California Health Care Foundation

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Issue Brief

Balancing the Books: How Affordable Is Health Insurance Through Covered California When Local Cost of Living Is Taken Into Account?

You and your spouse are shopping for health insurance through Covered California. Your salary as a restaurant manager and your spouse's freelance income add up to a little more than $75,000 each year. You look at your household expenses — rent, transportation, child care for your two kids, food, and more — to make sure you can afford health insurance premiums and out-of-pocket (OOP) costs. According to a UC Berkeley analysis, you'd be able to afford the premium and out-of-pocket costs if you lived in Modoc County, but not if you lived in Marin County, even with the federal subsidies available under the Affordable Care Act (ACA).

Federal Subsidies Are Not Always Enough

Premium and cost-sharing subsidies offered to eligible individuals through the health insurance marketplaces established under the ACA have reduced the cost of health insurance for millions of Americans. However, premium and cost-sharing subsidy amounts are set nationally, and do not account for differences in local cost of living, which can vary dramatically across counties and regions in California.

Subsidies are no guarantee that coverage through Covered California, the state's health insurance marketplace, will be affordable, especially for those living in areas where a high cost of living already strains household budgets. In fact, many eligible Californians still find the premium and out-of-pocket costs for health insurance plans offered through Covered California unaffordable despite subsidies — and despite the slowing rates of premium increases in the post-ACA individual market and Covered California's success in holding down premium costs. According to a survey by the Kaiser Family Foundation, the most common reason (44%) for remaining uninsured in California in 2015 was not being able to afford insurance.[1]

Local Cost of Living Plays a Role

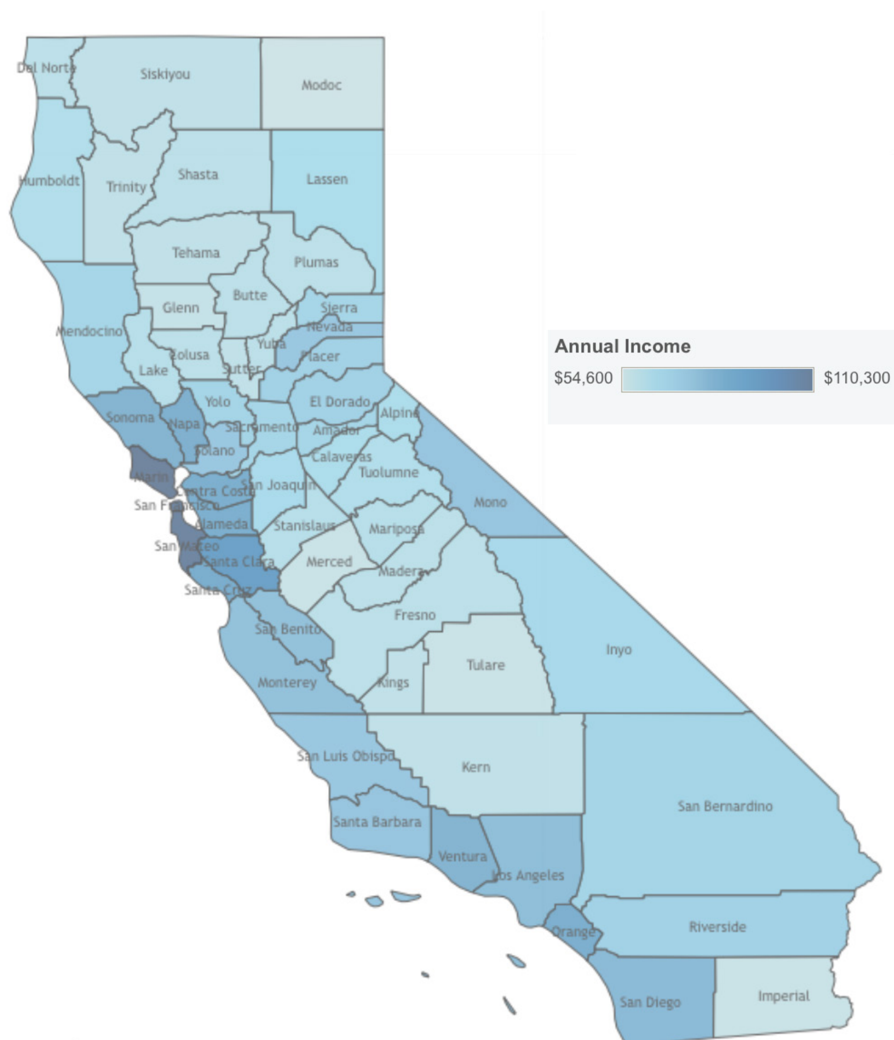
This analysis by the UC Berkeley Center for Labor Research and Education illustrates how people's ability to afford health insurance purchased through Covered California may differ among California counties when the local cost of living is taken into account. Specifically, researchers identified, for each of the 58 California counties, the minimum amount a typical household would need to earn to have sufficient funds to cover their basic needs and Covered California premiums and out-of-pocket costs after federal subsidies (combined with Medi-Cal premiums for children, when applicable). This minimum income level is referred to as the "affordability threshold."

