# California Budget Watch 2019 (Part 1 of 4): Governor Newsom's May Revise Ups the Ante to Increase Healthcare Coverage and Affordability

It's budget season, and this month kick-starts the discussion on whether California should re-implement the individual mandate, how much Affordable Care Act (ACA) subsidies should be increased, and whether Medi-Cal should be expanded to undocumented young adults and seniors.

Back in January, Governor Newsom went quickly to work upon his inauguration, signing executive orders and sending a letter to Congress and President Trump. With his May Revise, we will examine, in three parts, the specifics of the Governor's proposals, how the proposals have evolved, and the studies that evaluate those proposals. In the fourth and last part, we will conclude with how both houses of the California Legislature responded and look at some of the bills that assist the Governor's agenda.

### ***A Busy January: Recap of Governor Newsom's Original Budget Proposal***

As outlined in a previous Source Insight, *Governor Newsom Makes Big Steps Towards Establishing California as the Nation's Leader in Health Care Policy*, the Governor did the following in January:

- Signed an executive order which shall, among many other things, transition all pharmacy services for Medi-Cal managed care to a fee-for-service benefit and create a bulk purchasing initiative for high cost prescription drugs.
- Sent a letter to Congressional leadership and President Trump to request the creation of the “Transformational Cost and Universal Coverage Waivers,” which would allow California to implement a single payer system.
- Created a budget proposal that would increase ACA subsidies, implement a state-level ACA individual mandate, and expand Medi-Cal to cover all undocumented immigrants up to the age of 26.

Governor Newsom discussed his focus on healthcare extensively in both his inauguration address[1] and State of the State Address.[2] He also launched a “California for All” health care tour on May 14 to push for his health initiatives.

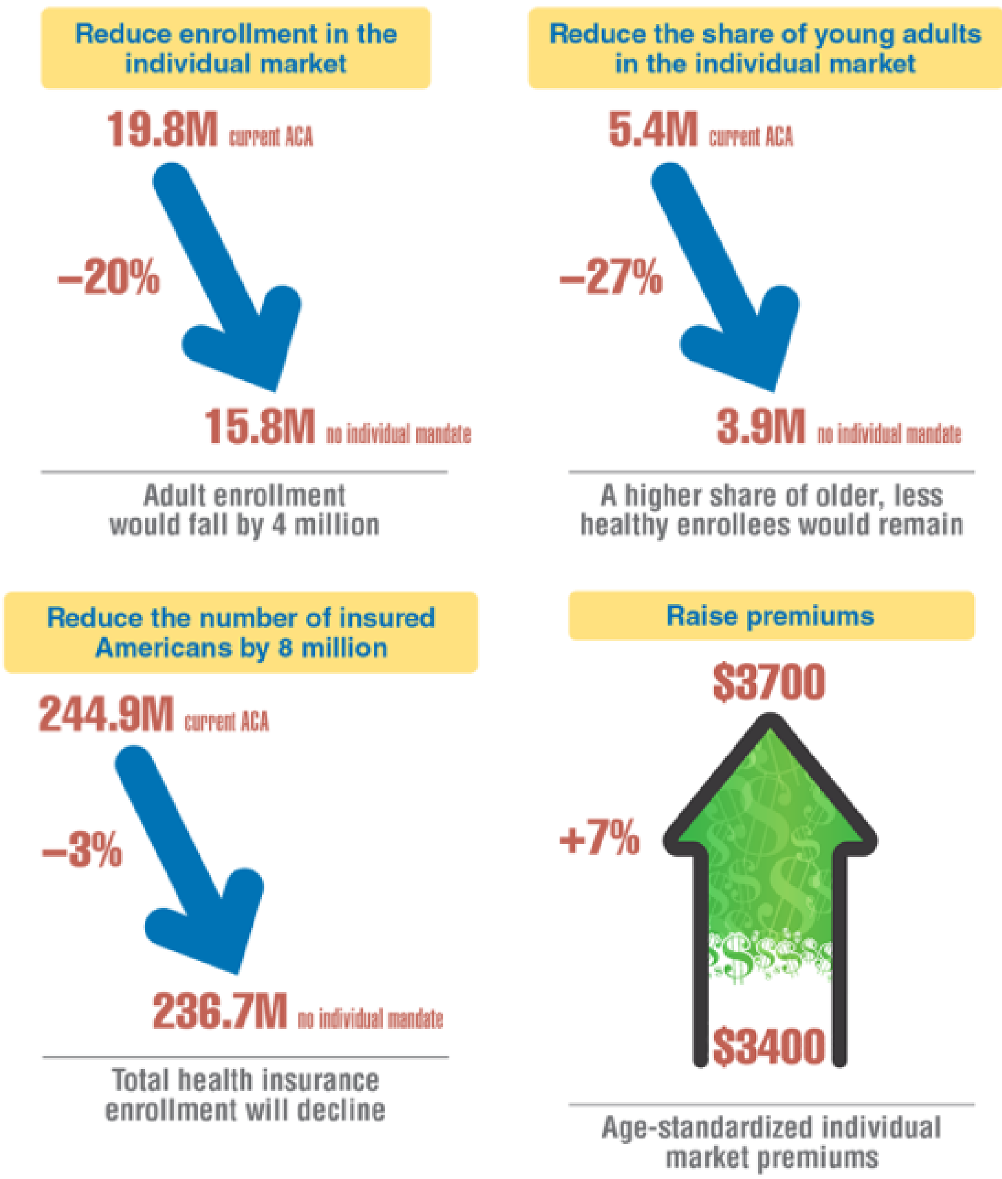
***A Busy May: How Governor Newsom’s Original Budget Proposal Changed to Further Improve Health Access***

