



The Importance of Establishing a Common Sense Health Care Affordability Standard for Individuals and Families

An Affordability Standard is Critical to the Success of Health Reform

Americans want health care reform to work for the country and their families. Polls overwhelmingly show voters continue to focus on affordability as their top health care concern. The number one reason millions of Americans lack health insurance is they cannot afford coverage.¹ For reform to succeed – from both a policy and political perspective – the reform effort must directly address the question of affordability. Americans must have confidence that health reform will make their health care more secure.

Unless coverage is affordable, people will not be able to obtain and maintain coverage. If an individual mandate is part of a national reform proposal, as many experts believe is necessary, setting a strong affordability standard becomes even more important. **Public support for an individual mandate swings dramatically based on whether people believe there will be adequate affordability protections.**

Families are willing to take responsibility and pay for a portion of their health care costs, but it is unrealistic and unfair to expect struggling families to pay without regard to what they can actually afford. In addition, under an individual mandate, people who do not purchase coverage would likely face financial penalties, making it critical to find a fair measure.

This Community Catalyst/PICO National Network issue brief draws on state and federal policy experiences to recommend key principles for establishing an effective affordability standard in national legislation. **This brief is designed to help Senate and House Committees to determine premium subsidies and cost-sharing in public programs, and to set the rules associated with mandating individual coverage.** An accompanying Community Catalyst brief discusses key principles for considering an individual mandate.

The daily impact of affordability on the lives of American families

As policymakers grapple with issues of affordability, it is important to remember the cost of health care undermines the health and financial security of families with coverage and leaves millions of people uninsured. Under-insured families struggle to keep up with premiums, deductibles, copays, and other out-of-pocket expenses that are increasing many times faster than wages. Millions of families are being bankrupted by health care bills. In addition, a system in which people are unable to get the right care at the right time imposes large and unnecessarily long-term costs on everyone.

Maya Wheeler from Denver, CO lost her job with IBM two years ago. With her job went her family's health benefits. Now, with a lower-paying job and no health benefits, Maya would have to pay close to 20% of her income to cover herself and her three children. Because she is an insulin-dependent diabetic, she pays to cover herself only, and her daughters go without insurance. Even with insurance, Maya cannot

afford to actually see a doctor, since her co-pays and prescription costs add up to hundreds of additional dollars she has to pay out-of-pocket.

Rafael and Maria Vasquez from Camden, NJ pay over 15% of their monthly income on health insurance for Maria and their three daughters. The family cannot afford the additional \$500 a month it would cost to cover Rafael. Maria regularly works overtime to bring in extra money, while Rafael struggles to find work to complete the 5,000 hours he needs to become a certified electrician.

Ashanti George-Paulin is a single mother from New Orleans who, despite working in the health care field, cannot afford the skyrocketing cost of insurance. In 2006, Ashanti had a medical emergency that left her \$28,000 in debt. With interest, this amount is now close to \$30,000, and hovers over her as she finishes undergraduate studies and prepares to enter medical school.

Including a strong affordability standard in health reform legislation will help families like these address daily challenges to stay physically and fiscally healthy.

Key Principles of an Affordability Standard

1. An affordability scale should take into account all out-of-pocket costs, including premiums, deductibles, coinsurance, and copayments.

Affordability should be defined as the percentage of income a household can devote to health care while still having sufficient income to address other necessities. Since plans with high cost-sharing can still leave people financially vulnerable and prevent them from getting the care they need when they need it², a true measure of affordability must include *all* out-of-pocket costs.

2. An affordability standard should be a progressive sliding scale relative to income.

Lower-income people have a harder time affording basic daily necessities and should not be forced to live in substandard housing or rely on unlicensed childcare in order to pay their health insurance premiums. A progressive affordability standard is needed to ensure fairness and protect low- and moderate-income people.

3. Although everyone has to contribute, there is an income threshold at which lower-income families should not be expected to pay premiums.

- *Families earning up to 200% FPL (\$44,100 for a family of four) should be exempted from premiums* – Most families at this income level are exempt from Medicaid premiums and often rely on fuel assistance, food stamps and EITC assistance to meet their basic needs. Any other cost-sharing for this group should be very limited.
- *Families earning between 200% (\$44,100) and 300% FPL (\$66,150) can be expected to make only modest contributions towards their premiums* – Families in this income bracket often go into debt just to pay their basic necessities; those in high cost-of-living areas are especially financially vulnerable. Families in this income range will need significant subsidies and protection against high out-of-pocket costs.

4. No family should face unlimited health care costs.

Congress should set an upper limit on family health care spending that includes premiums and out-of-pocket costs. This cap would protect families with chronic conditions and others who are vulnerable to high premiums and unlimited cost-sharing. The upper limit should reflect what middle-income families typically pay for health care, with a lower ceiling for

lower-income households. Such progressivity is an important component of fairness, especially in the context of an individual mandate.

- *Families earning at or above 600% FPL should not have to pay more than 9% of their income on health care.*
- *Families earning below 600% FPL should be expected to pay less than that amount.*
- *If there is an individual mandate, there should also be a limit on out-of-pocket costs.*

5. An affordability standard should be accompanied by a guarantee of standard comprehensive benefits.

Health reform legislation should clearly define a benchmark for a comprehensive benefit package that limits out-of-pocket costs. To ensure families can actually get the care they need, it is essential that the design of the benefits package be considered when developing an affordability standard. Benefit packages that exclude health care services that people need (such as limits on mental health coverage, policies that don't cover prescriptions, or policies with low lifetime benefit limits) have the same result as packages that impose high premiums or other out-of-pocket costs, leaving people at risk financially when they need coverage the most. Therefore, a comprehensive set of benefits, as well as limits on premiums and cost-sharing, is necessary to ensure affordability.

6. If an individual mandate is considered, there must be no requirement to purchase insurance unless there is an option that meets an affordability standard and provides adequate benefits.

If there is an individual mandate to purchase health insurance, people should be exempt from this mandate unless they are able to obtain health coverage that:

- Meets an affordability standard based on total out-of-pocket costs
- Meets a benefit benchmark that provides comprehensive services

7. An affordability standard should be clear and easy to calculate and administer.

The affordability standard should not include an asset test. In addition, families should have easily available tools to determine premium subsidies and affordability limits based on their income.

Conclusion

Over the coming months, Community Catalyst and PICO National Network and our networks of state health advocacy organizations and faith-based community organizations across the country will conduct focus groups and surveys with families about their health care priorities and what affordability means on their budgets. We look forward to sharing this additional information with you. We believe rooting the health care debate in the real experience of families struggling to keep up with rising health care costs reinforces broad public support for Congressional action and ensures health care reform will succeed.

1 Why Do People Lack Health Insurance? John A. Graves and Sharon K. Long, The Urban Institute available at http://urban.org/UploadedPDF/411317_lack_health_ins.pdf

2 C. Schoen, S. R. Collins, J. L. Kriss, and M. M. Doty, How Many Are Underinsured? Trends Among U.S. Adults, 2003 and 2007, *Health Affairs* Web Exclusive, June 10, 2008:w298–w309