The affordability threshold was determined by calculating the income level at which annual income exceeded estimated expenses, including housing, child care, transportation, food, miscellaneous expenses, taxes, and health care premium and out-of-pocket costs. This analysis assumes low medical use by all family members. Health costs would be higher for consumers who use medical services more frequently.

Not surprisingly, the ability to afford Covered California premiums and out-of-pocket costs while meeting basic needs is more challenging for lower-income individuals and families living in counties with a high cost of living, compared with their counterparts with higher incomes and those in counties with a lower cost of living. Specifically, the analysis found that:

- In every county, the affordability threshold fell above the maximum income allowed to qualify for Medi-Cal as an adult (138% FPL). This suggests that in every county, a segment of the population — specifically those earning above 138% FPL and below the local affordability threshold identified here — is likely unable to afford basic living expenses and Covered California premiums and out of pocket costs.
- The affordability threshold for families of four (two parents with two children) varied widely by county (see Figure 1). Similarly,

Figure 1. Affordability Thresholds for Families of Four, by County, California, 2016



Source: UC Berkeley Center for Labor Research and Education.

wide variation in the affordability threshold for single individuals was also observed across counties.

- The low and high ends of the spectrum were represented by Modoc and Marin Counties, respectively. In Modoc, the affordability threshold for a family of four was 225% of the Federal Poverty Level (FPL), or $54,600 annually, compared with 455% FPL, or $110,300, in Marin County. In Modoc, the affordability threshold for single individuals was 165% FPL, or $19,400 annually, compared with 345% FPL, or $40,600, in Marin. See Appendix A for a list of California counties and their affordability thresholds.
- The differences in the affordability threshold found in this analysis were mainly a reflection of the variation in cost of living among counties rather than premium variation among Covered California's pricing regions.

Local Solutions

This analysis suggests that many Californians — especially low-income individuals and families living in counties with a high cost of living — need more help to afford health insurance through Covered California. In the absence of federal or state-level action, local policymakers can help. For example, the City and County of San Francisco is implementing a "Bridge to Coverage" program originally developed by the San Francisco Department of Public Health, to provide additional local subsidies to help eligible San Francisco workers afford Covered California premiums and cost-sharing expenses.[2] Other counties that have the means may want to explore similar efforts.

About the Author

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About the Foundation

The California Health Care Foundation is dedicated to advancing meaningful, measurable improvements in the way the health care delivery system provides care to the people of California, particularly those with low incomes and those whose needs are not well served by the status quo. We work to ensure that people have access to the care they need, when they need it, at a price they can afford.

CHCF informs policymakers and industry leaders, invests in ideas and innovations, and connects with changemakers to create a more responsive, patient-centered health care system.

For more information, visit www.chcf.org.

Endnotes

1. Bianca DiJulio, Jamie Firth, and Mollyann Brodie, "California's Previously Uninsured After the ACA's Second Open Enrollment Period," Kaiser Family Foundation, July 30, 2015, kff.org.
2. "Webinar — Addressing Affordability of Health Insurance at the Local Level," October 28, 2015, California Health Care Foundation, www.chcf.org; Memorandum: Proposal to Modernize the City Option and Create a New Employee Wellness Fund, July 17, 2015, San Francisco Department of Public Health, www.sfdph.org (PDF).
3. "Making Ends Meet: How Much Does It Cost to Raise a Family in California?" December 2013, California Budget Project, calbudgetcenter.org (PDF).
4. "Individual Area Final Fiscal Year 2016 Fair Market Rent Documentation," downloaded February 2016, U.S. Department of Housing and Urban Development, www.huduser.gov.
5. "2016 Product Prices for All Health Insurance Companies," downloaded February 2016, Covered California, hbex.coveredca.com.
6. Plan Preview tool for 2016 plans, accessed February 2016, Covered California, v.calheers.ca.gov.

