



# California Health Benefit Exchange

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## Key Questions and Answers on the Impact of Potential Supreme Court Decision on California

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### 1. How many Californians will benefit from expanded coverage under the Affordable Care Act when it is fully implemented in 2019?

When fully implemented, the law will expand affordable coverage to nearly 5 million Californians:<sup>1</sup>

- 3.1 million Californians will be eligible for subsidized coverage through the Exchange.
- 1.5 million Californians will be newly eligible for expanded Medicaid coverage (Medi-Cal in California).

Millions more will be guaranteed the ability to purchase coverage without subsidies in the individual market.

Of those eligible, estimates show that nearly 4 million Californians will enroll in subsidized coverage through the Exchange or in Medi-Cal once the law is fully implemented:<sup>2</sup>

- Between 1.8 and 2.1 million Californians will obtain subsidized coverage through the Exchange.
- Between 1.2 and 1.6 million Californians will be newly covered under Medi-Cal.

An additional 2.1 million Californians are expected to purchase guaranteed issue coverage without subsidies through the Exchange or in the individual market.

### 2. What are the subsidies under the Affordable Care Act?

The first form of subsidy under the Affordable Care Act is the expansion of Medicaid (Med-Cal in California). Under the Affordable Care Act, ALL eligible Californians who make less than 138% of the federal poverty level (FPL) (\$15,415 for an individual, \$31,810 for a family of four) would be eligible to have fully-paid coverage in Medi-Cal.

The Affordable Care Act also provides “sliding scale” subsidies based on income for individuals and families earning between 138 and 400 percent of the federal poverty level and are designed to make health coverage more affordable. These subsidies will be provided in the form of tax credits that can be advanced and applied toward premiums for qualified health plans purchased through the Exchange, as well as subsidies to help cover cost-sharing of plans in the Exchange. The subsidies help individuals comply with the Affordable Care Act’s individual mandate by making coverage more accessible and affordable. Under the Affordable Care Act, the subsidies are only available through the Exchange.

The size of the subsidy depends on both the income and family size of eligible individuals. Table 1 provides an illustration of the value of the tax subsidies for families of four at several income levels for a 45-year-old policyholder based on 2014 projected incomes, assuming the family buys a “silver” plan which has a 70% actuarial value.<sup>3</sup>

<b>Table 1. Tax Subsidy Modeling</b>							
<b>Federal Subsidies for a California Family of Four at Different Income Levels</b>							
<b>Percent of FPL</b>	<b>Annual Income</b>	<b>Unsubsidized Annual Premium</b>	<b>Annual Tax Credit</b>	<b>Annual Premium after Credit</b>	<b>Unsubsidized Monthly Premium</b>	<b>Monthly Premium Credit</b>	<b>Monthly Premium after credit</b>
150%	\$35,137	\$14,245	\$12,840	\$1,405	\$1,187	\$1,070	\$117
200%	\$46,850	\$14,245	\$11,294	\$2,952	\$1,187	\$941	\$246
300%	\$70,275	\$14,245	\$7,569	\$6,676	\$1,187	\$631	\$556
399%	\$93,700	\$14,245	\$5,344	\$8,901	\$1,187	\$445	\$742

Note: this modeling does not include the value of subsidies related to cost-sharing which the Affordable Care Act also provides. “FPL” is Federal Poverty Level.

### **3. What has the Exchange been doing to prepare to enroll millions of Californians in 2014?**

Following the enactment by California of its authorizing legislation in 2010, the Exchange became operational in January 2011. It has been working actively to design and develop the infrastructure necessary to implement the new health coverage marketplace that will support the enrollment of millions of Californians. In August 2011, the California Exchange received a \$39 million federal establishment grant to continue in the initial planning phases for this effort. Since then:

- The Exchange has hired 36 permanent staff.
- The Exchange, in collaboration with the Department of Health Care Services and the Managed Risk Medical Insurance Board, is creating a web-based eligibility and enrollment portal that will help consumers shop for insurance online with tools to compare plan benefits and cost starting with open enrollment in October 2013 (see announcement of contract award [here](#)).
- A marketing, outreach, and public education program is being planned that will launch in 2013 to raise awareness about coverage expansion that will begin in 2014 (see final work plans for the Exchange’s [Marketing & Outreach](#) and [Assisters Program](#)).
- The Exchange is developing a process to select qualified health plans to be offered to individuals and small businesses through the Exchange starting in 2014.
- An application to the federal government is now being finalized for its next cycle of federal funding which will support continued start-up work between August 2012 and June 2013.

