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

Douglas W. Elmendorf, Director

November 2, 2009

Honorable Charles B. Rangel
Chairman
Committee on Ways and Means
U.S. House of Representatives
Washington, DC 20515

Dear Mr. Chairman:

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 H.R. 3962, the Affordable Health Care for America Act, as introduced in the House of Representatives on October 29, 2009. The analysis reflects the preliminary analysis of that bill that the Congressional Budget Office (CBO), in conjunction with the staff of the Joint Committee on Taxation (JCT), released last week.

Subsidies and Payments at Different Income Levels Under H.R. 3962

The enclosed table focuses on enrollees who purchase a "reference" plan (the premiums for which equal the average of the three lowest-cost "basic" plans, as defined in the bill), because federal subsidies would be tied to that average. 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 H.R. 3962 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 $5,300 for single policies and about $15,000 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. (A downside of that approach is that the figures are harder to compare with those observed in 2009.)

Under the House bill, the maximum share of income that enrollees would have to pay for the reference plan in 2013 would range from 1.5 percent for those with income less than or equal to 133 percent of the federal poverty level (FPL) to 12 percent for those with income equal to 400 percent of the FPL. (People with income below 150 percent of the FPL, however, would generally be eligible for Medicaid and thus ineligible for subsidies within the exchanges.) After 2013, 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 1.6 percent to about 12.8 percent in 2016. Enrollees with income below 350 percent

of the FPL would also be given cost-sharing subsidies to raise the actuarial value of their coverage to specified levels—ranging from 97 percent for those with income below 150 percent of the FPL to 72 percent for those with income between 300 percent and 350 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 $1,900 (after getting a premium subsidy of 64 percent) and could expect to pay another $900 in cost sharing (net of federal subsidies); thus, the average payment by such a person for the premium and cost sharing combined is projected to be $2,800, or about 11 percent of income. A family of four with income of about $54,000 (also 225 percent of the FPL in 2016) could expect to pay about the same share of its income for premiums and cost sharing. (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—are slightly higher than the premiums for the comparable plan shown in a similar table that CBO released on October 9 for the health care reform proposal introduced by the Chairman of the Senate Committee on Finance, as amended by the committee. (That table represented an update to a table enclosed in a letter to Chairman Baucus on September 22 that addressed the earlier Chairman's mark.) In the proposal approved by the Finance Committee, the reference plan would be the second cheapest plan available in an area providing the "silver" level of benefits, which also would have a required actuarial value of 70 percent. Because the reference plans in both proposals would cover the same range of benefits and have the same extent of coverage (actuarial value), the difference in premiums cannot be attributed to a difference in coverage. Instead, the difference is the net result of a number of other provisions of each proposal and primarily reflects higher average health care costs projected for enrollees in the exchanges under the House bill than for enrollees in the exchanges under the Finance Committee's proposal.

Why would exchange enrollees under the House bill be slightly less healthy, on average, than exchange enrollees under the Finance Committee's proposal? One reason is that the House bill offers greater subsidies for cost sharing, which would be more valuable to people with health problems and thus would tend to attract a less healthy mix of enrollees. The House bill also restricts more sharply the extent to which premiums can vary by age, which would make the exchanges less attractive to younger people (who tend to have lower health care costs) and more attractive to older people (who tend to have higher health care costs). Some other differences in the proposals also tend to generate a slightly less healthy pool of exchange enrollees under the House bill.

Yet, there are other factors working to counterbalance those effects and to limit the difference in exchange premiums between the two proposals. For example, the House bill would finance the operations of the insurance exchanges through mandatory appropriations rather than a surcharge on the plans offered in the exchanges; it would also include a public plan that CBO estimates would place some downward pressure on the premiums of private plans operating in the exchanges. In addition, under the Finance Committee's proposal, less extensive premium subsidies and more extensive exemptions from the penalties for lacking insurance would weaken the incentives for healthier people to purchase insurance and thus would make for a less healthy pool of enrollees in that proposal, partly offsetting the factors noted above. On balance, however, CBO projects that the average premiums and cost-sharing payments for enrollees in the exchanges under the House bill would be slightly higher than those for enrollees in the exchanges under the Finance Committee's proposal.

