CHANGING COURSE:
TRENDS IN HEALTH INSURANCE COVERAGE, 2000–2008

Karen Davis
President, The Commonwealth Fund
One East 75th Street
New York, NY 10021
kd@cmwf.org
http://www.commonwealthfund.org

Invited Testimony

HEARING ON INCOME, POVERTY, AND HEALTH INSURANCE COVERAGE; ASSESSING KEY CENSUS INDICATORS OF FAMILY WELL-BEING IN 2008

Joint Economic Committee
September 10, 2009

This testimony draws on Commonwealth Fund work authored by Sara R. Collins, Michelle Doty, Cathy Schoen, and colleagues. The editorial assistance of Chris Hollander of The Commonwealth Fund is gratefully acknowledged. The views presented here are those of the author and not necessarily those of The Commonwealth Fund or its directors, officers, or staff.

CHANGING COURSE:
TRENDS IN HEALTH INSURANCE COVERAGE, 2000–2008

Executive Summary

This morning, the U.S. Bureau of the Census released the alarming news that the number of uninsured Americans hit 46.3 million in 2008, up from 45.7 million in 2007. This increase of 0.6 million uninsured would have been much worse without a growth in government-provided health insurance that covered 4.4 million people, including an increase of 3.0 million covered under Medicaid. In contrast, employment-based coverage declined by about 1.1 million individuals, from 177.4 million in 2007 to 176.3 million in 2008.

Today's data release shows the importance of the nation's safety-net insurance system—Medicaid and the Children's Health Insurance Program (CHIP). The major bright spot in these new data was the fact that the rate of uninsured children is at its lowest rate since 1987, at 9.9 percent. This improvement was a reflection of increased coverage for children under government health insurance programs, which rose from 31.0 percent in 2007 to 33.2 percent in 2008. Still, more than 7.3 million children remain uninsured, which highlights the importance of the reauthorization and expansion of the CHIP program earlier this year to cover 4 million more uninsured low-income children.

States have also played an important role in stepping up to the plate to address the issue of the uninsured. Massachusetts, which enacted health reform in April 2006, has moved into first place, with the lowest uninsured rate in the nation. In Massachusetts, 5.5 percent of the population was uninsured in 2008, compared with 25.1 percent in Texas, the state with the highest uninsured rate. Massachusetts leads the nation as a result of its 2006 comprehensive health reform.

The most alarming news in today's Census release is that the number of adults under age 65 without health insurance is high and rising: 20.3 percent of adults ages 18 to 64 were uninsured in 2008, up from 19.6 percent in 2007, representing an additional 1.5 million adults. About one million fewer people are covered by employment-based coverage, falling from 177.4 million in 2007 to 176.3 million in 2008, including a marked decline in coverage among part-time workers. But even these numbers may understate the effect of the severe and ongoing recession, because the Census numbers are based on counts of people without coverage at any point during the year. Those individuals who were insured early in 2008 who lost coverage later in the year are counted as insured for 2008.

The continued rise in unemployment rates in 2009 likely means many more are uninsured in 2009.

Since the start of this decade, when 38 million were uninsured, health insurance coverage has steadily eroded, with 20 percent jump in the number of uninsured over the decade. Even before this severe recession, the number of uninsured was projected to grow to 61 million by 2020. We simply cannot afford to continue on our current course.

The need for health reform is urgent and compelling:

- The number of uninsured Americans has jumped over 20 percent between 200 and 2008.
- In 2006, 75 million people were uninsured for all or part of the year, representing 27 percent of those under age 65.
- Uninsured rates are particularly high among low-income individuals. Half of those with family income under $20,000 were uninsured at some point during 2007. But over the last decade, more and more middle-class families have joined the ranks of the uninsured. More than two of every five (41%) people in families with moderate incomes ($20,000 to $39,999) were uninsured at some point during 2007, up from 28 percent in 2001.
- The rapid rise in unemployment endangers the health coverage of many more working Americans. A recent study found that for every percentage-point increase in the unemployment rate, the number of uninsured rises by approximately 1 million. If unemployment were to rise to 10 percent, 6 million more people would be uninsured than in 2007.
- According to a Commonwealth Fund study released yesterday, only 25 percent of workers in firms employing fewer than 50 people had coverage from their own employer in 2007, down from 35 percent in 2003. By contrast, for employees of firms with 50 or more workers, coverage through one's own employer increased from 70 percent to 74 percent over that period.
- The number of *underinsured*—people with inadequate coverage that ensures neither access to care nor financial protection—jumped 60 percent between 2003 and 2007, from 16 million to 25 million.
- The 2007 Commonwealth Fund Biennial Health Insurance Survey shows that 68 percent of the uninsured went without needed care because of the cost. Uninsured and underinsured people with chronic conditions, for example, are less likely than people who have health coverage to report managing their conditions, more likely to report not filling prescriptions or skipping doses of drugs, and more likely to use emergency rooms and be hospitalized.

