Leading for Better Health

AMERICAN HEALTH CARE ACT
Preserve coverage for more than 1.1 million Pennsylvanians that have benefited from coverage under the Affordable Care Act (ACA)

Ensure all Pennsylvanians have access to and can secure comprehensive coverage

Promote continuous coverage and continuity of the right care, at the right time, in the right place

Ensure stable and sufficient funding for hospitals to support access to quality care

Maintain momentum in delivery system transformation and innovation
# American Health Care Act: Key Provisions

<table>
<thead>
<tr>
<th>Provisions</th>
<th>Details</th>
</tr>
</thead>
<tbody>
<tr>
<td>Replaces the ACA individual mandate with a “continuous coverage” incentive</td>
<td>(30% penalty if you don’t maintain coverage)</td>
</tr>
<tr>
<td>Freezes enrollment and phases out enhanced federal funding for Medicaid expansion</td>
<td></td>
</tr>
<tr>
<td>Transitions Medicaid financing to “per capita” funding structure</td>
<td></td>
</tr>
<tr>
<td>Replaces ACA subsidies with an advanceable tax credit</td>
<td></td>
</tr>
<tr>
<td>Establishes a Patient and State Stability Fund to support states in providing assistance to high-risk individuals</td>
<td></td>
</tr>
</tbody>
</table>
American Health Care Act: Continuous Coverage

“Continuous Coverage” Requirement Would Replace Individual Mandate

How the “continuous coverage” requirement would work

Individuals can freely enroll in insurance plans for 60 days following a qualifying life event, such as:

- Loss of existing insurance coverage
- Marriage or divorce
- Adoption or birth of a child
- Major change in place of residence or employment

If coverage is continuously maintained through calendar year...

... the individual can reenroll or enroll in a new plan at the standard price for next year.

If there is a gap in coverage during the calendar year lasting at least 63 continuous days...

... insurers are allowed to impose a 30 percent increase in premiums for one year.
The 31 Medicaid expansion states (plus D.C.) ...

...continue to receive federal funds for existing expansion enrollees, but cannot enroll new expansion enrollees beginning in 2020. The number of expansion enrollees will gradually shrink as existing enrollees lose eligibility for various reasons and are not replaced by new enrollees.

The 19 states that have not expanded Medicaid ...

...will be provided additional “safety net funding” to increase payments to Medicaid providers during the 2018–2022 period. The bill appropriates $10 billion evenly divided between the non-expansion states in proportion to the size of their population with incomes below 138 percent of the federal poverty level.

The ACA’s cuts to Disproportionate Share Hospital payments are reversed beginning in 2020; but expansion states absorb all DSH cuts for two years.

The ACA’s cuts to Disproportionate Share Hospital payments are reversed beginning in 2018.
American Health Care Act: Medicaid Financing

**FEDERAL SHARE IS CAPPED**
As beneficiaries use services, the federal and state government split costs based on the state’s Federal Medical Assistance Percentage. Once the federal government reaches the cap, the state pays 100 percent of costs for the remainder of the fiscal year.

<table>
<thead>
<tr>
<th>Enrollment Type</th>
<th>Cost Calculation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Elderly</td>
<td>Cost per elderly 2016 enrollee + 2016-19 medical inflation adjustment + 2019 baseline + Elderly enrollee growth + 2019-present year medical inflation adjustment</td>
</tr>
<tr>
<td>Child</td>
<td>Cost per child 2016 enrollee + 2016-19 medical inflation adjustment + 2019 baseline + Child enrollee growth + 2019-present year medical inflation adjustment</td>
</tr>
<tr>
<td>Expansion</td>
<td>Cost per expansion 2016 enrollee + 2016-19 medical inflation adjustment + 2019 baseline + Expansion enrollee growth + 2019-present year medical inflation adjustment</td>
</tr>
<tr>
<td>Other adult</td>
<td>Cost per other adult 2016 enrollee + 2016-19 medical inflation adjustment + 2019 baseline + Other adult enrollees growth + 2019-present year medical inflation adjustment</td>
</tr>
</tbody>
</table>

Cumulative annual Medicaid spending

CAPPED FEDERAL AMOUNT

STATE SHARE

Beginning of year

End of year
American Health Care Act: Tax Credits

ACA Subsidies Are Based on Income, Costs
Enrollees pay private insurance premiums equal to a particular percentage of their income, and then subsidies pay for the remainder of premium costs. The ACA provides additional subsidies to help low-income enrollees with out-of-pocket costs.

