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CalSIM

California Simulation of Insurance Markets

The California Simulation of Insurance Markets (CalSIM) model is designed to estimate the impacts of various federal and state policies on individual decisions to obtain insurance coverage and employer decisions to offer coverage in California. It was developed by the UC Berkeley Center for Labor Research and Education and the UCLA Center for Health Policy Research.

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The threat to coverage and affordability gains in Covered California if Congress fails to renew subsidy enhancements

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Since the enactment of the Affordable Care Act (ACA) in 2010, California has reduced the number of uninsured from 6.5 million in 2011 to a projected 2.99 million in 2023. This dramatic increase in the number of Californians with health insurance coverage was the result of policy choices at both the state and federal levels to not simply implement the ACA but to build on it, including through early implementation, expansion of Medi-Cal, and improvements in subsidies.

In response to the COVID-19 pandemic, Congress enacted the American Rescue Plan of 2021 to provide additional temporary financial help for buying health insurance through the Affordable Care Act Marketplaces; this help substantially improved affordability and increased enrollment in Covered California. If these enhanced subsidies are not extended for 2023 and beyond and subsidies revert to ACA level, we project 220,000 fewer Californians will have individual market insurance in 2023 than if enhanced subsidies are extended, and premiums will be less affordable for more than two million individual market enrollees. California's recent progress on coverage and affordability could be reversed unless Congress renews the subsidies or state policymakers fill in the gaps.

The individual market since the Affordable Care Act in California

The Affordable Care Act (ACA), effective in 2014, required health plans to vary premiums only by age and region, not health status or pre-existing conditions, and provided premium subsidies based on income for citizens and lawfully present immigrants who were not eligible for Medicaid, did not have an affordable offer of employer coverage, and whose income was at or below 400% of Federal Poverty Line (FPL). California took steps to effectively implement the ACA and maximize enrollment by creating a state Marketplace, Covered California, standardizing benefits and plan designs, and investing in strong marketing and outreach. In spite of the premium subsidies and other improvements under the ACA, concerns about the affordability of health coverage remained.[1] California policymakers passed legislation providing additional state-funded premium subsidies for 2020 through 2022 (Exhibit 1), and establishing a state tax penalty for those without insurance effective in 2020 that encouraged relatively healthier Californians to stay enrolled, keeping premiums down.

The American Rescue Plan improvements to premium affordability

One year into the COVID-19 pandemic, Congress passed the American Rescue Plan (ARP), which improved affordability of coverage on the health insurance marketplaces. The legislation increased premium subsidies in 2021 and 2022 for families with incomes 139-400% of the federal poverty line (FPL) and provided subsidies for families above 400% FPL if their premium expenses exceeded 8.5% of household income, eliminating the ACA subsidy eligibility cliff[2] and supplanting California's state-based subsidies as the ARP subsidies were greater at every income level. Finally, ARP made workers receiving unemployment insurance in 2021 eligible for free coverage with low cost-sharing.

These were the first major federal improvements to the ACA subsidies since enactment, and the extra $1.6 billion in federal premium subsidies coming to California had a major impact on improving affordability of coverage.[3] The enhanced premium subsidies have also been a contributor to substantially increased enrollment in Covered California, which now has close to 1.8 million enrollees following open enrollment for 2022, up from 1.2 million at the end of 2019.[4] If the ARP subsidies are not renewed beyond 2022 and the state takes no action, subsidies will revert to the original ACA levels. If this happens, enrollees will pay substantially more for coverage and we project that 220,000 Californians who would otherwise have individual market coverage will become uninsured in 2023.