In May, the Governor has a chance to provide a revision to his January budget proposal. For Governor Newsom, the May Revise ups the ante on his commitment to health access. While his budget covers a significant amount of ground, this post will focus on three parts of the proposal.

*1. Implementation of a State Level Individual Mandate Comes with More Controversy but Many Gains*

The 2017 federal Tax Cuts and Jobs Act eliminated the individual mandate penalty starting in January 2019. As the RAND

Corporation points out in an excellent graphic, the loss of the individual mandate has multiple and significant negative consequences to the health insurance market and its enrollees.




__Source__: ***Christine Eibner & Evan Saltzman, How Does the ACA Individual Mandate Affect Enrollment and Premiums in the Individual Insurance Market?, RAND (2015), https://www.rand.org/pubs/research_briefs/RB9812z4.html.***

This negative consequence was seen when the federal individual mandate was withdrawn. Covered California attributed its 23.8% drop in new enrollment largely to the federal removal of the individual mandate.[3] This drop was bigger than surveyed by Health Affairs (19%)[4] but within range of PwC's estimate for Covered California (7 – 28%).[5] With the drop of new enrollment, the risk pool for the individual market will be less healthy and consequently lead to increased premiums. PwC estimated that premium increase in California can be between 5% to 13%.[6] Health Affairs predicted a more modest 4% to 7%.[7]

The governor's May Revise keeps the assumption that the individual mandate penalty, previously phased out at the federal level, will be reimplemented on a state level. Despite the controversy over the individual mandate, reinstatement of the individual mandate penalty, according to Covered California, would increase enrollment and lower gross premiums.[8] The forecast is in fact a positive feedback loop: the higher the enrollment, the lower the premium; the lower the premium, the more the enrollment, and so on. This is thanks to an increased enrollment resulting in an improved risk pool of enrollees.

The only significant change to the individual mandate proposal in the Governor's May Revise is the downsized forecast of the expected penalty revenue, seen in the table below.

*Administration Projection (In Millions)*

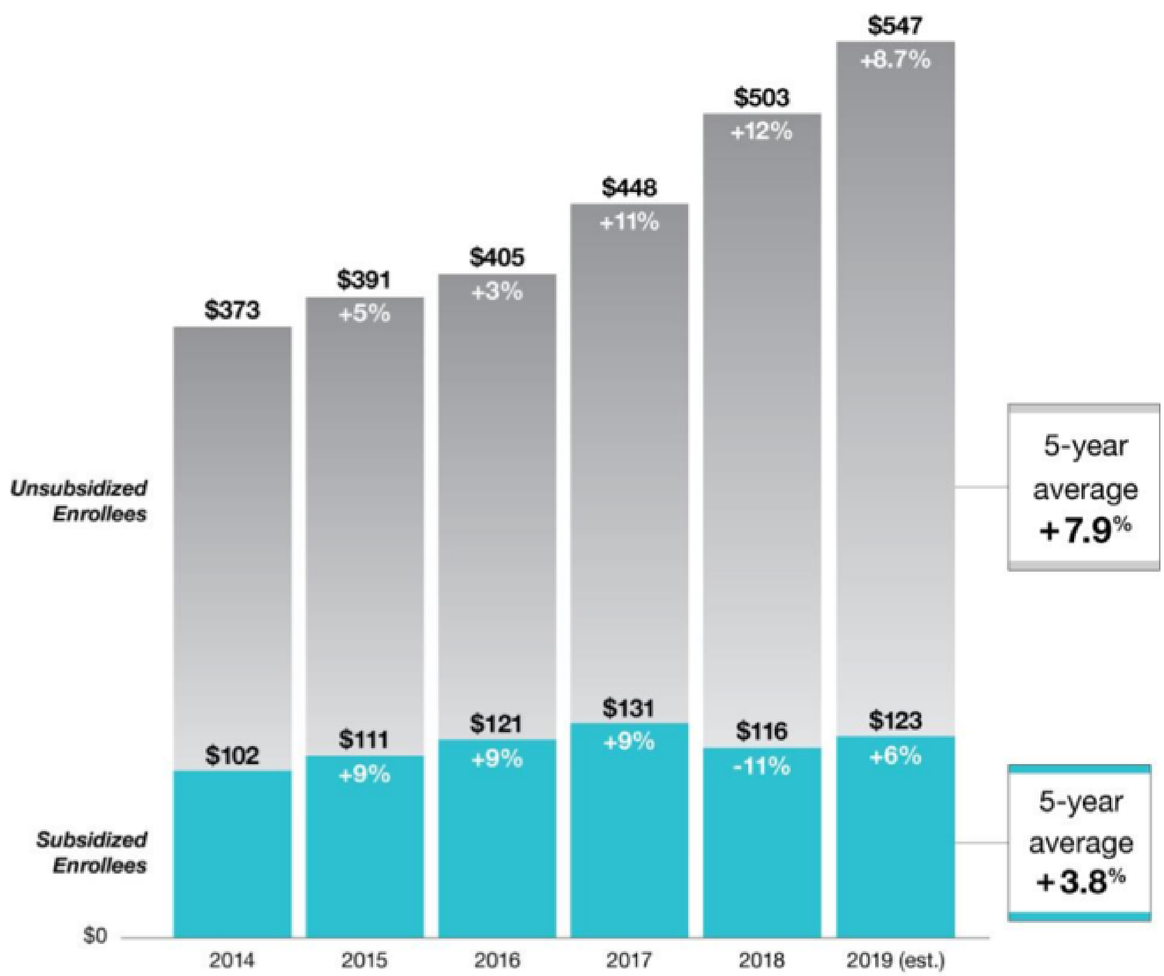
| | 2019-20 | 2020-21 | 2021-22 | 2022-23 |
|---|---|---|---|---|
| Penalty revenues | — | $317.2 | $335.9 | $352.8 |
| Subsidy costs | -$295.3 | -330.4 | -379.9 | — |
| **Net General Fund Impact** | **-$295.3** | **-$13.2** | **-$44.0** | **$352.8** |

