

MEMORANDUM

To: Health Connector Board Members
Cc: Glen Shor
From: Kaitlyn Kenney, Director of Policy & Research and Coordinator of National Health Care Reform
Date: February 3, 2012
Re: Affordability Schedule – Historical Overview of Massachusetts Standards and Recommendation for Calendar Year 2012

Background

To provide some context for our upcoming discussion on updating the affordability schedule for calendar year (CY) 2012, this memorandum provides a historical overview of the affordability schedules adopted by the Board of the Health Connector for CYs 2007, 2008, 2009, 2010 and 2011. In addition, this memo describes the rationale and recommendation for updating the affordability schedule for CY 2012.

Overview of Massachusetts Affordability Schedule: CY 2007 – CY 2011

As you know, the Board of the Health Connector is required annually to devise a schedule that describes the percentage of income an individual could be expected to contribute towards the purchase of health insurance.¹ The affordability schedule determines the application of the individual mandate. An adult is considered able to purchase affordable health insurance if his or her monthly contribution to Employer Sponsored Insurance (ESI), subsidized insurance, or the lowest cost insurance plan available through the Health Connector does not exceed the corresponding maximum monthly premium for his or her income bracket.

The first affordability schedule adopted by the Board applied to CY 2007, which coincided with implementation of the individual mandate effective July 1, 2007. Inherent in this schedule was the alignment of affordability standards and Commonwealth Care (CommCare) premium contributions.² To date, this alignment has been maintained. The affordability schedule in Massachusetts also defined insurance as “affordable” for individuals, couples and families with income above certain thresholds; this approach has also been maintained. These individuals are subject to the mandate requirement unless they illustrate “hardship” or have other grounds for exemption or appeal.

The affordability schedule adopted by the Board for CY 2008 reflected no change in the maximum allowable premium contribution for those with income at or below 150% of the Federal Poverty Level (FPL), an 11% increase in the maximum allowable premium increase for those with income between 150.1 – 200% FPL, and a 10% increase in the maximum allowable monthly premium contribution for all other income categories.

In devising the CY 2009 affordability schedule, there were no changes made to the maximum allowable premium contributions for those with income of 300% FPL or less, while a 3.5% increase in the maximum allowable premium contribution was adopted for those with income above 300% FPL.

The Board adopted a graduated approach in updating the affordability schedule for CY 2010. No increases in the maximum allowable premium contributions were made for those with income at or below 300% FPL, while 2.5%, 3% and 3.5% increases were made, respectively, to each of the subsequent income brackets.

For calendar year 2011, other than adoption of changes to FPL guidelines and the associated cost of living adjustments (COLA) for Massachusetts, there were no changes made to the affordability schedule.

¹ M.G.L. 176Q § 3.

² Prior to adoption of the first affordability schedule, premium contributions and cost-sharing had been established for the CommCare program, which began enrolling individuals in October 2006. The monthly premium contributions were adjusted effective July 1, 2007, enabling alignment with the affordability schedule. Premium contributions for those with income of 100.1 – 150% FPL were eliminated (from \$18) and premium contributions declined \$5 for those with income between 150.1 – 200% FPL.

Tables 1, 2 and 3 below illustrate the maximum allowable premium contributions by income (as a percentage of FPL) under the affordability schedules for individuals, couples and families in CY 2007 – CY 2011. Tables 4, 5 and 6 illustrate the percentage of income the maximum allowable premium contribution represents at the bottom and the top of a given income bracket in the affordability schedules for individuals, couples and families in CY 2007 – CY 2011.

Table 1. Affordability Schedule – Individuals CY 2007 – CY 2011					
	2007	2008	2009	2010	2011
0 – 150% FPL	\$0	\$0	\$0	\$0	\$0
150.1 – 200% FPL	\$35	\$39	\$39	\$39	\$39
200.1 – 250% FPL	\$70	\$77	\$77	\$77	\$77
250.1 – 300% FPL	\$105	\$116	\$116	\$116	\$116
300.1 – ~360% FPL	\$150	\$165	\$171	\$175	\$175
360.1 – ~408% FPL	\$200	\$220	\$228	\$235	\$235
408.1 – ~504% FPL	\$300	\$330	\$342	\$354	\$354
Above ~504% FPL	Affordable	Affordable	Affordable	Affordable	Affordable

