Affordability on California's Individual Market: What Policymakers Need to Know

This issue brief describes consumer affordability challenges in California's individual health insurance market. It is divided into the following sections:

Background. This basic information will help you understand the individual market, including how it's fundamentally different from employer-sponsored insurance. This section includes a review of basic health insurance vocabulary and concepts you need to understand to navigate a discussion around affordability.

Key ACA affordability provisions. This section explains two key provisions in the Affordable Care Act (ACA) that improved affordability for people buying coverage on the individual market.

Affordability on the individual market today. Data show how and why, despite great progress under the ACA, many Californians in the individual market still struggle to afford coverage and care. To help illustrate these issues, read the stories of Curtis, Carmen, and Sam — fictional characters who represent real-life scenarios faced by consumers in the individual market. Find out about the dilemmas, trade-offs, and financial burdens each one faces when purchasing and using their individual-market health coverage.

Meet Three Representative Consumers on the Individual Market

Across the state, people are having a hard time paying for health coverage. These fictional examples put a face on the costs and challenges of getting insurance on the individual market, and illustrate how insurance costs can vary widely person to person.

MONTHLY HEALTH INSURANCE PREMIUM

Curtis $37
Carmen $205
Sam $794
Prevalent Sources of Health Insurance

Most insured Californians get their health coverage through:

- **Jobs.** Getting health insurance through your job or your partner’s or spouse’s job is called employer-sponsored insurance (ESI). Health coverage through CalPERS is one example of ESI.
- **Medi-Cal.** This public program covers most low-income Californians.
- **Medicare.** This public program covers most people over age 65.

If not covered through these means, people turn to the individual market.

### Background

**What’s the “Individual Market,” and Why Is It Important?**

California’s individual health insurance market is a crucial backstop for people who cannot access affordable health insurance the way most Californians gain coverage — through jobs, Medi-Cal, and Medicare. Californians who don’t have access to these common types of health insurance can buy coverage for themselves and their family members through the individual market. Coverage may be purchased by individuals either through Covered California, the state’s ACA-established health insurance exchange (or “marketplace”), or directly from an insurer “off-exchange.” Under federal law, to purchase through Covered California, Californians must

### Some Basic Health Insurance Cost Vocabulary

**Actuarial value (AV).** The average percentage of benefit costs covered by a health plan product. A plan’s AV indicates how generous the coverage is. An AV of 60% means that, on average, insurance covers 60% and consumers pay the other 40% for covered services through copays and other OOP costs. AV does not take into account premium costs.

**Metal tiers.** The ACA assigns metal tiers to plans based on their AV: bronze (60% AV), silver (70%), gold (80%), and platinum (90%). For more detail on metal tiers, visit [www.coveredca.com](http://www.coveredca.com).

**Out-of-pocket (OOP) costs.** Costs a consumer must pay to receive health services covered under their plan. Out-of-pocket costs are sometimes broadly referred to as “cost sharing” and are in addition to premiums. Out-of-pocket costs include:

- **Deductible.** The amount a consumer pays for covered health care services before their health plan starts paying. For example, a consumer with a $2,500 deductible will pay for up to $2,500 of medical services each year before their insurance starts to pay. Deductibles do not apply to certain services, such as preventive care and, for plans offered through Covered California, many other services. For more on Covered California plan benefit design, see [2019 Patient Centered Benefit Designs and Medical Cost Shares](http://www.coveredca.com) (PDF).

- **Copayment.** A fixed amount a consumer pays for a covered health care service when services are received. For example, a consumer might pay a $15 copay at the doctor’s office for a visit. The amount can vary by the type of covered health care service.

- **Co-insurance.** Similar to a copayment but instead of a fixed amount, the consumer pays a percentage of a charge for a covered health care service. For example, a consumer might pay 10% of the cost of an x-ray, while the plan pays the other 90%.

**Out-of-pocket maximum (OOP max).** The highest amount that a consumer is required to pay for his/her share of covered services each year. After the consumer share hits this limit, the plan pays 100%. The out-of-pocket maximum does not include premiums or the cost of care not covered by the plan.

