Defining Affordable Health Care for Missouri

More than 700,000 Missouri residents, or 13 percent of the population, currently have no health coverage. Most of the uninsured cannot afford health coverage. As Missouri wrestles with policy options to reduce the number of uninsured, it is critical to understand what Missourians can actually afford in terms of coverage. A health reform plan not grounded in the reality of what Missouri families can afford will not succeed in reducing the number of uninsured in our state.

Defining Affordability

A number of issues arise when considering a definition of affordability, including limited information and data identifying the price-point at which health care becomes affordable. Several studies assume that insurance becomes affordable at defined income levels, these levels usually track with the federal poverty level (FPL). However, tying affordability to FPL makes it very difficult to accommodate differences in demographics, geography, and life circumstances, factors that often determine whether a family can afford health insurance.

Responding to the lack of information on the role of affordability on health coverage, Community Catalyst has created a methodology for defining health insurance affordability by drawing together several different studies. Using this methodology Community Catalyst has developed a model for Missouri establishing health care affordability for the state. Broken into three regions, the model examines affordability standards for Missouri families of non-health public programs; the cost of basic needs (e.g., housing, food, and transportation); current spending on health care; and price sensitivity to health insurance.

Affordability and Eligibility Guidelines for Public Programs

Established public programs have recognized eligibility and affordability guidelines to determine income levels at which certain basic needs become unaffordable. While these levels may not perfectly track with health care affordability, they do illustrate the income-level at which low-income families cannot afford even basic necessities, and would therefore be unlikely to pay toward health coverage. The following programs use affordability guidelines:

- *Missouri Low Income Home Energy Assistance Program*: This program assists low-income Missourians with heating costs during winter months. Qualifying applicants are required to meet certain predetermined income guidelines for eligibility: approximately 123 percent FPL ($12,792) for an individual and 122 percent FPL ($21,472) for a family of three.
- *Food stamp program*: This program provides assistance to low-income families to purchase groceries. Federal eligibility guidelines are set at approximately 128 percent FPL ($13,312) for an individual and 127 percent FPL ($22,352) for a family of three.
- *Earned Income Tax Credit (EITC)*: This federal tax credit program redistributes funds to low-income wage earners who meet program criteria because they have too little income to meet basic needs. For the 2007 tax filing year, an individual qualified for EITC if he/she earned less than 121 percent FPL ($12,584); a qualifying family of four with two children earned less than 188 percent FPL ($39,856).

These eligibility guidelines provide a reference for determining who cannot afford to pay health care costs. Because the fuel assistance, food stamp, and EITC programs provide aid to individuals below 130 percent FPL ($13,520) and up to 190 percent FPL for families ($33,440 for a family of three), it appears unaffordable for individuals and families at these income levels to contribute income toward health insurance premiums or anything beyond nominal copayments for care.

Basic Household Budgets and Expenses in Missouri

Economic research supports examining the behaviors of people with similar incomes to evaluate affordability. This study derives a price-point at which health care becomes affordable to low-income Missourians using data and findings about spending on basic necessities from two specific studies: Missouri Family Affirming Wages and Economic Policy Institute (EPI), Basic Family Budget.[1]

The Missouri Family Affirming Wages study concluded that a single adult in St. Louis would need an annual income about 152 percent FPL ($15,808) to be self-sufficient. However, this figure assumes the availability of employer-sponsored insurance (ESI). Removing the cost of health coverage, a single adult in St. Louis would need an annual income of 144 percent FPL ($14,976) before accounting for health spending. (Table 1)

Table 1: Income Required to Meet Basic Needs in Missouri, Before Health Costs
Based on data from Missouri Family Affirming Wages

Location	Single Adult	% FPL	Adult + Child (preschool)	% FPL	2 Adults + 2 Children (preschool, school age)	% FPL
St. Louis City	$15,028	144%	$27,015	193%	$39,727	187%
Jackson County (Kansas City)	$14,868	143%	$25,302	181%	$37,952	179%
Butler County (rural)	$11,428	110%	$18,938	135%	$29,629	140%

The Basic Family Budget examined regional estimates for essential needs, and determined that the ability to afford health coverage varies greatly by region and income. For example, a family of four living in a rural region of Missouri would need to earn about 110 percent FPL ($23,328) per year to cover basic household needs, before health care costs. (Table 2)

Table 2: Income Required to Meet Basic Needs in Missouri, Before Health Costs
Based on data from EPI Basic Family Budget

Location	Single adult	% FPL	Adult + Child	% FPL	2 Adults + 2 Children	% FPL
St. Louis	$15,900	153%	$27,888	199%	$38,352	181%
Kansas City	$16,254	156%	$26,688	191%	$37,272	176%
Rural area	$14,174	136%	$21,684	155%	$23,328	110%

Current Spending on Health Care

A report by Holahan, Hadley, and Blumberg from the Urban Institute examined health spending for low- and moderate-income individuals.[2] According to their data, middle-income individuals typically

pay 8.5 percent of their after-tax income for health insurance (including cost-sharing). Assuming that an affordability scale should be progressive, this research indicates that 8.5 percent of income spent on health care premiums should be the "upper bound" of the scale. Individuals and families with lower incomes should be expected to pay less than this amount.

