credit amount*

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The ABx1-1 Affordability Tax Credit

- **Such tax credits are common health reform ingredients on a bipartisan basis.**

BUT

- **Advanceable and refundable tax credits are generally very cumbersome and expensive to administer.**

- **Such tax credits are also subject to abuse because it is difficult to verify appropriate use.**

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The Pool's Role Greatly Streamlines Administration of the Tax Credit

The Pool:

- **Is the exclusive venue for ABx1-1 tax credits.**
- **Will automatically have the information to confirm enrollment and amount of premium paid because of its core administrative functions, including:**
  - > **Enrollment of individuals in health plan of their choosing,**
  - > **Collection of premium from the individual (via employers), and**
  - > **Payment of participants' respective plans.**
- **Would act as the FTB's agent in verifying appropriate use of the tax credit, and in administering advance payment of the tax credit.**
- **Would act as the recipient's agent in receiving the advance tax credit on her behalf and conveying that credit to her.**

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Other Issues for Tax Credit Design

Advance payment amounts could either be:

- Set based on income information at application
- Reconciled at year end if income has changed
- Such trade-offs are made now, e.g., Healthy Families

Similarly, individuals could be allowed to apply "maximum" tax credit to less expensive plan

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Affordability Example 3:

Single workers for "pay" employers at different ages, 500% FPL ($51,050)

--Purchasing a $2500 deductible plan--

Age	Annual Premium (for coverage actually purchased)	"20% Credit" plus Tax Savings as a % of Premium	Net Annual Cost to Family, After Tax Savings	Net Cost as Percent of Family Income, After Tax Savings
19-24	1,392	51.3%	678	1.33%
25-29	1,392	51.3%	678	1.33%
30-34	2,052	50.8%	1,009	1.98%
35-39	2,460	51.2%	1,200	2.35%
40-44	3,084	50.9%	1,515	2.97%
45-49	3,300	51.6%	1,598	3.13%
50-54	4,212	52.1%	2,019	3.96%
55-59	5,400	52.3%	2,575	5.04%
60-64	6,888	51.5%	3,343	6.55%

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Affordability Example 4:

Married parent working at "pay" employer (with non-working spouse), 500% FPL ($103,250)

--Purchasing a $2500 deductible plan--

Age	Annual Premium (for coverage actually purchased)	"20% Credit" plus Tax Savings as a % of Premium	Net Annual Cost to Family, After Tax Savings	Net Cost as Percent of Family Income, After Tax Savings
19-24	5,148	38.1%	3,186	3.09%
25-29	5,148	38.1%	3,186	3.09%
30-34	6,660	39.2%	4,052	3.92%
35-39	7,272	40.0%	4,365	4.23%
40-44	8,064	40.7%	4,781	4.63%
45-49	8,832	41.3%	5,185	5.02%
50-54	10,308	42.4%	5,942	5.76%
55-59	12,420	43.1%	7,061	6.84%
60-64	14,844	43.5%	8,393	8.13%

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Pool Solvency / Viability

- **A "pay-or-play" pool charging a per-capita dollar amount is unlikely to be viable.**
  - > **Only employer groups that could *not* get a better deal in the regular commercial market would logically join the pool, causing adverse selection.**

- **Under ABx1-1, employers "pay" a percentage of wages, and pool provides subsidized coverage to low-income families.**
  - > **Employers with a high proportion of low-wage workers, including those with good health risks, would join pool.**
  - > **Employers with low/no proportion of low-income workers, including high risk groups, would not.**

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Pool Solvency / Viability

- **The ABx1-1 pool is designed so costs of covering lower income workers (whose % of wage employer fees would generally *not* cover their premium costs) are also subsidized by:**
  - > *% of wage employer fees which exceed costs for higher earners in the same employer groups, and*
  - > *federal matching funds*
- **These cross-subsidies are possible because most employers with a significant number of low-wage workers also have some higher-wage workers.**

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Pool Coverage by Family Income Relative to Federal Poverty Level (FPL) and by Work Status of Primary Earner After Reform Under ABx1-1

[Counts of people in millions]	Total	*At "Pay" Employers*	At "Play" Employers	Self-Employed & Non-Employed
Total	2.50	*1.11*	0.83	0.56
<100% FPL	-0-	*-0-*	-0-	-0-
100% - 250% FPL	1.71	*0.62*	0.73	0.36
250% - 400% FPL	0.57	*0.27*	0.10	0.20
400%+ FPL	0.22	*0.22*	-0-	-0-

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Pool Solvency / Viability

Why so modest a “premium credit” for workers over 250% FPL?