Exhibit 1: Required premium contribution as a share of income

Income range		Required premium contribution as share of income		
Income as percent of federal poverty level (FPL)	2022 income for single person household	Affordable Care Act**	CA subsidies	American Rescue Plan
Under 138%*	$0 to $18,755	2.10%	0.00%	0.00%
138-150%	$18,755 to $19,320	3.15% - 4.19%	Same as ACA	0.00%
150%-200%	$19,320 to $25,760	4.19% - 6.61%	Same as ACA	0.0% -2.0%
200%-250%	$25,760 to $32,200	6.61% - 8.44%	6.24% - 7.80%	2.0% - 4.0%
250%-300%	$32,200 to $38,640	8.44% - 9.96%	7.80% - 8.90%	4.0% - 6.0%
300%-400%	$38,640 to $51,520	9.96%	8.90% - 9.68%	6.0% - 8.5%
Over 400%	$51,520 and up	Not eligible for subsidies	9.68% - 18.0%***	8.5%

Notes:
* Individuals with income at or below 138% FPL are generally eligible for Medi-Cal. In certain limited circumstances, however, they are eligible for the federal premium tax credit and the California state subsidy program.
** Required premium contributions in the ACA increase slightly each year based on an inflation factor; these are the contributions projected to 2023 used for modeling purposes.
*** Eligibility for the California state subsidy program ends at 600% of the federal poverty level.
Source: Updated from Covered California, March 2021 Board Meeting

The effect of ARP subsidies in California

Premium savings for households under the ARP subsidy schedule are significant. On average the ARP subsidies reduce premiums by 20% for Covered California enrollees,[5] but the rate of savings varies. This combined with a change in California policy[6] provided zero premium coverage to some households.

- Families at or below 150% FPL are eligible for free premiums.
- For those with incomes 150% to 250% FPL, savings compared to ACA-level subsidies are more than 4% of household income, equal to about half a month's income per year. If the enhanced federal subsidies expire and the state takes no action, premiums will double on average for these enrollees.
- Enrollees with incomes 250% to 400% FPL would see monthly net premiums increase by $78 per member per month, on average.
- Californians above the 400% FPL cliff would stop receiving subsidies all together and pay an extra $272 per member per month on average. But some enrollees in this income group, especially those who are older, would face massive premium increases of over $1,000 a month if these subsidies were not extended.[7]

- Even enrollees not receiving subsidies benefit from the ARP. The lower premiums attracted a relatively healthier group of enrollees, and this healthier risk mix lowered premiums by an estimated 3 to 5%.[8] The worse risk mix and higher premiums projected in the absence of ARP subsidies would affect all enrollees without subsidies, including all enrollees over 400% FPL.

Given the scale of savings under ARP, what sort of decline in enrollment could California expect if subsidies revert back to ACA levels? Using our California Simulation of Insurance Markets (CalSIM) model, we estimated the impact if ARP health coverage improvements expire and the state does not provide subsidies.[9] Of the 220,000 individual market enrollees projected to become uninsured under the ARP expiration scenario, most were 45-64 years old (73%, Exhibit 2). Half (50%) were in households above 400% FPL, showing the disproportionate impact on those with income above the original ACA subsidy eligibility cliff. The breakdown by race and ethnicity is fairly similar to the universe of enrollees and potential enrollees in the individual market.