<u>Source</u>: ***Ryan Woolsey, Governor's May Revision Update: Health Insurance Affordability Proposals, Legislative Analyst's Office (May 15, 2019), https://lao.ca.gov/Publications/Report/4047.***

Despite the downsize, the anticipated individual mandate penalty revenue is still expected to be enough to sustain the subsidies proposed by the Governor, discussed more below.

*2. Increased Range for Individual Market Subsidies May Increase Affordability of Health Insurance*

Currently, Covered California, California's individual market exchange, offers two ways to help individuals pay for health insurance, by premium assistance or cost-sharing reductions (CSR).[9] Unfortunately, households above 400% of the FPL ($48,000 for an individual or $65,000 for a couple) are not eligible for either federal assistance. Middle-class Californians, as a result, have a harder time affording health care premiums, which can be nearly four times the premiums of those receiving federal assistance as seen below.[10]

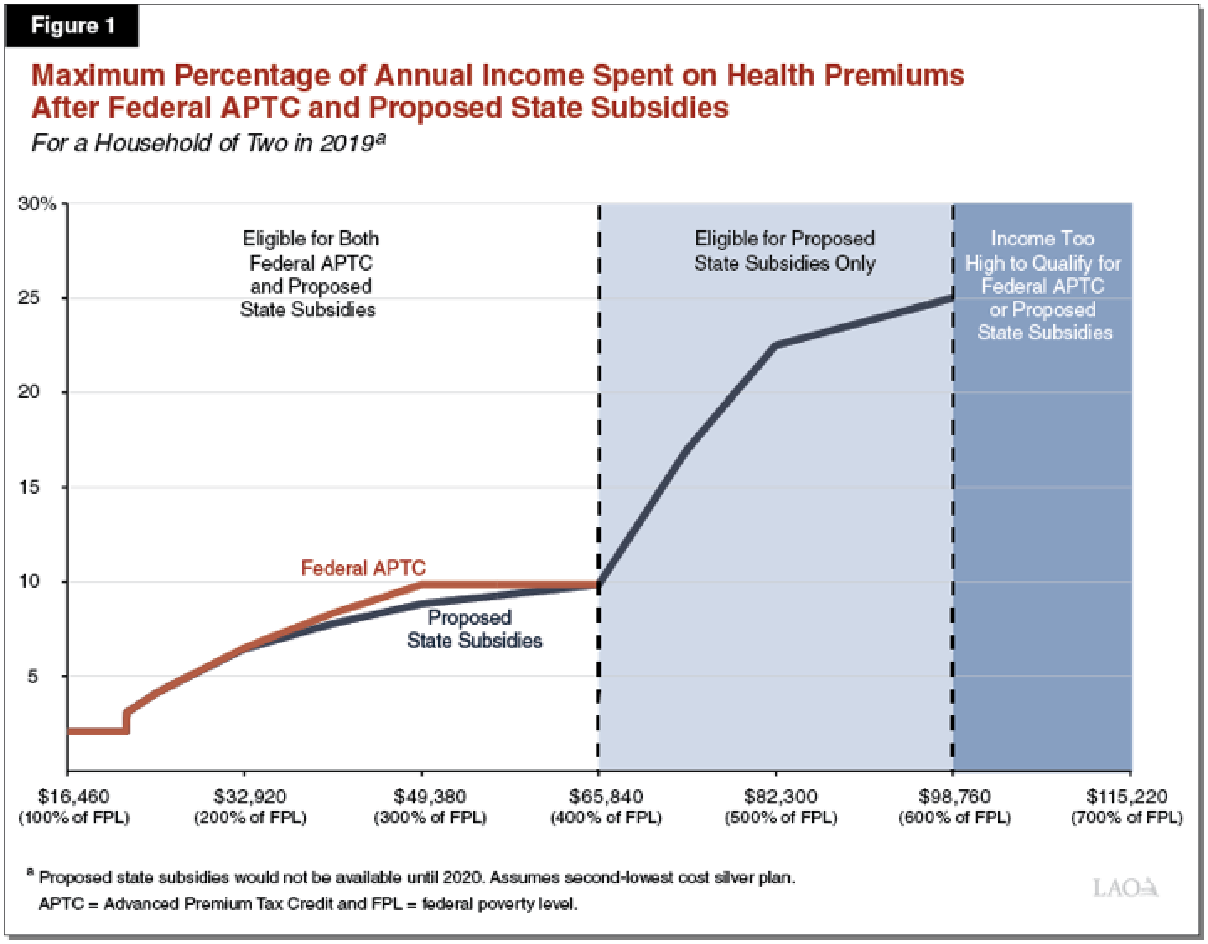


**Source**: ***Covered California, Options To Improve Affordability In California 's Individual Health Insurance Market 17 (Feb. 2019), https://hbex.coveredca.com/data-research/library/CoveredCA_Options_To_Improve_Affordability.pdf.***

However, California households at or above 400% of the FPL represent 21% of California's uninsured population and bear the "brunt of the recent premium increases . . . [leading to] dropped coverage as a result."