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

Enclosures

cc: Honorable Dave Camp
Ranking Member

Identical letters sent to the Honorable George Miller, the Honorable Henry A. Waxman, the Honorable John D. Dingell, and the Honorable Max Baucus.

Analysis of Exchange Subsidies and Enrollee Payments in 2016 11/2/2009
Under H.R. 3962, the Affordable Health Care for America Act

Estimate for "Reference Plan" in 2016 -- Average of 3 Lowest-Cost Basic Plans

	Actuarial Value	Average Premium	Avg. Cost Sharing
Single Policy	70%	$5,300	$2,000
Family Policy	70%	$15,000	$5,500

Single Person

Income Relative to the FPL	*Premium Cap as a Share of Income /a*	*Middle of Income Range /b,c*	*Enrollee Premium in Reference Plan*	*Premium Subsidy (share of premium)*	*Average Cost-Sharing Subsidy*	*Average Net Cost Sharing*	*Enrollee Premium + Avg. Cost Sharing*	
							Dollars	*Percent of Income*
100-150% /d	1.6% - 3.2%	$ 14,700	$ 200	96%	$ 1,600	$ 400	$ 600	4%
150-200%	3.2% - 5.9%	$ 20,600	$ 900	83%	$ 1,400	$ 600	$ 1,500	7%
200-250%	5.9% - 8.5%	$ 26,500	$ 1,900	64%	$ 1,100	$ 900	$ 2,800	11%
250-300%	8.5% - 10.7%	$ 32,400	$ 3,100	42%	$ 700	$ 1,300	$ 4,400	14%
300-350%	10.7% - 11.7%	$ 38,300	$ 4,300	19%	$ 200	$ 1,800	$ 6,100	16%
350-400%	11.7% - 12.8%	$ 44,200	$ 5,300	0%	$ -	$ 2,000	$ 7,300	17%
400+%	n.a.	$ 50,100	$ 5,300	0%	$ -	$ 2,000	$ 7,300	15%

Family of Four

Income Relative to the FPL	*Premium Cap as a Share of Income /a*	*Middle of Income Range /b,c*	*Enrollee Premium in Reference Plan*	*Premium Subsidy (share of premium)*	*Average Cost-Sharing Subsidy*	*Average Net Cost Sharing*	*Enrollee Premium + Avg. Cost Sharing*	
							Dollars	*Percent of Income*
100-150% /d	1.6% - 3.2%	$ 30,000	$ 500	97%	$ 4,900	$ 600	$ 1,100	4%
150-200%	3.2% - 5.9%	$ 42,000	$ 1,900	87%	$ 4,300	$ 1,200	$ 3,100	7%
200-250%	5.9% - 8.5%	$ 54,000	$ 3,900	74%	$ 3,200	$ 2,300	$ 6,200	11%
250-300%	8.5% - 10.7%	$ 66,000	$ 6,300	58%	$ 1,800	$ 3,700	$ 10,000	15%
300-350%	10.7% - 11.7%	$ 78,000	$ 8,800	41%	$ 500	$ 5,000	$ 13,800	18%
350-400%	11.7% - 12.8%	$ 90,100	$ 11,100	26%	$ -	$ 5,500	$ 16,600	18%
400-450%	n.a.	$ 102,100	$ 15,000	0%	$ -	$ 5,500	$ 20,500	20%

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 2013, the income-based caps would range from 1.5% to 12% according to a specified schedule; in subsequent years they 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) Under the bill, subsidies would be based on enrollees' adjusted gross income.
d) Under the bill, people with income below 150% of the FPL would generally be eligible for Medicaid and thus ineligible for exchange subsidies.