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Disaster Averted, For Now: How the American Health Care Act Would Have Affected Californians

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SUMMARY: Although the American Health Care Act (AHCA) was recently defeated, the policies in the bill represented a mix of ideas long favored by conservatives. If enacted, this repeal-and-replace bill would have had devastating consequences for most of the 5 million Californians currently receiving direct benefits from the Affordable Care Act (ACA), including more than 1 million who receive subsidies through Covered California and almost

4 million who have enrolled in the Medi-Cal expansion. Although the bill failed to garner enough votes for passage, it is likely that efforts to chip away at the ACA will continue and that some of the ideas contained within the AHCA will be revisited. This policy brief summarizes some of the most significant reversals that would have occurred under the Republican plan in the individual and small group insurance markets.

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In March 2010, President Barack Obama signed comprehensive health care reform into law through the Patient Protection and Affordable Care Act (ACA). Full implementation of the law’s Medicaid expansion and insurance market reforms went into effect in 2014. In 2013, the number of uninsured Americans was 44.8 million; by 2016, that figure had dropped drastically, to 28.2 million.¹ In California, the uninsured rate is currently at an all-time low of 7.1 percent—a drop of nearly 10 percentage points since 2013.²

Despite the gains that have been made throughout the country under the ACA, the law has not been popular with Republican legislators. In fact, the Republican-controlled Congress, along with the Trump administration, promised to make repeal and replacement of the ACA a priority for 2017. Although a number of alternative proposals to the ACA were drafted by

congressional Republicans, on March 6, 2017, House leadership released drafts of a budget reconciliation bill known as the American Health Care Act (AHCA). The bill repealed many of the ACA’s provisions, including the individual and employer mandates; tax credits based on income, age, and location; and cost-sharing reductions. It also created some new policies for the individual insurance market and proposed to fundamentally restructure Medicaid. Although GOP leadership ultimately pulled the AHCA before it could be voted on, effectively killing the bill for now, the policies presented in the legislation are likely to resurface in future attempts to dismantle the ACA.

According to the scoring of the AHCA by the Congressional Budget Office (CBO), as many as 14 million more Americans would have been uninsured in 2018 under this bill, and by 2026 the number would have risen to 52 million (compared to 28 million under the

Exhibit 1

Individual Tax Credits by Age and Income Under the American Health Care Act (AHCA), 2020

	Annual Income for Individual						
Age	≤\$75,000	\$90,000	\$95,000	\$100,000	\$105,000	\$110,000	≥\$115,000
Under 30	\$2,000	\$500	\$0	\$0	\$0	\$0	\$0
30 – 39	\$2,500	\$1,000	\$500	\$0	\$0	\$0	\$0
40 – 49	\$3,000	\$1,500	\$1,000	\$500	\$0	\$0	\$0
50 – 59	\$3,500	\$2,000	\$1,500	\$1,000	\$500	\$0	\$0
60+	\$4,000	\$2,500	\$2,000	\$1,500	\$1,000	\$500	\$0
	Annual Income for Couple						
Age	≤\$150,000	\$165,000	\$170,000	\$175,000	\$180,000	\$185,000	≥\$190,000
Under 30	\$2,000	\$500	\$0	\$0	\$0	\$0	\$0
30 – 39	\$2,500	\$1,000	\$500	\$0	\$0	\$0	\$0
40 – 49	\$3,000	\$1,500	\$1,000	\$500	\$0	\$0	\$0
50 – 59	\$3,500	\$2,000	\$1,500	\$1,000	\$500	\$0	\$0
60+	\$4,000	\$2,500	\$2,000	\$1,500	\$1,000	\$500	\$0

“Tax credits would not have gone as far in high-cost areas and would have left low-income consumers footing the bill for more of their insurance.”

ACA).³ The AHCA thus fell woefully short of the administration’s promise to cover all Americans, much less retaining coverage for those who gained it under the ACA.⁴

The remainder of this policy brief discusses how proposed changes to the individual market contained in the AHCA would have affected Californians, including those who purchase insurance through Covered California and those who buy insurance off-Exchange without subsidies. The estimates in this brief are based on the House draft of the AHCA prior to the addition of amendments that would have done the following: provided greater funds for the Senate to decide how to appropriate to increase tax credits for older adults, and eliminated the ACA’s essential health benefit requirement.

