**CONGRESSIONAL BUDGET OFFICE**
***U.S. Congress***
***Washington, DC 20515***

***Douglas W. Elmendorf, Director***

September 22, 2009

Honorable Max Baucus
Chairman
Committee on Finance
United States Senate
Washington, DC 20510

Dear Mr. Chairman,

This letter responds to your questions about the subsidies offered through insurance exchanges and enrollees' payments for that coverage under the specifications for the Chairman's mark for proposed health care legislation that were provided by the staff of the Senate Finance Committee on September 15, 2009. It also discusses the factors that affect a comparison of those figures to the amounts that individuals and families would pay, on average, for employment-based coverage or individually purchased policies under current law. The Congressional Budget Office (CBO) has not completed a review of the document entitled "Chairman's Mark, America's Healthy Future Act," which I understand has been subsequently modified.[1]

**Subsidies and Payments Under the Proposal**

You asked for additional analysis of the subsidies that enrollees would receive for premiums and cost sharing—and the amounts they would have to pay, on average—if they purchased coverage in the new insurance exchanges that would be established under the Chairman's proposal. Those subsidies and payments would vary depending on an individual's or family's income relative to the federal poverty level (FPL). The enclosed table illustrates average subsidies and payments for single individuals and families of four at different income levels in 2016, based on the estimates that CBO and the staff of the Joint Committee on Taxation (JCT) have developed for that proposal.

[1] See Congressional Budget Office, letter to the Honorable Max Baucus providing a preliminary analysis of specifications for the Chairman's mark of the America's Healthy Future Act (September 16, 2009).

The analysis focuses on enrollees who purchase one of the low-cost "silver" plans offered in the exchanges because federal subsidies would be tied to the premiums of those plans.[2] Such a plan would have an actuarial value of 70 percent, which represents the average share of costs for covered benefits that would be paid by the plan. Under the proposal, premiums would vary by geographic area to reflect differences in average spending for health care and would also vary by age, but the table shows the approximate national average of premiums—about $4,700 for single policies and about $14,400 for family policies in 2016.[3] Enrollees could purchase more extensive coverage or a more expensive plan for an additional premium.

Those projected premium amounts include the effect of the fees that would be imposed under the proposal on manufacturers and importers of brand-name drugs and medical devices, on health insurance providers, and on clinical laboratories. Those fees would increase costs for the affected firms, which would be passed on to purchasers and would ultimately raise insurance premiums by a corresponding amount. According to JCT's estimate, those fees would generate roughly $10 billion in revenues in 2016, or about 1 percent of the affected premiums. The projected premium amounts for exchange plans do not include the effect of the excise tax on insurance plans with relatively high premiums, because individually purchased plans would not be subject to that excise tax.

Under the proposal, the maximum share of income that enrollees would have to pay for a low-cost silver plan in 2013 would range from 3 percent for those with income equal to the FPL to 13 percent for those with income equal to 300 percent of the FPL. Those with income between 300 percent and 400 percent of the FPL would have the same 13 percent cap. After 2013, those income caps would all be indexed so that the share of the premiums that enrollees paid (in each income band) would be maintained over time. As a result, the income caps would gradually become higher over time; they are estimated to range from 3.2 percent to 13.9 percent in 2016. The table shows the amounts of income that would correspond to the midpoints of each FPL band in 2016 and the resulting premiums that single and family enrollees would have to pay for a low-cost silver plan if their income equaled that midpoint. A family of four, for example, would have to pay premiums of about $1,400 if its income was $30,000 (about

[2] Specifically, the subsidies would be tied to the premium of the "silver" plan with the second lowest cost that was available in that area.

[3] Premium estimates are preliminary and subject to revision; all dollar figures in the text and table have been rounded to the nearest $100.

125 percent of the projected FPL in 2016), or $8,300 if its income was $66,000 (or 275 percent of the FPL).

