How Cost-Sharing Reductions Work and the Critical Role They Play in the Individual Market

Introduction

Cost-sharing reductions, or CSRs, are one of the two methods the Patient Protection and Affordable Care Act uses to provide financial assistance to consumers. While some critics of the law have tried to depict cost-sharing reductions as a "bailout" for insurance companies or an attempt to "prop up" the law, the fact is that CSRs are a critical element specifically designed for three main functions:

- Helping lower-income consumers access the care they need.
- Improving the health status of the entire individual market's insurance pool by encouraging healthier lower-income Americans to enroll.
- Lowering premiums for everyone, including consumers who do not receive any financial help.

This issue brief summarizes how cost-sharing reductions work, who benefits from them and why they are so important to keeping individual health insurance markets stable.

What are cost-sharing reductions?

Cost-sharing reductions are additional benefits to lower-income consumers, in the form of lower copays and deductibles when they access care. The Affordable Care Act requires carriers to offer these benefits, and the federal government in turn reimburses carriers for those costs. Consumers who have a household income between 138 and 250 percent of the federal poverty level are eligible to enroll in a Silver plan with cost-sharing reductions (see Table 1: Household Incomes of Consumers Eligible for Cost-Sharing Reductions).

Why are cost-sharing reductions important for consumers?

Cost-sharing reductions help consumers get the care they need. The Affordable Care Act recognizes that low-income consumers face challenges not only with monthly premium costs to purchase coverage, but also with affording the price

Highlights:

- Cost-sharing reductions are a critical element to improve the overall health of the entire risk pool, to lower premiums for everyone in the individual health insurance market and to help low-income consumers access the care they need, when they need it.
- Contrary to claims, cost-sharing reductions are not a "bailout" for insurance companies or an attempt to "prop up" the Patient Protection and Affordable Care Act.
- Cost-sharing reductions allow individuals making less than $30,000 a year to pay less for services such as copays and deductibles. In some cases, deductibles can be as low as $75 for an individual. More than 48 percent of Covered California's 1.4 million consumers benefit from these reductions.
- Not funding cost-sharing reductions would cost the federal government — and taxpayers — $4 billion more than if they continued funding cost-sharing reductions because of the interplay between the Advanced Premium Tax Credit (subsidy) and premiums.

This analysis was prepared by Covered California for its ongoing planning and to inform policy making in California and nationally.

of health care when services are used — even when these services are covered under an insurance plan. The most recent data shows 5.6 million Americans benefit from cost-sharing reductions on Affordable Coverage Act plans, including 670,000 in California. Simply put, CSRs help make sure that low-income consumers' coverage has value and that they get the care they need by reducing their out-of-pocket expenses.

Table 1

Household Incomes of Consumers Eligible for Cost-Sharing Reductions

	Federal Poverty Level	
Household Size	138 percent	250 percent
1	$16,643	$29,700
2	$22,412	$40,050
3	$28,180	$50,400
4	$33,949	$60,750

Source: http://www.coveredca.com/PDFs/FPL-chart.pdf

Cost-sharing reductions increase the actuarial value of Silver plans for consumers below 250 percent of the federal poverty level (FPL) as follows:

Table 2

Actuarial Value of a Plan Based on Income

100 – 150 percent FPL	94 percent actuarial value (Enhanced Silver 94)
150 – 200 percent FPL	87 percent actuarial value (Enhanced Silver 87)
200 – 250 percent FPL	73 percent actuarial value (Enhanced Silver 73)
All other incomes	70 percent actuarial value (Silver)

Consumers who are below 250 percent of the federal poverty level and choose a Silver plan are automatically placed into an Enhanced Silver plan according to their eligibility. Enhanced Silver plans include more robust coverage for the price of the same Silver premium. These plans include lower copays, coinsurance and deductibles compared to normal Silver plans.

In day-to-day terms, how do cost-sharing reductions translate into lower costs for consumers?
Cost-sharing reductions mean that a consumer's costs are reduced dramatically, with annual deductibles falling to as low as $75 and doctor visits as low as $5. The specific CSR benefit designs that consumers get around the nation vary, but they all must meet the national actuarial standards.

Table 3 shows Covered California's patient-centered benefit designs and the numerous benefits available, without being subject to a deductible, through cost-sharing reduction plans. Other services, such as hospital stays and in-patient procedures, also have lower copays and are subject to the reduced deductible.