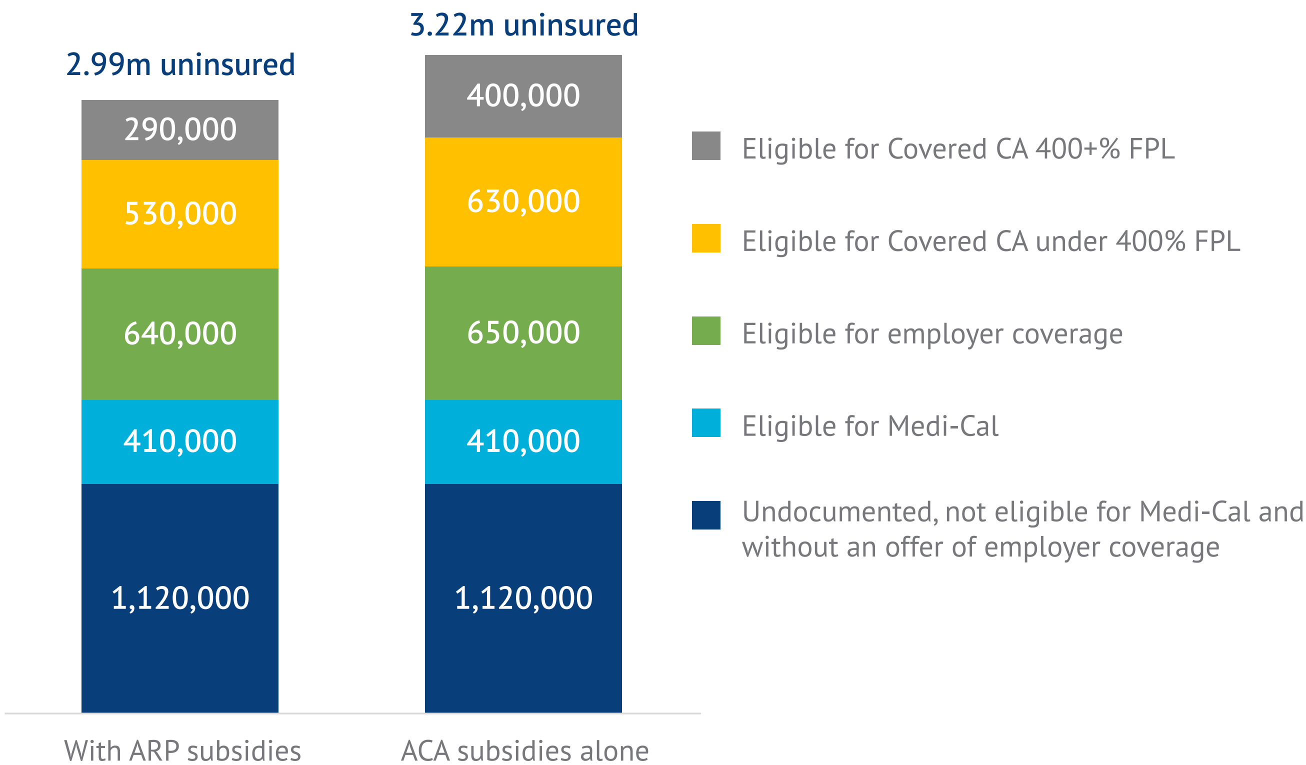
Exhibit 2. Demographics of California individual market enrollees projected to become uninsured if ARP subsidies expire and the state takes no action

	Additional uninsured without federal ARP subsidy extension 2023		Individual market universe 2023
All	220,000	100%	100%
Race and ethnicity			
Latino	80,000	35%	41%
Asian	40,000	17%	17%
African American	10,000	5%	4%
White	80,000	34%	36%
Other	20,000	9%	3%
Age			
0-18 years	10,000	3%	12%
19-29 years	10,000	5%	22%
30-44 years	40,000	20%	24%
45-64 years	160,000	73%	43%
Income			
At or below 200% FPL	30,000	15%	26%
201-400% FPL	80,000	35%	41%
401-600% FPL	60,000	27%	17%
Greater than 600% FPL	50,000	22%	17%

Note: Individual Market Universe includes those enrolled in the individual market both on and off Covered California, and those uninsured but eligible for the individual market through Covered California, excluding Medi-Cal eligible uninsured and undocumented uninsured. Numbers may not add due to rounding.
Source: CalSIM version 3.2, 2023

Without ARP subsidies, these 220,000 Californians would join another 2.99 million residents under age 65 projected to be uninsured in 2023, for a total of 3.22 million uninsured if neither the federal government nor the California government take action (Exhibit 3).[10]

Exhibit 3. Uninsured Californians age 0-64 by eligibility group, 2023, if ARP subsidies are extended versus if subsidies revert to ACA levels