The magnitude of the premium subsidy that enrollees received would depend on how the premiums compared to those income caps. According to the estimate by CBO and JCT, the average premiums for a low-cost silver plan for an individual in 2016 are expected to be less than the 13.9 percent cap on premiums as a share of income that would apply in that year for single people with income above roughly 300 percent of the FPL—so no subsidy would be projected for those with income higher than that amount. Our analysis also indicates that families with income equal to 400 percent of the FPL would probably receive some subsidy because the expected family premiums in 2016 would exceed 13.9 percent of their income (about $96,000 in 2016).

Under the proposal, enrollees with income below 200 percent of the FPL would also be given cost-sharing subsidies to raise the actuarial value of their coverage to either 90 percent (for those with income between 100 percent and 150 percent of the FPL) or 80 percent (for those between with income between 150 percent and 200 percent of the FPL). The table shows the average dollar value of those subsidies in 2016 and the average amount of cost sharing that single and family enrollees would be expected to pay in each income band.

The table also shows the sum of enrollee premiums and average cost-sharing amounts for the middle of each income band and the average share of income that such spending would represent. For single enrollees, premiums plus cost-sharing payments would range from about $1,200 for those with income of about $14,700, to $6,300 for those with income above $34,000. For families, premiums plus cost-sharing payments would range from about $2,900 for those with income of $30,000, to nearly $20,000 for those with income above $96,000.

**Comparison with Arrangements Under Current Law**

To put those figures in perspective, the amounts of premiums and cost sharing in the proposed insurance exchanges can be compared with the amounts people would pay in that same year under current law, either for employment-based coverage or for individually purchased (nongroup) coverage. However, making appropriate comparisons is difficult because insurance premiums can vary under current law—and thus can differ from premiums under a proposal—for many reasons, including the extent of the coverage that is provided; the rates and methods used to pay providers of

health care; the quantity and intensity of services used; the insurers' administrative costs; state regulations of the insurance market; employment status and employers' decisions about offering coverage; and the underlying health of the enrollee pool. How much each of those factors would contribute to a difference between premiums under current law and premiums under the proposal is difficult to ascertain.

**Employment-Based Coverage.** One point of comparison would be payments under current law for employment-based coverage, which is the primary source of health insurance for the nonelderly population. Under current law, average premiums for employment-based coverage are expected to be about $7,500 for a single policy and about $19,000 for a family policy in 2016. Several considerations affect the comparison of those amounts to the average premiums in the proposed exchanges:

- Under current law, employment-based plans are expected to have an average actuarial value of about 88 percent, which is greater than the actuarial value for the "silver" plans shown in the accompanying table. Thus, enrollees in employment-based plans would pay somewhat higher premiums but would face correspondingly lower cost-sharing requirements than enrollees in "silver" plans in the exchanges (with other factors held equal).

- Aside from the difference in actuarial values, employment-based plans are projected to be somewhat more expensive than the low-cost plans available in the exchanges because health care services in those exchange plans would be more tightly managed.

- Under current law, premiums on employment-based plans would not include the effect of the annual fees imposed under the proposal on manufacturers and importers of brand-name drugs and medical devices, on health insurance providers, and on clinical laboratories. Premiums for exchange plans would include the effect of those fees, which would increase premiums by roughly 1 percent.

- Workers who obtain employment-based coverage under current law generally benefit from the tax exclusion for that coverage, although the value of the exclusion is typically greater for higher-income workers because they are in higher income tax brackets. The average effective premium subsidy is about 30 percent—which would effectively reduce the average premiums they ultimately pay (for

plans with an actuarial value of 88 percent) to roughly $5,000 and $13,000, respectively, in 2016.

- Although employers typically contribute a substantial portion of the premiums for their workers, the costs of those contributions are ultimately passed on to workers—mainly in the form of lower wages than would be paid otherwise.

- Compared with family policies that are expected to be purchased in the exchanges, family policies in employment-based plans cover fewer dependents, on average. That difference largely explains why the ratio of single to family premiums differs across those settings.

