Presentation #8.B.

Affordability Considerations

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Background

The affordability challenge today

- Most Californians lack insurance covering comprehensive LTSS
  - Medi-Cal covers approximately 23% of Californians ages 65+ and 50% of California adults under age 65 with disabilities
    - Legislative Analyst's Office projects 37,000 Medi-Cal enrollment increase with asset test elimination, equivalent to ~2% increase in Seniors and Persons with Disabilities enrollment
  - 4.2% of Californians ages 40+ had long term care insurance in 2018
- Many Californians cannot afford LTSS at full cost
  - AB 567: "A majority of respondents could not afford more than three months of nursing home care at an average cost of six thousand dollars ($6,000) per month in California. About four in 10 respondents could not afford a single month of care at that rate."

Sources: DHCS Medi-Cal Monthly Eligible Fast Facts, November 2021. U.S. Census Bureau Population estimates 2021. Yang-Tan Institute on Employment and Disability at the Cornell University ILR School, 2018 Disability Status Report California, 2018. California Legislative Analyst's Office, The 2021-22 California Spending Plan, October 22, 2021. AARP Foundation, The Commonwealth Fund, The Scan Foundation, and AARP, Long-Term Services & Supports State Scorecard.

Income and assets are often insufficient to cover LTSS costs

Medicare beneficiaries in U.S., 2019

	Median annual income per person	Median savings per person
All beneficiaries	$29,650	$73,800
Under age 65	$19,550	$34,050
Age 65+	$31,450	$83,850

One in four people with Medicare had savings below $8,500

Note: This data includes Medicare beneficiaries who may also be eligible for Medicaid.
Source: Kaiser Family Foundation, Medicare Beneficiaries' Financial Security Before the Coronavirus Pandemic, April 24, 2020.

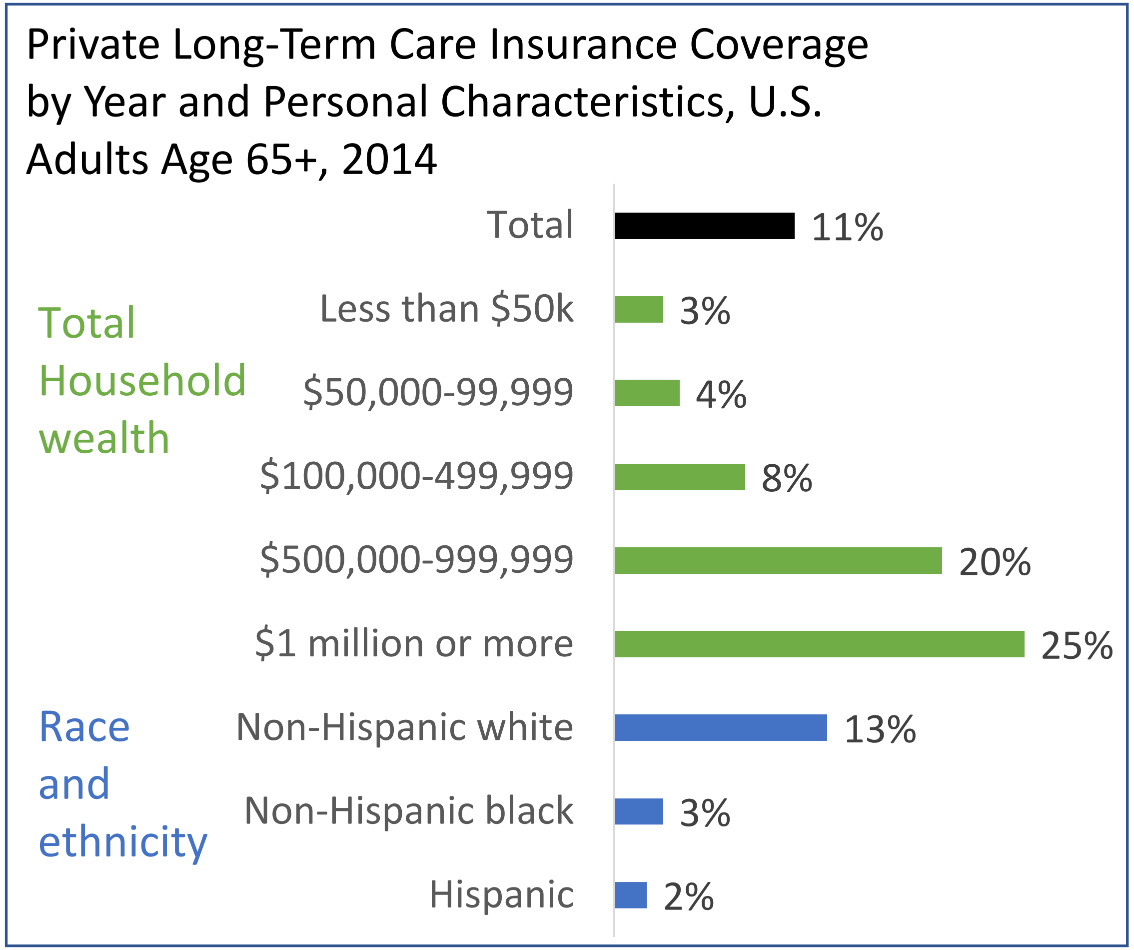
Inequities in affordability (1)