ACA subsidies are based on the federal poverty level (FPL):

- $11,880 for an individual in 2016
- $24,300 for a family of four in 2016

As income rises, enrollees pay a higher share of income on premiums

<table>
<thead>
<tr>
<th>INCOME LEVEL</th>
<th>MAXIMUM SHARE OF INCOME SPENT ON PREMIUMS</th>
</tr>
</thead>
<tbody>
<tr>
<td>100 to 133% FPL</td>
<td>2.03%</td>
</tr>
<tr>
<td>133% to 150%</td>
<td>4.07%</td>
</tr>
<tr>
<td>150% to 200%</td>
<td>6.41%</td>
</tr>
<tr>
<td>200% to 250%</td>
<td>8.18%</td>
</tr>
<tr>
<td>250% to 300%</td>
<td>9.66%</td>
</tr>
<tr>
<td>300% to 400%</td>
<td>9.66%</td>
</tr>
</tbody>
</table>

As income rises, enrollees pay a higher share of income on premiums

AHCA: Fixed Credit Amount, Based on Age
Regardless of premiums, the bill provides purchasers of individual insurance a refundable tax credit that is greater for older individuals. Unlike the ACA, the credits can also be used for off-exchange insurance plans.

One taxpayer can claim credits for themselves and four family members, with a $14,000 limit

<table>
<thead>
<tr>
<th>AGE RANGE</th>
<th>SIZE OF REFUNDABLE TAX CREDIT (MONTHLY)</th>
<th>TOTAL ANNUAL CREDIT</th>
</tr>
</thead>
<tbody>
<tr>
<td>&lt; 30 years old</td>
<td>$167</td>
<td>$2,000</td>
</tr>
<tr>
<td>30 to 39</td>
<td>$208</td>
<td>$2,500</td>
</tr>
<tr>
<td>40 to 49</td>
<td>$250</td>
<td>$3,000</td>
</tr>
<tr>
<td>50 to 59</td>
<td>$292</td>
<td>$3,500</td>
</tr>
<tr>
<td>60+</td>
<td>$333</td>
<td>$4,000</td>
</tr>
</tbody>
</table>
American Health Care Act: Stabilization Fund

New Funds to Support States in Addressing Costs

The bill provides $100 billion during a nine year period for the creation of a “Patient and State Stability Fund” that would be awarded to state programs for any of the following purposes:

- Provide financial assistance to high-risk individuals
- Stabilize premiums in the individual insurance market
- Reduce coverage costs for high-risk individuals
- Promote insurer participation in the individual market
- Promote access to preventive services
- Provide payments to providers for certain services
- Reduce out-of-pocket costs for insurance enrollees

To be eligible for the funding, states must contribute to the cost, with the state share growing from as low as 7 percent in 2018 to 50 percent in 2026.

Sources: POLITICO staff reports; Timothy Jost, “A look at Republican intentions? Diving into the leaked ACA replacement bill,” HealthAffairs Blog

Encourage Use of Health Care Savings Accounts
AHCA would emphasize the use of health savings accounts (HSAs), tax-advantaged savings account that individuals can withdraw from to pay for certain out-of-pocket health expenses such as prescription medicine. In addition to depositing their own savings, the bill would allow individuals to opt to have any leftover funds from their age-based tax credit sent to the health savings account.

Actuarial Requirements Repealed, Essential Benefits Remain
The bill repeals requirements that govern the share of health costs covered by insurance plan. Without these requirements in place, insurers are free to offer cheaper plans with higher out-of-pocket costs, similar to “catastrophic coverage.”

ACA TAXES REPEALED:
- Tanning tax
- Prescription drug tax
- Health insurance tax
- Net investment income tax
- Taxes on employer-based premiums
- Over-the-counter medication tax
- Medical device excise tax

- Retains popular consumer protection provisions: allowing young adults to stay on their parents coverage to the age of 26, requiring insurers to cover individuals regardless of pre-existing conditions
- Eliminates funding for the Prevention and Public Health Fund: Pennsylvania has cautioned state and local health agencies could lose nearly $112 million over five years
- Increases funding for the Community Health Center Program
AHCA: What’s at Stake for Hospitals

- Medicaid contraction (expansion phase out and new per capita financing mechanism)
- Insufficient support through tax credits
- No replacement of ACA payment cuts

- Increase in un- and under-insured patients
- Increase in hospital uncompensated care
- Destabilization of hospitals’ fiscal position
- Poorer health outcomes for patients
CONGRESSIONAL BUDGET OFFICE SCORE
CBO Projects 24 Million More Uninsured

The number of uninsured people relative to the number under current law would rise by:

+14 million uninsured by 2018
+21 million uninsured by 2020
+24 million uninsured by 2026

For a total of: 52 million uninsured by 2026

Total estimated uninsured from 2017 to 2026
AHCA vs. ACA

Where reductions under AHCA are likely to occur
BY COVERAGE TYPE
Coverage Impacts

Percentage of nonelderly adults without health insurance coverage:
Current law vs. the AHCA

BY AGE AND INCOME LEVEL, 2026

Current law  American Health Care Act

Income below 200 percent federal poverty level

Income above 200 percent federal poverty level

The width of each bar represents the relative share of the population in each age and income category. In CBO’s projections, 200 percent of the federal poverty level in 2026 would amount to $30,300 for a single person.

Estimates are based on CBO's March 2016 baseline, adjusted for subsequent legislation. They reflect the average number of people without insurance coverage over the course of the year in the noninstitutionalized civilian population of the 50 states and the District of Columbia.

