ISSUE BRIEF

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EXPANDED SUBSIDIES ARE ESSENTIAL TO HEALTH REFORM

Cutting Subsidies Below 400% of Poverty Line Would Undermine Goals of Health Reform

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Much of the current debate over health care reform has focused on reaching universal coverage and achieving overall health system cost control. Equally important, however, is providing affordable coverage, or subsidies, to those who cannot currently afford it. Many politicians have suggested trimming the subsidies offered to enrollees in the new national health insurance exchange as way to reduce the total price tag of the reform bill. While legislators should be mindful of the fiscal impact of the final bill, cutting subsidies any more is ill-advised and would ultimately undermine the goals of meaningful reform—to make health insurance and health care more, not less, affordable and accessible.

Current legislation in the House of Representatives would limit the maximum amount families under 400% of the federal poverty line could pay on insurance premiums. This maximum premium amount varies from 1.5% to 12% family income, depending on how much a household is above the poverty line. The fiscally conservative "Blue Dog" Democrats cut these rates, though not as much as they had originally intended. Members of the Senate Finance Committee have proposed reducing support even beyond these levels, limiting subsidies to families making 300% of the poverty line. Nationally, about 42 million individuals (or 14.3% of the population) are between 300-400% of the federal poverty line and thus stand to be affected by a cut in eligibility.

Reducing the eligibility for subsidies would force many middle-income families in the exchange to spend substantial portions—easily 15% to 20%—of their household income on premiums, placing them at risk for financial shock. Given that taxation of employer-sponsored health plans appears to have re-emerged as an option for financing health reform, expanded subsidies are also essential to ensure that reform does not burden middle-class households, a key promise of the Obama administration. In light of these concerns, this issue brief estimates the effect of lowering the cut-off for subsidies from 400% to 300% of the federal poverty line.

When premium subsidies are capped at 300% of the federal poverty line, the median family in 18 states would lose eligibility for support. The average subsidy that these families would lose would be $5,000. Families in five states would spend 19% or more of their household income on health insurance premiums. Because this analysis looks only at premiums and not total out-of-pocket spending on medical care, it understates the full burden that families in the exchange would assume without federal subsidies. When premium subsidies are capped at 400% of the federal poverty line (the cut-off proposed by the House bill), the median family of four in all but three states would receive some assistance. The average credit for eligible middle-income families would be about $6,273.

These results show that policy makers need to ensure subsidies are at least maintained, if not expanded, for households up to 400% of the federal poverty line so that insurance is truly affordable for all Americans in the new national health insurance exchange.

Subsidy eligibility analysis

Table 1 shows the proposed system for calculating premium subsidies in the House of Representatives reform legislation. Depending on where a household falls above the federal poverty line (FPL), it could pay between 1.5% and 12% of its adjusted gross income (AGI) on premiums. Families that earn below 133% of poverty would be covered by Medicaid. For example, a household that is 230% over the FPL would pay 7% of their income on premiums. The difference between this amount and the total premium would be covered by the subsidy (in this example $8,278).

TABLE 1

Proposed system for calculating premium subsidies under House of Representatives bill

Percent of the federal poverty line	Subsidy restricts premiums to be no greater than a set percent of income
Below 133%	Eligible for Medicaid
133% to 150%	1.5% to 3%
150% to 200%	3% to 5.5%
200% to 250%	5.5% to 8%
250% to 300%	8% to 10%
300% to 350%	10% to 11%
350% to 400%	11% to 12%

SOURCE: *The New Affordability Measures In The Energy And Commerce Health Legislation*. Igor Volsky, The Wonk Room Blog, Center for American Progress. August 4, 2009.

Table 2 shows the hypothetical family-plan premium in a new insurance exchange relative to median household income for a family of four in each state. We assume that the average premium for large employers (with over 1,000 workers) will be equivalent to average premiums in a new exchange. We then calculate how median adjusted gross family income compares to the FPL, and then whether or not the average family in each state would be eligible for premium subsidies at cut-offs of 300% and 400% of the FPL.

With subsidies that end at 300% of the FPL, the average family of four in 36 states could spend over 12% of their income on premiums in the national exchange, and in seven states the average family would easily spend over 19% of their income. A family of four with the national median family income—$73,276—would find themselves without federal support, forced to spend 17% of their income on premiums.