- **If the pool subsidy for these higher-income workers were substantial . . .**
- **On one obvious level, the more pool dollars are spent on higher income folks, the less money is available for lower-income workers and dependents.**
- **But also . . .**

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Pool Solvency / Viability

Why the modest pool contribution for higher-income workers? (cont'd)

- **If the pool paid a significant share of the premium for a mainstream plan, it would attract those higher-wage "offering" employer groups whose health risks and costs are high.**
- **These groups would cost more than they contribute (i.e., be cross-subsidized by other groups in the pool), and there would be no federal matching funds available for most of their workers.**

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Pool Viability

- **Under ABx1-1, the pool was generally protected from becoming an insolvent high-risk pool due to risk selection.**
- **It was generally *the* coverage source, rather than just an alternative coverage source,**
  - **For certain defined populations (e.g., "pay" employer workers, and/or**
  - **Certain benefits (e.g., premium subsidies, tax credits).**

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Pool Viability

- **Where some populations could choose between the pool and the outside market, it was allowed do so on a *level playing field.***
  - **E.g., groups of higher income "125 only" workers**
- **Therefore, for non-subsidized populations, the pool was able to use the same rating factors as the outside market.**
- **MRMIB could therefore adopt policies as needed to avoid adverse selection for the pool.**

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Potential Problem with Premium Credits

- **ABx1-1 grants a 20% "premium credit" for *all* higher-income workers of "pay" employers, even those whose very small employers pay only a 1%-of-payroll fee.**
- **In many cases, the 1%-of-payroll fee would be *less* than the "premium credits" made available to "pay" employer workers, and far less than tax credits for some, thus causing a loss for the pool.**
- **This could attract and cross-subsidize a number of small employer groups that can and do afford coverage on their own.**

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Where Estimated Pool Enrollees Come from under ABx1-1

[Counts of people in millions]	Adults	Children	Total
Total Pool (Cal-CHIPP) Enrollment:	2.34	0.16	2.50
Previously on:			
Medi-Cal and Healthy Families	0.23	0.02	0.25
Employer Coverage*	0.43	0.01	0.44
Non-Group Insurance	0.37	0.08	0.45
Uninsured	1.31	0.05	1.36

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*** Movement to the pool from employer coverage results from employers dropping coverage (about 0.07m) and from working parents "taking their employer contributions to the pool" (0.37m).**

Individual Market Reforms

- **ABx1-1 included an innovative and promising combination of access, rating, and benefit tier reforms.**
- **Without an individual mandate, such a market reform construct could be viable only with a substantially expanded risk pool or other form of substantial external subsidies for high-risk persons.**
- **Even with an individual mandate, it is quite possible that ABx1-1's grandfathering of preferred rates and lesser benefit plans for existing low-risk individual market participants would mean rates in the reformed market would rise unless funds were appropriated for "backstop" re-insurance.**

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Non-Group Coverage by Family Income Relative to FPL Before and After Reform under ABx1-1

Population under age 65 [Counts of people in millions]	Before Reform	Change	After Reform
Total	1.98	(0.35)	1.63
Less than 100% FPL	0.12	(0.02)	0.09
100% - 250% FPL	0.39	(0.25)	0.14
250% - 400% FPL	0.41	(0.17)	0.25
More than 400% FPL	1.06	0.10	1.15

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Conclusions

- **ABx1-1 offers a constructive roadmap for workable future reforms to cover the uninsured.**
- **While estimates differ, coverage of uninsured will reduce cost shifts to insured and bring stability to trauma care systems all Californians rely on.**
- **With or without such reforms, we must somehow curtail health care cost trends.**
- **A construct that includes responsibility for higher income, non-subsidized individuals brings those costs into painful focus.**
- **Such a focus is more constructive than current Byzantine cross-subsidies and indirect financing that:**
  - > **Erodes real earnings for the middle class, and**
  - > **Responds to cost escalation by increasing the number of uninsured.**

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Appendix: Net Change in Coverage Source by Family Income Relative to FPL under ABx1-1

Population under age 65 [Counts of people in millions]	All Incomes	<100% FPL	100%-250% FPL	250%-400% FPL	400%+ FPL
Total (changes sum to -0-)	-0-	-0-	-0-	-0-	-0-
Medi-Cal, Healthy Families	1.38	0.80	0.53	0.05	(0.00)
Employer Provided	0.10	0.01	(0.42)	0.14	0.36
Non-Group	(0.35)	(0.02)	(0.25)	(0.17)	0.10
Uninsured	(3.63)	(0.79)	(1.57)	(0.59)	(0.67)
New Pool	2.50	-0-	1.71	0.57	0.22

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