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BUILDING A HEALTHIER FOUNDATION FOR 2014

California Begins to Implement the Federal Health Care Reform Law

Federal health care reform was passed in March 2010 and, over the next several years, the new law will make major changes in the nation's health care system. Numerous provisions of the law—also known as the Affordable Care Act[1]—have already gone into effect. The law also gives states the option to administer specific components instead of leaving it up to the federal government, and California has chosen to administer two major pieces of the new law: (1) the Pre-Existing Condition Insurance Plan, and (2) the Health Benefit Exchange.

Pre-Existing Condition Insurance Plan: What Is It?

Beginning in 2014, health insurers nationwide will be barred from denying health coverage to adults with pre-existing health conditions. To address the needs of those with pre-existing conditions until this requirement goes into effect, the Affordable Care Act (ACA) created the Pre-Existing

Health Insurance Enrollment Will Greatly Increase in 2014
While California has already begun enrolling people into its new Pre-Existing Condition Insurance Plan, starting in 2014, thousands more will be enrolled in health insurance through the new California Health Benefit Exchange and the Medi-Cal program.

Pre-Existing Condition Insurance Plan (PCIP): An Eligibility Checklist for Californians

- **California resident**
- **U.S. citizen, U.S. national, or "lawfully present"**
- **Social Security number** (which is required for U.S. citizens and U.S. nationals)
- **Denied coverage for a pre-existing health condition** as shown by a health insurance company's rejection letter in the last 12 months, or by an offer of coverage with premiums that are higher than specified by the Managed Risk Medical Insurance Board (MRMIB)
- **No health insurance coverage in the last six months**, including any state or federal health program, such as Medicare or Medicaid

Condition Insurance Plan (PCIP, pronounced *p-sip*). PCIP is designed to be a temporary plan that offers health coverage to those currently unable to buy insurance due to a pre-existing condition.

California is one of 27 states that have chosen to run their own PCIP. Senate Bill 227 (Alquist, Chapter 31, Statutes of 2010) and Assembly Bill 1887 (Villines, Chapter 32, Statutes of 2010) established California's PCIP and requires the Managed Risk Medical Insurance Board (MRMIB, pronounced *Mr. Mib)* to administer the PCIP. MRMIB received federal approval to operate the California PCIP in August 2010 and began covering enrollees at the end of October 2010. California is expected to receive $761 million in federal funds to help fund the program through 2013.

Current monthly premiums range from $127 to $652, depending on the subscriber's age and geographic location. The variation in premium is due mostly to a subscriber's age. For example, a 30-year-old living in Fresno would pay a $282 monthly premium, but a 50-year-old in Fresno would pay $481, and a 50-year-old living in the San Francisco Bay Area would pay only slightly more, a $499 monthly premium.

In addition to monthly premiums, subscribers are required to pay annual deductibles and co-insurance and co-payment costs;[2] however, the plan does not have a maximum limit on the amount of health care a person can receive during his or her enrollment in PCIP (see the chart, "California's Pre-Existing Condition Insurance Plan," on page 4 for some of the deductible, co-insurance, and co-payment costs).

Health Benefit Exchanges: How Will They Work?

The ACA requires Americans to have health coverage for themselves and their children beginning in 2014, and it creates new ways to purchase some health insurance

by establishing health benefit exchanges. Exchanges are designed to create a more organized system by establishing, at the state level, a competitive market for health insurance where individuals and small businesses are offered a choice of private health plans that follow common rules.

The exchanges also will certify whether health plans are qualified to be offered in the exchanges, and they will provide several consumer services, such as an assigned health-plan rating based on quality and price, a telephone hotline, and a Web site. The ACA specifies that states are required to establish health benefit exchanges by January 1, 2014, or the federal government will operate the exchanges for them.

The ACA states that the exchanges must be run by a government agency or a nonprofit entity. Individuals eligible to purchase insurance through the exchanges are limited to U.S. citizens and legal immigrants. The exchanges are required to offer certification to those individuals who could be exempt from the requirement to have personal health coverage because they are unable to afford any of the available health insurance plans, and they must screen and enroll individuals who are eligible for public health coverage programs, such as Medi-Cal.

The exchanges also are important because both small businesses and individuals with incomes between 133 percent and 400 percent of the federal poverty level must purchase their health coverage through the exchanges to be eligible for tax credits.