[11] In response, Governor Newsom proposed in his January budget to introduce state subsidies for households between 250%-600% of the FPL, making California the first in the country to subsidize those in the 400%-600% range of the FPL.

The May Revise will increase the range of people who can receive state subsidies on the individual market even more, to 200%-600% of the FPL (i.e. up to $72,840 for individuals and $150,600 for a family of four). This increased range in state subsidy assistance was in response to concerns that the federal CSR and premium assistance was not enough for households in the 200%-250% of the FPL.

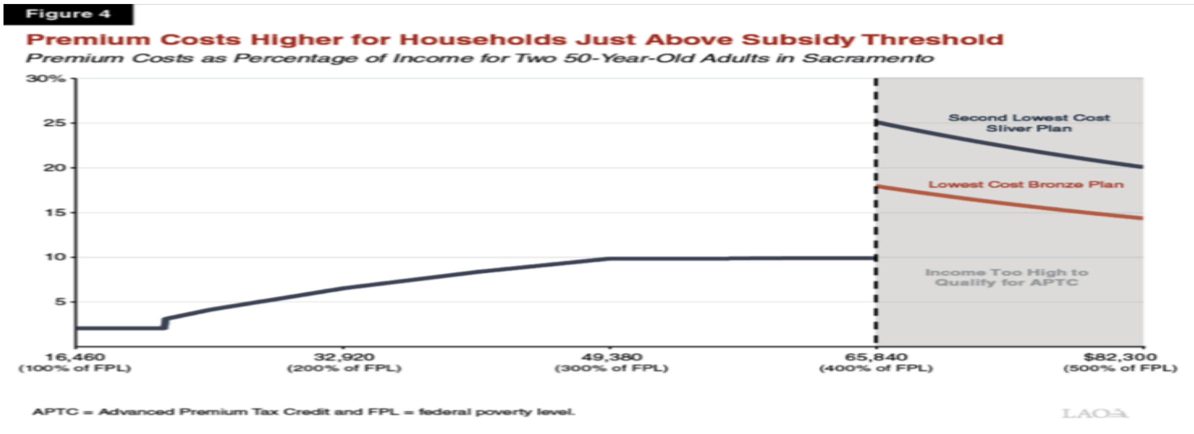
As seen in the Legislative Analyst's Office's figure below, the state subsidies are intended to limit the monthly premium to a certain percentage of income, *on top of ongoing federal assistance*.




<u>Source</u>: ***Ryan Woolsey, Governor's May Revision Update: Health Insurance Affordability Proposals, Legislative Analyst's Office (May 15, 2019), https://lao.ca.gov/Publications/Report/4047.***

For those between 200%-400% of the poverty line, the state subsidy will average $10 a month in addition to whatever federal ACA subsidies provide via Covered California. In doing so, the Governor intends to lower net premium costs to less than 9% of a household's annual income.