**Individually Purchased Coverage.** Another point of comparison for the figures in the attached table would be payments under current law for coverage purchased in the individual insurance market (which is sometimes called the nongroup market). Under current law, average premiums for nongroup coverage in 2016 are projected to be about $6,000 for individuals and about $11,000 for family coverage. Several considerations affect the comparison of those amounts to the average premiums in the proposed exchanges:

- Policies sold in the nongroup market are expected to have an average actuarial value of about 60 percent, which is less than the actuarial value for the "silver" plans shown in the accompanying table. If other factors were equal, enrollees obtaining coverage in the individual market under current law would therefore have lower premiums and correspondingly higher out-of-pocket costs, on average, than exchange enrollees are expected to have.

- Compared with the plans that would be available in the nongroup market under current law, exchange plans would have lower administrative costs owing to the net effect of the proposed rules governing that market. CBO currently estimates that about 23 percent of the premiums for policies that are purchased in the nongroup market under current law go toward administrative costs and overhead. Under the proposal, that share would be reduced by 4 or 5 percentage points. That net reduction reflects a 7 or 8 percentage-point decrease in the types of administrative costs that are currently borne by nongroup insurers, offset partly by a surcharge that exchange plans would have to pay to cover the

operating costs of the exchanges, which would add about 3 percent to premiums, on average.

- At the same time, premiums in the new insurance exchanges would tend to be higher than the average premiums in the current-law individual market—again with other factors held equal—because the new policies would have to cover preexisting medical conditions and could not deny coverage to people with high expected costs for health care. (CBO has not analyzed the magnitude of that effect.) Of course, some people with high expected costs for health care do not purchase insurance today because of the high premiums they would be charged; those premium amounts do not enter the average for the current market because the policies are not purchased, but those people would face lower premiums in the exchanges than in the current individual market. People with low expected costs for health care, however, would generally pay higher premiums (all else being equal).

- In addition, the average health care costs of enrollees in the proposed exchanges would be different from those in the individual market under current law because the proposed mandate and subsidies would lead many people who would be uninsured under current law to obtain coverage in the exchanges.

- Under current law, premiums for individually purchased plans would not include the effect of the annual fees imposed under the proposal on manufacturers and importers of brand-name drugs and medical devices, on health insurance providers, and on clinical laboratories. Premiums for exchange plans would include the effects of those fees, which would increase premiums by roughly 1 percent.

- Compared with family policies that are expected to be purchased in the exchanges, family policies purchased in the current-law nongroup market cover fewer dependents, on average. That difference largely explains why the ratio of single to family premiums differs across those settings.

In summary, the premiums for policies sold in the proposed insurance exchanges would differ from the premiums that would be paid under current law for a variety of reasons—some of which would tend to make exchange premiums higher than current-law premiums and some of which would tend to make them lower. Moreover, the differences in premiums

would partly reflect differences in the actuarial value of insurance plans, so there would be differences in cost-sharing requirements that would have the opposite effects on household budgets (other factors held equal). Further, the characteristics of people enrolled in the proposed exchanges would differ from the characteristics of people enrolled in employment-based coverage or the individual market under current law, so differences in average premiums would not equal the differences in premiums faced by a given group of enrollees across those different settings. In light of those complexities, quantifying the net effects of the Chairman's proposal on the amounts paid by individuals and families to obtain health care is very difficult. CBO has not modeled all of those factors and is unable to quantify them or calculate the net effects at this time.

I hope this analysis is helpful for your consideration of this proposal. If you have any questions, please contact me or CBO staff. The primary staff contact for this analysis is Philip Ellis.

