



Cost-Sharing Reductions: Beyond the Basics

Center on Budget and Policy Priorities
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Topics

- Cost-sharing in Marketplace (exchange) plans
- How cost-sharing reductions work, including how plans are modified to provide cost-sharing reductions
- Plan options for consumers



Two Types of Subsidies

- Premium Tax Credits
 - Help people pay the monthly cost to have a plan
- Cost-Sharing Reductions
 - Decrease the charges enrollees must pay when receiving health care services covered by the plan



I. Cost-Sharing in Marketplace Plans



Basic Standards for All Marketplace Plans

- Essential health benefits
 - Basic standards for the benefits that plans must cover
- Cost-sharing Standards
 - Protect enrollees from very high out-of-pocket costs for covered, in-network benefits
 - Help organize plans to make them easier for people to compare



Types of Cost-Sharing Charges

- **Deductible**
 - Enrollee must pay the deductible before the plan begins to pay for most benefits
 - Set on a yearly basis
- **Copayments**
 - Dollar amount for an item or service that enrollees must pay
- **Coinsurance**
 - Percentage of the cost of an item or service that enrollees must pay



Maximum Out-of-Pocket Limit (OOP)

- Puts a cap on what the enrollee pays in cost-sharing charges each year
 - Set on a yearly basis
 - Applies to in-network services
- 2014 amounts: \$6,350 individual/\$12,700 family
- OOP limit is not the amount that an enrollee must spend each year



Types of Marketplace Plans (“Metal Levels”)

Plan Level	Actuarial Value
Platinum	90%
Gold	80%
Silver	70%
Bronze	60%

Lower enrollee cost-sharing



Higher enrollee cost-sharing



What is Actuarial Value?

- A way to estimate and compare the overall generosity of plans
- Expressed as a percentage
- Tells you what percentage of a typical population's costs for covered services the plan would pay for
- Does not represent what the plan would pay for any particular individual



Calculating Actuarial Value



Typical population

For a Sample Health Plan

- Assume entire typical population enrolls
- Estimate the percentage of costs the plan pays for their covered services
- Plan pays 70% of the costs of covered benefits → Silver plan.



What Actuarial Value Does and Does Not Do

- AVs under the health law focus on cost-sharing
 - Not what benefits are covered, limits on # of visits, or what drugs are covered
 - Not the provider network
- Don't tell you what any particular enrollee will pay for health care services
 - Enrollee out-of-pocket costs depend on the medical care a person uses



Example: One Plan, Two People

Silver Plan (70% AV)

Deductible:
\$2,000

Maximum
OOP Limit:
\$5,000

Inpatient
Hospital:
\$1,500 /
Admission

Office Visit:
\$30



John:

- Health care: 3 doctor visits
- Total cost: \$300
- Insurer's share of cost: \$0
- John's share of cost: \$300



Jane:

- Health care: Hospitalized, 3 doctor visits, 20 physical therapy visits
- Total cost: \$7,300
- Insurer's share of cost: \$3,110
- Jane's share of cost: \$2,000 + \$1,500 + (23 x \$30) = \$4,190



Same Actuarial Value, Different Charges

	Silver Plan #1 (enrollee pays)	Silver Plan #2 (enrollee pays)
Deductible (Indiv)	\$2,000	\$2,500
Maximum OOP limit (Indiv)	\$5,500	\$6,350
Inpatient hospital (After deductible)	\$1,500 / admission	30%
Office visit (After deductible)	\$30	\$35

Key Takeaway: Cost-sharing charges can differ even if the plans have the same actuarial value.



Example: Two Silver Plans, Different OOP Costs



- **Health care:**
Hospitalized,
3 doctor
visits, 20
physical
therapy visits
- **Total cost:**
\$7,300

Silver Plan #1 (70% AV)

Deductible:
\$2,000

Hospital:
\$1,500/Admission

Office Visit:
\$30

Insurer's Share:
\$3,110

Jane's Share:
\$4,190

Silver Plan #2 (70% AV)

Deductible:
\$2,500

Hospital:
30%

Office Visit:
\$35

Insurer's Share:
\$3,245

Jane's Share:
\$4,055



Example: What Jane Pays in Different Levels of Coverage

	Bronze (enrollee pays)	Silver (enrollee pays)	Gold (enrollee pays)	Platinum (enrollee pays)
Deductible	\$3,000	\$2,000	\$600	\$0
Inpatient (After deductible)	50%	\$1,500 / admission	\$1,500 / admission	\$500 / admission
Physician visit (After deductible)	50%	\$30	\$25	\$15

Bronze
\$5,150

Silver
\$4,190

Gold
\$2,675

Platinum
\$845

Jane's out-of-pocket costs





Example: Family Cost-Sharing



Rogers Family

	Sample Silver Plan 70% AV
Deductible	\$4,000
Maximum OOP	\$11,000
Inpatient hospital (After deductible)	\$1,500 / admission
Office visit (After deductible)	\$30
Prescription drugs (No deductible)	\$35



II. Basics of Cost-Sharing Reductions



What are Cost-Sharing Reductions?