In Missouri, estimates indicate that a typical individual health care plan including cost-sharing is approximately $363 per month. In order to afford a health care plan within the 8.5 percent of income affordability standard, a single Missouri resident would need to earn approximately $51,050 annually (490 percent FPL) and a three-member family would have to earn $85,850 per year (500 percent FPL) to remain within this affordability scale.

Massachusetts' Experiences in Determining Affordability

As part of Massachusetts' health care reform law, a state agency is required to develop and update an "affordability schedule" for health care costs each year. Individuals with the lowest incomes (below 150 percent FPL) are not required to pay any premiums; individuals earning between 150 and 300 percent FPL receive a subsidy (between $39 and $116 per individual per month) toward the purchase of health care; and individuals between 300 and 600 percent FPL purchase insurance at a price set by a sliding affordability scale. Individuals earning more than 600 percent FPL ($62,400) must purchase insurance, no matter the cost.

Early data from Massachusetts suggests that some of the subsidized premiums may be unaffordable for low-income families. Of the 175,617 people enrolled in the new subsidized health plans, it is estimated that about 46 percent of the uninsured between 200 and 300 percent FPL have enrolled (compared to between 90-100 percent of people earning less than 200 percent FPL). Based on the lower enrollment numbers of the in the 200-300 percent FPL range, premiums for these plans may actually be unaffordable for this group. Individuals between 150 and 200 percent FPL pay about 2.6 percent of annual incomes in premiums, but individuals between 250 and 300 percent FPL pay about 4.9 percent of income. The difference in percent of income may explain why fewer people in the 200-300 percent FPL range enroll in insurance.

The lessons to be learned from the Massachusetts experience for Missouri include: the state's affordability scale does not account for cost-sharing and it is likely that health care becomes unaffordable for people who are older and less healthy; individuals with low to moderate incomes cannot afford premiums that are up to 5 percent of their income; and an affordability scale should extend up the income ladder, because individuals with chronic health needs may face difficulty in affording health care costs, regardless of income.

Price Sensitivity and Take-up Rates

Most people will buy health insurance if they consider it affordable. A number of analysts and policymakers have used estimations of take-up rates (the price level at which a person decides to voluntarily enroll in insurance) or price sensitivity (how consumers respond to price changes for a particular good) for health insurance to set subsidy levels and to estimate program enrollment. These figures also help establish the cost of various reform proposals. Kenneth Thorpe of Emory University developed a formula to project enrollment in Vermont's recent health reform estimates take-up rates.[3] Thorpe's formula creates an affordability scale for those with incomes between the point at which they cannot afford any contribution and the point at which they can afford the full cost of insurance. For those with incomes just above 150 percent FPL ($15,600), Thorpe's analysis projects a "lower bound" of affordability at about 1.8 percent of income. The scale indicates that people above 500 percent FPL ($52,000) can pay a greater percentage of earnings in health costs as their income level increases, up to 8.5 percent of income for people with income.

Conclusion

This paper develops an affordability scale for Missouri by examining income guidelines for non-health public programs; research on household budgets; current health spending; the Massachusetts experience; and costs and willingness to purchase insurance. Research into health care reform in other states suggests that how affordability is defined and enacted into policy greatly affects the viability of the proposed programs. To accommodate variations in demographics, geography, and life circumstances, policymakers should consider the following when designing health coverage policies for Missouri:

- Any affordability schedule should utilize a progressive scale as incomes increase. A progressive sliding scale will prevent people with lower incomes from paying a disproportionately higher share of their income for health insurance. Using an affordability scale with assumptions about the ability to pay will lead to a higher rate of take-up of insurance.
- People with very low incomes can pay only small amounts toward health care. Research shows that many low-income people struggle to pay for basic necessities and are likely to have negative cash flow. Studies of household budgets in Missouri indicate that individuals below about 150 percent FPL ($15,600) and families below about 200 percent FPL ($35,200 for a family of three) may not earn enough to cover their basic needs. People at these income levels should pay only nominal amounts of health costs and will need public programs and subsidies to obtain insurance.
- The upper bound of affordability should be set at about 8.5 percent of income. Data suggests that people with higher incomes can reasonably afford health insurance at 8.5 percent of income. In Missouri, this point corresponds to incomes above 500 percent FPL ($52,000). People with unsubsidized, non-group premiums currently pay an average of 8.5 percent of income. After meeting basic needs, most people at a higher income level have sufficient discretionary income to cover health expenses. Because premium and cost-sharing variations may render insurance unaffordable for some people with incomes above this level, it is recommended that 8.5 percent of income be used as the upper limit for people with incomes above 500 percent FPL.
- A progressive sliding scale of affordability is needed. For those earning enough to make some contribution to their health care (although not necessarily the full cost), a sliding scale of affordability is recommended as a protection from financial hardship. In Missouri, this scale should progress from 1.8 percent to 8.5 percent of income for individuals earning between 150 and 500 percent FPL ($15,600 and $52,000).

Works Cited

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2 J. Holahan, J. Hadley, and L. Blumberg, "Setting a Standard of Affordability for Health Insurance Coverage in Massachusetts," 2006.
3 Overview of Catamount Health. Kenneth E. Thorpe. February 23, 2006. http://www.leg.state.vt.us/HealthCare/Overview_of_catamount_health_by_ken_thorpe_feb_2006.htm

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