**Premium.** The fixed monthly amount that must be paid to maintain health coverage. With ESI, monthly payments are shared between employer and employee. For example, under a generous employer plan, the employer might contribute 90% of the premium while the employee pays 10% through regular payroll deductions. Consumers in the individual market have no employer to help pay their premium, although some receive premium subsidies (see the section on the ACA).
Assuming you can afford it, if you have numerous or expensive health care needs, you might choose a plan with a higher monthly premium to reduce the risk of having high out-of-pocket costs. If, however, you think you will not have that many health care needs in the coming year, you might choose a plan with a lower monthly premium, anticipating that your risk of big medical bills will be small.

But health care needs are not all foreseeable. Accidents happen, and illnesses can come about suddenly. And people's choices are limited by what they can afford.

How Is the Individual Market Different from ESI?

Although some people with ESI struggle with the high cost of health care, affordability challenges tend to be worse for those on the individual market. A fundamental reason is that those with ESI have an employer who pays part (often a big part) of their health insurance premium.

Before the ACA, Californians with individual coverage had to shoulder the full premium and were very sensitive to premium differences. They often chose products that imposed higher OOP costs to keep premiums more manageable.

The ACA was designed, in part, to address the financial vulnerability of consumers whose only path to coverage is through the individual market (see the “Key Ways” section for more detail). Even though the ACA provides federal financial help to make coverage more affordable for many who rely on
individual coverage, those in the individual market still generally do not enjoy as much financial protection as those with ESI.

Key Ways the ACA Makes Health Insurance More Affordable on the Individual Market

The ACA reformed the individual market in many ways. Two particularly important provisions address affordability: premium subsidies and cost-sharing reductions (CSRs).

Premium subsidies. Under the ACA, consumers who earn less than 400% of the federal poverty level (FPL) (up to $48,560 for an individual, or $100,400 for a family of four for coverage effective in 2019) and meet immigration and other documentation requirements can obtain Advance Premium Tax Credits, commonly referred to as “premium subsidies,” through Covered California. See Table 1.

Premium subsidies are set along a “sliding scale,” meaning that those earning less get more help. Consumers who qualify for premium subsidies are assured a silver plan at a premium that does not exceed a certain percentage of their income. For example, someone earning 139% FPL is required to pay no more than about 2% of their income on premiums, while someone earning 300% FPL pays a little less than 10% of their income. Notably, the cap on premium costs is the same for those earning 300% FPL as for those higher up the income scale at 400% FPL. The difference between the total premium and what the consumer pays is offset by the premium subsidy.

![Figure 1. ACA Subsidies Reduce Premium Costs for Those Earning Less Than 400% FPL](image)

Note: Pertains to maximum amounts of income consumers would pay in 2019 for second-lowest silver coverage.

Source: Options to Improve Affordability in California’s Individual Health Insurance Market, Covered California, February 1, 2019, [www.coveredca.com](http://www.coveredca.com).

The consumer’s subsidy can be used to buy any level of coverage. If consumers want a more expensive plan, like gold or platinum, they can apply their premium subsidies toward the more expensive plan, but they would make up the difference in cost between the silver and the more expensive plan, thus paying a greater share of their income toward the premium.

Cost-sharing reductions. Recognizing that OOP costs can be a burden for consumers with low incomes, the ACA requires plans to offer products with lower OOP costs for those earning up to 250%

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Table 1. Federal Poverty Levels Used to Determine Eligibility on Covered California, 2019

<table>
<thead>
<tr>
<th>Income Level (% Federal Poverty Level)</th>
<th>ONE PERSON</th>
<th>FAMILY OF FOUR</th>
</tr>
</thead>
<tbody>
<tr>
<td>138% FPL</td>
<td>$17,237</td>
<td>$35,535</td>
</tr>
<tr>
<td>250% FPL</td>
<td>$30,350</td>
<td>$62,750</td>
</tr>
<tr>
<td>400% FPL</td>
<td>$48,560</td>
<td>$100,400</td>
</tr>
</tbody>
</table>

Source: Program Eligibility by Federal Poverty Level for 2019 (PDF), Covered California, [www.coveredca.com](http://www.coveredca.com).
Despite ACA, Individual Market Enrollees Generally Pay More and Get Less Than Those with ESI.