For those between 400%-600% of the FPL, who are not eligible for federal assistance, the state subsidy is expected to average $100 a month.[12] In doing so, these households would receive 75 percent of the state subsidies. These subsidies would help lower their premium costs as illustrated by the Legislative Analyst's figure below.

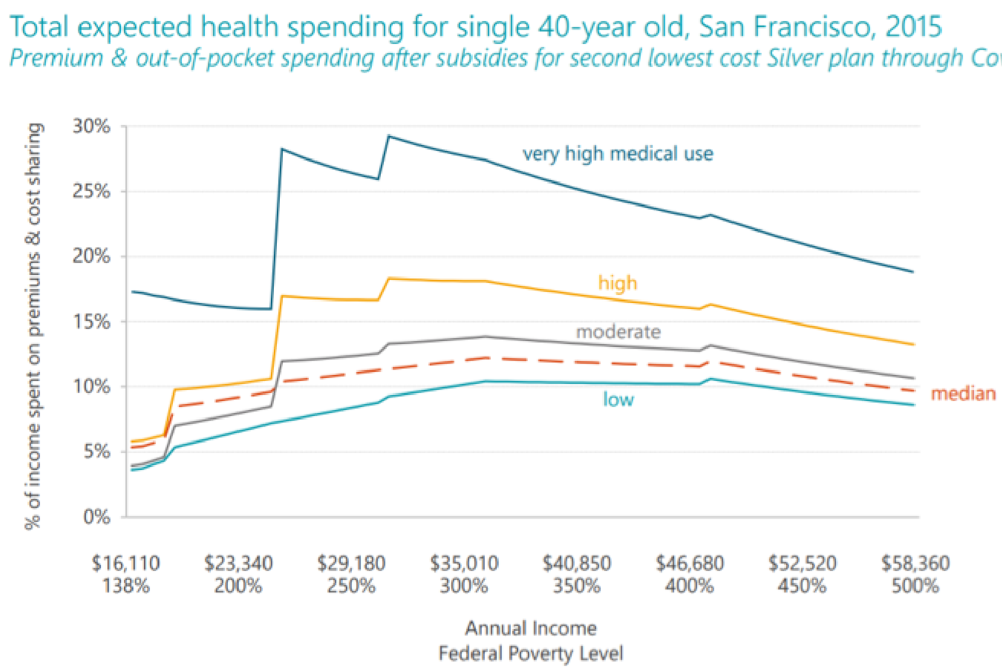



**<u>Source</u>: *Ryan Woolsey, The Governor's Individual Health Insurance Market Affordability Proposals 8 (Feb. 2019),* https://lao.ca.gov/reports/2019/3927/Individual-Market-Affordability-020719.pdf*.***

The expected $295.3 million in subsidies (which is expected to increase to $379.9 million by 2021) are intended to be recovered by revenue from the individual mandate penalty.[13] However, using the individual mandate penalty as the basis for the subsidies comes with some risk. As the Legislative Analyst pointed out, "goal of the individual mandate as a deterrent against forgoing insurance coverage is at odds with the goal of raising revenue for insurance subsidies."[14] This is because as more uninsured become insured, there will be more demand for the subsidies but less revenue for the subsidies. While the Governor seems confident that the subsidies will be fully covered by the penalty, this may not be the case if these subsidies continue in the future. For now, the proposed subsidies are expected to take effect on January 1, 2020 and be repealed in three years. The sunset clause emphasizes the subsidies are a temporary measure until the recommendations of the Health California for All's Commission are released.

Regardless, increased subsidies, despite its temporariness, provide many benefits. While 93% of Californians have health insurance, those who don't have insurance cite affordability as the main issue.[15] In particular, the FPL does not accurately reflect the higher cost of living in California. With the state subsidy range increased to 600% of the FPL, uninsured households may be more inclined to buy health insurance.

Additionally, the subsidies would help alleviate the out-of-pocket costs that may strain households. As seen in the graph below, despite a cap on premiums, out-of-pocket spending can still take up a good portion of a household’s income.




***Source: Laurel Lucia & Ken Jacobs, California Policy Options for Improving Individual Market Affordability and Enrollment 6 (Mar. 5, 2018), http://laborcenter.berkeley.edu/pdf/2018/CA-policy-options-individual-market-affordability.pdf.***

