Bringing “Affordability” to the Affordable Care Act

A Three-Point Proposal from eHealth CEO Gary Lauer to Secure the Future of Obamacare
The ACA’S Next Big Challenge

The biggest challenge facing the Affordable Care Act (ACA) today is not a lawsuit or the opposition of lawmakers, but the runaway costs of coverage and the impact of these costs on the middle class.

Since it was signed into law by President Obama more than five years ago, the ACA has survived a hostile Congress, contentious public debate, and two significant Supreme Court challenges. In one form or another, the ACA is here to stay and the time has come for partisans on either side of the aisle to courageously acknowledge both the law’s failures and its real achievements.

Among its achievements: the ACA has significantly reduced the percentage of the American population without health insurance; for many consumers receiving premium tax credits (government health insurance subsidies), the felt-cost of coverage has decreased significantly; and no one in today’s United States is denied coverage based on the presence of pre-existing medical conditions.

These are real achievements worth celebrating.

However, the ACA has failed in one notable aspect of its mission which it is incumbent upon us all to acknowledge and work to correct. Specifically, the cost of coverage has increased significantly, and the burden of increased costs is crushing middle-class consumers who do not benefit from tax loopholes enjoyed by corporations.

The “affordable” part of the Affordable Care Act is simply not panning out for many Americans today.

The long-term viability of the ACA depends upon the affordability of coverage not just for lower-income Americans but for middle-income Americans as well. The purpose of this paper is to examine the challenges faced by these consumers and to outline a solution that serves consumers’ coverage needs while helping to make the Affordable Care Act affordable for everyone.

The True Cost of Coverage under the ACA

The Affordable Care Act made health insurance feel more affordable to many Americans who became eligible for government subsidies or who qualified for expanded Medicaid under the law. However, the true cost of individually-purchased major medical health insurance has increased significantly since key provisions of the law took effect in 2014.
Data published by eHealth over the last several years illustrates the marked increase in average health insurance premiums. Consider the following:

- Average monthly premiums for individuals increased from $197 in 2013 to $271 in 2014, a year-over-year increase of 38%
- Average monthly premiums for families (two or more individuals per policy) increased from $426 in 2013 to $667 in 2014, a year-over-year increase of 57%
- By the 2015 open enrollment period, premiums averaged $286 for individuals and $727 for families

Even in an industry known for price increases that regularly outstrip inflation, year-over-year increases like these were unheard of prior to the Affordable Care Act. An increase in average premiums that previously required eight years to accrue (2005-2013 premiums increased 37%) was accomplished by the ACA in only one year (38%)!

**Middle Class Americans Are Falling Off the “Subsidy Cliff”**

The cost of health insurance today is scarcely affordable (and in some cases flatly unaffordable) even for many who qualify for premium tax credits. The burden of increased costs is doubly onerous, however, for persons ineligible for these credits, and the line dividing the subsidy-eligible from the ineligible is precipitous.

The Affordable Care Act makes premium tax credits available to households earning between 100% and 400% of the federal poverty level—that is, up to about $47,000 for a single person or $97,000 for a family of four in the contiguous United States. In many American cities, however, income at this level can still leave you struggling to pay your mortgage and other bills one month to the next. Premiums charged for family plans often rise above $1,000 per month—putting coverage out of reach for many.

Inequities in the way that government subsidies are distributed means that an increase in income of about $200 per year for a family of four can mean that you no longer qualify for subsidy assistance. Even at a low level of assistance, this can translate to increased health insurance premiums of more than $1,500 per year due to the loss of subsidies.

Whether or not they are receiving government assistance in the form of premium tax credits, consumers today need commonsense solutions to make coverage more affordable and bring less costly insurance options to the market.
Bringing “Affordability” to the Affordable Care Act: 
A Three Point Plan

The survival and long-term success of the ACA absolutely depend upon the ability of the middle class to enroll in affordable health insurance. To that end, I am proposing three simple adjustments to the law that would help bring “affordability” to the Affordable Care Act.

#1: GIVE CONSUMERS THE SAME TAX BENEFITS CORPORATIONS RECEIVE

Most Americans today still get their health insurance through tax-advantaged employer-sponsored plans. The portion of the monthly premium paid by the company usually becomes a tax deduction for the employer, and the part of the premium paid by the employee is typically deducted from his or her wages on a pre-tax basis. This preferential tax treatment makes health insurance more affordable for both employers and for enrollees.