Tax Credits for Insurance Premiums

Under the ACA, individuals who do not have access to affordable employer-sponsored insurance or who are ineligible for federal insurance programs (e.g., Medicaid or Medicare) can access coverage through the individual market and receive advanceable premium tax credits to help them pay for their coverage. These tax credits, also known as premium subsidies, are tied to age, income, and the cost of insurance in the purchaser’s geographic area. Among people who are the

same age, an individual with a low income who lives in an area of the state where health plans are more expensive, such as San Francisco, gets more financial support to help pay for coverage than either a higher-income person in the same area or a low-income individual in an area where cheaper coverage is available.

The AHCA approached tax credits differently. The bill repealed the ACA’s subsidies and replaced them with a flat tax credit based on age. The tax credit ranged from \$2,000 for people under age 30 to \$4,000 for people age 60 and over, regardless of income or geographic location (see Exhibit 1). The tax credits would have then begun to phase out for individuals with incomes above \$75,000 (or \$150,000 for a couple), with a \$100 cut in the credit for every additional \$1,000 of income above that level. The maximum a family could receive in tax credits was \$14,000.

Early analyses of the AHCA estimated that under its tax credit system, the average tax credit in 2020 would be 36 to 40 percent lower than it would be under the ACA.^{5, 6} These tax credits would not have gone as far in high-cost areas (such as most of Northern California) and would have left low-income consumers footing the bill for more of their insurance than under the ACA. For example, a recent report from Covered California found

Difference in Average ACA and AHCA Tax Credit for Californians, 2020

Exhibit 2

Single Person									
	ACA			AHCA			Difference (AHCA relative to ACA)		
Annual income for single person	27	40	60	27	40	60	27	40	60
\$20,000	\$3,937	\$5,013	\$11,726	\$2,000	\$3,000	\$4,000	-\$1,937	-\$2,013	-\$7,726
\$30,000	\$2,416	\$3,493	\$10,200	\$2,000	\$3,000	\$4,000	-\$416	-\$493	-\$6,200
\$40,000	\$898	\$1,913	\$8,605	\$2,000	\$3,000	\$4,000	+\$1,102	+\$1,087	-\$4,605
\$50,000	\$154	\$994	\$7,585	\$2,000	\$3,000	\$4,000	+\$1,846	+\$2,006	-\$3,585
\$75,000	\$0	\$0	\$0	\$2,000	\$3,000	\$4,000	+\$2,000	+\$3,000	+\$4,000
\$100,000	\$0	\$0	\$0	\$0	\$500	\$1,500	No change	+\$500	+\$1,500
40-Year-Old Couple with Two Young Children									
Annual income for family of four	ACA			AHCA			Difference (AHCA relative to ACA)		
\$40,000	\$17,239			\$10,000			-\$7,239		
\$50,000	\$15,803			\$10,000			-\$5,803		
\$75,000	\$11,579			\$10,000			-\$1,579		
\$150,000	\$0			\$10,000			+\$10,000		
60-Year-Old Couple with No Dependent Children									
Annual income for couple	ACA			AHCA			Difference (AHCA relative to ACA)		
\$25,000	\$24,306			\$8,000			-\$16,306		
\$40,000	\$22,094			\$8,000			-\$14,094		
\$50,000	\$20,312			\$8,000			-\$12,312		
\$100,000	\$0			\$8,000			+\$8,000		

Notes: Authors' analysis for California of Kaiser Family Foundation table comparing tax credits for 2020 under the ACA and the AHCA. <http://kff.org/interactive/tax-credits-under-the-affordable-care-act-vs-replacement-proposal-interactive-map/>

that a 27-year-old earning \$17,000 a year in Los Angeles could have expected to pay \$55 per month for coverage in the individual market under the AHCA, while that person's peer in San Francisco would have had to pay \$199 per month.⁷ More than 1 million Californians currently receive federal support for coverage they purchase through Covered California, and it is these consumers who would have seen drastic changes to their tax credits under the AHCA.