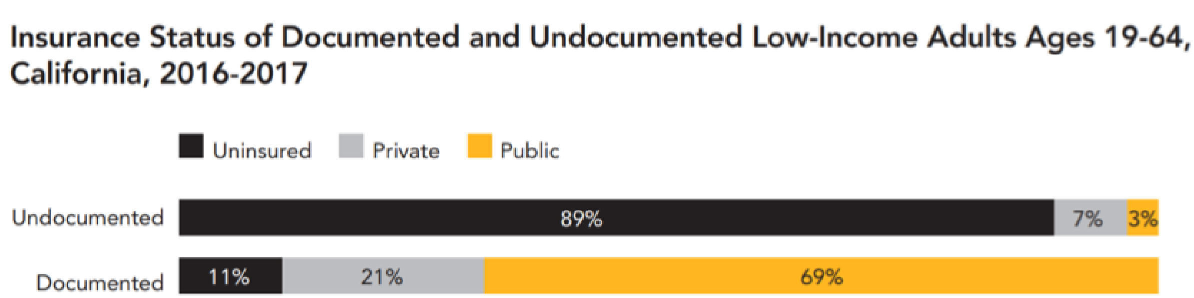
Finally, as subsidized households increase enrollment, the individual market will consist of healthier individuals and thereby lower the risk insurers have. This will in turn lead to lower premiums and yield savings to all individual market enrollees.

*3. Medi-Cal Expansion to Undocumented Young Adults May Help Reduce Uninsured Rate but is Delayed*

One of the most significant revises in May comes from the proposed expansion of Medi-Cal, California's Medicaid program, to undocumented young adults aged 19-26. Currently, all undocumented, low-income children are eligible for Medi-Cal up to age 19. The Governor's proposal extends the eligible age range to 26.

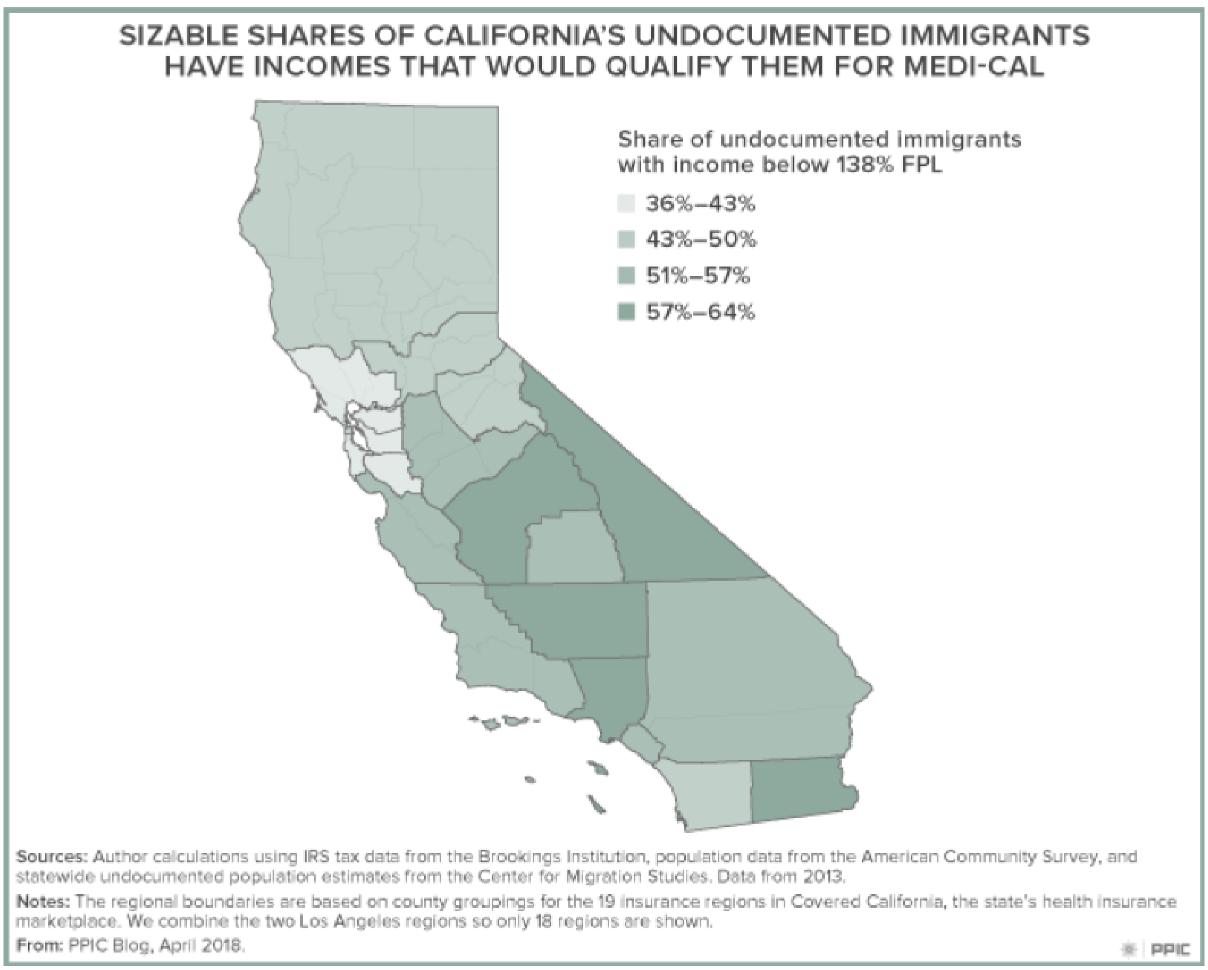
First, the May Revise pushes back the start date of the Medi-Cal expansion from July 1, 2019 to January 1, 2020. Second, following the Legislative Analyst's objection that the January estimate was "implausible," the May Revise lowers the expected number of enrollees of undocumented adults from 119,000 to 83,000. Consequently, the cost of expansion is lowered from $195.55 million to $72.92 million. Still, the Legislative Analyst questioned why the number was significantly lowered and encouraged the Legislature to make reasons for the reduction clear.