- Racial inequities in income and assets are one driver of inequities in affordability
  - Black and Latino families in California are overrepresented at lower income levels
  - Median liquid assets for white households are significantly higher than for families of color
- A national study that simulated the financial burden of home care found that it is less affordable for older adults of color than for white adults

Sources: Public Policy Institute of California, Income Inequality in California, January 2020. Neil Bhutta et al. (Federal Reserve), Disparities in Wealth by Race and Ethnicity in the 2019 Survey of Consumer Finances. Richard W. Johnson and Claire Xiaozhi Wang, The Financial Burden of Paid Home Care on Older Adults, Urban Institute, June 2019.

Inequities in affordability (2)

- The prevalence of private long term care insurance varies significantly by wealth and race/ethnicity, and affordability is likely a major driver of this variation



Source: Richard W. Johnson, Who is Covered by Private Long-Term Care Insurance? Urban Institute, August 2016.

The consequences of affordability challenges

Consequences include but are not limited to:

- Unmet need
- Financial difficulties in paying for other basic household expenses or depleting savings
- Adverse consequences for unpaid family caregivers such as financial stress, and physical and mental health problems due to caregiving
- Worry – 73% of California voters were concerned about their ability to pay for long term care in the future

Sources: Sean Tan et al. (UCLA Center for Health Policy Research), Who is Caring for the Caregivers? The Financial, Physical, and Mental Health Costs of Caregiving in California, November 2021. J. Wallin Opinion Research conducted in June 2018 for West Health and Scan Foundation.