Small businesses with low-wage employees are eligible for tax credits of up to 50 percent of the employer's cost of the health insurance premium, and lower income individuals are eligible for refundable tax credits. Although the small-business tax credit has already gone into effect, beginning in 2014 the credit will be available only for health insurance purchased through the health benefit exchanges.

On September 30, 2010, California became the first state to establish a health benefit exchange with the signing of Senate Bill 900 (Alquist, Chapter 659, Statutes of 2010), which establishes the

Several Provisions of Federal Health Care Reform Are Now In Effect
Federal health care reform has already helped many Californians sign up for health insurance. The new law has also lowered the cost of drugs for hundreds of thousands of elderly Californians who are enrolled in Medicare.

California's Pre-Existing Condition Insurance Plan

Subscriber Deductibles and Co-Insurance and Co-Payment Costs

Type of Service	Subscriber Costs	
	In Network	Out of Network
Annual Deductible	$1,500	$3,000
Co-Insurance[a]	15%	50%
Annual Maximum for Out-of-Pocket Expenses	$2,500	No Maximum
Doctor Office Visit Co-Payment	$25	50%
Emergency Room Services Co-Payment	15%	15%
In-Patient and Out-Patient Services Co-Payment	15%	50%
Generic Prescription Drug Co-Payment	$5	50%
Preferred Brand Name Prescription Drug Co-Payment	$15	50%
Annual Brand Name Drug Deductible	$500	$500

NOTE: This table does not include all Pre-Existing Condition Insurance Plan (PCIP) costs, limitations, restrictions, etc. For a complete list of PCIP benefits and costs, go to: http://pcip.ca.gov/Publications/PCIP_Benefit_Services.pdf.

[a]Subscribers begin paying co-insurance after their deductible has been met, and co-insurance fees are based either on the billed charge or the plan allowance, whichever amount is less.

California Health Benefit Exchange (also known as the California Exchange) and its five-member governing board, as well as the signing of Assembly Bill 1602 (Pérez, Chapter 655, Statutes of 2010), which outlines the exchange's duties and operations and codifies into California state law the federal requirements pertaining to state exchanges. The California Exchange will become operational by January 1, 2014.

Also on September 30, 2010, the federal government announced state grant awards for the establishment of state health benefit exchanges. California was awarded $1 million to establish the exchange board, recruit staff, develop a multiyear plan for the exchange, analyze current insurance markets, convene stakeholders and the public for input, and collect data on the uninsured population and the insurance markets operating in California.

How Will the Affordable Care Act Impact You?

Major provisions of the Affordable Care Act (ACA) are already in effect and include the following:

- provides rebates of $250 to certain Medicare beneficiaries for prescription drug costs (more than 308,000 Medicare beneficiaries in California already have received their checks);
- allows parents to keep their children on their health plan until they turn 26 years old;
- prohibits insurers from denying coverage to children with pre-existing health conditions;
- gives tax credits to small businesses with low- and moderate-wage employees;
- bans insurance companies from rescinding health coverage when someone gets sick;
- bans insurance companies from imposing lifetime caps on health coverage;
- requires all new health plans to provide free preventive care;
- requires health insurers to submit justification for "unreasonable" premium increases;
- creates a temporary "re-insurance" program for employers providing health insurance coverage to retirees over age 55 who are not eligible for Medicare.