Appendix A. Affordability Threshold* for Families and Individuals, by California County

	Family of Four		Individual	
County	% FPL Where Affordable†	Annual Income Equivalent‡	% FPL Where Affordable†	Annual Income Equivalent‡
Modoc	225%	$54,600	165%	$19,400
Imperial	230%	$ 55,800	165%	$ 19,400
Merced	230%	$ 55,800	165%	$ 19,400
Tulare	230%	$ 55,800	180%	$ 21,200
Glenn	235%	$ 57,000	185%	$ 21,800
Kern	240%	$ 58,200	185%	$ 21,800
Kings	240%	$ 58,200	185%	$ 21,800
Siskiyou	240%	$ 58,200	170%	$ 20,000
Sutter	240%	$ 58,200	190%	$ 22,400
Tehama	240%	$ 58,200	170%	$ 20,000
Trinity	240%	$ 58,200	190%	$ 22,400
Butte	245%	$ 59,400	185%	$ 21,800
Colusa	245%	$ 59,400	175%	$ 20,600
Del Norte	245%	$ 59,400	205%	$ 24,100
Fresno	245%	$ 59,400	190%	$ 22,400
Madera	245%	$ 59,400	195%	$ 23,000
Plumas	245%	$ 59,400	190%	$ 22,400
Shasta	245%	$ 59,400	195%	$ 23,000
Yuba	245%	$ 59,400	190%	$ 22,400
Lake	250%	$ 60,600	195%	$ 23,000
Mariposa	250%	$ 60,600	200%	$ 23,500
Stanislaus	250%	$ 60,600	190%	$ 22,400
Humboldt	255%	$ 61,800	195%	$ 23,000
Tuolumne	255%	$ 61,800	210%	$ 24,700
Alpine	260%	$ 63,100	190%	$ 22,400
Calaveras	260%	$ 63,100	200%	$ 23,500
Lassen	260%	$ 63,100	195%	$ 23,000
San Joaquin	265%	$ 64,300	185%	$ 21,800
Inyo	270%	$ 65,500	215%	$ 25,300

	Family of Four		Individual	
County	% FPL Where Affordable†	Annual Income Equivalent‡	% FPL Where Affordable†	Annual Income Equivalent‡
Amador	275%	$ 66,700	195%	$ 23,000
Mendocino	275%	$ 66,700	210%	$ 24,700
Sacramento	275%	$ 66,700	205%	$ 24,100
Sierra	275%	$ 66,700	230%	$ 27,100
San Bernardino	280%	$ 67,900	220%	$ 25,900
Yolo	280%	$ 67,900	230%	$ 27,100
El Dorado	285%	$ 69,100	215%	$ 25,300
Placer	285%	$ 69,100	215%	$ 25,300
Riverside	285%	$ 69,100	220%	$ 25,900
Nevada	305%	$ 74,000	225%	$ 26,500
San Luis Obispo	305%	$ 74,000	235%	$ 27,700
Solano	305%	$ 74,000	230%	$ 27,100
Mono	310%	$ 75,200	245%	$ 28,800
Santa Barbara	310%	$ 75,200	270%	$ 31,800
Monterey	315%	$ 76,400	250%	$ 29,400
San Benito	315%	$ 76,400	250%	$ 29,400
Los Angeles	320%	$ 77,600	245%	$ 28,800
San Diego	325%	$ 78,800	265%	$ 31,200
Sonoma	335%	$ 81,200	250%	$ 29,400
Ventura	335%	$ 81,200	265%	$ 31,200
Napa	340%	$ 82,500	250%	$ 29,400
Alameda	345%	$ 83,700	265%	$ 31,200
Contra Costa	345%	$ 83,700	270%	$ 31,800
Orange	345%	$ 83,700	290%	$ 34,100
Santa Cruz	350%	$ 84,900	260%	$ 30,600
Santa Clara	385%	$ 93,400	325%	$ 38,300
San Francisco	445%	$ 107,900	325%	$ 38,300
San Mateo	450%	$ 109,100	335%	$ 39,400
Marin	455%	$ 110,300	345%	$ 40,600

*Researchers identified, for each county, the minimum amount a typical household would need to earn to have sufficient funds to cover their basic needs (including housing, child care, transportation, food, miscellaneous expenses, and taxes) and Covered California premiums and out-of-pocket costs after federal subsidies (combined with Medi-Cal premiums for children, when applicable). This minimum income level is referred to as the "affordability threshold." When the affordability threshold falls to 267% FPL or below for a family of four, the analysis assumes the two children are on Medi-Cal, while the two adults are enrolled in insurance through Covered California. See the Appendix B for further details.

†Affordability takes into account the cost of premiums, median out-of-pocket expenses, and other household needs.

‡Annual income figures rounded to the nearest $100.

Appendix B. Methodology and Caveats

Methodology

This analysis focused on two household examples: single 40-year-old individuals and families with two 40-year-old working parents, one infant, and one school-age child.

