



Coverage and Affordability: How Healthcare Reform Will Affect Arizonans

HIGHLIGHTS FROM THE AHS 2008



Background

On March 23, 2010, the President signed a bill to reform our nation's health care. The legislation (and the accompanying reconciliation bill) contain a wide array of ideas for addressing coverage, access to care, health care costs, and quality.

This issue of *HealthTakes* analyzes how the new law affects Arizona, in light of the dizzying array of changes that have occurred in recent days to our state's Medicaid program (called AHCCCS in Arizona) and CHIP program (called KidsCare in Arizona). We also take data from the 2008 Arizona Health Survey and examine how Arizona's adults (ages 18-64) will be affected by healthcare reform. Specifically, we focus on who will be eligible for expanded public coverage, tax credits, and caps on out-of-pocket costs. We explore some of the known characteristics of these groups, and relevant issues related to cost, affordability, and access to care.

Additional Federal Dollars for the State – If Current Eligibility for AHCCCS and KidsCare are Retained

Healthcare reform will provide Arizona with additional dollars from the federal government for its Medicaid program beginning in 2014. Over the course of five years (2014-2018), Arizona will reportedly receive an additional \$2.5 billion.

With the advent of healthcare reform, all federal funding is tied to continuation of current eligibility levels for the two programs. On March 18, 2010, the Governor of Arizona signed into law budget bills eliminating Arizona's KidsCare program effective June 15, 2010. She also signed into law language allowing the elimination of coverage for 310,500 people on AHCCCS (i.e. the Proposition 204 population), effective December 31, 2010. If the state does not continue to fund these programs, as is currently planned, the state will lose \$7 billion annually in federal money for the AHCCCS program under new maintenance of effort requirements contained in healthcare reform legislation.

Of course, continuation of both KidsCare and current eligibility levels for AHCCCS would cost the state approximately \$3.9 billion over the next three years to pay for these programs – a considerable challenge given our state's need to close the gap between lagging revenues and rising expenditures. (The amount could be less if Congress extends its enhanced federal match for Medicaid, as is currently being discussed in Washington.) But it would also provide continued access to care for hundreds of thousands of Arizonans, and allow the state to continue to collect approximately \$4.8 billion over three years in federal matching funds that our state will forfeit if we eliminate health coverage for these populations.

Increased Coverage for the Working Poor

It has long been recognized that people with low incomes are unlikely to be able to afford paying for health insurance on their own. Low wage earners are also far less likely to be offered health insurance through an employer than higher wage earners.

Medicaid, the publicly funded health coverage program for low-income working adults and children, has succeeded in providing many low income people with access to health care. Arizona's Medicaid program called AHCCCS (pronounced "access") is recognized as a national leader in providing quality health care while controlling costs.

Healthcare reform will expand eligibility for AHCCCS up to 133 percent of the Federal Poverty Level – roughly \$29,300 for a family of four – beginning in 2014. Nearly 200,000 additional working adults (199,240 adults ages 18-64) will potentially be eligible for AHCCCS. (Some adults may not qualify due to factors such as citizenship status, and others may not apply for coverage.) Thirty-seven percent (73,412) of these people are currently uninsured.

While expanding the eligibility level will allow more people to access coverage, AHCCCS will also likely expand because of what is termed the "woodwork effect." Currently, many Arizonans are already eligible for AHCCCS, earning at or below 100 percent of the Federal Poverty Level.

Indeed, based on results from the 2008 Arizona Health Survey, 133,600 Arizona adults (ages 18-64) qualified for AHCCCS but were uninsured. When eligibility for AHCCCS is expanded, many of these people will gain coverage as a result of heightened awareness of its availability and coverage mandates affecting some of this population. It is difficult to estimate how many currently eligible people would apply for coverage. AHCCCS has typically assumed that half would enroll for estimation purposes. The federal government will pay a large share of the cost of covering these people (For example, the federal government will pay 83% beginning in 2014, increasing to 90 percent by 2020 and beyond.)

The working adults who will benefit from an expansion of Medicaid (people who are at or below 133 percent of the Federal Poverty Level who are not yet enrolled in AHCCCS) are likely to have greater access to care under healthcare reform. Data from the 2008 Arizona Health Survey suggest that these low-income Arizonans need care but are limited in their ability to access care due to cost. According to the survey:

- Seventeen percent delayed health care due to concerns about cost.
- Thirty-five percent have no usual place where they receive health care.
- Nearly one-in-three (31 percent) said they had problems paying their medical bills.
- Fifty-six percent suffer from one or more chronic diseases.

