CONGRESSIONAL BUDGET OFFICE
U.S. Congress
Washington, DC 20515

Douglas W. Elmendorf, Director

November 20, 2009

Honorable Harry Reid
Majority Leader
United States Senate
Washington, DC 20510

Dear Mr. Leader:

This letter responds to questions about the subsidies that enrollees would receive for premiums and cost sharing and the amounts that they would have to pay, on average, if they purchased a relatively low cost plan in the new insurance exchanges to be established under the Patient Protection and Affordable Care Act, as proposed on November 18, 2009. The analysis reflects the estimate of that bill that the Congressional Budget Office (CBO), in conjunction with the staff of the Joint Committee on Taxation (JCT), released on that date.

Subsidies and Payments at Different Income Levels Under the Patient Protection and Affordable Care Act

The enclosed table focuses on enrollees who purchase a "reference" plan—the second lowest cost "silver" plan, as defined in the bill—because federal subsidies would be tied to the premium for it. Such a plan would have an actuarial value of 70 percent, which represents the average share of costs for covered benefits that would be paid by the plan. Although premiums under the bill would vary by geographic area to reflect differences in average spending for health care and would also vary by age, the table shows the approximate national average for that lower-cost reference plan: about $5,200 for single policies and about $14,100 for family policies in 2016. Enrollees could purchase a more expensive plan or more extensive coverage for an additional, unsubsidized premium—and CBO anticipates that many enrollees would do that, so the average premiums actually paid in the exchanges would be higher (although average cost-sharing amounts could be lower than those shown in the table). The figures are presented for 2016 in order to illustrate the likely situation after the proposed changes in insurance markets were fully implemented.[1] A downside of that approach is that the figures are harder to compare with those observed in 2009.

Under the bill, the maximum share of income that enrollees would have to pay for the reference plan would vary depending on their income relative to the federal poverty level (FPL). For enrollees with income below 133 percent of the FPL, the maximum share of income paid for that

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[1] The bill includes a reinsurance program that would operate from 2014 through 2016, financed by a fee on insurers. Because that program is temporary, its effects on premiums in 2016 have not been reflected in the attached table in order to provide a more accurate assessment of the bill's impact once it is fully implemented.

plan would be 2 percent in 2014.[2] For enrollees with income between 133 percent and 300 percent of the FPL, that maximum share of income would vary linearly from about 4 percent of income to 9.8 percent of income in 2014. For enrollees with income between 300 percent and 400 percent of the FPL, that maximum share of income would equal 9.8 percent. After 2014, those income-based caps would all be indexed so that the share of the premiums that enrollees (in each income band) paid would be maintained over time. As a result, the income-based caps would gradually become higher over time; for example, they are estimated to range from about 2.1 percent to about 10.2 percent in 2016. Enrollees with income below 200 percent of the FPL would also be given cost-sharing subsidies to raise the actuarial value of their coverage to specified levels: 90 percent for those with income below 150 percent of the FPL and 80 percent for those with income between 150 percent and 200 percent of the FPL.

To illustrate the effects of those features, the table shows the amounts of income that would correspond to the midpoint of each FPL band, the resulting premiums that single individuals and families of four would have to pay for a reference plan if their income equaled that midpoint, and the share of their income that would be represented by the sum of the enrollee premiums and the average cost-sharing amount at that midpoint. For instance, a single person with income of $26,500 in 2016 (225 percent of the FPL) would pay a premium of about $2,000 for the reference plan (after getting a premium subsidy of 62 percent) and could expect to pay another $1,900 in cost sharing; thus, the average payment by such a person for the premium and cost sharing combined is projected to be $3,900, or about 15 percent of their income. A family of four with income of about $54,000 (also 225 percent of the FPL in 2016) could expect to pay about 17 percent of its income for premiums and cost sharing for the reference plan. (Because use of health care in a given year varies widely, many people would pay less in cost sharing than the average, but some would pay more—subject to the limits on out-of-pocket costs that are specified in the bill.)

Comparison with Premiums Under the Proposal Approved by the Senate Finance Committee

The estimated average premiums and average cost-sharing amounts for the reference plan shown at the top of the table—before any subsidies are applied—differ somewhat from those shown in a similar table that CBO released on October 9 for the health care reform proposal that was ultimately approved by the Senate Finance Committee. Those differences primarily reflect differences between the proposals, including differences in the types of people who would enroll in single and family plans as a result of their disparate provisions. Key differences that affect premiums include the following:

- Under the proposal approved by the Senate Finance Committee, premiums for exchange plans would include the costs of covering all state-mandated benefits. Under the proposal now being considered by the Senate, however, states would have to pay those costs for any benefits that are not included in the list of “essential health benefits” specified in the bill (which would be further delineated by the Secretary of Health and Human Services).

[2] People with income below 133 percent of the FPL would generally be eligible for Medicaid and thus ineligible for subsidies within the exchanges.

Consequently, CBO has excluded from its calculation of premiums the estimated costs that states would have to pay.

