



# The Iowa Policy Project

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## **POLICY BRIEF**

# Health Reform: Iowans to See Benefits

**By Andrew Cannon**

Hundreds of thousands of Iowans will find their health care situation drastically improved, thanks to the passage and enactment of health reform.

The bill takes major steps toward extending health insurance to all Americans using a number of mechanisms. It creates a regulated marketplace for purchasing insurance called a health insurance exchange, provides subsidies to help low- and middle-income earners buy insurance, expands Medicaid eligibility, and prohibits privately purchased health insurance from excluding, denying or rescinding coverage based on pre-existing conditions. The sum effect of these efforts would reduce the United States' uninsured population by about 32 million and reduce the federal deficit by \$124 billion between now and 2019.<sup>1</sup> Using available data, this paper will provide estimates of how many Iowans would benefit from the expansion of Medicaid, the premium subsidies and the creation of insurance exchanges.

### ***Regulation Of Insurance And Eliminating Insurer Abuses***

As health reform has been debated throughout the year, some of the insurance industry's worst practices have been brought to light. The reform bill ensures that no Iowan will ever have to worry about having their insurance revoked or rescinded; those with chronic or congenital health issues will no longer have to worry about having their pre-existing condition exclude them from coverage, and insurers can no longer deny coverage based on health history.

The individual mandate goes hand-in-hand with the insurance regulations. All individuals — with exceptions for undocumented immigrants, Native Americans, people with severe financial hardship or religious objections — are required to have insurance or face an annual tax penalty. The individual mandate is essential to making the reform work. Without it, insurers fear that individuals would not purchase insurance until they fell ill. Individuals who do not have insurance coverage for more than three months of a year will face a tax penalty.

Until these provisions take effect in 2014, the reform bill creates a subsidized insurance program for those with certain chronic conditions and those who have been unable to obtain health insurance. Up to 33,500 uninsured Iowans with chronic ailments will be able to receive health insurance coverage this year through the high-risk pool program.<sup>2</sup>

Additionally, the reform bill establishes a process for reviewing premium increases, effective this year. This is particularly noteworthy following Wellmark's recent announcement that it would raise about 80,000 Iowans' individual insurance policy rates by an average of 18 percent.<sup>3</sup> Though Iowa Governor Chet Culver has directed the state insurance regulator to hire an independent actuary to review the rate increase and Wellmark has stayed the increase pending the outcome of the investigation, the rate review was an ad hoc process and poses little consequence to Wellmark. Apart from setting in place a review process, health reform also creates consequences for insurers that unjustifiably raise rates or fail to

conform with other regulations. Plans with unjustified rate hikes will be prohibited from participating in the insurance exchange.

By the end of 2010, young Iowans up to age 26 will also have the option of remaining on their parents' policies. Of Iowa's 266,260 uninsured, nearly 80,000 are between the ages of 18 and 26.<sup>4</sup> Congressional researchers estimate that up to 247,000 Iowans who lack insurance or would receive better coverage from their parents' policies could benefit from this provision.<sup>5</sup>

**Expansion Of Medicaid**

Medicaid is a joint effort by state and federal governments to provide health insurance coverage to low-income Iowans. Currently, Medicaid eligibility in Iowa is extremely limited for adults — only pregnant women, people with disabilities, and parents whose incomes fall below 71 percent of the federal poverty level (\$15,655 for a family of four) may enroll.<sup>6</sup>

Health reform will expand Medicaid eligibility for all adults — regardless of parental status — to people with income 33 percent above the federal poverty level (\$29,326 for a family of four). In 2008, about 112,700 uninsured Iowans earned less than that standard.<sup>7</sup> This group alone constitutes 42 percent of Iowa's uninsured population. Every U.S. citizen or permanent resident alien in that income category would be eligible for the expanded Medicaid coverage.

The bill also alleviates some state-level concerns about the expansion of Medicaid by increasing the amount of the program that the federal government finances. Beginning in 2014 when the Medicaid expansion sets in through 2016, the federal government will pay the entire cost of state Medicaid expansion efforts. The amount that the federal government pays for the expanded eligibility phases out to 90 percent of the costs of expansion in 2020 and subsequent years.

**Insurance Exchanges and Subsidies**

The health reform bill creates health insurance exchanges to facilitate the purchase of health insurance. Plans sold within the exchange would be comprehensive plans, and customers would have the benefit of several cost-sharing options within the exchange. Participation in the exchange would be limited to small business employees and individuals who do not receive health insurance through an employer.

