



Bringing Care Within Reach

Options and Operational Considerations for Federally or State-Funded Cost-Sharing Reduction Programs

Marketplace Coverage, Covered California and Ongoing Efforts to Increase Affordability

The Patient Protection and Affordable Care Act reformed the individual health insurance market. It established marketplaces that offer comprehensive health plans with income-based financial support for individuals who do not have affordable coverage through an employer, Medicaid or Medicare. Covered California is California's insurance marketplace.

Under the original Affordable Care Act structure, premium support was available for consumers with income at or below 400 percent of the federal poverty level (FPL), and consumers with income at or below 250 percent of the FPL could receive support to lower their out-of-pocket costs through cost-sharing reduction (CSR) plans, which increase the richness of plan benefits at no cost to the consumer.¹ Currently, the majority of consumers eligible for the CSR plans select these benefits (about 71 percent), while about 20 percent opt to enroll in Bronze plans – which have the lowest premiums but highest out-of-pocket costs of the plans offered through marketplaces.^{2,3} Currently, consumers earning more than 250 percent of the FPL are not eligible for federal support to lower their out-of-pocket costs, and they enroll in a mix plans ranging from Bronze plans through Platinum plans, with significant premium and out-of-pocket cost differences based on their selection.

Despite the financial support provided by the Affordable Care Act, many consumers still struggled to afford needed care. In response, California implemented a premium subsidy program in 2020 to reduce premium costs for low-income enrollees and expand eligibility to middle-income individuals who were not previously eligible for help under the Affordable Care Act. In 2021, the American Rescue Plan provided a significant increase in premium assistance through 2022, which superseded the state premium subsidy program. The Build Back Better Act (H.R. 5376), as passed by the House of Representatives on Nov. 19, 2021, would both extend American Rescue Plan premium subsidies through 2025 and provide \$10 billion annually from 2023 to 2025 that would be allocated to states to reduce consumer costs, including out-of-pocket spending.

Potential State and Federal Funding to Reduce Cost Sharing for Marketplace Enrollees

In response to the American Rescue Plan, the 2021-22 state budget (Assembly Bill 128) and health omnibus trailer bill (Assembly Bill 133) redirected \$333.4 million from California's General Fund that would have been spent on state premium subsidies to a newly established California Health Care Affordability Reserve Fund. The fund would be used for affordability programs operated by Covered California starting in the plan year 2023. The legislation also called on Covered California to report on options for using the fund to reduce out-of-pocket costs for consumers. This issue brief is a summary version of Covered California's report on options: "[Bringing Care Within Reach: Promoting California Marketplace Affordability and Improving Access to Care in 2023 and Beyond](#)."⁴

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

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Most of the analytic work conducted by Covered California was performed in the context of how new state cost-sharing subsidies could complement the American Rescue Plan enhanced premium subsidies. Covered California also modeled additional cost-sharing reduction options for consideration in the context of new potential federal funding that could be used to reduce consumer cost sharing as proposed in the Build Back Better Act. We begin, however, with modeling to show the significant loss of premium support that Californians would experience if the American Rescue Plan premium subsidies expire at the end of 2022, as would be the case under current law.

The options modeled by Covered California can be used by policy makers under several possible scenarios:

- **The American Rescue Plan premium subsidies expire after 2022:** Under this scenario, the state would face a policy tradeoff between using state funding to reduce cost-sharing or to address dramatic reductions in premium subsidies, which would take the state (and the nation) back to the original Affordable Care Act subsidy levels that were the basis of California's state-based premium support program instituted in 2020.
- **The American Rescue Plan premium subsidies are extended with additional federal cost-sharing support, through the Build Back Better Act or similar policy:** Under this scenario, federal law would continue the expanded premium subsidies now in place under the American Rescue Plan, and California would receive a portion of the national \$10 billion in funding per year from 2023 to 2025 to lower consumer cost-sharing, which is included in the Build Back Better Act as passed by the House of Representatives on Nov. 19, 2021. While additional modeling would be needed, we modeled a preliminary set of options for lowering cost-sharing using federal funding. Covered California has not modeled additional options that would combine state and federal funding to further reduce consumer cost sharing under this scenario.
- **The American Rescue Plan premium subsidies are extended without additional federal cost-sharing support:** Under this scenario, there would be continued federal support for the expanded premium subsidies now in place under the American Rescue Plan, but only state funding would be available for a cost-sharing reduction program. Many of the cost-sharing reduction options were developed for this scenario.