#### **4. How have Californians already benefited from the Affordable Care Act?**

The Affordable Care Act's insurance market reforms and subsidy program expansions have reduced the number of medically uninsured Californians by extending coverage to:

- More than 10,000 Californians unable to obtain coverage in the individual market due to their health status enrolled in the Pre-Existing Condition Insurance Plan (PCIP) administered by the Managed Risk Medical Insurance Board.<sup>4</sup>
- More than 400,000 low-income Californians who would otherwise be ineligible for Medi-Cal under current rules and now have coverage through the early county-based expansion and will be transitioned to Medi-Cal coverage in 2014.<sup>5</sup>
- As of June 2011, more than 350,000 young adults who would have aged off their parents' health coverage were able to remain on their parents' policy under the law's expansion of dependent coverage through age 26.<sup>6</sup>
- More than 350,000 seniors who can better afford prescription drugs and who previously lacked coverage for medications due to Medicaid's "donut hole."<sup>7</sup>

#### **5. What are the penalties for not maintaining minimum essential coverage (complying with the "individual mandate")?**

The Affordable Care Act sought first to address the fact that individuals and families want to buy health insurance. Too often, however, it is financially out of reach which is why subsidies are a critical part of expanding coverage. The Affordable Care Act also requires United States citizens and legal residents to have health coverage. Those who do not fulfill this obligation will be required to pay a penalty. Individuals who are uninsured for less than three months and those who would have to pay more their 8% of their household incomes for premiums are exempt from the penalty. The size of the penalty will start lower in 2014, increasing in 2015 and 2016.

The penalty will be phased-in according to the following schedule: \$95 annual penalty per family member not covered in 2014 (or \$47.50 for dependents under 18); \$325 annual per family member in 2015 (or \$162.50 for dependents under 18); and \$695 annual per family member in 2016 (or \$347.50 for dependents under 18). For all of these penalties there is a ceiling of 300% of the individual penalty regardless of family size.

For higher income households, the penalty would be a percentage of household income, starting at 1.0% of taxable income in 2014; increasing to 2.0% of taxable income in 2015; and then 2.5% of taxable income in 2016. After 2016, the penalty will be increased annually by the cost-of-living adjustment.<sup>8</sup>

#### **6. If the court rules against the individual mandate, what is the likely impact on premiums and coverage in California without the individual mandate?**

While some eligible individuals would choose not to obtain coverage, 2.5 million Californians are still likely to enroll in subsidized coverage in Medi-Cal and the Exchange without the individual mandate. These estimates are based on economic

simulations conducted by the University of California, Los Angeles and University of California, Berkeley (UCLA and UCB) at a “base” level of enrollment.<sup>9</sup> Enrollment could be substantially higher if outreach and enrollment efforts are successful or if other policies are put in place to promote enrollment. Enrollment could be lower if the premium increases that would result from not having as many insured raise costs above what has been modeled. (See Table 2.) Estimates on the impact on the premiums for the entire individual market that would result from fewer individuals being covered range dramatically – from an increase of 3% to over 20% in premium – with the size of the increase depending on a range of factors.<sup>10</sup>

<b>Table 2. Estimated Enrollment in 2019 with and without a Mandate in California (Based on UCLA/UCB CalSIM1.7, “Base” Enrollment Estimates)</b>			
	<b>Base Enrollment Assumption</b>	<b>Enrollment without Mandate</b>	<b>Percent Decrease</b>
Medi-Cal coverage	1.2 million	1.1 million	2% <sup>11</sup>
Exchange with Subsidies	1.8 million	1.4 million	23%
Individual Market without Subsidies	2.1 million	1.6 million	25%

California was the first state to create a Health Benefit Exchange following the passage of federal health care reform. It is charged with creating a new insurance marketplace in which individuals and small businesses will be able to purchase competitively priced health plans using federal tax subsidies and credits beginning in 2014.