The health insurance system in this country is fundamentally broken. It does not accomplish what insurance was created to accomplish: ensure access to needed care and protect against the financial hardship that medical bills can cause. The deterioration in health insurance coverage has reached the point where financial hardship is not the exception, but the rule.

- Seventy-two million people report having problems paying medical bills or accumulated medical debt. In order to pay their bills, far too many people are forced to go without basic necessities, use up their savings, rack up credit card debt, or even take out home loans.
- More than three-fifths (61%) of those with problems paying medical bills or accrued medical debt were insured at the time the debt was incurred.
- A total of 116 million adults ages 19 to 64—65 percent of all nonelderly adults—are uninsured at some point during the year, are underinsured, or struggle to obtain needed care and pay their medical bills.

As a nation, we pay a price for being the only major country without health insurance for all. Workers miss work from preventable illness, die from conditions that are amenable to medical care, or retire early from preventable disability. Children miss school or drop out of high school without graduating because of preventable health problems. The Council of Economic Advisers estimates that covering the uninsured would result in a net increase in economic well-being totaling $100 billion a year. Coverage for all would increase the labor supply and level the playing field for large and small businesses.

Recognizing the seriousness of our flawed health system, Congress began to take action early this year to cover more people who are at high risk. Reauthorization of the Children's Health Insurance Program (CHIP) will cover an estimated 4.1 million uninsured low-income children in addition to the 7 million covered in 2008. The CHIP program has been a major success: trends in the numbers of uninsured children, unlike those for uninsured adults, have improved over the last decade.

Provisions in the American Recovery and Reinvestment Act of 2009 (ARRA) have also helped prevent the loss of health insurance coverage resulting from the severe and sustained economic recession. The Act provided $86.6 billion over 27 months to help states maintain and expand Medicaid enrollment as more unemployed working families qualified for coverage. In addition, ARRA provided a 65 percent premium subsidy to help recently unemployed workers retain their employer-based coverage under COBRA for up to nine months.

Measures in health reform bills currently under consideration in Congress include:

- The creation of health insurance exchanges that expand insurance choices and competition and set market rules to ensure that coverage is available to all on comparable terms.
- Income-related premium assistance for individuals living at up to three or four times the federal poverty level.
- The expansion of Medicaid for those at 133 to 150 percent of the poverty level.
- The requirement that health plans include an essential benefit package and income-related assistance with cost-sharing for people at up to four times the poverty level.
- Shared employer responsibility for financing coverage for workers, with assistance provided to small businesses.

The Congressional Budget Office estimates that if the House bill is enacted, the number of uninsured people would decline to 17 million by 2019, from a projected 54 million if no action were taken. Employer-sponsored plans would remain the primary source of insurance for most families, covering 60 percent of the population, or 166 million people. About 10 million people would newly enroll in Medicaid, with most of those individuals previously lacking any coverage.

Recognizing the plight of families facing an unraveling safety net of health insurance coverage, the President last night reiterated his call for bold change to address the crushing burden of rising health care costs for both businesses and families. Failure to act will lead to greater and greater numbers of Americans without adequate, affordable insurance—unable to obtain the care they need, with families struggling under the weight of rising health insurance premiums and out-of-pocket health care costs. Insurance premiums have risen from 11 percent of family incomes in 1999 to 18 percent today. If we continue on our current course, they will reach 24 percent of income by 2020.

Health reform could provide substantial relief to families by slowing the growth in health insurance premiums, and could make the responsibility for paying premiums a shared one among households, employers, states, and the federal government. Estimates prepared for The Commonwealth Fund suggest that the average family could save $2,300 in 2020 from comprehensive health reform that embraces competition and choice.

The comprehensive reforms proposed by the President will help spark economic recovery, put the nation back on a path to fiscal responsibility, and ensure that all families are able to get the care they need while protecting their financial security. The cost of

inaction is high. The time has come to take bold steps to ensure the health and economic security of this and future generations. Health reform is an urgently needed investment in a better health system and a healthier and economically more productive America.

CHANGING COURSE:
TRENDS IN HEALTH INSURANCE COVERAGE, 2000–2008

Karen Davis

Thank you, Mr. Chairman, for this invitation to testify on trends in health insurance coverage over the last decade. This morning, the U.S. Bureau of the Census released the alarming news that the number of uninsured Americans hit 46.3 million in 2008, up from 45.7 million in 2007 (Figure 1).[1] This increase of 0.6 million uninsured would have been much worse without a growth in government-provided health insurance that covered 4.4 million people, including an increase of 3.0 million covered under Medicaid. In contrast, employment-based coverage declined by about 1.1 million individuals, from 177.4 million in 2007 to 176.3 million in 2008.

Today's data release shows the importance of the nation's safety-net insurance system—Medicaid and the Children's Health Insurance Program (CHIP). The major bright spot in these new data was the fact that the rate of uninsured children is at its lowest rate since 1987, at 9.9 percent. This improvement was a reflection of increased coverage for children under government health insurance programs, which rose from 31.0 percent in 2007 to 33.2 percent in 2008. Still, more than 7.3 million children remain uninsured, which highlights the importance of the reauthorization and expansion of the CHIP program earlier this year to cover 4 million more uninsured low-income children.

