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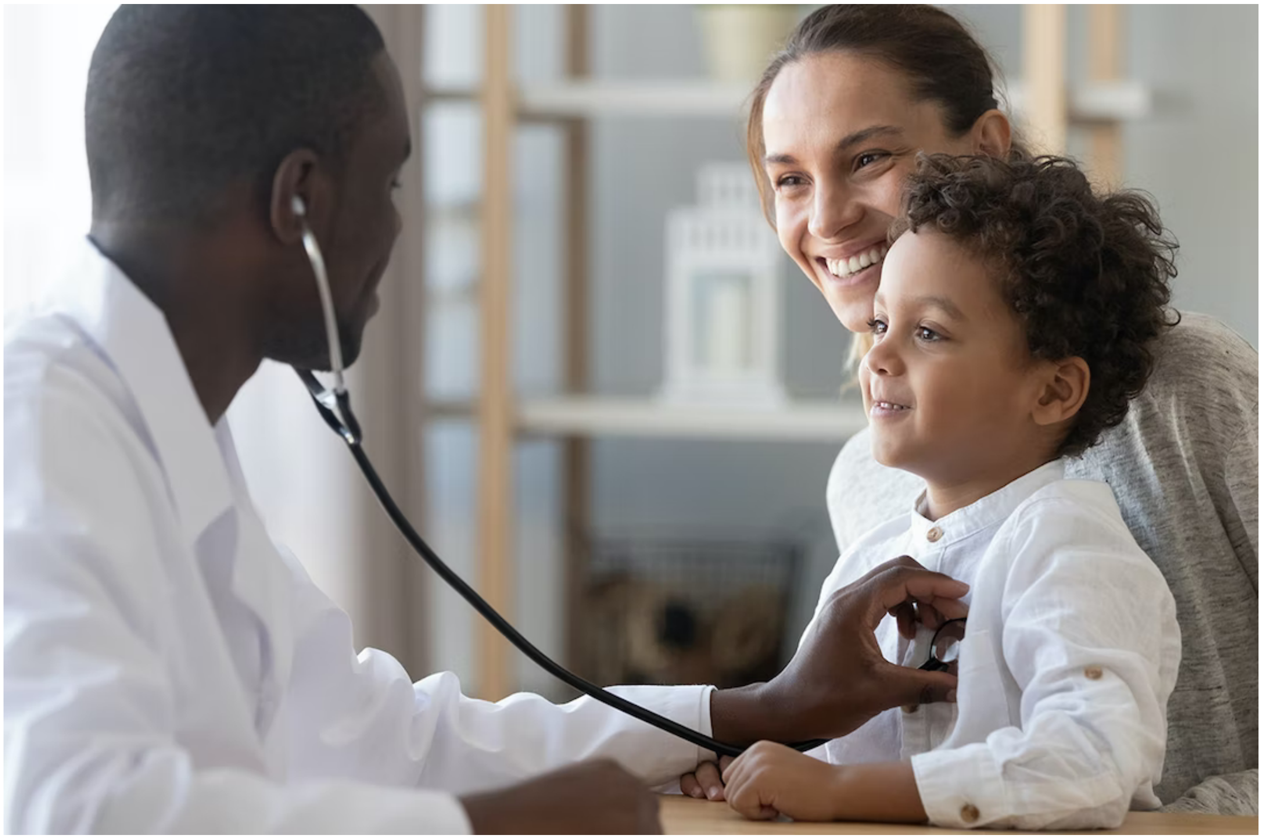
Capping Families' Health Care Costs: Savings by State



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Although health care coverage through an employer is stable for most people, five million American families face health insurance premiums that are unaffordable. [1] In 2020, a typical employee at a private company paid $7,600 or more for their portion of family coverage. [2] The Affordable Care Act caps an employee's costs based on their income—but only for their own coverage, as that limit has not yet been extended to family coverage. The Biden Administration is considering a regulatory fix to this problem, known as the family glitch. **Fixing the family glitch would have a profound impact on families—reducing health care costs by $4,152 for a family of four with an income of $53,000.** [3] This report explains the problem and shows how much six representative families will save in each state from capping family premiums.