For more information on the Exchange, go to [www.healthexchange.ca.gov](http://www.healthexchange.ca.gov), and if you are member of the press seeking comment or an interview call (916) 205-8403.

## Sources and Background Material

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<sup>1</sup> *Health Insurance Coverage in California under the Affordable Care Act*, California Simulation of Insurance Models (CalSIM) Version 1.7, June 2012. Accessed at: [http://laborcenter.berkeley.edu/healthcare/aca\\_chartpack.pdf](http://laborcenter.berkeley.edu/healthcare/aca_chartpack.pdf). For additional eligibility and enrollment estimates including projected enrollment by region of the state, see: [http://laborcenter.berkeley.edu/healthcare/aca\\_implemented.shtml](http://laborcenter.berkeley.edu/healthcare/aca_implemented.shtml)

<sup>2</sup> *Health Insurance Coverage in California under the Affordable Care Act*, California Simulation of Insurance Models (CalSIM) Version 1.7, June 2012. Accessed at: [http://laborcenter.berkeley.edu/healthcare/aca\\_chartpack.pdf](http://laborcenter.berkeley.edu/healthcare/aca_chartpack.pdf). Range reflects base and enhanced enrollment projections as described on page 6.

<sup>3</sup> *Kaiser Family Foundation Subsidy calculator*. Calculated for a family of four assuming a “medium” regional cost factor. Accessed at: <http://healthreform.kff.org/SubsidyCalculator.aspx>

<sup>4</sup> *Pre-Existing Condition Insurance Plan (PCIP) May 2012 Summary*. Managed Risk Medical Insurance Board. Accessed at: [http://www.mrmib.ca.gov/MRMIB/Agenda\\_Minutes\\_062012/Agenda\\_Item\\_8\\_a\\_PCIP\\_Enrollment\\_Report\\_for\\_May\\_2012\\_final.pdf](http://www.mrmib.ca.gov/MRMIB/Agenda_Minutes_062012/Agenda_Item_8_a_PCIP_Enrollment_Report_for_May_2012_final.pdf)

<sup>5</sup> *LIHP Enrollment Data Demonstration Year 7 Quarter 3*. Department of Health Care Services. Accessed at: <http://www.dhcs.ca.gov/provgovpart/Documents/LIHP/Reports/DY7Q3LIHPEnrollmtReprt.pdf>

<sup>6</sup> *Two Years Later: The Benefits of the Affordable Care Act for California*. United States Department of Health and Human Services. Accessed at: <http://www.healthcare.gov/law/resources/ca.html>

<sup>7</sup> *Two Years Later: The Benefits of the Affordable Care Act for California*. United States Department of Health and Human Services. Accessed at: <http://www.healthcare.gov/law/resources/ca.html>

<sup>8</sup> *Individual Mandate and Related Information Requirements under PPACA*, Congressional Research Service, 2011. Accessed at: <http://healthreformgps.org/wp-content/uploads/CRSreportonPPACAUG2011.pdf>

<sup>9</sup> *Newly Insured Californians Would Fall by More than 1 Million under the Affordable Care Act without the Requirement to Purchase Insurance*. UCLA Center for Health Policy Research, January 2012. Accessed at: <http://www.healthpolicy.ucla.edu/pubs/Publication.aspx?pubID=536>. Numbers cited above reflect unpublished updated estimates based on the updated CalSIM 1.7 model.

<sup>10</sup> *Private Health Insurance Coverage: Expert Views on Approaches to Encourage Voluntary Enrollment*, General Accounting Office, February 25, 2011. Accessed at: <http://www.gao.gov/new.items/d11392r.pdf>

*How Would Eliminating the Individual Mandate Affect Health Coverage and Premium Costs?* RAND Health, 2012. Accessed at: [http://www.rand.org/content/dam/rand/pubs/research\\_briefs/2012/RAND\\_RB9646.pdf](http://www.rand.org/content/dam/rand/pubs/research_briefs/2012/RAND_RB9646.pdf)

<sup>11</sup> Percent change in table may appear inaccurate due to rounding. Medi-Cal base enrollment number is 1,154,000, base enrollment without mandate is 1,136,000, and the decrease in enrollment is 2%.