States have also played an important role in stepping up to the plate to address the issue of the uninsured. Massachusetts, which enacted health reform in April 2006, has moved into first place, with the lowest uninsured rate in the nation. In Massachusetts, 5.5 percent of the population was uninsured in 2008, compared with 25.1 percent in Texas, the state with the highest uninsured rate. Massachusetts leads the nation as a result of its 2006 comprehensive health reform.

The most alarming news in today's Census release is that the number of adults under age 65 without health insurance is high and rising: 20.3 percent of adults ages 18 to 64 were uninsured in 2008, up from 19.6 percent in 2007, representing an additional 1.5 million adults. About one million fewer people are covered by employment-based coverage, falling from 177.4 million in 2007 to 176.3 million in 2008, including a marked decline in coverage among part-time workers. But even these numbers may understate the effect of the severe and ongoing recession, because the Census numbers are based on counts of people without coverage at any point during the year. Those individuals who were

insured early in 2008 who lost coverage later in the year are counted as insured for 2008. The continued rise in unemployment rates in 2009 likely means many more are uninsured in 2009.

Since the start of this decade, when 38 million were uninsured, health insurance coverage has steadily eroded, with a 20 percent jump in the number of uninsured over the decade.[2] Even before this severe recession, the number of uninsured was projected to grow to 61 million by 2020. We simply cannot afford to continue on our current course.

The Administration and Congress enacted important legislation earlier this year to stem the rising tide of uninsured by covering of an additional 4.1 million low-income children under the Children's Health Insurance Program (CHIP) and enacting important provisions to enhance federal matching for Medicaid and provide premium assistance to unemployed workers so they can continue their employer coverage under COBRA. Yet these measures are not sufficient to reverse the long-term trend. Enactment of health reform is urgently needed to ensure affordable health coverage for all Americans.

Gaps in Insurance Coverage a Serious and Growing Problem

The United States is the only major industrialized country that does not ensure health coverage for all. As we learned today, 46.3 million Americans—20.3 percent of those under age 65—went without the coverage that is essential to gaining access to health care. Millions more have unstable coverage; they may lose their coverage for a period of time when they fall ill or change jobs, or because of other circumstances. In 2006, 75 million people were uninsured for all or part of the year, a figure that represents 25 percent of the total population and 27 percent of those under age 65 (Figure 2).[3]

Uninsured rates are particularly high among low-income individuals. Half of those with family income under $20,000 were uninsured at some point during 2007.[4] But over the last decade, more and more middle-class families have joined the ranks of the uninsured. More than two of every five (41%) people in families with moderate incomes ($20,000–$39,999) were uninsured at some point during 2007, up from 28 percent in 2001 (Figure 3).

The rapid rise in unemployment endangers the health coverage of many more working Americans. Since employment-sponsored insurance is the major source of coverage for working families, loss of a job often means loss of insurance (Figure 4). A recent study found that for every percentage-point increase in the unemployment rate, the number of

uninsured increases by approximately 1 million (Figure 5). If unemployment were to rise to 10 percent, 6 million more people would be uninsured than in 2007.[5]

Even those with jobs are at risk of losing coverage, as rising premiums increasingly price small businesses and working families out of the health insurance market. The erosion of health coverage over the last decade has been particularly stark among small businesses (Figure 6). According to a Commonwealth Fund study released yesterday, only 25 percent of adults working for firms with fewer than 50 employees had coverage from their own employer in 2007, down from 35 percent in 2003 (Figure 7).[6] By contrast, over that period, coverage through one's own employer increased from 70 percent to 74 percent for employees of firms with 50 or more workers. Low-wage workers earning less than $15 an hour are particularly at risk: only 16 percent of low-wage workers in small firms with fewer than 50 employees had coverage from their own employer in 2007, compared with 32 percent of small-firm workers earning $20 an hour or more (Figure 8). For high-wage workers in large firms, 83 percent had coverage from their own employer.

The White House Office of Health Reform notes that small-business workers who are not offered coverage often end up uninsured.[7] Without employer assistance in paying premiums, workers often go without coverage or turn to the individual market to buy very expensive policies with limited benefits. Over one-third (36%) of working adults in small firms were uninsured at some time during 2007.[8] Most of those who are adequately insured are those fortunate enough to be covered by a family member's employer—putting the entire family at risk of losing coverage if the covered worker loses his or her job. By contrast, for workers in firms with 50 or more employees, 15 percent are uninsured at some time during the year.

Rates of insurance coverage vary widely across the U.S. A few states, such as Massachusetts, have enacted comprehensive reform. Massachusetts now has the lowest rate of uninsured in the nation.[9] But the dominant trend across the country has been a marked increase in rates of uninsured adults (Figure 9). While the rate of uninsured adults was 23 percent or higher in just two states in 1999–2000, by 2006–2007 the uninsured rate was higher than that in nine states. The one bright spot is the reduction in children's uninsured rates in most states, a result of CHIP.