Potential State Options If American Rescue Plan Premium Subsidies Are Not Extended

The American Rescue Plan significantly increased and expanded premium assistance for marketplace enrollees nationwide for benefit years 2021 and 2022. It lowered premium contributions for marketplace enrollees with incomes under 400 percent of the federal poverty level (FPL), and for the first time, it expanded federal premium subsidies to individuals with incomes above 400 percent of the FPL so that no subsidy-eligible marketplace enrollee has to spend more than 8.5 percent of their income on their health insurance premiums. The American Rescue Plan significantly increased financial support for Covered California enrollees. Average household subsidies increased by more than \$100 per month, bringing the average monthly premium subsidy to \$704 and the average household net premium to \$109. Notably, more than half of households that enrolled through Covered California in 2021 had a \$1 per member, per month premium after implementation of the American Rescue Plan, compared to only 11 percent of households with only Affordable Care Act subsidies.

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If federal action is not taken to extend American Rescue Plan premium subsidies beyond 2022, Californians will lose these enhanced benefits, which total approximately \$1.6 billion annually in premium assistance. In that event, many thousands of the roughly 2.2 million Californians who receive coverage in the individual market could drop coverage.⁵ Should this occur, California policy makers would need to consider whether the California Health Care Affordability Reserve Fund would be best used to partially address the shortfall by reinstating some form of a California premium subsidy program.

Options for a State Cost-Sharing Reduction Program That Complement Expanded Federal Premium Support

Covered California developed a variety of cost-sharing reduction options and commissioned the actuarial firm Milliman to estimate the cost of those options. Options were drawn from the AB 133 legislation, an extensive working-group process that engaged a variety of stakeholders, other state-based cost-sharing reduction programs, and a cost-sharing reduction proposal modeled recently at the national level. The options modeled would reduce out-of-pocket costs for low- and middle-income Californians enrolled through Covered California. Almost all options would expand eligibility for cost-sharing support above the current income limits and increase the actuarial value of plan designs for middle-income enrollees.

Table 1 presents a selection of those options for federal or state funding. Under the option for a federally funded program shown in Table 1, eligibility for cost-sharing reductions would be expanded to all subsidy-eligible individuals up to 600 percent of the FPL and would significantly increase cost-sharing support for most income groups with plan generosity matching or exceeding the Gold or Platinum level. Several options for a state-funded program are also presented in Table 1, most of which would significantly expand eligibility and plan generosity to individuals up to 400 percent of the FPL. Details of the modeling developed by Milliman are available in the full report and in a companion report produced by Milliman.⁶ Finally, we note that additional modeling will be needed to refine options depending on the availability and amount of federal funding, if any, for cost-sharing support in 2023 and beyond.

Table 1. Summary of Selected Cost-Sharing Reduction Options Under Federal- or State-Funded Scenarios

Selected Options	Up to 150% FPL	150-200% FPL	200-250% FPL	250-300% FPL	300-400% FPL	400-600% FPL	Annual Cost of Option Based on CSR Plan Enrollment Scenarios (millions of dollars)		
							Current	Some Switching to CSR Plans	More Switching to CSR Plans
<i>Cost-Sharing Reduction Plans Under Current Law</i>	94	87	73	NA	NA	NA			
Option for a federally funded cost-sharing reduction program as under the Build Back Better Act									
AV 95/90/85/80 with no deductibles	95	95	90	90	85	80	\$475	\$542	\$626
Options for a state-funded cost-sharing reduction program building on American Rescue Plan premium subsidies									
ACA CSR plan upgrade with no deductibles and Gold AV for 250-400% FPL	94	94	87	80	80	70	\$362	\$403	\$452
ACA CSR plans with no deductibles and Gold AV for 200-400% FPL	94	87	80	80	80	70	\$128	\$154	\$189
ACA CSR plans with no deductibles	94	87	73	73	73	70	\$37	\$45	\$55

Source: Table presents a selection of the 11 options modeled to show a range of options possible with federal or state funding. Detail on all options modeled is available in Table 6 of the full report and the Milliman companion report.

Notes: ACA = Affordable Care Act, AV = actuarial value, CSR = cost-sharing reduction, FPL = federal poverty level. Enrollment scenarios reflect a range of switching among current Covered California members into CSR plans to take advantage of enhanced benefits. Green shading indicates richer CSR plan provided in the option compared to the Affordable Care Act. For simplicity, ACA CSR plans with deductibles removed are displayed with their original actuarial values (i.e., 94, 87 and 73), even though their computed actuarial value would be higher due to the removal of the deductible. Individuals with income above 250 percent of the FPL are not eligible for ACA CSR plans.