TABLE 2

Impact of change in insurance subsidy eligibility for median household, by state

	Cost of average family plan in exchange	Percent of income spent on premiums without subsidies	Subsidy amount with eligibility at 400% of FPL	Percent of income spent on premiums with subsidy	Qualifies with 300% cutoff?	Qualifies with 400% cutoff?	Loses subsidy if eligibility lowered from 400% to 300%
United States	$12,595	18.9%	$5,895	10.0%	NO	YES	√
Alabama	$12,595	22.5%	$8,048	8.1%	YES	YES	
Alaska	13,276	15.4	3,040	11.8	NO	YES	√
Arizona	13,170	21.1	7,349	9.3	YES	YES	
Arkansas	11,690	23.4	8,278	6.8	YES	YES	
California	12,798	18.3	5,578	10.3	NO	YES	√
Colorado	12,045	17.8	5,196	10.1	NO	YES	√
Connecticut	13,279	14.1	--	--	NO	NO	
Delaware	13,336	18.9	5,977	10.4	NO	YES	√
District of Columbia	13,599	24.2	8,981	8.2	YES	YES	
Florida	12,900	20.2	6,765	9.6	YES	YES	
Georgia	11,800	19.1	6,143	9.2	YES	YES	
Hawaii	11,273	15.2	3,287	10.7	NO	YES	√
Idaho	11,810	19.9	6,624	8.8	YES	YES	
Illinois	12,620	17.8	5,249	10.4	NO	YES	√
Indiana	14,156	22.7	8,357	9.3	YES	YES	
Iowa	11,252	17.7	5,160	9.6	YES	YES	
Kansas	12,115	18.7	5,799	9.8	YES	YES	
Kentucky	11,855	20.5	6,971	8.5	YES	YES	
Louisiana	11,583	20.0	6,635	8.5	YES	YES	
Maine	12,596	20.2	6,805	9.3	YES	YES	
Maryland	12,801	14.2	--	--	NO	NO	
Massachusetts	13,775	15.8	3,402	11.9	NO	YES	√
Michigan	11,926	17.7	5,135	10.1	NO	YES	√
Minnesota	14,820	19.7	6,669	10.8	NO	YES	√
Mississippi	11,380	23.3	8,165	6.6	YES	YES	
Missouri	11,809	19.0	6,057	9.3	YES	YES	
Montana	11,975	20.5	6,966	8.6	YES	YES	
Nebraska	11,508	18.4	5,650	9.4	YES	YES	
Nevada	11,708	18.0	5,371	9.8	YES	YES	
New Hampshire	13,272	15.8	3,467	11.6	NO	YES	√
New Jersey	11,736	13.0	--	--	NO	NO	
New Mexico	12,474	25.7	9,324	6.5	YES	YES	

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TABLE 2 (CONT.)

Impact of change in insurance subsidy eligibility for median household, by state

	Cost of average family plan in exchange	Percent of income spent on premiums without subsidies	Subsidy amount with eligibility at 400% of FPL	Percent of income spent on premiums with subsidy	Qualifies with 300% cutoff?	Qualifies with 400% cutoff?	Loses subsidy if eligibility lowered from 400% to 300%
United States	$12,595	18.9%	$5,895	10.0%	NO	YES	√
New York	$13,230	18.2	$5,525	10.6	NO	YES	√
North Carolina	12,835	21.1	7,325	9.0	YES	YES	
North Dakota	11,881	18.8	5,923	9.4	YES	YES	
Ohio	11,902	18.0	5,318	10.0	YES	YES	
Oklahoma	11,200	20.4	6,845	7.9	YES	YES	
Oregon	12,981	20.5	6,964	9.5	YES	YES	
Pennsylvania	12,587	18.0	5,343	10.3	NO	YES	√
Rhode Island	13,759	16.7	4,343	11.5	NO	YES	√
South Carolina	11,978	20.8	7,102	8.5	YES	YES	
South Dakota	12,148	20.1	6,706	9.0	YES	YES	
Tennessee	13,283	23.3	8,525	8.3	YES	YES	
Texas	12,057	21.1	7,272	8.4	YES	YES	
Utah	12,137	19.4	6,287	9.3	YES	YES	
Vermont	13,345	19.8	6,528	10.1	NO	YES	√
Virginia	12,046	16.0	3,881	10.8	NO	YES	√
Washington	13,874	19.1	6,199	10.6	NO	YES	√
West Virginia	13,488	24.7	9,185	7.9	YES	YES	
Wisconsin	12,946	18.7	5,852	10.3	NO	YES	√
Wyoming	13,230	17.9	5,299	10.7	NO	YES	√

SOURCE: Authors' analysis based on various data sources. See data sources and full methodology below.