The ACA has successfully capped health care costs and expanded coverage for millions of Americans, but gaps remain. One of those gaps, known as the *family glitch*, leaves middle- and low-income families with employment-based coverage exposed to high insurance premiums. Here's the problem: The ACA caps premium contributions for *individual coverage* at 9.61% of an employee's income, which is the affordability level for 2022. [4] This cost cap provides significant cost protection for that individual. But for premium contributions for *family coverage* that exceed 9.61% of household income, employees have no recourse other than to pay higher premiums. There is no cost cap, and under the current interpretation of the ACA, they cannot seek more affordable coverage through the exchanges.

The impact on families is enormous, as the cost of family coverage has more than tripled since 2000. [5] In 2021, the average cost of the premiums for both the employer's and employee's contribution was $22,221. [6] Of that amount, the average employee share is $5,969 for family coverage. Higher-income employees can afford that amount, but lower- and middle-wage workers often cannot.

Two additional factors can make coverage unaffordable for middle- and low-income families.

- The employee's share of family coverage varies greatly between companies. One-fourth of the workers faced an annual premium of $7,600 or more in 2020 while another one-fourth had premiums of $3,100 or less. [7]

- Employers with more low-wage workers typically require those workers to pay a greater share of family coverage. Specifically, those employers require workers to pay 35% of family premiums compared to 24% for employers with more high-wage workers. [8]

Capping Families' Premiums

If employees had the option of seeking coverage through the ACA exchanges for their spouse and dependents, they would be eligible for affordable coverage. The Administration has proposed a rule to implement that fix to the family glitch. [9] Coverage—for both individuals and families—will be affordable through the exchanges because premiums are capped based on income. The American Rescue Plan enacted in 2021 made the exchanges even more affordable by capping premium costs at 8.5% of income or less through 2022, which could be extended under a budget reconciliation bill moving through Congress.

Several legal experts have explained why the Administration is on solid ground to change an interpretation of the ACA from President Obama's Administration. [10] The basis of this stems from differing interpretations of the ACA's *affordability test*, which determines when an individual's or family's payments for employer-offered insurance exceeds a percentage of household income (currently 9.61%) and thus triggers a provision of the law. For example, the Department of Treasury never reconciled its different interpretations of the affordability test when it applies to families instead of individuals, as Katie Keith at the Georgetown University Law Center has pointed out. [11] It has applied the affordability test to families for the purpose of exempting the now-moot individual mandate and to the employee for the purpose of qualifying for tax credits through the ACA exchanges.

Another key use of the affordability test in the ACA is determining whether employers with 50 or more employees face a penalty for not providing affordable insurance. If an employer does not provide affordable coverage, then they must pay a penalty for each employee who receives a tax credit through the exchanges. In that case, it is based on the employee's costs for their own coverage, not the family's, which leaves families financially vulnerable. Employers often face difficulty making coverage affordable for the employee alone. It goes beyond reasonable expectations to require employers to be responsible for an employee's family although many employers offer family coverage voluntarily. Plus, there's no need for such a requirement when the ACA exchanges are specifically designed to offer affordable coverage when employment-based coverage is not available. Once Treasury finalizes the proposed rule to make the family's payment for insurance the basis for ACA tax credit eligibility in the exchanges, then all the uses of the affordability test would be consistent with the goal of ensuring that families have access to affordable coverage.

Coverage through the exchanges would also provide a cap on out-of-pocket costs. For many families, that cap could be lower than their cap through employment coverage. Families should be able to make this choice.

A typical family of four with an income of $53,000 would save $4,152 from a cap on health insurance premiums for families.