Because ESI is the most common form of coverage in California, it is often considered a benchmark for comparison with coverage from other sources. As described previously, consumers on the individual market face higher premiums and tend to have more OOP costs than those with ESI, mainly because they aren’t helped by an employer paying a large part of the cost of coverage. Despite gains under the ACA, ESI remains more affordable even when the comparison is limited to those who qualify for ACA subsidies.
**Premiums**

Subsidized Individual Market Versus ESI

On average, individual-market enrollees who receive ACA premium subsidies pay more in premiums, and a higher share of the total premium, than those with ESI. See Figure 3.

**Out-of-Pocket Costs**

Subsidized Individual Market Versus ESI

Individual-market enrollees who receive premium subsidies are much more likely to have a deductible than those who get insurance through their employer (see Figure 4). In most Covered California plans, doctor visits, emergency room care, lab tests, x-rays, and imaging are not subject to deductibles. However, over a quarter of subsidized Covered California enrollees had deductibles over $6,000 through bronze plans that allow three office visits at $75 but then impose a deductible on most services. Individual-market enrollees who receive premium subsidies also tend to be enrolled in products with

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**Figure 3. Individual Market Consumers, Even with Premium Subsidies, Pay More in Premiums Than Those with ESI**

<table>
<thead>
<tr>
<th>Share of Premium</th>
<th>Consumer</th>
<th>Employer/Government</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>ESI</strong></td>
<td>$604</td>
<td>14%</td>
</tr>
<tr>
<td><strong>Subsidized Individual Market</strong></td>
<td>$462</td>
<td>27%</td>
</tr>
</tbody>
</table>

**Figure 4. Almost All Individual Market Consumers with Premium Subsidies Had a Deductible Versus Less Than Half of Those with ESI**

<table>
<thead>
<tr>
<th>Consumers with a Deductible</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>ESI</strong></td>
</tr>
<tr>
<td><strong>Subsidized Individual Market</strong></td>
</tr>
</tbody>
</table>

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**Curtis,** age 30, lives in Oakland and earns $18,210 (150% of the federal poverty level [FPL]). Curtis works part-time as a home health aide while he goes to community college to become a nurse. Under the ACA, he is eligible for premium subsidies and cost-sharing reductions (CSRs) that limit both his premium and out-of-pocket costs. Absent premium subsidies, he would pay more than 20% of his income for monthly premiums and still be responsible for high out-of-pocket costs. Under the ACA, he can enroll in an enhanced silver plan with CSRs and pay $37/month in premiums (2.4% of his income). The plan provides office visits with a $5 copayment, emergency care at $50, and caps his annual out-of-pocket spending at $1,000. For Curtis, the affordability benefits of the ACA are dramatic.

However, Curtis doesn’t earn a lot and may be tempted to enroll in a bronze plan with a $1 monthly premium. If he does, he risks incurring much higher out-of-pocket costs when he obtains health care. In a bronze plan his first three office visits would cost $75 per office visit. But if Curtis is hospitalized and needs many additional services, he could be responsible for paying as much as $6,300, the bronze plan deductible.

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Notes: ESI is employer-sponsored insurance. Data reflect 2017 California benefits, premiums, and contributions.

higher OOP maximums than those with ESI (see Figure 5). This means that they risk serious financial consequences if they have extraordinary medical needs.

**Particularly for Those Not Eligible for ACA Tax Credits, Premium Affordability Depends on Where You Live and How Old You Are.**

Average total premiums in California’s individual market vary considerably by region. Those who receive premium subsidies are somewhat protected from the higher premium costs in high-cost regions because the amount they pay is linked to a percentage of their income. (See the ACA section above for more detail.) However, the roughly one million individual-market enrollees who don’t qualify for tax credits must pay the full premium, making them much more vulnerable to premium differences related to region and age. Figure 6 shows the average premiums that unsubsidized Covered California enrollees paid in 2018 (see page 8). Those living in the most expensive region (Monterey Area) paid 70% more in premiums than those living in the cheapest region (Los Angeles, Northeast).