Tax Credits to Make Health Coverage More Affordable for the Middle Class

More and more, middle class Arizonans are having a hard time paying for health coverage. In 2008, the average health insurance premium for an Arizona family was over \$12,000 a year. Increasingly, Arizonans are paying more out-of-pocket for their health care.

Healthcare reform will allow up to 45 percent of working age Arizonans (those earning between 100-400 percent of the Federal Poverty Level, or 1,463,872 adults aged 18-64) to take advantage of tax credits to make health care more affordable. Nearly 23 percent of those eligible for such tax credits are currently uninsured (329,733 Arizonans). These tax credits would essentially limit the amount that a family would have to pay for health insurance premiums based on a family's income. Limits on the amount a family would pay for health coverage would be as follows:

TABLE 1 Tax Credits: Maximum Percent of Income Paid for Premiums

Income for a Family of Four	Healthcare Reform
\$22,000 - \$29,000	2 - 3%
\$29,000 - \$33,000	3 - 4%
\$33,000 - \$44,000	4 - 6.3%
\$44,000 - \$55,000	6.3% - 8.1%
\$55,000 - \$66,000	8.1% - 9.5%
\$66,000 - \$77,000	9.5%
\$77,000 - \$88,000	9.5%

TABLE 2 Cost Sharing: Percent of Cost Sharing Paid for by Health Insurance Plan

Income for a Family of Four	Healthcare Reform
\$29,000 - \$33,000	94%
\$33,000 - \$44,000	85%
\$44,000 - \$55,000	73%
\$55,000 - \$66,000	70%
\$66,000 - \$77,000	70%
\$77,000 - \$88,000	70%

39% of working age adults, specifically those earning between 133 percent and 400 percent of the Federal Poverty Level, will also benefit from limits on out-of-pocket costs such as co-pays and deductibles.

Such changes to out-of-pocket costs would be targeted towards individuals where evidence suggests access to care and affordability are areas of concern. According to the 2008 Arizona Health Survey:

- Eighteen percent of all (insured and uninsured) Arizona working adults (age 18-64) who would be eligible for these cost-sharing limits delayed health care because of cost in 2008.

- One-quarter indicated that they had no usual place where they receive medical care.
- Over one-in-four (26 percent) indicated that they are currently having trouble paying their medical bills.
- Fifty-six percent suffer from one or more chronic diseases.

There is also evidence that tax credits and cost-sharing limits may benefit those who most need health care. Arizona adults who would be eligible for both tax credits and tax subsidies (those earning between 134-400 percent of the Federal Poverty Level) report less favorable health status than their wealthier counterparts. Indeed, only 43 percent reported that their health was excellent or very good, compared to 68 percent of those who earn more than 400 percent of the Federal Poverty Level (\$88,000 a year for a family of four).

Implications and Other Considerations

The new law contains numerous ideas for making health care more affordable for individuals. AHCCCS will become more broadly available to Arizona's working poor. In addition, tax credits and limits on cost sharing could benefit thousands – if not hundreds of thousands – of adults and their families.

Nonetheless, implications on affordability for individuals will ultimately be far more complicated than the data above conveys. For example, individuals who currently do not have coverage but for whom coverage is mandated will undoubtedly see their health coverage costs increase – or they will pay a penalty to remain uninsured. Further, if insurance reforms are mandated allowing people access to coverage regardless of their health status, costs will be shifted and distributed among the population. Some may end up paying more – but for higher quality, more dependable coverage.

Affordability will also be affected by whether an individual works for an employer who currently offers health coverage or not, and the effectiveness of tax credits to small employers to offer health insurance to their employees. In addition, the effectiveness of insurance exchanges (marketplaces where individuals can buy health coverage) in driving down costs through competition will have implications on affordability.

Healthcare reform also has implications on the cost that we would have to pay for health care as taxpayers. The non-partisan Congressional Budget Office estimates that the proposal would reduce the deficit by \$138 billion over the next ten years, suggesting benefits to us as taxpayers. But the new law requires Arizona to continue its KidsCare program and health coverage for 310,500 adults, rather than drop them from insurance as a budget-balancing measure if the state wants to continue to receive federal funds. And that requirement could force lawmakers to raise taxes to maintain these safety-net programs and preserve federal funding.

Finally, how much we as taxpayers and consumers will pay for health care will ultimately be affected by whether, and to what degree, rising health care costs are controlled. If limits are placed on how much we as individuals pay for health care, rising health care costs would ultimately be passed on to federal and state governments.

Healthcare reform does contain cost-controlling ideas. For example, by covering the uninsured, uncompensated care would be reduced, and cost-shifting to people with insurance would be lowered. However, the extent and resulting effectiveness of cost control efforts contained in the healthcare reform law are hotly debated. Factors driving rising tides of medical costs are far more various and complicated than health insurance coverage alone.