Table 2. Affordability Schedule – Couples CY 2007 – CY 2011					
	2007	2008	2009	2010	2011
0 – 150% FPL	\$0	\$0	\$0	\$0	\$0
150.1 – 200% FPL	\$70	\$78	\$78	\$78	\$78
200.1 – 250% FPL	\$140	\$154	\$154	\$154	\$154
250.1 – 300% FPL	\$210	\$232	\$232	\$232	\$232
300.1 – ~374% FPL	\$270	\$297	\$307	\$315	\$315
374.1 – ~446% FPL	\$360	\$396	\$410	\$422	\$422
446.1 – ~558% FPL	\$500	\$550	\$569	\$589	\$589
Above ~558% FPL	Affordable	Affordable	Affordable	Affordable	Affordable

Table 3. Affordability Schedule – Families CY 2007 – CY 2011					
	2007	2008	2009	2010	2011
0 – 150% FPL	\$0	\$0	\$0	\$0	\$0
150.1 – 200% FPL	\$70	\$78	\$78	\$78	\$78
200.1 – 250% FPL	\$140	\$154	\$154	\$154	\$154
250.1 – 300% FPL	\$210	\$232	\$232	\$232	\$232
300.1 – ~398% FPL	\$320	\$352	\$364	\$373	\$373
398.1 – ~511% FPL	\$500	\$550	\$569	\$586	\$586
511.1 – ~625% FPL	\$720	\$792	\$820	\$849	\$849
Above ~625% FPL	Affordable	Affordable	Affordable	Affordable	Affordable

Table 4. Affordability Schedule (as a % of income) – Individuals CY 2007 – CY 2011										
Income Bracket	2007		2008		2009		2010		2011	
	Bottom	Top	Bottom	Top	Bottom	Top	Bottom	Top	Bottom	Top
0 - 150%										
150.1 - 200%	2.7%	2.1%	3.0%	2.2%	2.9%	2.2%	2.9%	2.2%	2.9%	2.1%
200.1 - 250%	4.1%	3.3%	4.4%	3.6%	4.3%	3.4%	4.3%	3.4%	4.2%	3.4%
250.1 - 300%	4.9%	4.1%	5.4%	4.5%	5.1%	4.3%	5.1%	4.3%	5.1%	4.3%
300.1 – ~360%	5.9%	5.1%	6.3%	5.3%	6.3%	5.3%	6.5%	5.4%	6.4%	5.4%
360.1 – ~408%	6.9%	6.0%	7.0%	6.2%	7.0%	6.2%	7.2%	6.4%	7.2%	6.3%
408.1 – ~504%	9.0%	7.2%	9.3%	7.5%	9.3%	7.5%	9.6%	7.8%	9.6%	7.7%
Above ~504%	Affordable		Affordable		Affordable		Affordable		Affordable	

Table 5. Affordability Schedule (as a % of income) – Couples CY 2007 – CY 2011										
Income Bracket	2007		2008		2009		2010		2011	
	Bottom	Top	Bottom	Top	Bottom	Top	Bottom	Top	Bottom	Top
0 - 150%										
150.1 - 200%	4.1%	3.1%	4.5%	3.3%	4.3%	3.2%	4.3%	3.2%	4.2%	3.2%
200.1 - 250%	6.1%	4.9%	6.6%	5.3%	6.3%	5.1%	6.3%	5.1%	6.3%	5.0%
250.1 - 300%	7.4%	6.1%	8.0%	6.6%	7.6%	6.4%	7.6%	6.4%	7.6%	6.3%
300.1 – ~374%	7.9%	6.5%	8.5%	6.8%	8.4%	6.7%	8.6%	6.9%	8.6%	6.9%
374.1 – ~446%	8.6%	7.2%	9.1%	7.6%	9.0%	7.6%	9.3%	7.8%	9.2%	7.7%
446.1 – ~588%	10.0%	7.5%	10.6%	8.0%	10.5%	8.0%	10.9%	8.2%	10.8%	8.2%
Above ~588%	Affordable		Affordable		Affordable		Affordable		Affordable	

**Table 6. Affordability Schedule (as a % of income) – Families
CY 2007 – CY 2011**

Income Bracket	2007		2008		2009		2010		2011	
	Bottom	Top	Bottom	Top	Bottom	Top	Bottom	Top	Bottom	Top
0 - 150%										
150.1 - 200%	3.3%	2.4%	3.5%	2.7%	3.4%	2.6%	3.4%	2.6%	3.4%	2.5%
200.1 - 250%	4.9%	3.9%	5.2%	4.2%	5.0%	4.0%	5.0%	4.0%	5.0%	4.0%
250.1 - 300%	5.9%	4.9%	6.3%	5.3%	6.1%	5.1%	6.1%	5.1%	6.0%	5.0%
300.1 – ~398%	7.5%	5.5%	8.0%	6.0%	8.0%	6.0%	8.1%	6.1%	8.1%	6.1%
398.1 – ~511%	8.6%	6.7%	9.4%	7.3%	9.4%	7.3%	9.7%	7.5%	9.5%	7.4%
511.1 – ~625%	9.6%	7.9%	10.6%	8.6%	10.5%	8.6%	10.9%	8.9%	10.8%	8.8%
Above ~625%	Affordable		Affordable		Affordable		Affordable		Affordable	