When the subsidy cut-off is raised to 350% of the FPL, coverage increases dramatically, but the average family of four in 14 states would still not receive support and would spend at least 12% of their income on premiums, and the average family in nine states would spend at least 15%. The average family in Minnesota, Washington, Wyoming, and New York would all spend at least 17% of their income on premiums.

At a cutoff of 400% of the FPL—the level currently proposed in House legislation—most families making median household incomes would receive support, except for median families in three states. Families in Connecticut, Maryland, and New Jersey would spend over 14% of their income on premiums, since the median family income exceeds 400% of poverty in those states. Even with the 400% subsidies, median families in Rhode Island, Alaska, New Hampshire, and Massachusetts would still spend over 11% of their income on premiums.

Table 3 shows the number and share of people between the proposed poverty cut-offs of 300% and 400% of the FPL. Of all the states, Utah has the greatest share (17% of its population) and California has the greatest absolute number of residents (4,469,291) between the eligibility cutoffs.

TABLE 3

Number and percent of individuals between 300% and 400% of the federal poverty line, by state (2007)

	Number of individuals between 300-400% of FPL	Percent of population between 300-400% of FPL
United States	41,877,488	14.3%
Alabama	635,171	14.1
Alaska	88,113	13.2
Arizona	862,997	13.9
Arkansas	372,941	13.5
California	4,469,291	12.5
Colorado	707,190	14.9
Connecticut	445,429	13.1
Delaware	126,942	15.1
District of Columbia	67,286	12.0
Florida	2,629,761	14.7
Georgia	1,313,058	14.1
Hawaii	200,655	16.0
Idaho	228,570	15.6
Illinois	1,816,496	14.5
Indiana	1,032,439	16.8
Iowa	485,379	16.8
Kansas	418,698	15.6
Kentucky	568,608	13.8
Louisiana	561,339	13.5
Maine	204,315	15.9
Maryland	717,236	13.1
Massachusetts	851,306	13.6
Michigan	1,492,388	15.2
Minnesota	803,069	15.8
Mississippi	346,822	12.3
Missouri	884,791	15.5%
Montana	142,899	15.3
Nebraska	287,306	16.7
Nevada	411,061	16.3
New Hampshire	201,040	15.8
New Jersey	1,106,870	13.0
New Mexico	261,661	13.6
New York	2,474,008	13.2
North Carolina	1,300,242	14.8
North Dakota	95,899	15.7
Ohio	1,744,906	15.6
Oklahoma	492,385	14.1
Oregon	568,230	15.5
Pennsylvania	1,848,663	15.4
Rhode Island	151,442	14.9
South Carolina	627,586	14.7
South Dakota	126,197	16.4
Tennessee	892,358	14.9
Texas	3,010,634	12.9
Utah	441,858	17.0
Vermont	94,244	15.7
Virginia	1,070,653	14.3
Washington	956,354	15.1
West Virginia	258,354	14.7
Wisconsin	899,464	16.5
Wyoming	82,884	16.3

SOURCE: Current Population Survey for 2007, U.S. Census Bureau.

Data sources and full methodology

Average annual health insurance premiums are from the 2006 Medical Expenditure Panel Survey; we assume that premiums in the exchange are equivalent to the premiums of large employers (greater than 1,000 workers), Insurance Component; Median household income for a family of four is from the 2007 American Communities Survey; 2009 Federal Poverty Estimate guideline is from the U.S. Department of Labor; Number and share of individuals between poverty cut-offs from the U.S. Census Bureau; to convert from family income to AGI, we applied state level ratios of these provided by Bureau of Economic Analysis ("State-Level Wage AGI Gap for Tax Years 2000-2002," Robert Brown and Ann Dunbar, U.S. Bureau of Economic Analysis, U.S. Department of Commerce. WP2008-03. July 2008.)