Incomplete coverage vs. unexpected costs: Economists point out dilemma in Affordable Care Act

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A paper by economists at the Indiana University School of Public and Environmental Affairs and the Cornell University College of Human Ecology points to the difficult policy trade-offs that the U.S. faces as it implements the health-care reform legislation approved in December 2009.

Focusing on the largely overlooked question of what, exactly, counts as "affordable" in the Affordable Care Act, the paper shows that, if one method of defining affordability is used, millions of dependents of low- and moderate-income employees will be left in "no man's land," still lacking affordable coverage.

But if affordability is calculated by a different method -- and especially if employers respond to the law by increasing employee contributions to health-care premiums -- the government could face significant unanticipated costs.

"What we're pointing out is that there are trade-offs in the policy decisions," said Kosali Simon, professor in SPEA at Indiana University and co-author with Cornell professor Richard Burkhauser and Ph.D. candidate Sean Lyons. "We have to face the fact that, if we're going to have health care available, we have to pay for it. There's a big question about how much we're willing to pay."

The paper, "The Importance of the Meaning and Measurement of 'Affordable' in the Affordable Care Act," has been submitted for publication and is available as a working paper from the National Bureau of Economic Research (NBER), where Simon and Burkhauser are research associates.

The Affordable Care Act seeks to expand access to health insurance using four primary strategies: an expansion of Medicaid; subsidies for low- and moderate-income employees; fines for employers and individuals who do not obtain coverage; and market reforms to create state insurance exchanges.

To prevent "crowd-out" -- employees moving from employer-sponsored insurance to subsidized insurance purchased on the exchanges -- the law says employees are eligible for subsidies only if they do not have access to affordable employer-sponsored insurance. Insurance is defined as affordable if the employee's cost is less than 9.5 percent of his or her family income.

The law is vague, however, on whether it refers to the cost of individual coverage or of family coverage. And while the issue has received little public attention, the distinction matters. The average cost of individual coverage in the U.S. is $4,386, while the average cost of family coverage is $12,298. So for many employees, single coverage is affordable, but family coverage isn't.

"This one question can have major implications for the cost and the number of people in the exchanges, and for how many people will be induced to drop out of employer-sponsored insurance and move into the exchanges," Burkhauser said.

The paper shows that the question will matter even more if employees contribute an increasing share of the cost their employer-sponsored

insurance. Currently, employees pay an average of 20 percent of the cost of single coverage and 27 percent of the cost of family coverage.

At current employee contribution levels, using family coverage rather than single coverage to determine affordability would cause an additional 1.3 million employees to qualify for subsidies.

But if employees had to pay 50 percent of their insurance costs, using family coverage rather than single coverage would cause an additional 6 million employees to qualify for subsidies, potentially boosting government costs by tens of billions of dollars.

On the other hand, using the single-coverage definition of affordability creates a different problem.

More employees would be deemed to have affordable coverage through their jobs, because the cost of single coverage would be less than 9.5 percent of their family income; but they could afford coverage only for themselves. They and their families would not qualify for subsidies, and their dependents would be in a "no man's land" without access to affordable coverage.

At current employee contribution levels, almost 4 million dependents would be in that no man's land. But if employees had to pay 50 percent of their cost of coverage, the number of dependents without access to affordable coverage would rise to almost 13 million.

On Aug. 12, the U.S. Department of Health and Human Services issued a proposed rule that the affordability definition refers to single coverage, not family coverage. Hearings on the rule are set for Nov. 17. The Congressional Budget Office and the Joint Committee on Taxation used the single-coverage definition of affordable to calculate their estimates of the cost of the legislation.

While some economists have argued that many employers will drop insurance coverage, Simon, Burkhauser and Lyons assume for purposes of their calculations that that won't happen.

However, they point out that the law creates incentives for increasing employee contributions to insurance costs. If the employee share rose to 50 percent, for example, higher-income employees could still afford employer-sponsored insurance. But the cost would become unaffordable for low- and moderate-income employees, who would then qualify for government-subsidized coverage.

The $3,000 fine that employers could be charged for dropping employees from affordable coverage, the paper says, isn't enough to offset the potential benefit of the subsidies -- more than $11,000 for low-income employees.

More information: The paper, which is based on data from the Current Population Survey, the Medical Expenditure Panel Survey and the Kaiser Family Foundation, is available online at www.nber.org/papers/w17279

Provided by Indiana University

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