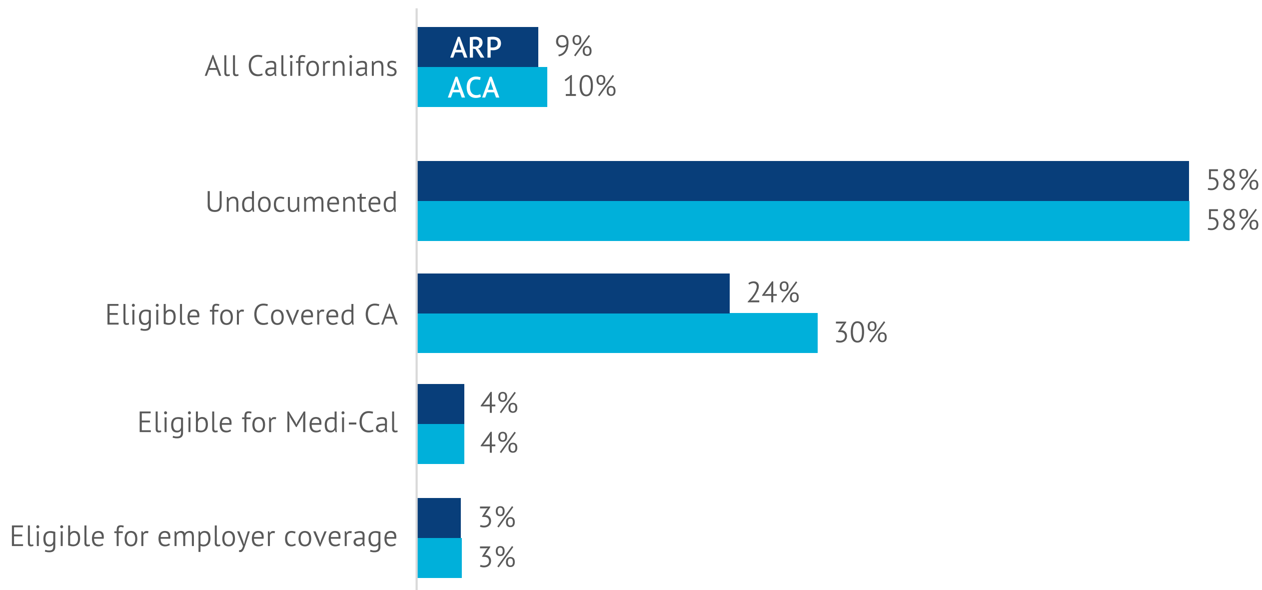
Source: CalSIM version 3.2 2023

California's uninsured in 2023

We project that in 2023, 810,000 to 1,030,000 Californians will be uninsured but eligible for Covered California, depending on whether ARP subsidies are extended (Exhibit 3, numbers do not add due to rounding). Without ARP subsidies the uninsured rate for those eligible for Covered California (not eligible for Medi-Cal and without an affordable offer of employer coverage) would increase from 24% to 30% (Exhibit 4). The majority of the uninsured in this group are under 400% FPL, and most would be eligible for subsidies under either the ACA or ARP subsidy schedule. Despite the availability of subsidies, the uninsured may not know they are eligible for financial assistance, or may still find coverage unaffordable—especially if ARP premium subsidies are no longer available. Additionally, many Covered California enrollees struggle to afford care due to out-of-pocket affordability concerns.[11] Some would not qualify for subsidies even with more generous ARP subsidies because the cost of coverage would not exceed the premium share-of-income threshold for their income group. Younger and higher income Californians and those in parts of the state with lower premiums are particularly likely to fall into this group.[12]

The largest group of uninsured will be the 1.12 million undocumented not eligible for employer coverage or Medi-Cal. If the proposal to expand Medi-Cal to low-income undocumented Californians age 26-49 is implemented in 2023 (earlier than proposed in Governor Newsom's budget), we project that close to 700,000 Californians would enroll and the number of uninsured undocumented Californians not eligible for Medi-Cal or employer coverage would fall to 460,000, dropping the uninsured rate from 58% to 28% (see our companion brief "California's biggest coverage expansion since the ACA: Extending Medi-Cal to all low-income adults"). Combined with the possibility of ARP subsidies being extended, we project that the insurance coverage for close to 1 million Californians is at stake.

