

# Extend the Health Care Cost Cap to Fight Inflation



**David Kendall**

Senior Fellow for Health and Fiscal Policy

[@DavidBKendall](https://twitter.com/DavidBKendall)

Capping health care costs is a crucial tool in the fight against inflation. Although medical inflation hasn't recently spiked as much as energy, food, and housing prices, it has been climbing 5.9% faster than general inflation over the last two decades. Health care costs have been out of control for so long that even a small percentage increase has a big dollar impact. The average cost of family coverage through an employer is \$22,221, which is up \$879 (4%) from the previous year. Polling continues to show that rising health care costs are a top priority for Americans.

When enacted, the Affordable Care Act capped premiums at 9.5% or less of an individual's income. But the cap had several gaps. It did not apply to a person with an income of four times the federal poverty level (\$54,360 for an individual) or more who purchases coverage on their own through the exchanges. The cap often wasn't affordable for five million low-to-moderate income people. And, because of the Supreme Court ruling, many states chose not to cap health costs for low-income workers by expanding Medicaid, which is often called the coverage gap.

To fix that, the American Rescue Plan capped premiums at 8.5% of income for those making four times the poverty level or more and lowered the cap for everyone else making less than that through 2022. For those in the coverage gap, the reconciliation bill passed in the House of Representatives would have filled the gap with exchange-based coverage.

Although the nation has seen a big improvement in coverage from 2020 to 2022, that progress is at risk unless Congress passes a reconciliation bill this summer that includes a cost cap extension. This measure would not only better protect Americans, but it would also actively fight inflation. Here's how:

1. **Lower premiums.** Unless Congress acts to extend the cost cap in the American Rescue Plan, premiums for people with coverage through HealthCare.gov will increase by 53% on average. **That's \$708 per person.** West Virginia residents would see the biggest hike of any state at \$1,536 per person. Reconciliation should also go one step further and lower the cost cap from its current level of 9.6% to 8.5% for individuals with employment-based coverage. A Biden Administration proposed rule would further extend the cap to all families with workplace coverage.
2. **Lower deductibles.** People with incomes up to twice the federal poverty level saw their deductibles fall from 2020 to 2022 because lower premiums gave them the chance to buy better coverage.
3. **Lower insurance prices.** Beyond the direct benefit from the new cost cap, the total price of insurance in the exchanges fell from 2020 to 2022. This price reduction was propelled in part by more healthy people signing up for coverage that has become less expensive because of the cost cap. Known as the risk pool, a healthier group of people buying insurance lets health insurance plans lower their prices for everyone.
4. **Inflation protection.** The cost cap on premiums in the exchanges protects consumers from medical inflation. That's because the tax credit that caps the cost of insurance increases each year to match any increase in the premiums for lower-cost plans. This hedge against inflation means that no one is priced out of insurance.
5. **Incentives to curb costs.** The tax credits for exchanged-based coverage encourage consumers to shop for the most economical plan. The value of the tax credit is pegged to the second lowest-priced silver tier health plan in each region. If consumers wish to enroll in a more expensive plan, they must pay the full difference with their own money. Giving consumers an incentive to shop around encourages health plans and the providers in their network to curb their costs so they don't lose customers.

Congress can protect millions of Americans from high health care costs and runaway inflation by including a cost cap extension in the reconciliation bill. It would serve as a foundation for further

action to protect employment-based coverage where employees are facing high costs, medical debt, and financial obstacles to getting the care they need. It is also a key step on the road to a universal cost cap as Third Way has proposed. Let's get it done!

#### TOPICS

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