*Individuals in the Exchange*

Individuals purchasing their health insurance within the exchange will receive premium assistance and cost-sharing reduction tax credits. These credits will be based upon income level and the cost of a mid-level insurance plan offered in the exchange. They would be limited to those who are purchasing health insurance on their own without the aid of an employer, and those whose premium contributions in an employer-sponsored health insurance plan exceed 9.5 percent of their annual income, or whose employer-sponsored insurance plans have a very low actuarial value.<sup>1</sup> Table 1

**Table 1. Exchange Premiums Rise with Income**

<b>Income Level as Percent of FPL</b>	<b>Individual Premium Contribution (as percentage of income)</b>
Up to 133%	2.00%
133 - 150%	4.00%
150 - 200%	6.30%
200 - 250%	8.05%
250 - 300%	9.50%
300 - 400%	9.50%
above 400%	No subsidy

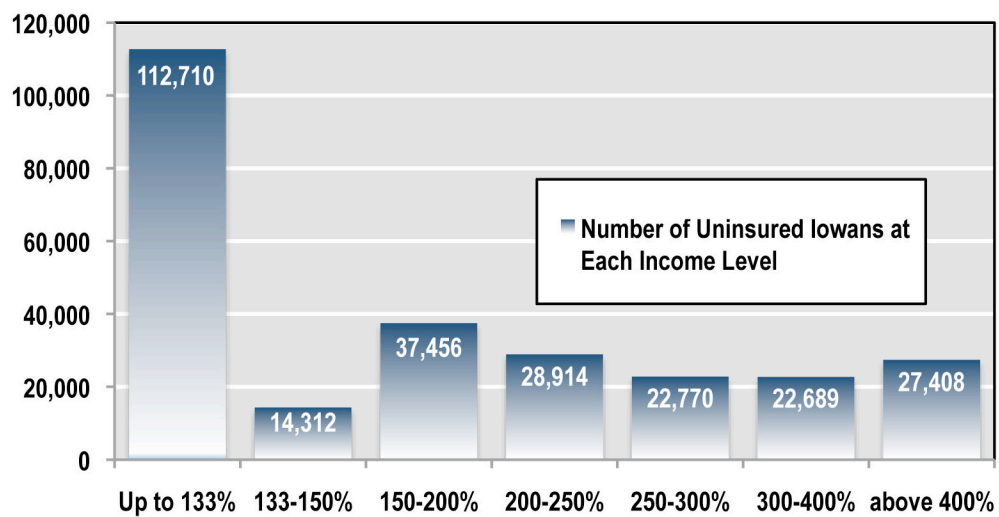
<sup>1</sup> Actuarial value is a measure of the percentage of health costs paid by an insurance plan. Under the health reform bill, a worker is eligible to participate in the exchange if his or her employer-sponsored health insurance plan has an actuarial value of lower than 60 percent.

displays the premium contribution for each income level. Premium costs beyond each threshold would be paid for through subsidies.

Because the subsidies are tied to one’s employment situation, it is difficult to discern how many Iowans would be eligible for subsidies within the exchange. Further, undocumented immigrants would be prohibited from receiving subsidies.

However, recent Census data do reveal the number of Iowans who are uninsured at each subsidy level. Across all income categories, about 266,260 Iowans were uninsured in 2008.<sup>8</sup> About 83,000 of those — or 31 percent of Iowa’s uninsured — earned less than the federal poverty level. As noted above, all these people would be eligible for Medicaid, but might also be eligible to purchase private insurance through the exchange if they decided to do so. Figure 1 illustrates the number of uninsured Iowans at the various premium subsidy levels.

**Figure 1. Health Insurance Lacking in Iowa in All Income Groups**



Source: 2008 American Community Survey, US Census Bureau

The graph is not an estimate of the number of Iowans who will receive the subsidy; rather, it is an illustration that lacking health insurance affects Iowans of all income groups. Many of Iowa’s presently uninsured will gain insurance coverage through the bill’s strengthening of employer-based insurance coverage.

Employers with 50 or more employees who fail to offer insurance coverage to their employees will pay a fee to help defray the cost of the premium subsidies, and the largest employers will be required to automatically enroll all employees in their health insurance plans.

### *Small Businesses and the Exchanges*

Businesses with fewer than 100 employees will be able to purchase insurance within the insurance exchanges. In the current system, small businesses are hurt by their inability to pool their health insurance risk.<sup>2</sup> Businesses with 10 to 24 employees pay as much as 10 percent more in premiums than large businesses, and the smallest businesses pay as much as 18 percent more.<sup>9</sup> Part of the higher cost of insurance for small businesses can be attributed to insurers’ need to manage their risk by underwriting.<sup>10</sup> Allowing small businesses to pool their risk with other small businesses will help reduce insurance costs by reducing the underwriting insurers need to perform to cover their risks.