If passed, the expansion of Medi-Cal is also good news in lowering the uninsured rate in California. As seen in the chart below, a majority of undocumented, low-income adults are currently uninsured due to unaffordability or ineligibility for Medi-Cal. Some estimate that undocumented, low-income adults will constitute 37% of all uninsured in California by 2020.[16]



Source: *Nadereh Pourat & Ana E. Martinez, Reducing Access Disparities in California by Insuring Low-Income Undocumented Adults 3 (Feb. 2019), http://healthpolicy.ucla.edu/publications/Documents/PDF/2019/undocumented-policybrief-feb2019.pdf.*

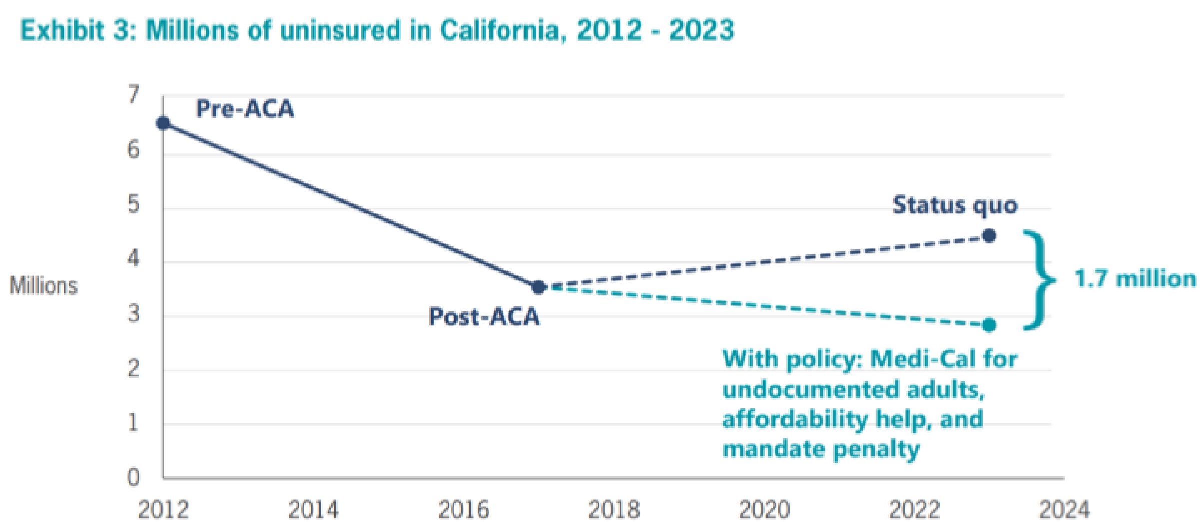
The proposed expansion would meaningfully lower the uninsured number by targeting a large population of the uninsured. In particular, this expansion would provide insurance for a significant number of undocumented immigrants in rural counties as seen in the map below.




Source: *Shannon McConville, Expanding Health Care Coverage for Undocumented Immigrants, Public Policy Institute (Apr. 4, 2018), https://www.ppic.org/blog/expanding-health-coverage-undocumented-immigrants/.*

**Conclusion**:

If concurred in the Legislature, all these proposals shall mitigate the elimination of the federal individual mandate and even lower the number of uninsured. As seen in the California Simulation of Insurance markets graph below, these proposals together could lead to 1.7 million more Californians becoming insured.




__Source__: ***Miranda Dietz, et. al., 3.6 Million Californians Would Benefit if California Takes Bold Action to Expand Coverage and Improve Affordability 3 (April 2019), http://laborcenter.berkeley.edu/pdf/2019/3-6-Million-Californians-Would-Benefit.pdf.***

However, these proposals are only the first step in shoring up the individual marketplace. Covered California released in February 2019, "[Options To Improve Affordability In California's Individual Health Insurance Market]," that includes, in addition to increased subsidies and a reinstatement of the individual mandate, a reinsurance program and subsidies for up to 1200% of the FPL. While the Governor's proposals fall short of this, these proposals are still a good investment for increased health care access. In the next part of the series, we'll further examine the Governor's budget proposals as it relates to Medi-Cal and the healthcare workforce.