Under the current health system, even those with coverage are often underinsured, meaning they have inadequate financial protection and access to care. Insured individuals, despite having continuous coverage, are increasingly spending a high percentage of their income on medical care. Insured adults are defined as underinsured if

they spent 10 percent or more of their income on out-of-pocket health care costs (or 5 percent if low-income), or have deductibles equaling 5 percent or more of income.[10] As of 2007, there were an estimated 25 million underinsured adults in the United States, up 60 percent from 2003 (Figure 10). While low-income individuals and families are hit the hardest, the problem has moved up the income ladder and now affects the middle class. Between 2003 and 2007, the underinsured rate among adults with incomes above 200 percent of the federal poverty level nearly tripled (Figure 11).

Employees of small firms are particularly at risk of being underinsured (Figure 12). They receive fewer benefits, pay higher premiums, and often face larger deductibles compared with those working for larger businesses. On average, small firms pay up to 18 percent more in premiums than large firms do for the same health insurance policy.[11] Smaller businesses also pick up a smaller share of premiums, further increasing costs to their workers. Deductibles have risen sharply in smaller firms (with three to 199 employees), with the mean deductible for single coverage rising from $210 in 2000 to $917 in 2008 (Figure 13).[12] For larger firms, deductibles increased from $157 to $413 over this period. Employees of small firms are more likely to report having limits on covered benefits and are more likely to rate their coverage as fair or poor (Figure 14).

Consequences of Gaps in Coverage

The economic and health consequences of being uninsured or underinsured are stark. The 2007 Commonwealth Fund Biennial Health Insurance Survey shows that 68 percent of the uninsured went without needed care because of the cost (Figure 15).[13] Uninsured and underinsured people with chronic conditions, for example, are less likely than the insured to report managing their conditions, more likely to report not filling prescriptions or skipping doses of drugs, and more likely to use emergency rooms and be hospitalized (Figure 16).[14] The uninsured are also less likely than the insured to receive preventive care, such as immunizations, Pap tests, mammograms, and colon cancer screening (Figure 17). People without insurance who have cancer or other life-threatening conditions are at very high risk of dying as a result of delays in detection plus a lack of adequate treatment (Figure 18).[15]

With the rise in health care costs over the last decade, more people across all income groups have been unable to get needed care. Almost two-thirds (62%) of those with incomes below $20,000 reported not getting needed care because of the cost (Figure 19). But even for those with incomes above $60,000, almost one-third (29%) reported such problems in 2007—double the rate in 2001.[16]

When they do obtain health care, the uninsured and underinsured often incur burdensome medical bills and accumulate unpaid medical debt. Medical bill and medical debt problems have increased between 2005 and 2007, and are increasingly affecting even middle-income families. Half of moderate-income families (with incomes between $20,000 and $39,999 per year) report medical bill problems or accumulated medical debt (Figure 20).[17]

Rising health insurance premiums have fueled erosion in insurance benefits and shifted financial risk onto individuals and families.[18] Partly as a result of an infatuation with high-deductible health plans based on the untested theory that having patients pay more for their own care would lead them to economize on care and help control rising costs, employers have shifted more costs to employees in the form of higher deductibles and greater cost-sharing. This has not been an effective solution to rising costs. Rather, it has led many of the insured to experience problems accessing care and paying their medical bills. Fifty-three percent of those who are underinsured reported at least one of four instances of going without needed care due to cost: not filling a prescription; skipping a recommended medical test, treatment, or follow-up; having a medical problem but not visiting a doctor; or not getting needed specialist care because of the cost.[19] Forty-five percent of the underinsured reported at least one of three medical debt or bill problems: having problems paying medical bills; changing their way of life to pay medical bills; or being contacted by a collection agency for an inability to pay medical bills.

The deterioration in health insurance coverage has reached the point that it is not the exception but the rule. Seventy-two million people in this country have problems paying medical bills or accumulated medical debt (Figure 21).[20] To pay their bills, far too many people are unable to afford basic necessities, use up their savings, rack up credit card debt, or even take out home loans. This is not just a reflection of being uninsured. More than three-fifths (61%) of those with problems paying medical bills or accrued medical debt were *insured* at the time the debt was incurred (Figure 22).

The health insurance system in this country is fundamentally broken. It does not accomplish what insurance is supposed to accomplish: ensure access to needed care and protect against the financial hardship that medical bills can create. A total of 116 million adults ages 19 to 64—65 percent of all nonelderly adults—are uninsured at some point during the year, are underinsured, or struggle to obtain needed care and pay their medical bills (Figure 23).[21]

The U.S. pays a price for being the only major country without health insurance for all.[22] Workers miss work from preventable illness, die from conditions amenable to medical care, or retire early from preventable disability. Children miss school or drop out of high school without graduating because of preventable health problems. The Council of Economic Advisers estimates that covering the uninsured would result in a net increase in economic well-being of $100 billion a year. Coverage for all would increase the labor supply and level the playing field for large and small businesses. We cannot lose sight of the cost of inaction in either economic or human terms.