Exhibit 4. Uninsured rate for Californians age 0-64, with ARP subsidies or with ACA subsidies alone, 2023



Note: assumes Medi-Cal is not expanded to low-income residents age 26-49 regardless of immigration status until 2024.
Source: CalSIM version 3.2 2023

We project 410,000 Californians would be eligible for Medi-Cal but uninsured; take up rates for Medi-Cal coverage are high, with only 4% of those eligible for Medi-Cal remaining uninsured (Exhibit 4), but some who are eligible may not be aware of their status or may be find administrative barriers to enrollment too daunting.[13] However, this number could be significantly higher depending on the redetermination process likely to get underway in 2022 after the public health emergency ends (see box).

Another 640,000-650,000 Californians will be eligible for employer coverage through their own or a family member's job, but will choose not to enroll. Employers often pay a significant share

Restarting Medi-Cal redeterminations could result in more uninsured

When the COVID-19 Public Health Emergency ends, likely in 2022, Medi-Cal will begin redetermining eligibility for millions of enrollees, a process which was put on hold during the pandemic under federal rules. Normal churn out of Medi-Cal was not happening during the last two years; when this process begins again it will result in a greater-than-average amount of churn, and the administrative hurdles and high volumes of applications that must be processed may result in more people becoming uninsured despite being eligible. This will be partly mitigated both because redeterminations will be done over the course of a year and because of the implementation of SB 260, which facilitates transitions from Medi-Cal to Covered California for those whose income has increased.

CalSIM does not explicitly model churn in and out of coverage, but rather presents a snapshot at a point in time of insurance enrollment in California. CalSIM does, however, model that take-up rates are higher in Medi-Cal than in Covered California, and builds in coverage losses during transitions based on an average amount of churn.

Some Medi-Cal enrollees' coverage will continue automatically if they are determined eligible through an 'ex parte' review process using available data. Others will have to complete the necessary paperwork to either remain enrolled in Medi-Cal or, if ineligible, enroll in coverage through another source (e.g., an employer or Covered California). Both the California Department of Health Care Services and Covered California are preparing for this transition and hope to minimize coverage disruption and loss, but if administrative barriers to enrollment are more challenging than usual and more people fall out of coverage despite eligibility, the number of uninsured people eligible for Medi-Cal and/or Covered California subsidies could be substantially higher than we project.

of the premium for their employees, and some portion of the premium for dependent coverage, though this can vary widely. This group includes only uninsured Californians with an "affordable" offer of job-based coverage—defined as having a self-only premium that is less than 9.61% of household income under the ACA scenario and less than 8.5% under the ARP-enhanced policy scenario.[14] However, uninsured workers may still struggle to afford premiums for themselves or their family members in spite of the employer coverage technically meeting the federal standard of affordability.[15]

Conclusion

The federal government made substantial improvements to the ACA under the American Rescue Plan, expanding subsidies to many who were previously ineligible based on income and providing substantially lower cost coverage for moderate to lower income enrollees. If these additional subsidies are not extended either by Congress or by California policymakers, enrollees will face large increases in premiums when they renew their coverage in the fall of 2022, with the lowest income enrollees seeing their premiums more than double. As a result, we project that an additional 220,000 California individual market enrollees will be uninsured in 2023 if Congress does not extend these provisions of the ARP. While California had provided state subsidies to improve affordability, those have expired. California faces the potential for two steps backwards in 2023: the loss of ARP subsidies without the backfill of California subsidies, unless California policymakers take state action to fill in some or all of the premium affordability gaps, continuing the state's push to improve health care affordability and access more broadly.