No one-size-fits-all approach to defining affordability

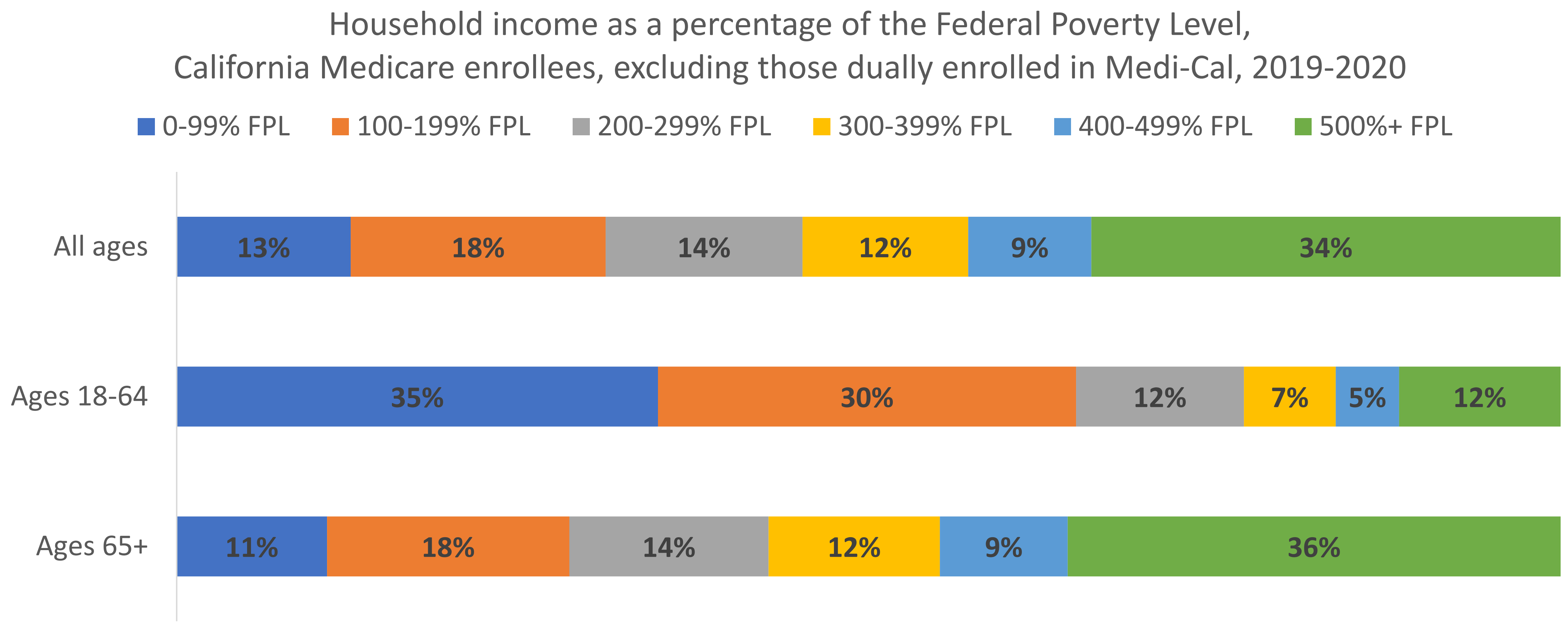
- Affordable for whom?
  - Taxpayers contributing to statewide long term care program
  - Individuals in need of LTSS
- Affordability will vary based on a range of factors including but not limited to:
  - LTSS needs – type, duration, intensity
  - Income and assets
  - Cost of living

Lessons from the Affordable Care Act

ACA design recognized that affordability assistance is needed beyond Medicaid income levels

- Beginning in 2014, ACA expanded Medicaid eligibility up to 138% FPL in participating states and provided premium assistance through Marketplace for those with income up to 400% FPL and cost sharing assistance for those with income up to 250% FPL
- Beginning in 2020, California provided state premium subsidies to Covered CA enrollees with income 400-600% FPL
- Through 2022, the American Rescue Plan provides premium subsidies if Marketplace coverage costs more than 8.5% of household income
  - Depending on age, region, and household size, this can include people with income equivalent to 1000% FPL or higher

Two-thirds of Californians with Medicare only or Medicare plus private coverage have income under 500% of the Federal Poverty Level



Source: California Health Interview Survey 2019-2020

Cost of living in California is an important consideration in addressing affordability (1)

- The original ACA income eligibility limit of 400% FPL was equivalent to approximately 500% FPL statewide in California and 600% FPL in a high-cost region like San Francisco, after taking into account cost of living

Source: Laurel Lucia and Ken Jacobs, Towards Universal Health Coverage: California Policy Options for Improving Individual Market Affordability and Enrollment, UC Berkeley Labor Center, March 2018.