Steps Congress Has Taken

Recognizing the seriousness of our flawed health system, Congress began to take action early this year to cover more people at high risk. Reauthorization of CHIP will cover an estimated 4.1 million uninsured low-income children, in addition to the 7 million covered in 2008.[23] This expansion of coverage is not yet reflected in the uninsured numbers released today.

The CHIP program has been a major success—enrolling millions of children under state-run programs subject to federal guidelines. As a result of CHIP, trends in the numbers of uninsured children, unlike those of uninsured adults, have improved over the last decade. In 1999–2000, nine states had 16 percent or more of their children uninsured; by 2005–2006, that number had dropped to five (Figure 24). As a result of CHIP, millions of children have received the preventive and primary care that is essential to health and healthy development.[24]

Provisions in the American Recovery and Reinvestment Act of 2009 (ARRA) have also helped prevent the loss of health insurance coverage resulting from the severe and sustained economic recession. The Act provided $86.6 billion over 27 months to help states maintain and expand Medicaid enrollment as more unemployed working families qualified for coverage. The federal matching rate was increased by 6.2 percent for all states, and more for states with marked increases in unemployment. The condition of funding was the maintenance of Medicaid eligibility.

In addition, ARRA provided subsidies to help recently unemployed workers retain their employer-based coverage under COBRA, the Consolidated Omnibus Budget Reconciliation Act.[25] Under the leadership of the late Senator Edward M. Kennedy, the 1985 COBRA law was created to permit workers in firms of 20 or more employees to retain their health insurance coverage for 18 months by paying the full premium, plus a 2 percent additional administrative fee. ARRA built on this legislation by providing a 65 percent subsidy for COBRA-continuation premiums for laid-off workers and their

families for up to nine months. Eligible workers pay 35 percent of the premium to their former employers. To qualify, a worker must have been involuntarily separated between Sept. 1, 2008, and Dec. 31, 2009. This subsidy phases out for individuals whose modified adjusted gross income exceeds $125,000, or $250,000 for those filing joint returns.

This provision is extremely valuable to unemployed workers who have few options for affordable coverage without this assistance. The individual insurance market has more-costly premiums than employer coverage and more limited benefits, and often is unavailable at any premium for those with health conditions.[26]

It should be recognized, however, that COBRA premium assistance will not reach all of the unemployed. Only 38 percent of workers with incomes below twice the poverty income level are eligible for COBRA (Figure 25). They either work for small firms not subject to COBRA requirements or work for a firm that does not provide them with health insurance even when employed.[27]

Further, many unemployed individuals and families will still find coverage unaffordable even with this assistance.[28] The average COBRA family premium is $12,680. Even under the recent legislation, the worker's 35 percent share of this premium is $4,438—a hefty sum for unemployed families adjusting to the loss of a job and a regular paycheck (Figure 26).

Implications of Health Reform for Affordability and Adequacy of Health Insurance Coverage

The health reform provisions currently being considered by Congress would go a long way toward fixing our broken health insurance system. The most important provisions for improving insurance coverage include:

- ***Insurance exchange with market rules***
    - **Both the House bill and the Senate HELP bill** call for the creation of a health insurance exchange providing expanded choices and competition. Market rules would prohibit discrimination against people with health conditions, requiring insurance to be available to all with premiums that are the same for everyone at the same age and with the same family structure, regardless of health status.
- ***Sliding-scale premium subsidies***
    - The **House bill** would cap family or individual premium payments purchased through an insurance exchange at no more than 1.5 percent of

income for those earning 133 percent of the poverty level, or $28,200 for a family of four, rising to no more than 12 percent of income for those with incomes at 400 percent of poverty, or about $84,182 for a family of four.

  - The **Senate HELP bill** would provide premium assistance on a sliding scale up to 400 percent of poverty for coverage purchased through an insurance exchange, such that premiums are no more than 1 percent of income for people with incomes of 150 percent of poverty or less and no more than 12.5 percent of income for those with incomes at 400 percent of poverty.