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Endnotes

1 Laurel Lucia, "Balancing the Books: How Affordable Is Health Insurance Through Covered California When Local Cost of Living Is Taken Into Account?," *California Health Care Foundation* (blog), June 8, 2016, https://www.chcf.org/publication/balancing-the-books-how-affordable-is-health-insurance-through-covered-california-when-local-cost-of-living-is-taken-into-account/.

2 The original ACA created a "subsidy eligibility cliff" at 400% FPL—those earning above 400% FPL were not eligible for subsidies, regardless of how much premiums were relative to income. Some enrollees with income just over 400% FPL, particularly those who were older and in high-cost regions, found that silver premiums cost much more than 10% of their income.

3 Covered California, "Bringing Care Within Reach: Options and Operational Consideration for Federally or State-Funded Cost-Sharing Reduction Programs" (Covered California, January 10, 2022), https://hbex.coveredca.com/stakeholders/AB_133_Health_Care_Affordability_Working_Group/CoveredCA_Bringing-Care-Within-Reach_Brief_1-10-22.pdf.

4 1.8 million total enrollees, with the vast majority receiving subsidies. "Premium Rate Shock and Coverage Loss Inevitable If Enhanced Financial Assistance Is Not Extended This Year to Affordable Care Act Health Plans" (Covered California, March 2022), https://hbex.coveredca.com/data-research/library/CoveredCA_ARP_Expiration_Risks_Brief_3-2-22.pdf.

5 "Covered CA ARP Expiration Risks Brief."

6 California's 2021-2022 state budget provided subsidies to zero out premiums for those who were already eligible for $1 per member per month premiums, making enrollment easier for those Californians.

7 "Covered CA ARP Expiration Risks Brief."

8 Covered California, "Covered California Announces 2022 Plans: Full Year of American Rescue Plan Benefits, More Consumer Choice and Low Rate Change," Covered California, July 28, 2021, https://www.coveredca.com/news-releases/2021/07/28/covered-california-announces-2022-plans-full-year-of-american-rescue-plan-benefits-more-consumer-choice-and-low-rate-change/.

9 The scenario we model in which the ARP subsidies expire includes premium subsidies at the levels provided under the ACA, defines "affordable" employer coverage as less than 9.61% of income in 2023, and assumes premiums are 3.25% higher due to a less healthy risk mix enrolled in the individual market. In the scenario in which ARP subsidies are extended, our modeling includes ARP subsidies and a provision included in the house-passed Build Back Better legislation that lowers the threshold for "affordable" employer coverage from 9.61% to 8.5% of income in 2023. We do not model any increase in take up that may result from adjustments to subsidies for those receiving unemployment insurance. We also do not model any changes about whether the affordability threshold for employer coverage applies to self-only coverage or family coverage, fixes to the so-called "family glitch."

10 We project that an additional 10,000 Californians would drop employer coverage under the ACA scenario.

11 Covered California, "Bringing Care Within Reach."

12 For example, a single 40-year-old in Los Angeles earning $51,520 (400% FPL in 2022) would not qualify for a subsidy because the benchmark silver plan is less than 8.5% of their income; a 40-year-old in San Francisco earning closer to 600% FPL ($77,280 in 2022) would be above the 8.5% of income threshold.

13 Michele Cordoba et al., "The Medi-Cal Maze: Why Many Eligible Californians Don't Enroll" (California Health Care Foundation, September 2021), https://www.chcf.org/wp-content/uploads/2021/09/MediCalMazeWhyManyDontEnroll.pdf.

14 In the scenario in which ARP subsidies are extended, our modeling assumes that Congress also adopts a companion provision included in the house-passed Build Back Better legislation that lowers the threshold for "affordable" employer coverage from 9.61% to 8.5% of income in 2023.

15 Alex Matthews and Laurel Lucia, "Low-Income Workers and Families Struggle with Premium Contributions," *UC Berkeley Labor Center* (blog), December 12, 2019, https://laborcenter.berkeley.edu/low-income-workers-and-families-struggle-with-premium-contributions/.

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