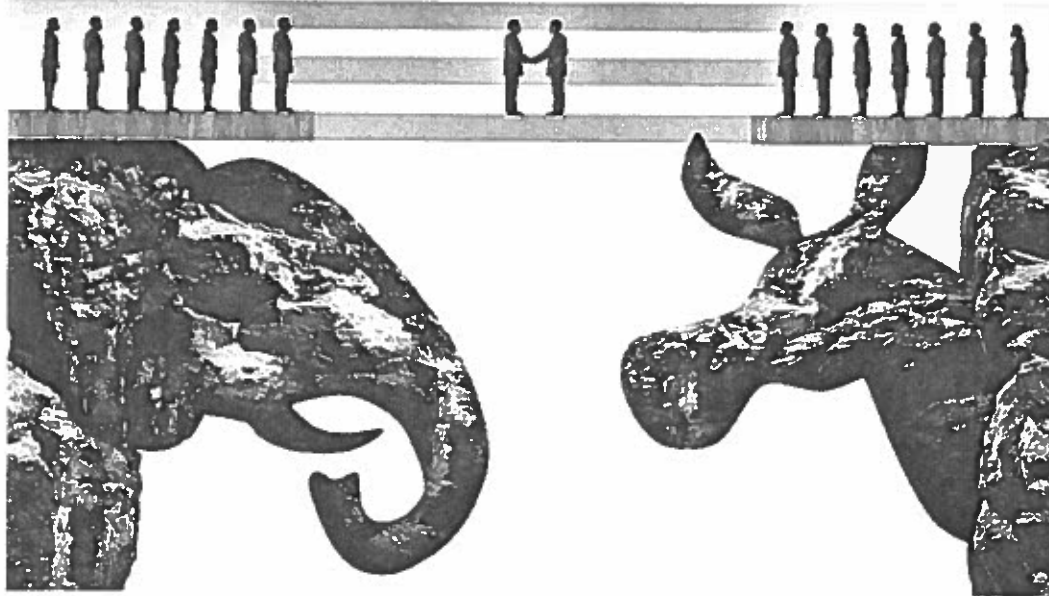


# Health Affairs Blog

## Actuarial Value And The Importance Of Bipartisanship In Health Care Reform

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In 2009 and 2010, Congress wrote a bill with the goal of providing health care coverage for the uninsured in America. With the decision to include the individual mandate, Congress decided to include a requirement in the Affordable Care Act (ACA) that penalizes people who do not purchase insurance (with a few exceptions). In 2017, through a continuous coverage requirement in the American Health Care Act and the proposed Better Care Reconciliation Act, Congress still considers it important to require insurance coverage, albeit through different means. If the proposed ACA replacement includes a requirement to purchase insurance, a subsequent critical question must be answered: How much does someone have to pay for the coverage they must purchase?

In the world of health care coverage, there is no such thing as a free lunch: someone always pays. Through tax deductions taken by an employer or direct subsidies, the taxpayer currently pays for a lot of health care coverage. There will always be a share that is paid for by the insurance plan and a share that a consumer pays. This ratio, the percentage of expected health care benefit costs a specific health plan is expected to cover, is known as actuarial value (AV). It sets out how much an individual is expected to pay for the cost of their care through premiums, coinsurance, copayments, and deductibles. Because of the benchmark plan designation in the ACA, it also determines how much the government will subsidize for them, either directly or through the tax code which subsidizes employers for employer sponsored health plans.

### The Importance Of Actuarial Value

In 2009, the Members of Congress constructing the ACA were faced with this question: What is the appropriate level of subsidy for the government to provide for plans on the marketplace? In some

of the early drafts of the legislation, they settled on 75 percent AV as the benchmark plan. By making this the benchmark to which the tax credits were set, for qualified individuals the government would subsidize up to three quarters of the health care plan, and the individual would be responsible for the rest. However, the calculated cost to the taxpayer with a subsidy for a 75 percent AV benchmark plan was too high, forcing the writers of the bill to lower the amount to 70 percent, which then became the standard under ACA.

This brief insight into the 2009 debate is important to make a very simple point: Congress can set the benchmark AV level at any level it wants. It's a policy choice. If you want the AV to be 90 percent, you need to be willing to spend enough taxpayer dollars to pay for it. In 2009, the decision to set the standard at 70 percent reflected a consideration of resources available—a policy choice.

As the ACA began to take hold, the public started to see the effect of this 70 percent AV. If you had coverage in an existing plan set at 80-85 percent AV, as most large employer plans were, and your plan followed the ACA signal and dropped to 70 percent AV, you had to pay more. For people who had no coverage, getting coverage was certainly an upgrade, but you still had to pay a significant share. The costs associated with health care coverage, generally a function of the AV, ultimately became one of the major factors contributing to the relative unpopularity of the ACA.

## Tradeoffs From Actuarial Value Choices

That brings us to today, when Republicans are poised to repeal and replace the ACA. The Better Care Reconciliation Act introduced in the Senate now sets a new baseline of 58 percent AV for plans sold on the marketplace. This bill assumes the government will subsidize up to 58 percent of the care (for those eligible for tax credits), while the individual will be on the hook for the other 42 percent. If the ACA experience tells us anything, further lowering the AV may not go well for Republicans.

This is second time we've seen lawmakers answer the critical policy question: How much should people be asked to pay? First it was Democrats in 2009 and 2010, and now Republicans in 2017. Just like in 2009, we are having a very partisan, very nasty conversation about what would be better as a bipartisan effort to make health care coverage available to more Americans. What is the right amount for government to subsidize, and how much should consumers be expected to pay, are questions on which Americans would be better served if Democrats and Republicans would come to an agreement.

Believe it or not, it's happened before. Medicare Part D, the prescription drug plan, is not a free lunch. Seniors have to pay for a significant share of the drug benefit. But unlike ACA and the proposed Republican alternative, Medicare Part D was largely a bipartisan agreement. There was general agreement that it was the right thing to do, and that the tradeoff between what seniors had to pay and the benefits they received was. To this day it is considered legitimate by the public.

Why is a low AV plan so potentially problematic? If your income is \$40,000 a year (roughly 325 percent of poverty), and you have a premium of \$300 a month, your premium is less than 10 percent of your gross income. Perhaps we could agree on a bipartisan basis that that's reasonable policy. But if your deductible on that low AV plan is \$10,000 a year, roughly a quarter of your income, that's not reasonable anymore. Asking someone to pay a tenth of their income for the privilege of spending a quarter of their income can barely be described as coverage. Effectively, it's a plan, as long as you don't use it. Low AV plans will always run that risk. Many Americans will not see that tradeoff as legitimate. Many don't today, and it is likely even fewer will if Republicans get their way.

Owning 70 percent AV on a partisan basis was a bad idea. Owning 58 percent AV on a partisan basis is worse. The political challenge of this policy issue remains one more reason why Americans would be better off if bipartisan health care reform could ever be achieved.

## FOLLOWING THE ACA

ASSOCIATED TOPICS: COSTS AND SPENDING

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