Within Iowa, about 80,800 businesses would qualify to participate within the exchange.<sup>11</sup> About 468,500 Iowans employed by such businesses would have access to the insurance products offered

<sup>22</sup> For a more complete discussion of how risk-pooling works, see IPP’s August 2009 Backgrounder, “Health Insurance Exchanges: Organizing the Insurance Market to Serve the Underserved.” <<http://iowapolicyproject.org/2009docs/090813-HE-exchanges-bgd.pdf>>.

within the exchange.<sup>12</sup> This would be a particular boon for employees of Iowa's smallest companies. Just 33 percent of Iowa businesses with fewer than 10 employees offered health insurance to employees in 2008.<sup>13</sup> Though employees of slightly larger firms are more likely to receive health insurance through their employer, health insurance availability rates among Iowa employers with 10 to 24 employees is still low — just 68 percent of these firms offer health insurance.<sup>14</sup>

In addition to being able to purchase health insurance through an exchange, Iowa's smallest businesses (those with 25 or fewer employees) will receive tax credits of up to 50 percent of the cost of providing health insurance. According to congressional estimates, about 72,400 Iowa businesses would benefit from this credit.<sup>15</sup>

## **Conclusion**

Hundreds of thousands of Iowans will see concrete benefits of reform as they enjoy health insurance coverage for the first time in years. We cannot measure the exact number since employment circumstances and individual choices will determine who will choose the exchange, a parent's policy or Medicaid. While pundits debate the politics of winners and losers, the real winners of health reform are Iowans who have been underserved by our existing health system. Health insurance will be more affordable, more accessible, and less maddening.

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<sup>1</sup> Douglas Elmendorf, Congressional Budget Office, "H.R. 4872 Reconciliation Act of 2010." March 20, 2010. <<http://cbo.gov/ftpdocs/113xx/doc11379/Manager'sAmendmenttoReconciliationProposal.pdf>>.

<sup>2</sup> House Committee on Energy and Commerce. "The Benefits of Health Care Reform, District by District Impact." March 20, 2010. <[http://energycommerce.house.gov/index.php?option=com\\_content&view=article&id=1924:benefits-of-health-care-reform-district-by-district-impact&catid=169:legislation&Itemid=55](http://energycommerce.house.gov/index.php?option=com_content&view=article&id=1924:benefits-of-health-care-reform-district-by-district-impact&catid=169:legislation&Itemid=55)>.

<sup>3</sup> Mike Glover, "Culver letter prompts Wellmark to delay rate hike." The Associated Press. March 8, 2010. <<http://www.google.com/hostednews/ap/article/ALeqM5i4tJH7JE9-8FZLejE8BZXO8PgukgD9EANLOG0>>.

<sup>4</sup> 2008 American Community Survey, U.S. Census Bureau. Analysis performed using the University of Minnesota's Integrated Public Use Microdata Series, March 22, 2010.

<sup>5</sup> House Committee on Energy and Commerce, op. cit.

<sup>6</sup> U.S. Department of Health and Human Services, "Extension of the 2009 Poverty Guidelines Until at Least March 31, 2010." January 22, 2010. <<http://aspe.hhs.gov/poverty/09extension.shtml>>.

<sup>7</sup> 2008 American Community Survey, U.S. Census Bureau, op. cit.

<sup>8</sup> Ibid.

<sup>9</sup> Jon Gabel, Roland McDevitt, Laura Gandolfo, et al., "Benefits and Premiums in Job-Based Insurance," Commonwealth Fund (2006).

<sup>10</sup> See The Kaiser Family Foundation, "How Private Insurance Works: A Primer, 2008 Update." April 2008. <<http://www.kff.org/insurance/upload/7766.pdf>>. for a more complete discussion of risk pooling and underwriting.

<sup>11</sup> House Committee on Energy and Commerce, op. cit.

<[http://energycommerce.house.gov/index.php?option=com\\_content&view=article&id=1924:benefits-of-health-care-reform-district-by-district-impact&catid=169:legislation&Itemid=55](http://energycommerce.house.gov/index.php?option=com_content&view=article&id=1924:benefits-of-health-care-reform-district-by-district-impact&catid=169:legislation&Itemid=55)>.

<sup>12</sup> U.S. Small Business Administration, Office of Advocacy, based on data provided by the U.S. Census Bureau. <<http://www.sba.gov/advo/research/data.html>>.

<sup>13</sup> Agency for Healthcare Research and Quality, Medical Expenditure Panel Survey, Insurance Component, 2009.

<sup>14</sup> Ibid.

<sup>15</sup> House Committee on Energy and Commerce, op. cit.

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## **The Iowa Policy Project**

Formed in 2001, the Iowa Policy Project is a nonpartisan, nonprofit organization based in Mount Vernon, with its principal office at 20 E. Market Street, Iowa City, IA 52245. See [www.iowapolicyproject.org](http://www.iowapolicyproject.org).