- CBO estimates that the availability of a “public plan” in some states under the current proposal would put some downward pressure on the premiums of private plans offered in the exchanges in those states, and thus would affect the premium for the reference plan.[3]

- The proposals also differ in the extent to which they would allow premiums in the exchanges to vary by age. CBO estimates that the tighter age bands in the current proposal would make older people more likely to seek coverage through the exchanges but would discourage some younger people from enrolling in that coverage—which would raise the average premium in the exchanges, particularly for single coverage.

More generally, the factors that affect insurance premiums are complex, and the resulting amounts reflect an interaction of many forces—so caution should be exercised when interpreting differences in those premiums. CBO expects to provide a broader analysis of premiums under the Patient Protection and Affordable Care Act in the near future.

I hope this analysis is helpful for your deliberations. If you have any questions, please contact me or CBO staff. The primary staff contact for this analysis is Philip Ellis.

Sincerely,

Douglas W. Elmendorf

Douglas W. Elmendorf
Director

Enclosure

cc: Honorable Mitch McConnell
Republican Leader

[3] For additional discussion of this effect, see Congressional Budget Office, letter to the Honorable Michael B. Enzi providing supplemental information on potential effects of the Affordable Health Choices Act (September 10, 2009).

Analysis of Exchange Subsidies and Enrollee Payments in 2016
Under the Patient Protection and Affordable Care Act

11/20/2009

	Estimate for "Reference Plan" in 2016 -- 2nd Lowest-Cost "Silver" Plan		
	Actuarial Value	Average Premium	Avg. Cost Sharing
Single Policy	70%	$5,200	$1,900
Family Policy	70%	$14,100	$5,000

Single Person

Income Relative to the FPL	*Premium Cap as a Share of Income /a*	*Middle of Income Range /b,c*	*Enrollee Premium for Low-Cost "Silver" Plan*	*Premium Subsidy (share of premium)*	*Average Cost-Sharing Subsidy*	*Average Net Cost Sharing*	*Enrollee Premium + Avg. Cost Sharing: Dollars*	*Enrollee Premium + Avg. Cost Sharing: Percent of Income*
100-150% /d	2.1% - 4.7%	$ 14,700	$ 300	94%	$ 1,100	$ 800	$ 1,100	7%
150-200%	4.7% - 6.5%	$ 20,600	$ 1,200	77%	$ 600	$ 1,300	$ 2,500	12%
200-250%	6.5% - 8.4%	$ 26,500	$ 2,000	62%	$ -	$ 1,900	$ 3,900	15%
250-300%	8.4% - 10.2%	$ 32,400	$ 3,000	42%	$ -	$ 1,900	$ 4,900	15%
300-350%	10.2%	$ 38,300	$ 3,900	25%	$ -	$ 1,900	$ 5,800	15%
350-400%	10.2%	$ 44,200	$ 4,500	13%	$ -	$ 1,900	$ 6,400	14%
400-450%	n.a.	$ 50,100	$ 5,200	0%	$ -	$ 1,900	$ 7,100	14%

Family of Four

Income Relative to the FPL	*Premium Cap as a Share of Income /a*	*Middle of Income Range /b,c*	*Enrollee Premium for Low-Cost "Silver" Plan*	*Premium Subsidy (share of premium)*	*Average Cost-Sharing Subsidy*	*Average Net Cost Sharing*	*Enrollee Premium + Avg. Cost Sharing: Dollars*	*Enrollee Premium + Avg. Cost Sharing: Percent of Income*
100-150% /d	2.1% - 4.7%	$ 30,000	$ 600	96%	$ 3,300	$ 1,700	$ 2,300	8%
150-200%	4.7% - 6.5%	$ 42,000	$ 2,400	83%	$ 1,800	$ 3,200	$ 5,600	13%
200-250%	6.5% - 8.4%	$ 54,000	$ 4,000	72%	$ -	$ 5,000	$ 9,000	17%
250-300%	8.4% - 10.2%	$ 66,000	$ 6,100	57%	$ -	$ 5,000	$ 11,100	17%
300-350%	10.2%	$ 78,000	$ 7,900	44%	$ -	$ 5,000	$ 12,900	17%
350-400%	10.2%	$ 90,100	$ 9,200	35%	$ -	$ 5,000	$ 14,200	16%
400-450%	n.a.	$ 102,100	$ 14,100	0%	$ -	$ 5,000	$ 19,100	19%

Source: Congressional Budget Office and the Staff of the Joint Committee on Taxation.

Notes: All dollars figures have been rounded to the nearest $100; n.a. = not applicable; FPL = federal poverty level.
a) In 2014, the income-based caps would range from about 4% at 133% of the FPL to 9.8% at 300% of the FPL, and that 9.8% cap would extend to 400% of the FPL; in subsequent years, those caps would be indexed.
b) In 2016, the FPL is projected to equal about $11,800 for a single person and about $24,000 for a family of four.
c) Subsidies would be based on enrollees' household income, as defined in the bill.
d) Under the bill, people with income below 133% of the FPL would generally be eligible for Medicaid and thus ineligible for exchange subsidies; the premium cap in 2014 for those with income below 133% of the FPL would be 2% of income.