- ***New Medicaid income eligibility level***
  - The **House bill** expands eligibility for Medicaid up to 133 percent of poverty, or $28,200 for a family of four.
  - The **Senate HELP bill** expands eligibility for Medicaid to 150 percent of poverty, or $31,804 for a family of four.
- ***Benefits***
  - The **House bill** would instruct the insurance exchange to define an essential benefit package. The exchange would offer four benefit tiers, though only the level of cost-sharing would be allowed to vary across the three lowest tiers. All health plans, including those furnished by employers, must provide at least the "basic" essential benefit package inside and outside the exchange.
  - The **Senate HELP bill** would instruct the Secretary of Health and Human Services to define an essential health benefits package that would be equal in scope to typical employer plans. The Secretary would be required to establish at least three cost-sharing tiers for the essential benefits package.
- ***Cost-sharing assistance for low-income families***
  - The **House bill** would reduce cost-sharing in the basic plan such that the share of costs covered by the basic plan would rise from 70 percent to 97 percent for those earning 133 to 150 percent of the poverty level, 93 percent for those earning 150 to 200 percent of poverty, and down to 72 percent of costs covered for those earning 350 percent of poverty.
- ***Shared employer responsibility***
  - The **House bill** as reported out of the Energy and Commerce Committee would require employers to offer coverage to their employees and contribute at least 72.5 percent of the premium cost for single coverage and 65 percent of the premium cost for family coverage of the lowest cost

plan that meets the bill's "essential" benefits package requirements, or else pay 8 percent of payroll into the Health Insurance Exchange Trust Fund. The House bill exempts small businesses with payrolls of less than $500,000 from the bill's 8 percent payroll tax for employers that do not offer health insurance, and it phases in employer-shared financial responsibility beginning with a 2 percent payroll tax for firms with annual payrolls between $500,000 and $585,000, and rising to 8 percent for firms with payrolls above $750,000. The House bill as reported out of the Energy and Commerce Committee provides a tax credit equal to 50 percent of the amount paid by a small employer. The tax credit is phased out for employers with 10 to 25 employees and is also phased out for employers with average wages of $20,000 to $40,000 per year.

- The **Senate HELP bill** requires employers to offer health coverage that meets the federal standard of "minimum qualifying coverage" and to contribute at least 60 percent of the premium cost. Employers that do not "play" would pay $750 annually for each full-time employee who is not offered coverage, and $375 for each uncovered part-time worker. The bill also requires employers to include dependents up to age 26. The Senate HELP bill exempts small businesses with fewer than 25 employees from the mandate. In addition, the first 25 employees of any firm are not subject to the $750 per-worker payment if the firm decides not to offer coverage. The Senate HELP bill provides tax credits for up to three years for firms with 50 or fewer workers and with an average wage of $50,000 or less that offer coverage and pay 60 percent or more of their employees' premiums. The credit is equal to $1,000 for each employee with single coverage and $2,000 for family coverage. Bonus payments are available for each additional 10-percentage-point increase in premium contributions.

The Congressional Budget Office estimates that if the House bill is enacted, the number of people uninsured would decline to 17 million people in 2019. Employer-sponsored insurance would remain the primary source of insurance for most families, covering 60 percent of the population, or 166 million people. About 10 million people would become newly enrolled through Medicaid, with most previously having no insurance.

The Ways and Means Committee has prepared charts illustrating premium and out-of-pocket-cost maximums for families and children. The first chart below shows how much in premiums a family of four pays today and the maximum each family would pay under the House bill.

AMERICA'S AFFORDABLE HEALTH CHOICES ACT WILL REDUCE PREMIUMS

Under HR 3200*, premiums will decrease and coverage will increase relative to today's coverage in the non-group market. HR 3200 will make health insurance affordable, particularly for those with modest incomes. Monthly premiums would be limited to no more than a certain percentage of a family's income.

INCOME LEVEL		WHAT YOU PAY TODAY Premiums for a Typical High Deductible Plan		MAXIMUM PREMIUMS YOU WOULD PAY UNDER HR 3200 IN THE EXCHANGE		MAXIMUM PREMIUMS YOU WOULD PAY IN THE EXCHANGE UNDER ENERGY AND COMMERCE AS REPORTED	
Federal Poverty Level	2009 Annual Income	% of Income	Monthly Premium	% of Income	Monthly Premium	% of Income	Monthly Premium
133 % FPL	**$29,327**	34%	$827	1.5%	**$37**	1.5%	**$37**
150% FPL	**$33,075**	30%	$827	3%	**$83**	3%	**$83**
200% FPL	**$44,100**	23%	$827	5%	**$184**	5.5%	**$202**
250% FPL	**$55,125**	18%	$827	7%	**$322**	8%	**$368**
300% FPL	**$66,150**	15%	$827	9%	**$496**	10%	**$551**
350% FPL	**$77,175**	13%	$827	10%	**$643**	11%	**$707**
400% FPL	**$88,200**	11%	$827	11%	**$809**	12%	**$882**

*As introduced and reported by the House Ways and Means, Education and Labor, and Energy and Commerce Committees.

Prepared by the Committee on Ways and Means *July 31, 2009*

The second chart shows examples of how much in deductibles and coinsurance people could end up paying, and how those costs would compare with a typical high-deductible plan and with the typical health insurance plan provided to federal employees.

SEEING YOUR DOCTOR WILL BE MORE AFFORDABLE WITH COST SHARING ASSISTANCE IN THE EXCHANGE

Under HR 3200, affordability credits will limit out-of-pocket costs for families with low or modest incomes by limiting cost sharing for doctor visits, hospital stays and other services and creating an overall cap on out-of-pocket expenses. In addition, HR 3200 eliminates annual and lifetime caps that insurance companies sometimes use to limit covered care. This means people will pay less and get the care they need without fear of bankruptcy due to medical costs. Below are *examples* of cost sharing under America's Affordable Health Choices Act compared to cost sharing under the Federal Employees Health Benefit Plan (FEHBP) or a high deductible health plan in the non-group or individual market.