TWEET THIS

Families' Savings Nationally

With a cap on families' premiums, savings for low- to middle-income families would be substantial. For example, a typical family of four with an income of $53,000 would save $4,152. That income amount is two times the federal poverty rate. Families' savings would vary based on their income, their current cost of coverage through an employer, and where they live.

Families' Savings from Capping Health Insurance Costs

	Family with married or single parent and income as % of federal poverty	Family income in dollars	Savings
US	Married-200%	$53,000	$4,152
US	Married-300%	$79,500	$1,085
US	Married-400%	$106,000	$0
US	Single-200%	$43,920	$4,113
US	Single-300%	$65,880	$811
US	Single-400%	$87,840	$0

Source: Authors' calculations (see methodology).

THIRD WAY

Families' Savings by State

To calculate state-by-state savings, we used data from the Medical Expenditure Panel Survey, a comprehensive survey of health care costs conducted by the U.S. Agency for Healthcare Research and Quality. We calculated the current costs for employees whose employers require a contribution of greater than 9.61% of income for family coverage as well as the amount those families would pay if they could get more affordable coverage for a spouse and children through the ACA exchanges in each state. For more details, see the methodology section below.

The chart below shows the median savings for families in each state in 2022 across three different levels of incomes: two, three, and four times the federal poverty level. Each income level is further divided into two kinds of families: a married couple with two children and a single parent with two children.

Methodology

The savings for the six categories of families in each state (married parents or single parent; each with two children; incomes at 200%, 300%, and 400% of the federal poverty level) were calculated from two sources: the federal Medical Expenditure Panel Survey (MEPS) Insurance Component and the Kaiser Family Foundation's Health Insurance Marketplace Calculator. [12] The first step in the savings calculation was to determine how much each family currently pays for coverage. The MEPS data shows a distribution of employee contributions to family coverage in private-sector employment by state. That distribution allows us to estimate the median amount that families are spending when that amount exceeds the current standard for affordability for employment-based coverage. For example, married couples with two children earning $53,000 in Alabama whose contributions exceed 9.61% of their income for family coverage (the 2022 affordability standard for employment-based coverage) are contributing a median amount of $9,227 for family coverage. The 2020 MEPS data was updated for health care cost inflation using the Kaiser Family Foundation's annual Employer Health Employer Survey and the Willis Towers Watson's 2021 Best Practices in Health Care Survey. [13]

The amount a family would pay for coverage under a revised interpretation of the ACA is the sum of the amount of the cost of the coverage for the family members who would be newly eligible to get coverage through the exchanges and the cost of employee-only coverage through the employer. The Kaiser calculator provided the cost of the coverage through the exchanges. In the case of the Alabama family of four at 200% of poverty, that amount is $1,060. The calculation for the cost of employee contribution for employee-only coverage also came from MEPS data. [14] The Alabama family would pay $2,481 for the employee's coverage and a total of $3,541 for the whole family.

Each family's savings would be less due to income and payroll taxes. The family's payment for exchange coverage would be made with after-tax dollars, while their current contribution to employment-based coverage is very likely made with pre-tax dollars. Accounting for taxes, the Alabama family's savings would be $3,844. This analysis only used federal income and payroll taxes. In states and cities with their own income taxes, savings would be smaller.

In the District of Columbia, the savings for a family at 200% of poverty would be further offset by the fact that their children may already have coverage through Medicaid. Other states like Minnesota have in some cases covered children who would normally need to get coverage through a parent's employer, but the eligibility in those states is below 200% of poverty. [15] The savings for families with a single parent are not available in two states, New York and Vermont, because they do not offer child-only policies through the exchanges, which makes it impossible to provide an accurate estimate of those families new costs under the revised interpretation.

An Urban Institute study also estimated the savings per family at a national level from fixing the family glitch. [16] Their estimate was $580 per family member. That is lower than the estimates in this analysis because it did not use the enhanced tax credits for exchange coverage enacted as part of the American Rescue Plan, which expires in 2022. Congress would need extend them to achieve the savings for families as shown in this analysis.

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TOPICS

ENDNOTES

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