The AHCA bill also included language that would have allowed insurance companies to charge older adults premium rates five times higher than the rates for younger adults (the ACA sets this ratio at 3 to 1, currently), at the state's discretion. This 5-to-1 ratio would not have been compensated for by the 2-to-1 ratio in the tax credits, leaving older

individuals with much higher premium expenses. The CBO highlighted this concern in its scoring of the AHCA, saying that changes in premiums under the AHCA would "differ significantly for people of different ages," with younger adults seeing a reduction in their costs and older adults seeing their premiums rise.⁸

Estimates from Covered California indicate that a 62-year-old earning \$30,000 a year and living in San Francisco would have paid \$668 per month under the AHCA, compared to just \$209 a month under the ACA.⁹ For older Californians with incomes of \$50,000 or below for an individual, the average annual tax credit would have decreased by between \$3,585 and \$7,726 under the AHCA relative to the ACA (see Exhibit 2). A 60-year-old couple would have similarly suffered under

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the AHCA: for older couples with annual incomes of \$25,000 - \$50,000, the tax credit would have decreased by between \$12,312 and \$16,306 a year, on average. Meanwhile, younger and higher-income Californians would have benefited from the AHCA. On average, a 27-year-old Californian with an income of \$40,000-\$75,000 would have received between \$1,102 and \$2,000 more in tax credits under the AHCA. Similarly, a family of four with an annual income of \$150,000 would have gotten \$10,000 to help pay for coverage, and a 60-year-old couple with an annual income of \$100,000 would have received \$8,000 in tax credits.

Finally, in addition to eliminating federal Medicaid funding for Planned Parenthood, the AHCA prohibited tax credits from being used on health plans that cover abortions.¹⁰ At the same time, however, California state law requires that all individual and small group market plans cover abortions. It was unclear, therefore, whether most health plans in California would have been eligible for the tax credits under the AHCA. If not, this would have left Californians with a choice on the individual market of only four multistate plans that do not cover abortions.

Eliminating Cost-Sharing Reductions

The AHCA also repealed the ACA's cost-sharing reductions (CSRs), effective January 1, 2020. The CSR subsidies are for households with incomes between 100 and 250 percent of the federal poverty level (between \$12,060 and \$30,150 for an individual, and between \$24,600 and \$61,500 for a family of four). Eligible individuals who enroll in a Silver Plan through Covered California have their deductibles, co-pays, and out-of-pocket limits reduced. Insurers who administer these plans are then reimbursed by the federal government for the cost of reducing individuals' cost sharing. The ACA's CSR subsidies make accessing care affordable for lower-income Americans.

One study found that the annual deductible for a Silver Plan with the CSRs was as low as \$246, compared to \$3,063 for a Silver Plan without the CSR subsidy.¹¹ While the AHCA removed the funding for these subsidies, it did not repeal the requirement that insurers reduce the cost sharing for their low-income enrollees in Silver Plans. Without the payment, insurers would have to decide whether they could still participate in the health insurance exchanges or would need to increase their premium rates to account for the loss of the subsidies.¹² Researchers modeling the effect of eliminating the CSRs for Covered California enrollees in 2018 found that Silver Plan premiums would increase by 16.6 percent.¹³

Furthermore, the repeal of funding for the CSR subsidies would have destabilized the individual insurance exchanges and likely led many insurance companies to leave the market. This instability would have jeopardized access for the more than 670,000 low-income Californians who currently receive these CSRs,¹⁴ and beginning in 2020 it would have resulted in a dramatic increase in the number of uninsured Californians.

Continuous Coverage Requirement

The ACA's individual responsibility requirement that all Americans, with some exceptions, have health care coverage has been its most controversial provision. This policy, commonly known as the individual mandate, was upheld as constitutional by the U.S. Supreme Court in 2012, but it has never been popular.¹⁵ The AHCA proposed to immediately repeal the individual mandate, while keeping the popular provisions that prohibit insurance companies from refusing to sell an individual a policy or taking health status into consideration when setting premiums. Instead, the AHCA proposed to encourage, but not require, healthy individuals to purchase coverage by replacing the individual mandate with a continuous coverage requirement. Under this policy, individuals who have had a gap in coverage

of 63 days or more would have been required to then pay premiums through the individual market that are 30 percent higher than the premiums for individuals who have not had a lapse in coverage. To requalify for the lower premium rate, individuals would have to maintain their coverage at the higher rate for 12 months. It is unclear how many Californians have had a gap in coverage of 63 days or more, but recent estimates at the national level put the number of individuals with a gap of three months or more at 30 million.¹⁶ If these national trends hold at the state level, as many as 3.8 million Californians between the ages of 19 and 64 might have been subject to this penalty.