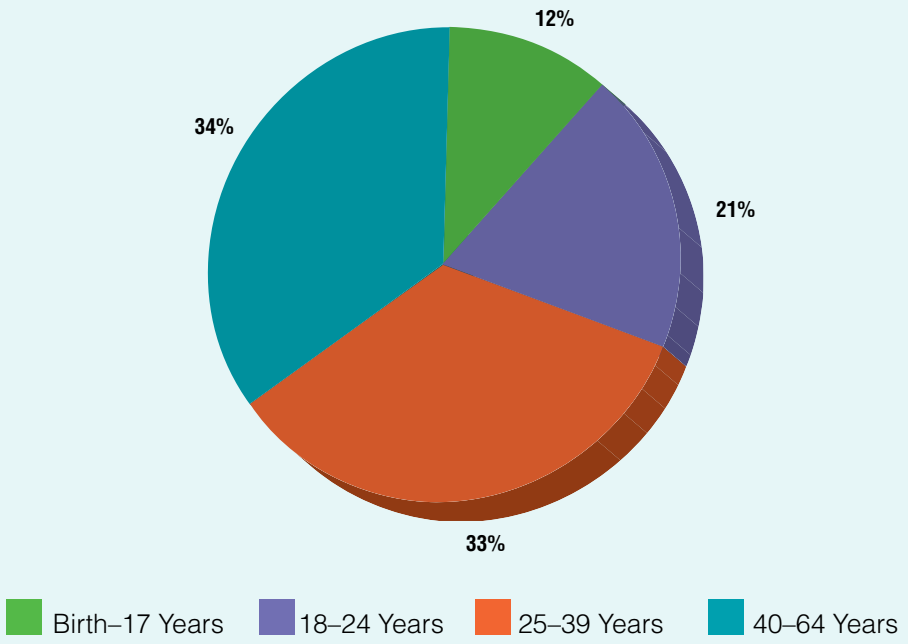
The University of California at Los Angeles (UCLA) estimates approximately 1.7 million of California's uninsured population—or 25 percent of those who were uninsured for all or part of 2009—will be eligible for a subsidy to purchase health insurance through the California Exchange. UCLA also estimates an additional 1.2 million uninsured Californians will be eligible to purchase private insurance through the exchange even without subsidies.[3]

California's Health Benefit Exchange Takes Shape

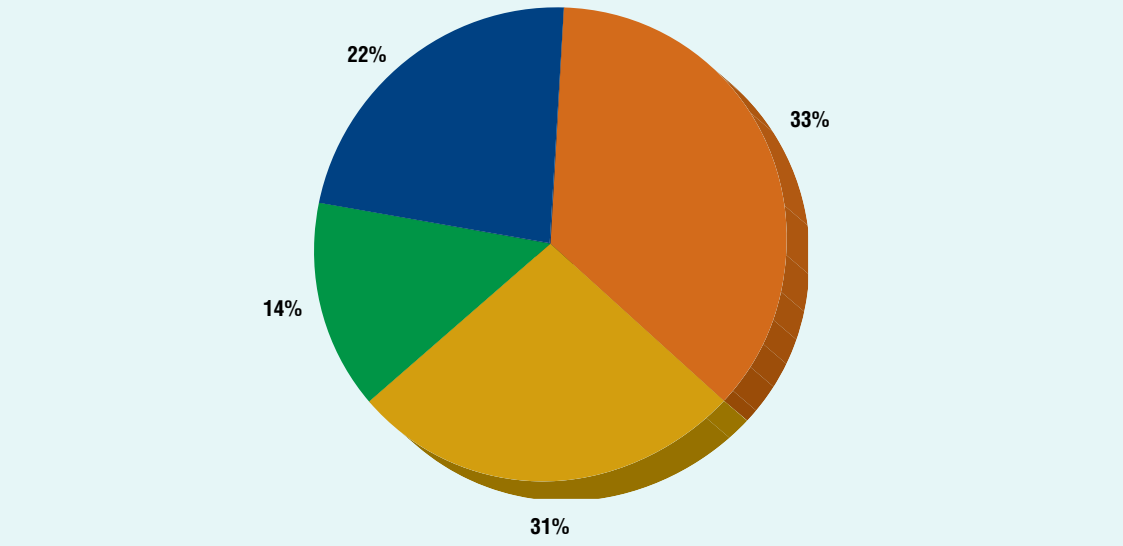
- The exchange will be an independent public entity funded from fees imposed on participating health plans.
- It will be governed by a five-member board composed of the Secretary of California's Health and Human Services Agency, two members appointed by the Governor, one member appointed by the Senate, and one member appointed by the Assembly.
- The board will determine the minimum requirements a health plan must meet and use a competitive process to select participating health plan carriers.
- The board will require health plans in the exchange to submit justifications for any premium increases, and the board will post such information on their Web sites.
- California law prohibits insurance carriers that do not participate in the exchange from selling catastrophic-only policies.[4]

7.1 Million Californians Are Uninsured: Who Are They?

By Age



By Annual Income



The Federal Poverty Level (FPL) for 2009 was $10,830 for one person; $18,310 for a three-person family; and $22,050 for a four-person family. A family of three that is living at 200% of the FPL, for example, is living with an annual income of $36,620 ($18,310 x 200%).