Illustrative Plan Options*

Coverage in the Exchange Federal Poverty Level	2009 Annual Income	Deductible	Co-Insurance**	Out-Of Pocket Cap
133% - 150% FPL	$29,327 - $33,075	$100	10%	$900
150% - 200% FPL	$33,075 - $44,100	$200	15%	$1,450
200% - 250% FPL	$44,100 - $55, 125	$500	15%	$4,400
250% - 300% FPL	$55,125 - $66,150	$1,000	20%	$7,450
300% - 350% FPL	$66,150 - $77,175	$2,400	20%	$8,520
Above 350% FPL	$77,175+	$3,000	15%	$10,000
Typical High Deductible Plan ALL INCOMES		$2,200	20-25%	$10,000
FEHBP (Insurance Coverage for federal employees and Members of Congress) ALL INCOMES		$600	15-30%	$9,934

* These examples show possible cost sharing for insurance coverage for a family of four; the Administration would establish the actual levels based on the value described in the legislation (e.g., for those with incomes between 133-150 FPL the actuarial value equals 97 percent, which means the family pays 3 percent of the cost sharing for the plan; between 150- 200% FPL the value is 93; between 200- 250% FPL the value is 85; between 250- 300% FPL the value is 78; between 300- 350% FPL, the value is 72; for those above 350% FPL, the value is 70). ** Percent consumer pays of the cost of the service received.

Prepared by the Committee on Ways and Means *July 31, 2009*

Urgent Need for Comprehensive Reform to Ensure Affordable Coverage for All

Recognizing the plight of families facing an unraveling safety net of health insurance coverage, the President last night reiterated his call for bold change to address the crushing burden of rising health care costs for both businesses and families. Building on the action of Congress earlier this year, he has called for moving forward to secure insurance coverage for all and change the health system through competition and choice.

Failing to act will lead to greater and greater numbers of Americans without adequate, affordable insurance—unable to obtain the care they need and struggling under the weight of rising premiums and out-of-pocket costs. Health insurance premiums have risen from 11 percent of family income in 1999 to 18 percent today. If we continue on our current course, they will reach 24 percent by 2020 (Figure 27).[29] The average American family simply cannot afford to spend one-fourth of its income on health insurance.

Health reform could provide substantial relief to families by slowing the growth in health insurance premiums. Estimates prepared for The Commonwealth Fund suggest that the average family would save $2,300 in 2020 from comprehensive health reform embracing

competition and choice (Figure 28).[30] This includes an insurance exchange featuring a public health insurance plan that fosters competition and choice in the market for health insurance, and reforms in provider payment methods that reward value, rather than volume, of services. System reforms designed to help the nation reach attainable benchmark performance levels on patient outcomes and prudent use of resources, use of modern information technology, investment in population health, and rewards for providers willing to be accountable for ensuring that patients achieve the best possible outcomes would both save lives and slow spending from 6.5 percent a year to 5.2 percent a year over the next decade.

Although politically difficult, there is an urgent need to move in a new direction. The comprehensive reforms proposed by the President will help spark economic recovery, put the nation back on a path to fiscal responsibility, and ensure all families are able to get the care they need while having financial security. The cost of inaction is high. With both a historic political opportunity and a clear path toward a high performance health system, the time has come to take bold steps to ensure the health and economic security of this and future generations. Health reform is an urgently needed investment in a better health system and a healthier and economically more productive America.

NOTES

[1] C. DeNavas-Walt et al., *Income, Poverty, and Health Insurance Coverage in the United States: 2007*, (Washington, D.C.: U.S. Census Bureau, August 2008); U.S. Census Bureau, Current Population Survey, Annual Social and Economic Supplement, 2001 and 2006; Projections to 2020 based on estimates by The Lewin Group.

[2] The Commonwealth Fund Commission on a High Performance Health System, *The Path to a High Performance U.S. Health System: A 2020 Vision and the Policies to Pave the Way* (New York: The Commonwealth Fund, Feb. 2009).

[3] Analysis of the 2006 Medical Expenditure Panel Survey by B. Mahato of Columbia University for The Commonwealth Fund.

[4] S. R. Collins, J. L. Kriss, M. M. Doty, and S. D. Rustgi, *Losing Ground: How the Loss of Adequate Health Insurance Is Burdening Working Families: Findings from the Commonwealth Fund Biennial Health Insurance Surveys, 2001–2007* (New York: The Commonwealth Fund, Aug. 2008).

[5] J. Holahan and A. B. Garrett, *Rising Unemployment, Medicaid, and the Uninsured*, Publication No. 7850 (Washington, D.C.: Kaiser Commission on Medicaid and the Uninsured, Jan. 2009).