Sincerely,

Douglas W. Elmendorf

Douglas W. Elmendorf
Director

Enclosure

cc: Honorable Charles E. Grassley
Ranking Member

**Analysis of Exchange Subsidies and Enrollee Payments in the Specifications for the Senate Finance Committee Chairman's Mark (as of September 15, 2009)**

Includes Percent-of-Income Premium Caps up to 400% of the Federal Poverty Level (FPL)

**2016 Averages for the Second-Lowest-Cost "Silver" Plan**

| | Actuarial Value | Average Premium | Avg. Cost Sharing |
|---|---|---|---|
| *Single Policy* | 70% | $4,700 | $1,600 |
| *Family Policy* | 70% | $14,400 | $5,000 |

**Single Person**

| *Income Relative to the FPL* | *Premium Cap as a Share of Income /a* | *Middle of Income Range /b,c* | *Enrollee Premium for Low-Cost "Silver" Plan* | *Premium Subsidy (share of premium)* | *Average Cost-Sharing Subsidy* | *Average Net Cost Sharing* | *Enrollee Premium + Avg. Cost Sharing* | |
|---|---|---|---|---|---|---|---|---|
| | | | | | | | *Dollars* | *Percent of Income* |
| 100-150% | 3.2% - 5.9% | $ 14,700 | $ 700 | 85% | $ 1,100 | $ 500 | $ 1,200 | 8% |
| 150-200% | 5.9% - 8.5% | $ 20,600 | $ 1,500 | 68% | $ 600 | $ 1,000 | $ 2,500 | 12% |
| 200-250% | 8.5% - 11.2% | $ 26,500 | $ 2,600 | 45% | $ - | $ 1,600 | $ 4,200 | 16% |
| 250-300% | 11.2% - 13.9% | $ 32,400 | $ 4,100 | 13% | $ - | $ 1,600 | $ 5,700 | 18% |
| 300-350% | 13.9% | $ 38,300 | $ 4,700 | 0% | $ - | $ 1,600 | $ 6,300 | 16% |
| 350-400% | 13.9% | $ 44,200 | $ 4,700 | 0% | $ - | $ 1,600 | $ 6,300 | 14% |
| 400-450% | n.a. | $ 50,100 | $ 4,700 | 0% | $ - | $ 1,600 | $ 6,300 | 13% |

**Family of Four**

| *Income Relative to the FPL* | *Premium Cap as a Share of Income /a* | *Middle of Income Range /b,c* | *Enrollee Premium for Low-Cost "Silver" Plan* | *Premium Subsidy (share of premium)* | *Average Cost-Sharing Subsidy* | *Average Net Cost Sharing* | *Enrollee Premium + Avg. Cost Sharing* | |
|---|---|---|---|---|---|---|---|---|
| | | | | | | | *Dollars* | *Percent of Income* |
| 100-150% | 3.2% - 5.9% | $ 30,000 | $ 1,400 | 90% | $ 3,500 | $ 1,500 | $ 2,900 | 10% |
| 150-200% | 5.9% - 8.5% | $ 42,000 | $ 3,000 | 79% | $ 1,900 | $ 3,100 | $ 6,100 | 15% |
| 200-250% | 8.5% - 11.2% | $ 54,000 | $ 5,300 | 63% | $ - | $ 5,000 | $ 10,300 | 19% |
| 250-300% | 11.2% - 13.9% | $ 66,000 | $ 8,300 | 42% | $ - | $ 5,000 | $ 13,300 | 20% |
| 300-350% | 13.9% | $ 78,000 | $ 10,800 | 25% | $ - | $ 5,000 | $ 15,800 | 20% |
| 350-400% | 13.9% | $ 90,100 | $ 12,500 | 13% | $ - | $ 5,000 | $ 17,500 | 19% |
| 400-450% | n.a. | $ 102,100 | $ 14,400 | 0% | $ - | $ 5,000 | $ 19,400 | 19% |

Source: Congressional Budget Office and the staff of the Joint Committee on Taxation.

NOTES: All dollars figures have been rounded to the nearest $100; n.a. = not applicable.

a) In 2013, the income caps would range from 3% to 13%; in subsequent years they would be indexed (see text).

b) In 2016, the FPL is projected to equal about $11,800 for a single person and about $24,000 for a family of four.

c) Under the proposal, subsidies would generally be based on income data from enrollees' tax return.