However, if you purchase health insurance for yourself or your family outside the employer-based market (for example, because your employer does not provide coverage or you are self-employed or unemployed), you cannot benefit from the same special tax treatment. The money you pay for your own monthly health insurance premiums is generally not tax deductible.

This is an inequity that must be addressed. Individuals and families who buy coverage on their own in compliance with the requirements of the ACA should receive the same tax benefits enjoyed by large corporations and their employees.

According to current IRS rules, most consumers who itemize on their federal taxes may only deduct qualifying medical expenses (including monthly health insurance premiums) in excess of 10% of their adjusted gross income. In fact, the ACA is responsible for raising that threshold to its current level from 7.5% for tax years prior to 2013.

In order to make ACA-compliant health insurance more affordable for self-purchasers, monthly health insurance premiums should be made tax deductible from the very first dollar, and the tax deductibility threshold for all qualifying medical expenses should be reduced significantly.
#2: GIVE CONSUMERS MORE REAL COVERAGE OPTIONS

The ACA introduced a long list of federally-mandated health insurance benefits that are now covered by all major medical health insurance plans. While well-intentioned, this standardization of benefits is one of the main factors contributing to the increase in health insurance premiums since 2013.

All ACA-compliant health insurance plans must now provide a minimum threshold of coverage for the “10 Essential Health Benefits” defined by the law. These include such things as mental health care and substance abuse treatment, as well as things like hospitalization and emergency care. Other mandatory benefits include prescription drug coverage, maternity care, labor and delivery, and pediatric services.

While it is understandable that lawmakers wanted to provide consumers with robust coverage to meet a broad range of medical needs, the current rules fail to provide consumers with the freedom to enroll in plans that might be more suitable to their individual needs and budgets.

The net result is that many of today’s consumers are paying top dollar for health benefits they will never personally use.

For example, why should a married couple in their early sixties with grown children be required to pay for coverage of pediatric care? Why should a single man or woman be required to carry coverage for maternity care if they know they will never use these benefits? Why should consumers not have the option to select a plan that covers only generic prescription drugs if such coverage would provide them with more affordable premiums and still meet their personal medical needs?

In order to give consumers affordable alternatives that could more suitably meet their coverage needs, lawmakers should reconsider the ACA’s 10 Essential Health Benefits and allow insurers to offer plans with more varied benefit models.

#3: ALLOW INSURERS TO PROVIDE INCENTIVES FOR HEALTHY BEHAVIOR

One of the things we all learn early in life is that incentives can influence behavior. If our parents rewarded us for getting good grades in school, we probably studied a little harder. We should adopt this approach in health care too.
The ACA introduced the concept of “free” preventive care by requiring all individually-purchased major medical plans to offer a select group of preventive care screenings at no out-of-pocket cost to the consumer.

The rationale behind offering these “free” screenings was simple. It was thought that if more diseases were caught early, long-term health care costs would decrease. Experts will dispute among themselves whether or not this is true. What cannot be disputed is that these screenings are not in fact free. Medical providers still get paid for these services, which means that consumers are simply paying for them in the form of higher premiums rather than with copays.

In August 2015 eHealth surveyed more than 6,500 people enrolled in ACA plans and found that only about one-in-eight (12%) had actually used their free preventive care. Why?

Preventive care services may be underutilized because the benefits of such care are intangible for people who may be living paycheck-to-paycheck. In order to get a preventive health care screening, consumers are often required to take time off work, or away from family, to see a doctor when they are not actually feeling ill.

If incentives truly do drive behavior, why not allow insurers to offer discounted premiums, shrinking deductibles or other financial incentives to consumers who follow health improvement plans prescribed by their doctors? In providing more immediate, tangible incentives for consumers who meet their health goals, we could also offer consumers an avenue toward more affordable coverage.
For More Information

To learn more about the details of the proposals contained in this paper and how eHealth can help deliver on the promise of the Affordable Care Act, please contact:

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Notes:

1 2005–2013 figures are from eHealth’s Cost and Benefits Report, published in December 2013. 2014 figures are from eHealth’s Price Index Report for the 2014 open enrollment period, published in May 2014. 2015 figures are from eHealth’s Price Index Report for the 2015 open enrollment period, published in March 2015.