Cost of living in California is an important consideration in addressing affordability (2)

Household budget context for taxpayer affordability	Household budget context for LTSS user affordability*
Real Cost Measure (United Way)	Elder Security Index (UCLA) **
• 33% of CA households do not earn sufficient income to meet their basic costs of living • Varies by region from 80% of households in Southeast LA City/East Vernon in LA County falling below the Real Cost Measure, compared to 11% in San Ramon/Danville in Contra Costa County • Family composition matters: 54% of households with children under 6 fall below Real Cost Measure	• 66% of single elders living alone in CA and renting had income below the Elder Security Index in 2015, compared to 44% of owners with a mortgage and 28% of owners with no mortgage. • On average, estimated annual basic cost of living in 2019 for a CA single adult age 65+ who is a renter was $27,816, but this varies from $20,796 in Kern County to $45,684 in San Mateo County

* I am not aware of a similar household budget metric for Californians with disabilities. The Elder Security Index focused on those ages 65+ is an imperfect proxy for all LTSS users.

** Elder Security Index includes only out-of-pocket costs for health care not covered by insurance for seniors in “good” health. (i.e. does not include significant LTSS costs)

Sources: United Way, Real Cost Measure in California, 2021. UCLA Center for Health Policy Research, Elder Security Index.

High out-of-pocket expenses can impede access to care and affect the perception of a program

- Out-of-pocket expenses for health care impact access to care
    - Large deductibles have been shown to reduce use of high-value and low-value care
    - Even smaller copays can impede access to care
- Perception of the value of coverage can be affected by benefit levels and affordability concerns

Sources: Brot-Goldberg et al, What does a Deductible Do? The Impact of Cost Sharing on Health Care Prices, Quantities, and Spending Dynamics, *The Quarterly Journal of Economics,* Volume 132, Issue 3, August 2017, pages 1261-1318. Samantha Artiga et al, The Effects of Premiums and Cost Sharing on Low-Income Populations: Updated Review of Research Findings, Kaiser Family Foundation, June 2017.

Improving affordability may involve tradeoffs with simplicity

- In the ACA context, varying premium and cost sharing assistance by income level has made affordability assistance better targeted, but it has also made it more challenging to ensure that people understand their eligibility and how much they would pay
- Varying LTSS benefits by income or assets to improve affordability could increase the administrative complexity of a statewide program due to the potential need to collect income information or asset information at the time LTSS are needed

Potential affordability levers

Potential levers to improve affordability of tax contributions

Lever	ACA Marketplace example	Examples of potential LTSS levers	Pros	Cons
Reduced/ subsidized tax contributions based on income	Household premium contributions towards Marketplace coverage range from 0-8.5% of household income depending on income level	Vary tax contributions by income Exempt first $x,000 of income from tax Apply tax to all but provide separate tax rebate for low-wage workers through income tax system (Note: any interactions with vesting requirements would need to be determined)	Reduce hardship for Californians that are struggling to pay for basic household expenses	Increase administrative complexity compared to uniform tax rate, with complexities varying based on the type of tax and which agency administers the tax Potentially reduce public support for program (programs like Medicare and Social Security that require all workers to contribute enjoy broad public support)

Potential levers to improve affordability of using LTSS (1)

Lever	ACA Marketplace example	Examples of potential LTSS levers	Pros	Cons
Limit out-of-pocket costs incurred when accessing services	Silver plans required to cover 70% of medical costs across an average population No deductible in Covered CA Gold or Platinum Plan Annual out-of-pocket maximum of $8,700 (single individual)	Minimize elimination period Increase monthly benefit amount	Increase affordability	Increase program cost relative to longer elimination period or lower benefit amount
Lower deductibles or copays based on income	ACA reduces out-of-pocket costs for individuals with income at or below 250% FPL	Vary monthly benefit amounts or length of elimination period based on income and/or assets	Improve affordability for those with low income Improve equity in access to LTSS	Increase program cost Increase administrative complexity relative to a flat benefit amount

Potential levers to improve affordability of using LTSS (2)

Lever	ACA Marketplace example	Examples of potential LTSS levers	Pros	Cons
Vary deductible or copayment by type of service	ACA requires no cost sharing for certain preventive services Covered California plans Silver or better do not apply deductible to services other than inpatient and nursing facility care	No elimination period for HCBS	Further incentivize use of HCBS which is typically less expensive than institutional care Align with individuals' preference to stay at home and promote independence	Individuals that need institutional care would face more affordability challenges