Table 3
Covered California's Patient-Centered Benefit Designs for 2017

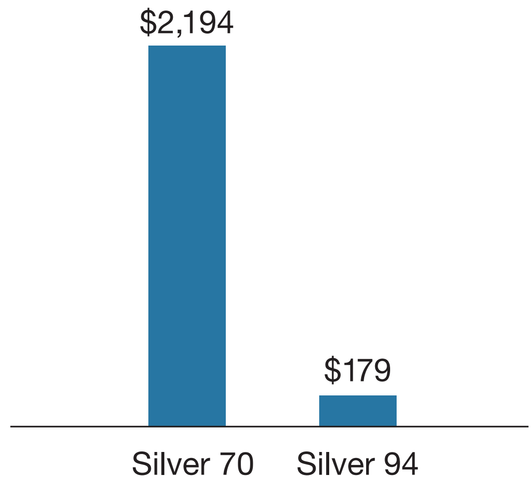
MEDICAL COST SHARES			
Coverage Category	Enhanced Silver 94	Enhanced Silver 87	Enhanced Silver 73
Eligibility Based on Income and Premium Assistance	Covers **94%** average annual cost	Covers **87%** average annual cost	Covers **73%** average annual cost
Single Income Ranges	up to $18,090 (≤150% FPL)	$18,091 to $24,120 (>150% to ≤200% FPL)	$24,121 to $30,150 (>200% to ≤250% FPL)
Annual Wellness Exam	$0	$0	$0
Primary Care Visit	$5	$10	$30
Specialty Care Visit	$8	$25	$75
Urgent Care Visit	$5	$10	$30
Emergency Room Facility	$50	$100	$350
Laboratory Tests	$8	$15	$35
X-Ray and Diagnostics	$8	$25	$75
Imaging	$50	$100	$300
Medical Deductible	Individual: $75 Family: $150	Individual: $650 Family: $1,300	Individual: $2,200 Family: $4,400
Pharmacy Deductible	—	Individual: $50 Family: $100	Individual: $130 Family: $260
Annual Out-of-Pocket Maximum	Individual: $1,000 Family: $2,000	Individual: $2,450 Family: $4,900	Individual: $5,850 Family: $11,700

How Cost-Sharing Reductions Work and the Critical Role They Play in the Individual Market

Cost-sharing reductions increase affordability because they significantly decrease a consumer's out-of-pocket costs. Using publicly available cost data on a moderate injury, a broken wrist, Figure 1 shows how the Enhanced Silver 94 plan saves a consumer more than $2,000.

In this example, the consumer had not yet used any services in the plan year. The total cost of the care to treat the broken wrist was estimated to be $2,201 — less than the $2,500 deductible in the Silver 70, but more than the $75 deductible in the Enhanced Silver 94 plan. Thanks to the cost-sharing reductions, the consumer in the Silver 94 plan sees the benefits of his or her coverage "kick in" much earlier. The consumer will save more than $2,000 in the month of the accident, and will also have met the deductible for any future follow-up visits or other medical treatments needed that year.

Figure 1
Cost-Sharing Reductions Dramatically Reduce the Out-of-Pocket Costs for a Typical Broken Wrist[1]



A Covered California family of four, eligible for the Silver 94 plan, would have an annual income of between approximately $34,000 and $36,000. Thus, this assistance provides critical support without which consumers would be forced to choose between health care and basic necessities like food or rent, or to go without care entirely.

How do cost-sharing reductions benefit individuals who do not get the enhanced benefits?
Cost-sharing reductions improve the overall health of the consumer pool. CSRs encourage low-income consumers to enroll in coverage, when they otherwise might not, by providing them with coverage that provides real value. By encouraging low-income consumers to enroll in plans that provide value, CSRs help build a healthier pool of consumers, which in turn lowers premiums for everyone in the individual market.

A Covered California analysis shows an estimated 200,000 to 400,000 consumers would leave the marketplace if CSR plans were not available, which would raise the consumer risk score by between 5 percent and 11 percent. A higher risk score would cause carriers to raise premiums for everyone enrolled in the individual market to account for the increase in costs.

How much is spent on cost-sharing reductions?
The Congressional Budget Office estimates that the CSR payments will total $7 billion in 2017. Data from the Centers for Medicare and Medicaid Services shows that $724 million in CSR payments were made to health insurance plans on behalf of Californians in 2016.

[1] The scenario used to derive these out-of-pocket estimates is based on one emergency room visit, a two-view X-ray, a specialist procedure to treat the broken wrist and a single follow-up visit. Cost data uses FAIR (fairhealthconsumer.org) commercial pricing for ZIP code 90017 (discounted to reflect Covered California's lower, negotiated rates)

What happens if the cost-sharing reduction payments are stopped?

In June, Covered California's board took steps to protect most consumers from any rate increases caused by the uncertainty surrounding cost-sharing reduction payments. The board acted to place any rate increases caused by the uncertainty only into Silver plans. If the federal government does not act to provide certainty that CSRs will be funded, Silver-level consumers would see an increase in the gross cost of their premiums, they will also see an increase in the amount of financial assistance they receive, leaving their net payment virtually the same.

However, while this action protects consumers, it would end up costing the federal government more to not continue its direct funding of CSRs than to have the cost be built into the Advanced Premium Tax Credit. The increase in premiums will directly lead to an increase in the amount of financial help all consumers receive. A previous analysis by economists at UCLA found that in 2018 the federal government would spend $4 billion more to provide the required CSR benefit and pay for it through the premium tax credit than it would by continuing to fund the CSR reimbursements directly.

About Covered California

Covered California is an independent part of the state government whose job is to make the health insurance marketplace work for California's consumers. It is overseen by a five-member board appointed by the governor and the Legislature. For more information about Covered California, please visit CoveredCA.com.