Sources: Congressional Budget Office, staff of the Joint Committee on Taxation & Politico
The Congressional Budget Office compared the age-based tax credit benefits offered by the AHCA with the income-based benefits offered by the ACA, and finds that older enrollees with low incomes in the individual insurance market would be hit hardest by the AHCA’s changes.

- Individuals with higher incomes, who currently receive no credits under ACA, would benefit from the AHCA’s new age-based credits.

- Premiums would decline by 10 percent on average, but the ACHA would allow insurers to charge older enrollees' higher premiums and cover a smaller share.
Impact of Tax Credit Policy

The CBO’s Estimates for Insurance Premiums and Tax Credits in 2026

<table>
<thead>
<tr>
<th>Income Level</th>
<th>TOTAL PREMIUM</th>
<th>21 YEAR OLD</th>
<th>40 YEAR OLD</th>
<th>64 YEAR OLD</th>
</tr>
</thead>
<tbody>
<tr>
<td>LOWER INCOME CONSUMER</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>$26,500 annually</td>
<td>$5,100</td>
<td>$3,400</td>
<td>$4,800</td>
<td>$13,600</td>
</tr>
<tr>
<td></td>
<td>$3,900</td>
<td>$2,450</td>
<td>$3,650</td>
<td>$4,900</td>
</tr>
<tr>
<td></td>
<td>$6,500</td>
<td>$1,450</td>
<td>$1,700</td>
<td>$1,700</td>
</tr>
<tr>
<td></td>
<td>$6,050</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>$15,300</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>$19,500</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>HIGHER INCOME CONSUMER</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>$68,200 annually</td>
<td>$5,100</td>
<td>$5,100</td>
<td>$6,500</td>
<td>$15,300</td>
</tr>
<tr>
<td></td>
<td>$3,900</td>
<td>$2,450</td>
<td>$3,650</td>
<td>$4,900</td>
</tr>
<tr>
<td></td>
<td>$6,500</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>$6,050</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>$15,300</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>$19,500</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Older low-income consumers would see their support cut the most. The ACHA would allow insurers to charge them higher premiums while simultaneously cutting their tax subsidies, resulting in a 759 percent increase in paid premiums.

Unlike the ACA, the AHCA would provide credits to higher income enrollees. Younger high-income consumers would benefit, while older high-income consumers would see a 4.6 percent decrease in paid premiums.
Covering Health Care Costs

CBO Says New Insurance Plans Will Cover Smaller Share of Health Care Costs

Although the CBO calculates that premium costs (before credits) are lowered on average by 10 percent, some of this price reduction reflects the lower value of benefits likely to be covered by insurance plans.

The AHCA repeals requirements, for insurers to cover a certain share of costs (60 percent for a “bronze” plan, 70 percent for “silver,” and 80 percent for “gold”). Without these requirements in place, the CBO estimates that insurers will tend to offer plans with lower actuarial value.

Source: CBO; POLITICO staff reports
IMPLICATIONS FOR PENNSYLVANIA
Concerns for Pennsylvania

- CBO Score confirms: The AHCA “does not fulfill our core principle that any replacement plan must ensure continuity of coverage and care through access to a robust, competitive delivery system.”

- More than half of Pennsylvania’s 1.1 million individuals who secured coverage under the ACA likely would lose their coverage by 2018, and by 2026, the number of uninsured would likely rise to pre-ACA levels

- Phases out and erodes Medicaid expansion
- Tax credits do not sufficiently replace the subsidy structure and disadvantage older, lower income Pennsylvanians
- Fundamentally weakens the Medicaid program serving 2.8 million children, pregnant women, seniors, individuals with disabilities, and low-income working adults
- Undermines progress in serving vulnerable patient populations including rural communities, children, and those facing behavioral health and substance abuse challenges
- Over time, fewer employers may offer health insurance to their employees
Concerns for Pennsylvania

- Fails to safeguard sufficient and stable resources to hospitals, and support a robust delivery system

  - Hospitals will see reduced coverage, yet continue shouldering significant payment cuts that reduce resources to serve the uninsured and under-insured—$14.9 billion in payment cuts are scheduled for Pennsylvania hospitals through 2026

  - By law, hospitals must provide services to all—regardless of their ability to pay. Greater numbers of uninsured and underinsured will drive up charity care and bad debt after their first drop (9%) in 15 years

  - The percent of PA hospitals with negative operating margins would increase from 29 percent to 41 percent (based on the Medicaid expansion phase-out alone)
Concerns for Pennsylvania

- Places significant fiscal pressure on the state
  - Pennsylvania has estimated a $2 billion loss in funding for as a result of freezing Medicaid expansion enrollees and cycling or churning off those currently benefiting from coverage
  - The potential state response to per capita caps could be: cutting eligibility, limiting benefits, reducing provider reimbursement rates, increasing taxes, or state budget cuts to cover the funding gap left by the federal government
  - The Patient and State Stability Fund, intended to help states lower the cost of care for high-need patients and stabilize the insurance markets, will require a significant state match. With an already strained budget, it is unclear if the state could dedicate the resources.
  - The state has cautioned cuts to public health funding would impact services and supports provided by state and local health agencies