Operational Assessment for Implementation of a State-Administered Cost-Sharing Reduction Program in 2023

Launching a state-administered cost-sharing reduction program in 2023 would require a significant amount of work on a compressed timeline. Program design and operations would need to closely follow the model of the federal cost-sharing reduction program, and decisions would be needed as early as possible in the calendar year 2022. Covered California identified the following operational workstreams that would be required to launch a program, which are detailed in the full report:

1. **Benefit design** to incorporate new cost-sharing reduction funding into Covered California's patient-centered benefit designs.
2. **Payment methodology** to compensate qualified health plan issuers for reducing member cost-sharing in accordance with the cost-sharing reduction program design.
3. **Enrollment forecasting and budgeting** to project enrollment and benefit costs for 2023.
4. **Eligibility determination process** changes to CalHEERS, Covered California's eligibility and enrollment system, to define the income ranges and associated cost-sharing levels for the cost-sharing reduction program design.
5. **Enrollment process** changes to display the appropriate benefit plans under the cost-sharing reduction program design.
6. **Education and outreach** to applicants, members and certified enrollers.
7. **Carrier payment process** to make cost-sharing reduction payments to carriers.
8. **Risk adjustment** to consider whether or not to layer a state-specific risk-adjustment calculation on top the state cost-sharing reduction program.
9. **Plan renaming** assessment to determine the feasibility of renaming cost-sharing reduction plans as early as 2023 to reduce consumer confusion and better communicate the value of these plans.

In developing the operational assessment, Covered California made the following planning assumptions, which would need to hold true to minimize operational risk and prevent disruption for consumers:

1. State cost-sharing reduction plans would be offered to all renewing and newly applying members for a full benefit year, meaning that products would need to be available for shopping beginning Oct. 1, 2022.
2. Individuals would have to meet eligibility requirements for federal premium tax credits to be eligible for the state-administered cost-sharing reduction program.
3. Given the compressed timeframe, the program would need to leverage existing business processes wherever possible.

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4. State cost-sharing reduction plans would be offered only at the Silver metal tier and would be developed by enhancing the actuarial value of the benefit plan consistent with the federal cost-sharing reduction program.
5. Payments for a state-administered cost-sharing reduction program would be made directly by the state to the carrier. The cost of the enhanced benefits would not be “loaded” on premium rates, as it is now with the federal cost-sharing reduction program.

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.

Endnotes

¹ In 2022, 400 percent of the FPL is \$51,520 for an individual and \$106,000 for a family of four, and 250 percent of FPL is \$32,200 for an individual and \$66,250 for a family of four.

² The Affordable Care Act defines four “metal tiers” of coverage that vary by actuarial value (AV), or the average amount of a member’s health care cost that is paid by the health plan: Bronze (60 percent of cost paid by the plan), Silver (70 percent of cost paid by the plan), Gold (80 percent of cost paid by the plan) and Platinum (90 percent of cost paid by the plan). Plans with lower AV (e.g., Bronze with an AV of 60) generally have lower premiums but higher out-of-pocket costs. CSR plans are built on Silver-level coverage. For the lowest-income enrollees, CSR plans provide coverage near or above the Platinum level for highly subsidized Silver premium prices.

³ The remaining nine percent of consumers eligible for CSR plans enroll in Gold or Platinum plans.

⁴ Full report available at https://hbex.coveredca.com/stakeholders/AB_133_Health_Care_Affordability_Working_Group/CoveredCA_Bringing-Care-Within-Reach-Jan-2022.pdf.

⁵ The Congressional Budget Office originally projected that approximately 1.3 million uninsured people (nationally) would temporarily take up new coverage under the American Rescue Plan, suggesting that roughly 8 percent of current nongroup enrollment may be at risk of returning to being uninsured. See Congressional Budget Office (2021). “CBO Cost Estimate: Reconciliation Recommendations of the House Committee on Ways & Means.” February 2021. <https://www.cbo.gov/system/files/2021-02/hwaysandmeansreconciliation.pdf>.

⁶ “Bringing Care Within Reach: Milliman Companion Report.” Jan. 6, 2022. https://www.hbex.ca.gov/stakeholders/AB_133_Health_Care_Affordability_Working_Group/Bringing-Care-Within-Reach-Milliman-Companion-Report-1-06-22.pdf.