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[1] The following is an excerpt of Governor Newsom's prepared inaugural remarks as it relates to his health care proposals, courtesy of Capital Public Radio: "In our home, every person should have access to quality, affordable health care. Far-away judges and politicians may try to turn back our progress. But we will never waver in our pursuit of guaranteed health care for all Californians. We will use both our market power and our moral power to demand fairer prices for prescription drugs. We will stop stigmatizing mental health and start supporting it. And in California we will always protect a woman's right to choose."

[2] The following is an excerpt of Governor Newsom's prepared State of the State address as it relates to his health care proposals, courtesy of Capital Public Radio: "This year's Covered California premiums increased almost twice as much as we expected. This is just what we feared, and it's just what they wanted. That's why, when it comes to the individual mandate, California must act where Washington failed. If we do, we will be able to deepen subsidies for those earning up to $48,000 and extend subsidies to families earning up to $150,000, something no other state in America has done. . . As we pursue the long-term goal of single payer financing, let us make a down-payment now by expanding Medi-Cal coverage to all Californians up to age 26, regardless of their immigration status. But access is only part of the solution. Cost is another. We must address rising costs throughout the system, like the consolidation of hospitals and other health providers, which limits patient choice and makes care more expensive. And we must continue to bring down

the cost of prescription.”

[3] Covered California, Covered California 2019 Open Enrollment Early Observations and Analysis 1 (Jan. 2019), https://hbex.coveredca.com/data-research/library/CoveredCA_2019_Open_Enrollment_Early_Analysis.pdf.

[4] Vicki Fung, et. al., *Potential Effects Of Eliminating The Individual Mandate Penalty In California*, 38 Health Affairs 147, 150 (2019).

[5] PwC, Impact of Individual Mandate Penalty Elimination and Other Market Factors on Coverage Nationally and in California: Prepared for Covered California Board Presentation 12 (May 2018), https://board.coveredca.com/meetings/2018/05-17/PWC%20Slide%20Deck%20-%20pdf.pdf.

[6] *Id.*

[7] Fung, *supra note* 4, at 153.

[8] Covered California, Options To Improve Affordability In California ’s Individual Health Insurance Market 27 (Feb. 2019), https://hbex.coveredca.com/data-research/library/CoveredCA_Options_To_Improve_Affordability.pdf.

[9] For Covered California-enrolled households between 138% and 400% of the federal poverty level (FPL), the federal government provides premium assistance known formally as the Advanced Premium Tax Credit (APTC)) and gives a tax credit to limit a household’s net premium cost to a certain percentage of income. Additionally, for Covered California-enrolled households up to 250% of the FPL, the federal government provides cost-sharing reduction (CSR), which lower out-of-pocket expenses.

[10] *See id.* at 15-16.

[11] Larry Levitt & Chelsea Rice, *Larry Levitt Answers 3 Questions on Calif. Governor's Proposed Individual Mandate, Expanded Subsidies*, Kaiser Family Foundation (Jan. 9, 2019), https://www.kff.org/health-reform/issue-brief/ask-kff-3-questions-california-governor-newsom-health-plan/.

[12] This should be helpful as the average premium for unsubsidized Covered California enrollees would be $446 per month. *See* Insured the Uninsured Project, 2019-20 Governor's Budget May Revision Highlights 2 (May 14, 2019), http://www.itup.org/wp-content/uploads/2019/05/May-Revise-Legislative-Update.pdf.

[13] While the Legislative Analyst did not find any concerns with funding the state subsidies with the individual mandate penalties, the Legislative Analyst was concerned that the state subsidy, in keeping with a certain percentage of the annual income, could be subject to a "rapid cost escalation over time." Ryan Woolsey, *Governor's May Revision Update: Health Insurance Affordability Proposals*, Legislative Analyst's Office (May 15, 2019), https://lao.ca.gov/Publications/Report/4047.

[14] Ryan Woolsey, The Governor's Individual Health Insurance Market Affordability Proposals 1 (Feb. 7, 2019), https://lao.ca.gov/reports/2019/3927/Individual-Market-Affordability-020719.pdf.

[15] Laurel Lucia & Ken Jacobs, California Policy Options for Improving Individual Market Affordability and Enrollment 14 (Mar. 5, 2018), http://laborcenter.berkeley.edu/pdf/2018/CA-policy-options-individual-market-affordability.pdf. *See also* Covered California, Covered California 2019 Open Enrollment Early Observations and Analysis 8 (Jan. 2019) (pointing out that "the financial support provided by subsidies remains a critically important element in

persuading consumers to sign up for coverage”), https://hbex.coveredca.com/data-research/library/CoveredCA_2019_Open_Enrollment_Early_Analysis.pdf.

[16] Nadereh Pourat & Ana E. Martinez, Reducing Access Disparities in California by Insuring Low-Income Undocumented Adults 1 (Feb. 2019), http://healthpolicy.ucla.edu/publications/Documents/PDF/2019/undocumented-policybrief-feb2019.pdf.