Considerations in Revisiting the Affordability Schedule for 2012

National Landscape

As you are aware, the Patient Protection and Affordable Care Act (ACA) also includes a health insurance coverage mandate effective in 2014, and an affordability standard to identify those subject to the mandate. Under the ACA, a taxpayer is exempt from the individual mandate if the individual’s required contribution for coverage exceeds 8% of household income. Despite the differences between the state and national methods for defining an affordability standard, last year’s analysis of 2008 state tax-filers data suggested a surprisingly modest difference between the two, in terms of the number of people impacted. Given this, and the lack of additional information pertaining to implementation of the national mandate, the Board opted to maintain the status quo until further information became available to allow the development of a longer-term strategy to address differences between the state and national standards by 2014.

Since the Board last addressed this issue, there had not been additional information released by the federal government with regard to implementation of the mandate. It may therefore be prudent for the Health Connector to delay a decision geared toward aligning the state affordability standard with the national standard until the federal government releases additional guidance.

Other information that may be relevant to the Board’s recommended approach with respect to a strategy for aligning state and national affordability standards or practices relates to the ACA’s allowance for an Exchange’s discretion in determining exemptions from the individual mandate. According to section 1311(d)(4)(H) of the ACA, one of the requirements of an Exchange is to establish a certification process for exempting individuals from the “individual responsibility” penalty based on the lack of an affordable health plan or any other exemption from this requirement. The ACA further specifies that in addition to exemptions due to affordability and religious objections, individuals may also be eligible for an exemption from the mandate based on “hardship” (section 1411(b)(5)(a)). The Secretary is to prescribe what constitutes “hardship” but these regulations have not yet been released. Information pertaining to the process proposed for determining this type of exemption, and how expansive or narrow the Exchange’s role will be in executing this responsibility may be important for the Board to consider in its decision-making with regards to the state affordability schedule. For example, if a state Exchange is provided discretion in determining hardship exemptions, the Board might consider retaining the state’s affordability schedule as a metric for considering potential hardship exemptions (i.e., to consider exemptions from the national mandate for those required to pay more than the state schedule would allow).

State Considerations

Notwithstanding unanimous votes on the affordability schedule in CY 2007 – CY 2011, decisions in prior years failed to include consensus as to the appropriate methodology for updating the schedule. For example, there has been discussion as to whether maximum allowable premium amounts should be updated based on premium

trend, income growth, change in the consumer price index, or some other factor. Through workgroup meetings and Board discussions, there seems to be growing consensus that affordability standards should adjust based on income. That is, when income increases, what one can afford increases, while when income decreases, what one can afford declines. Therefore, the preferred approach for updating the schedule would be one that embraces that principle, but implementing that is difficult given the structure of the affordability schedule.

The structure of the affordability schedule, for practical purposes, defines affordability standards for specified income brackets. Those within a given income bracket are required to contribute the same maximum monthly premium contribution in dollar terms, resulting in the affordability standard representing a declining percentage of income as income increases within the bracket. These income brackets are adjusted annually based on the FPL guidelines released in January, and then modestly revised in March based on MA COLA. As a result of this structure, the definition of what is “affordable” for a given individual may not change in alignment with a given change in income. For example, an individual’s income may decrease but (s)he may remain within a given income bracket. As a result, the percentage of income defined as affordable would represent an increasing percentage of his or her income, even in the absence of inflation in the maximum allowable premium contribution. Conversely, an individual’s income may increase but again, if (s)he remains within the same income bracket, what is defined as affordable would remain the same in dollar terms resulting in affordability being defined as a lower percentage of income. The following table is intended to describe the implications of the current structure:

Table 7. Implications of Bracket Based Affordability Structure		
Income Status Year-to-Year	No Change in Affordability Standard	Increase in Affordability Standard
Remains same	<ul style="list-style-type: none"> • Lower % of income if drop into preceding bracket • Consistent % of income if stay within bracket 	<ul style="list-style-type: none"> • Lower % of income if drop into preceding bracket • Higher % of income if stay within bracket or move into subsequent
Declines	<ul style="list-style-type: none"> • Lower/consistent % of income if drop into preceding bracket • Higher % of income if stay within current bracket 	<ul style="list-style-type: none"> • Higher % of income if stay within current bracket
Increases	<ul style="list-style-type: none"> • Lower % of income if stay within current bracket • Higher/consistent % of income if move into subsequent bracket 	<ul style="list-style-type: none"> • Consistent/lower % of income if stay within current bracket • Higher/consistent % of income if move to subsequent bracket

Given this structure, it is difficult to rely on an index to automatically update the maximum allowable premium contributions and the affordability schedule. A more nuanced approach must be considered to ensure the affordability schedule continues to protect the scope of application of the individual mandate, while balancing differential impacts of adjustments that result from the bracket-based structure of the schedule.

Recommendation for 2012

In developing a recommendation for 2012, the following factors were considered: the lack of increase to the affordability schedule maximum monthly premium contributions over the past couple years (since 2008 for those with income below 300% FPL) despite evidence of some income growth, and the likely increase in the upper bounds of an income bracket of approximately 3% following FPL and MA COLA adjustments (the latter are finalized in March). In light of these factors, an adjustment to the monthly premium contributions seems appropriate, but must be based on an approach that considers the implications of adjustments to the schedule for all those who are subject to it. Consequently, we are recommending a 1.5% increase in the maximum allowable premium contribution amounts across all income categories; this represents about half of the expected

inflation in the schedule due to FPL and MA COLA adjustments. This approach seems the best mechanism to balance the different impacts of adjustments to the schedule.

The tables below represent the recommended affordability schedules for individuals, couples and families for CY 2012 based on the updated FPL guidelines and the 1.5% increase in maximum monthly premium contributions.

Table 8. Recommended Affordability Schedule – Individuals CY 2012					
Income Bracket			Affordability Standard (Maximum Monthly Premium)	Percentage of Income	
% of FPL	Bottom	Top		Bottom	Top
0 - 100%	\$0	\$11,170	\$0		
100.1 - 150%	\$11,171	\$16,755	\$0		
150.1 - 200%	\$16,756	\$22,340	\$40	2.9%	2.1%
200.1 - 250%	\$22,341	\$27,925	\$78	4.2%	3.4%
250.1 - 300%	\$27,926	\$33,510	\$118	5.1%	4.2%
300.1 - 360%	\$33,511	\$40,195	\$178	6.4%	5.3%
360.1 - 408%	\$40,196	\$45,554	\$239	7.1%	6.3%
408.1 - 504%	\$45,555	\$56,273	\$359	9.5%	7.7%
Above 504%	\$56,274		Affordable		

Table 9. Recommended Affordability Schedule – Couples CY 2012					
Income Bracket			Affordability Standard (Maximum Monthly Premium)	Percentage of Income	
% of FPL	Bottom	Top		Bottom	Top
0 - 100%	\$0	\$15,130	\$0		
100.1 - 150%	\$15,131	\$22,695	\$0		
150.1 - 200%	\$22,696	\$30,260	\$80	4.2%	3.2%
200.1 - 250%	\$30,261	\$37,825	\$156	6.2%	4.9%
250.1 - 300%	\$37,826	\$45,390	\$236	7.5%	6.2%
300.1 - 374%	\$45,391	\$56,656	\$320	8.5%	6.8%
374.1 - 446%	\$56,657	\$67,448	\$428	9.1%	7.6%
446.1 - 588%	\$67,449	\$89,032	\$598	10.6%	8.1%
Above 588%	\$89,033		Affordable		

**Table 9. Recommended Affordability Schedule – Families
CY 2012**

Income Bracket			Affordability Standard (Maximum Monthly Premium)	Percentage of Income	
% of FPL	Bottom	Top		Bottom	Top
0 - 100%	\$0	\$19,090	\$0		
100.1 - 150%	\$19,091	\$28,635	\$0	0.0%	0.0%
150.1 - 200%	\$28,636	\$38,180	\$80	3.4%	2.5%
200.1 - 250%	\$38,181	\$47,725	\$156	4.9%	3.9%
250.1 - 300%	\$47,726	\$57,270	\$236	5.9%	4.9%
300.1 - 398%	\$57,271	\$75,899	\$379	7.9%	6.0%
398.1 - 511%	\$75,900	\$97,584	\$595	9.4%	7.3%
511.1 - 625%	\$97,585	\$119,270	\$862	10.6%	8.7%
Above 625%	\$119,271		Affordable		