Source: 2009 California Health Interview Survey, UCLA, Center for Health Policy Research; data on those under age 65 years only.

Health Care Reform Bills Signed Into California Law in 2010

> **Senate Bill 227** (Alquist, Chapter 31) and **Assembly Bill 1887** (Villines, Chapter 32) establish the Pre-Existing Condition Insurance Plan (PCIP).

  Senate Bill 227 requires the Managed Risk Medical Insurance Board (MRMIB) to enter into an agreement with the federal Department of Health and Human Services to administer the temporary high-risk pool to provide health coverage consistent with the Affordable Care Act (also known as the federal health care reform law), and appropriates $761 million in federal funds to MRMIB for this purpose.

  Assembly Bill 1887 establishes and continuously appropriates the Federal Temporary High Risk Health Insurance Fund in the State Treasury for the PCIP.

> **Senate Bill 900** (Alquist, Chapter 659) and **Assembly Bill 1602** (Pérez, Chapter 655) establish the California Health Benefit Exchange.

  Senate Bill 900 establishes the exchange and the governing board for the exchange.

  Assembly Bill 1602 establishes the duties and operations of the new exchange.

> **Senate Bill 1088** (Price, Chapter 660) conforms state law to federal law by allowing parents to keep their children on their health plan until 26 years of age.

> **Senate Bill 1163** (Leno, Chapter 661) requires health plans and health insurers to file rate information with the Department of Managed Health Care or the California Department of Insurance at least 60 days prior to implementing any rate change. The bill requires the departments to make the submitted information publicly available. Senate Bill 1163 also requires health plans and health insurers to provide applicants who are denied coverage—or who are charged a higher-than-standard insurance rate—the specific reason for their decision in writing.

> **Assembly Bill 2244** (Feuer, Chapter 656) conforms state law to federal law by prohibiting plans that deny coverage for children with pre-existing conditions; the bill goes beyond federal law by also barring insurers from selling health plans in the individual market for five years if they refuse to sell child-only health insurance policies.

> **Assembly Bill 2345** (De La Torre, Chapter 657) conforms state law to federal law by requiring all new health plans and insurance policies to provide free preventive services.

> **Assembly Bill 2470** (De La Torre, Chapter 658) conforms state law to federal law by banning insurers from rescinding health coverage if someone gets sick.

California Lays a Strong Foundation

California is ahead of many states in implementing the new health care reform law. The state has already accepted applications for the new PCIP and recently began to provide benefits. Although the Health Benefit Exchange is not required to begin until 2014, California has laid the

groundwork for the formation of the board and the staff to be hired so discussions can begin about how to address the many operational details pertaining to the new exchange. While all states face many implementation issues as a result of the Affordable Care Act, California has already passed legislation and begun to take major steps to prepare for and implement the changes.

Endnotes

1. The comprehensive health care reform act was enacted in two parts: The Patient Protection and Affordable Care Act (part 1) was signed into law on March 23, 2010, and was amended by the Health Care and Education Reconciliation Act (part 2) on March 30, 2010. The term Affordable Care Act is used to refer to the final, amended version of the law.

2. The subscriber pays co-insurance after the annual deductible has been paid. An annual maximum limit for out-of-pocket expenses (which includes co-payments) is paid by the subscriber, but only for services received within the provider network (or "in-network services").

3. Shana Alex Lavarreda and Livier Cabezas, "Two-Thirds of California's Seven Million Uninsured May Obtain Coverage Under Health Care Reform," University of California at Los Angeles, Center for Health Policy Research, February 2011, p. 2.

4. Catastrophic policies generally only cover certain types of expensive care, such as hospitalizations, and they have high deductibles. Catastrophic policies typically are sold to healthier people who are likely to have minimal health care costs. The intent of the California law is to protect the solvency of the exchange and ensure a broad choice of health plans for consumers.

Written by Kim Flores. The California Senate Office of Research is a nonpartisan office charged with serving the research needs of the California State Senate and assisting Senate members and committees with the development of effective public policy. It was established by the Senate Rules Committee in 1969. For more information and copies of this report, please visit **www.sen.ca.gov/sor** or call **(916) 651-1500.**