Compared to younger people, older people typically need more health care and thus are more expensive to insure. The ACA limited the amount that insurers can vary premiums based on age, but older consumers can still be charged premiums three times as high as their younger counterparts. Without subsidies, older individual-market consumers face high premiums.

**Figure 5. Individual Market Consumers with Premium Subsidies Have Greater Risk of High Out-of-Pocket Expense Than Those with ESI**

<table>
<thead>
<tr>
<th>OOP Maximum</th>
<th>ESI</th>
<th>Subsidized Individual Market</th>
</tr>
</thead>
<tbody>
<tr>
<td>&lt;$2,000</td>
<td>41%</td>
<td>43%</td>
</tr>
<tr>
<td>$2,000–$2,999</td>
<td>17%</td>
<td>46%</td>
</tr>
<tr>
<td>$3,000+</td>
<td>54%</td>
<td>46%</td>
</tr>
</tbody>
</table>

Notes: ESI is employer-sponsored insurance. Data reflect 2017 California benefits, premiums, and contributions. Segments may not total 100% due to rounding.

Sam, age 62, lives in Sacramento. Last year he earned $49,167, just over the 400% FPL threshold for premium subsidies under the ACA. Sam is a real estate agent and has always had to buy his own coverage. He is happy that he can’t lose his coverage just because he gets sick, but as he’s gotten older, his premiums have risen a lot. He bears the full cost of market premiums and could incur high out-of-pocket costs as well. Although he has chosen the lowest-cost bronze plan, its $794 monthly premium nevertheless consumes 19% ($9,527) of his yearly earnings. (To show how much Sam’s age matters, consider that his 24-year-old neighbor can buy the same unsubsidized bronze plan for a monthly premium of just $276.) The plan has a $6,300 deductible, and while Sam doesn’t have a lot of health problems now, at his age he worries that a serious health episode could arise anytime.

An alternative option for Sam, a gold plan with a monthly premium of $1,154 (28% of income) would require lower OOP cost sharing; for example, the plan has no deductible. But even so, in the unlikely event that Sam requires several hospitalizations, regular outpatient care, and many expensive prescriptions, Sam could end up devoting up to 43% ($21,000) of his income to premiums and cost of care. Sam can choose lower premiums with higher cost sharing, or higher premiums with less exposure to initial out-of-pocket costs. None of his options feels affordable.
Affordability Challenges Contribute to Declines in Coverage.
The factors that cause people to rely on the individual market in the first place, such as losing or changing jobs, or losing a spouse, lead to steady turnover (or “churn”) in enrollment in Covered California and in the individual market. Often people leave the individual market because they qualify for other coverage options, such as ESI or Medi-Cal. But concerns about costs — felt especially by Californians without subsidies — are a big reason people drop coverage. Californians in the individual market consider their monthly premium alongside other household spending priorities such as rent, food, and childcare. When premiums and OOP costs add up to a large share of your household’s income, you might decide that maintaining coverage is beyond your reach and choose to go uninsured.

Conclusion
People who buy their own health insurance bear higher costs of coverage and care than those who are insured through employers. Under the Affordable Care Act, premium subsidies and cost-sharing assistance help make health insurance much more affordable for many Californians who purchase their own coverage. Still, many Californians on the individual market struggle to afford health insurance premiums as well as their out-of-pocket costs for health care services. Others choose to forgo coverage altogether due to cost. Understanding the factors that affect affordability can set the stage for policy discussions about how to help all Californians stay covered.
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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. Under the Affordable Care Act, citizens, nationals, and noncitizens who are lawfully present are eligible to purchase coverage through Covered California and, depending on income, may be eligible for subsidies. Undocumented immigrants are ineligible to purchase coverage through Covered California, with or without subsidies. For more, see Welcome to Answers: Immigration Status and Covered California, www.hbex.ca.gov (PDF).


3. Covered California and Individual Health Insurance, ITUP, 2.

4. Silver plans with cost-sharing reductions sold through Covered California are called “enhanced silver” plans.