The Patient and State Stability Fund

The AHCA would have appropriated \$100 billion over nine years for the newly established Patient and State Stability Fund. States could apply to use these funds for a number of purposes, including to provide financial assistance to high-risk individuals looking to purchase coverage through the individual market, to stabilize individual and small group market premiums, to reduce the cost to insurers of providing coverage to high-cost enrollees, to promote access to preventive care services, or to offer cost-sharing subsidies. Those states that did not successfully apply for the funds would have been defaulted into a reinsurance program that would pay insurers 75 percent of the claims for high-cost individuals (i.e., individuals who have claims of between \$50,000 and \$350,000 in one year). In its scoring of the AHCA, the CBO assumed that states would largely use the Patient and State Stability Fund to limit the costs of high-cost enrollees to insurers (as is designed in the fund's default program), and it found that this would help to reduce premiums in the individual and small group market.¹⁷ A reinsurance program similar to the default option in the AHCA was used in the individual market during the first three years of the ACA and was successful in holding down premium costs for consumers.^{18, 19}

Conclusion

Under the ACA, California has made historic coverage gains and its individual market has remained stable, with minimal annual premium increases and high enrollment rates. The policies included in the AHCA threatened these advancements by drastically changing the insurance landscape for the more than 2 million Californians who get their health care coverage through the individual and small group market and the nearly 4 million new Medi-Cal beneficiaries who have come to rely on the coverage available to them under the ACA. Those hardest hit by the reforms proposed in the AHCA would have been Californians with low incomes and older adults. These groups would have seen substantial decreases in the amount of financial assistance they receive to help them purchase the coverage they need to be able to afford care.

While premiums may have decreased for younger Californians, this would not have come without a cost. By allowing insurers to charge older adults higher premiums, the AHCA would have shifted costs onto older Californians and left them with significantly higher health care costs. Furthermore, the proposed legislation's continuous enrollment requirement could have resulted in as many as 3.8 million Californians facing a premium surcharge for gaps in coverage. In the days leading up to the defeat of the AHCA, Speaker Paul Ryan made further amendments to the bill in order to appease more conservative members of the Republican party, including eliminating the ACA's essential health benefits requirement. This change would have allowed insurers to once again sell skimpy insurance plans that saddled consumers with the majority of their health care bills.

While the bill ultimately failed to pass, these policies are likely to be resurrected in future legislative efforts by Republicans to repeal and replace the ACA. Furthermore, the Trump administration has already begun

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to substantially undermine the ACA through other avenues. The Department of Health and Human Services, which is responsible for establishing the rules and regulations that keep the law functioning, has already proposed rules that would make it harder for Californians to enroll in coverage in the individual market. President Trump has directed the IRS to not enforce the law's individual mandate; also, his administration drastically scaled back efforts to encourage enrollment in health insurance exchanges during the last open enrollment period, a move that many analysts have pointed to as a possible cause for the lower than expected enrollment numbers for 2017.

Clearly, the policies incorporated in the AHCA and the Trump administration's efforts to undermine the Affordable Care Act risk reversing the progress that California, as well as the entire United States, has made under the ACA.

Endnotes

- 1 <https://www.cdc.gov/nchs/data/nbis/earlyrelease/insur201702.pdf>
- 2 <https://www.cdc.gov/nchs/data/nbis/earlyrelease/insur201702.pdf>; <https://www.cdc.gov/nchs/data/nbis/earlyrelease/insur201406.pdf>
- 3 <https://www.cbo.gov/sites/default/files/115th-congress-2017-2018/costestimate/americanhealthcareact.pdf>

- 4 <https://www.nytimes.com/2017/01/15/us/politics/trump-health-law-replacement.html>
- 5 <http://files.kff.org/attachment/Issue-Brief-How-Affordable-Care-Act-Repeal-and-Replace-Plans-Might-Shift-Health-Insurance-Tax-Credits>
- 6 <https://www.cbo.gov/sites/default/files/115th-congress-2017-2018/costestimate/americanhealthcareact.pdf>
- 7 http://bbex.coveredca.com/pdfs/Preliminary_Analysis_of_AHCA.pdf
- 8 <https://www.cbo.gov/sites/default/files/115th-congress-2017-2018/costestimate/americanhealthcareact.pdf>
- 9 http://bbex.coveredca.com/data-research/library/Preliminary_Analysis_of_AHCA.pdf
- 10 Under the ACA, premium subsidies were not allowed to be used to pay for non-medically necessary abortions. To deal with this, insurance companies segregated the federal funding from the premiums they collected from individuals so that the subsidies did not go toward abortions.
- 11 <http://www.commonwealthfund.org/publications/issue-briefs/2016/oct/aca-cost-sharing-reduction-plans>
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