- A federal benefit that reduces the out-of-pocket charges an enrollee must pay for medical care covered by the plan
- 3 levels of cost-sharing reductions based on income
- Available January 1, 2014



Who is Eligible for Cost-Sharing Reductions?

- People with income up to 250% FPL
- Must enroll in a silver plan through the Health Insurance Marketplace (also called the exchange)



How are Cost-Sharing Reductions Provided?

- Federal government pays the health insurer upfront
- Enrollee cost sharing charges are automatically reduced when an eligible person or family enrolls in a silver plan
- People do not have to keep track of their spending or get reimbursed
- Not provided as a tax credit
- Not “reconciled” at the end of the year



Sample Cost-Sharing Reduction Plans

	Standard Silver – No CSR	CSR Plan for up to 150% FPL (up to \$17,235)	CSR Plan for 151-200% FPL (\$17,236- \$22,980)	CSR Plan for 201-250% FPL (\$22,981- \$28,725)
Actuarial Value	70% AV	94% AV	87% AV	73% AV
Deductible (Indiv)	\$2,000	\$0	\$250	\$1,750
Maximum OOP limit (Indiv)	\$5,500	\$1,000	\$2,000	\$4,000
Inpatient hospital	\$1,500 / admission	\$100 / admission	\$250 / admission	\$1,500 / admission
Office visit	\$30	\$10	\$15	\$30



Example: One Cost-Sharing Reduction Plan, Two People



John:

- **Health care:** 3 office visits
- **Total bill:** \$300



Jane:

- **Health care:** Hospitalized for broken leg, 3 doctor visits, 20 physical therapy visits
- **Total bill:** \$7,300

	Silver Plan 70% AV	Variation 87% AV (150-200% FPL)
Deductible	\$2,000	\$250
OOP Max	\$5,500	\$2,000
Inpatient	\$1,500/ admission	\$250/ admission
Office Visit	\$30	\$15
John's OOP	\$300	\$265
Jane's OOP	\$4,190	\$845



III. Plan Options for Consumers



John:

Age:
24

Premium Credit:
\$3,552

Income:
\$22,980



Example 1: Silver Plan

Total Premium:
\$5,000

John's Premium
Contribution:
\$121/month

Plan AV with CSR:
87%

Example 2: Bronze Plan

Total Premium:
\$3,000

John's Premium
Contribution:
\$0 / month

Plan AV without CSR:
60%

	Sample Silver-CSR Plan (enrollee pays)	Sample Bronze Plan (enrollee pays)
Deductible	\$250	\$3,000
Maximum OOP limit	\$2,000	\$6,350
Inpatient hospital	\$250 / admission	50% of the charge
Office visit	\$15	\$35



John:

Age:
24

Premium Credit:
\$3,552

Income:
\$22,980



Example 1: Silver Plan

Total Premium:
\$5,000

John's Premium
Contribution:
\$121/month

Plan AV with CSR:
87%

Example 2: Gold Plan

Total Premium:
\$6,000

John's Premium
Contribution:
\$204/month

Plan AV without CSR:
80%

	Sample Silver-CSR Plan (enrollee pays)	Gold Plan (enrollee pays)
Deductible	\$250	\$600
Maximum OOP limit	\$2,000	\$4,000
Inpatient hospital	\$250 / admission	\$1,000 / admission
Office visit	\$15	\$25



Changes During the Year

- A change in circumstances during the year may result in a change in CSR eligibility
 - Can become ineligible and move to regular plan without cost-sharing reduction
 - Can become eligible for less or more generous cost-sharing reductions
 - No reconciliation or repayment, also no refunds of prior cost-sharing amounts



Change in CSR During the Year

January - May

Income: \$22,980
Silver Variation: 87%

Spends \$250
out-of-pocket



June - December

Income: \$16,000
Silver Variation: 94%

The \$250 he already
spent counts toward the
\$1,000 OOP limit.

Silver Variation 87%	Cost-Sharing Charge	Silver Variation 94%
\$250	Deductible	\$0
\$2,000	Maximum OOP	\$1,000
\$15	Office visit	\$10



Key Considerations in Plan Selection

- What health care expenses are likely
- Upfront cost-sharing (the deductible), “as-you-go” cost-sharing (like copayments)
- Other aspects of the plan, such as provider network and covered drugs
- What benefits are covered under various plans (may vary depending on state)



Contact Info

www.centeronbudget.org

- Sarah Lueck, lueck@cbpp.org
- Edwin Park, park@cbpp.org
- Judy Solomon, solomon@cbpp.org
- Jesse Cross-Call, cross-call@cbpp.org