The estimates of household expenses other than health care relied on several sources, including "Making Ends Meet" budget estimates from the California Budget and Policy Center (formerly the California Budget Project).[3]

Housing. Housing cost estimates for families are based on the U.S. Department of Housing and Urban Development (HUD)'s Fair Market Rent (FMR) for a two-bedroom apartment in each county in fiscal year 2016. Housing costs for single individuals assume renting a studio apartment. FMRs are published annually by HUD to estimate the cost of shelter and utilities, excluding telephone and Internet service. FMRs represent the 40th percentile of rents paid by recent movers into an area.[4]

Child care. Using estimates from the California Budget and Policy Center, child care costs were based on monthly estimates for full-time infant care and part-time care for school-age children in each county in 2009, assuming that care is provided in licensed family child care homes. The costs were adjusted for inflation using the consumer price index (CPI) for child care.

Transportation. Estimates from the California Budget and Policy Center utilized the U.S. Department of Transportation's 2009 National Household Travel Survey (NHTS). The estimates assumed that families with two working parents require two vehicles on weekdays, but only one car on the weekend. Mileage is based on county-specific average weekday vehicle miles traveled per household adult plus an estimate of miles driven on weekends based on the driving habits of California households. The costs were adjusted for inflation using the CPI for transportation.

Food. Estimates from the California Budget and Policy Center include food consumed both at home and away from home, using the June 2013 U.S. Department of Agriculture (USDA) Low-Cost Food Plan and the 2012 Consumer Expenditure Survey (CES). Food estimates for families with children assume that one child is age 1 and one child is between the ages of 6 and 8. Conservatively, the basic family budget estimate for food away from home is half of the amount reported for families in the second-lowest quintile (the 21st through 40th percentile) of the income distribution in the CES. Food away from home includes lunches purchased out or the occasional family meal eaten in a restaurant. Food costs are assumed to be the same throughout the state. The costs were adjusted for inflation using the CPI for food.

Miscellaneous. Estimates from the California Budget and Policy Center include items such as clothing and diapers, school supplies, toiletries, cleaning supplies, and household products. Miscellaneous expenses were assumed to be the same throughout the state. Estimates were made using the CES and were adjusted for inflation using the CPI for all items.

Taxes. Tax expenditures were estimated by income level using 2015 federal and state tax schedules. Taxes included federal and state income tax, the federal Earned Income Tax Credit, Social Security and Medicare taxes, and State Disability Insurance taxes. The California Earned Income Tax Credit was not included in this analysis because tax credit-eligible families are generally eligible for Medi-Cal rather than Covered California.

Health care expenses were estimated assuming that all adults were enrolled in insurance through Covered California and had no other source of health insurance. Children were assumed enrolled in Medi-Cal when household income fell to 267% FPL or below (per Medi-Cal eligibility rules); children in higher-income households were assumed enrolled in insurance through Covered California.

Premium cost estimates reflected the maximum premium amount a household is required to spend under the ACA after subsidies, or the pricing region-specific Covered California premium for the second-lowest-cost silver plan for each family member's age, whichever was lower.[5] (For Los Angeles County, the analysis used the midpoint of the premiums in the two pricing regions in the county.) Premium costs also included the $13 monthly per-child Medi-Cal premium, when applicable.

Out-of-pocket expenses were based on estimates from Covered California's Plan Preview tool, which estimates out-of-pocket expenses for a particular plan given a predicted level of medical use.[6] The analysis assumed that all family members eligible for

Covered California subsidies had low medical use. (No out-of-pocket costs were included for children in Medi-Cal.) Low medical use is defined as one or two doctor visits, one or two lab tests, and up to one prescription per year. Out-of-pocket costs would be higher for families with any members who have moderate or greater medical use. For example, if one member of the family of four in Modoc County had moderate medical use, the income level at which the family would have sufficient room in their budget to cover health insurance premiums and out-of-pocket costs would be slightly higher: 235% FPL, or approximately $57,000 annually (as compared with 225% FPL, or approximately $54,600 annually, assuming all family members had low medical use).

Caveats

Affordability thresholds are rounded to the nearest 5% FPL threshold. This analysis assumed adult premium costs for 40-year-olds. Premium costs will be higher for older individuals who are not eligible for premium subsidies.

Out-of-pocket costs vary widely between individuals and for the same individual in different years, based on medical need.

Many Californians with incomes below the affordability thresholds calculated in this analysis already have insurance through Covered California. Some of these families may prioritize health care spending above other basic needs. Some families may be using savings to pay for health expenses or other basic needs, or may be going into debt in order to make ends meet.

Additionally, this analysis was based on a household budget covering basic needs. Actual household budgets will vary according to the specific needs and situation of each family. Individuals and families seeking housing may not be able to locate units at the rents used in this analysis, particularly in parts of the state where housing markets are tight. Conversely, other individuals and families may have lower-than-assumed housing costs because their rent is atypically low or they share housing with individuals outside of their immediate family. As another example of atypical expenses, some families have access to unpaid child care services from family members or friends.