[6] M. M. Doty, S.R. Collins, S.D. Rustgi, and J.L. Nicholson, *Out of Options: Why So Many Workers in Small Businesses Lack Affordable Health Insurance and How Health Care Reform Can Help—Findings from the Commonwealth Fund Biennial Health Insurance Survey, 2007* (New York: The Commonwealth Fund, Sept. 9, 2009).

[7] White House Office of Health Reform, *Helping the Bottom Line: Health Reform and Small Business*, (Washington, D.C.: Executive Office of the President, April 2009).

[8] M. M. Doty, S. R. Collins, S. D. Rustgi, and J. L. Nicholson, *Out of Options*, Sept. 2009.

[9] The Commonwealth Fund Commission on a High Performance Health System, *Why Not the Best? Results from the National Scorecard on U.S. Health System Performance, 2008* (New York: The Commonwealth Fund, July 2008).

[10]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.

[11] J. Gabel. R. McDevitt, L. Gandolfo et al., "Generosity and Adjusted Premiums in Job-Based Insurance: Hawaii Is Up, Wyoming Is Down," *Health Affairs*, May/June 2006 25(3):832–43.

[12] The Kaiser Family Foundation/Health Research and Educational Trust, *Employer Health Benefits*, 2000 and 2008 Annual Surveys.

[13] C. Schoen, S. R. Collins, J. L. Kriss, and M. M. Doty, "How Many Are Underinsured?" June 10, 2008.

[14] S. R. Collins, J. L. Kriss, M. M. Doty, and S. D. Rustgi, *Losing Ground*, Aug. 2008.

[15] C. J. Bradley et al., *Differences in Breast Cancer Diagnosis and Treatment: Experiences of Insured and Uninsured Patients in a Safety Net Setting*, NBER Working Paper No. 13875, March 2008; C. J. Bradley, D. Neumark, L. M. Shickle et al., "Differences in Breast Cancer Diagnosis and Treatment: Experiences of Insured and Uninsured Women in a Safety-Net Setting," *Inquiry*, Fall 2008 45(3):323–39.

[16] S. R. Collins, J. L. Kriss, M. M. Doty, and S. D. Rustgi, *Losing Ground*, Aug. 2008.

[17] C. Schoen, S. Collins, J. Kriss, M. Doty, "How Many Are Underinsured?" June 10, 2008.

[18] K. Davis, *Shifting Health Care Financial Risk to Families Is Not a Sound Strategy: The Changes Needed to Ensure Americans' Health Security*, Invited Testimony, House Committee on Ways and Means, Subcommittee on Health, Hearing on "Health of the Private Health Insurance Market" (New York: The Commonwealth Fund, Sept. 2008).

[19] C. Schoen, S. Collins, J. Kriss, and M. Doty, "How Many Are Underinsured?" June 10, 2008.

[20] S. R. Collins, J. L. Kriss, M. M. Doty, and S. D. Rustgi, *Losing Ground*, Aug. 2008.

[21] Ibid.

[22] White House Council of Economic Advisers, *The Economic Case for Health Care Reform,* June 2009.

[23] Congressional Budget Office, *CBO's Preliminary Estimate of Changes in SCHIP and Medicaid Enrollment in Fiscal Year 2013 of Children Under the Children's Health Insurance Program Reauthorization Act of 2009* (Washington, D.C.: Congressional Budget Office, Jan. 2009).

[24] J. M. Lambrew, *The State Children's Health Insurance Program: Past, Present, and Future* (New York: The Commonwealth Fund, Feb. 2007).

[25] Federal subsidies are offered as long as nine months for workers who were involuntarily terminated from September 1, 2008, to December 31, 2009, and whose incomes do not exceed $125,000 for individuals and $250,000 for families. Public Law 111-5, American Recovery and Reinvestment Act of 2009, Feb. 17, 2009.

[26] M. M. Doty, S. R. Collins, J. L. Nicholson, and S. D. Rustgi, *Failure to Protect: Why the Individual Insurance Market Is Not a Viable Option for Most U.S. Families* (New York: The Commonwealth Fund, July 2009).

[27] M. M. Doty, S. D. Rustgi, C. Schoen, and S. R. Collins, *Maintaining Health Insurance During a Recession: Likely COBRA Eligibility* (New York: The Commonwealth Fund, Jan. 2009).

[28] M. Broaddus et al., *Measures in House Recovery Package—But Not Senate Package—Would Help Unemployed Parents Receive Health Coverage* (Washington, D.C.: Center on Budget and Policy Priorities, Feb. 2009).

[29] K. Davis, *Why Health Reform Must Counter the Rising Costs of Health Insurance Premiums,* The Commonwealth Fund, Aug. 2009.

[30] The Commonwealth Fund Commission on a High Performance Health System, *The Path to a High Performance U.S. Health System: A 2020 Vision and the Policies to Pave the Way* (New York: The Commonwealth Fund, Feb. 2009).