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## The Benefits of Health Care Reform in California

Committee on Energy and Commerce

On March 23, 2011, President Obama signed historic health care reform legislation into law. The law will make health care affordable for the middle class, provide security for seniors, and guarantee access to health insurance for the uninsured – while reducing the federal deficit by over \$1.3 trillion over the next two decades. This analysis examines the benefits of the new reforms in California.

Over the next ten years, the state and its residents will receive new federal support for health care worth approximately **\$124 billion**. In California, the law will:

- Provide families with tax credits to purchase health care coverage and other federal health care benefits worth **\$106 billion**.
- Provide small businesses with **\$4.3 million** worth of health care tax credits.
- Fill the donut hole, saving seniors **\$9.3 billion** in drug costs.
- Provide **\$1.4 billion** in new funding to community health centers.
- Reduce uncompensated care costs for California health care providers by **\$2.6 billion**.
- Extend health coverage to **3.8 million** uninsured residents and improve coverage for **21 million** residents with employer-based or individual health insurance.
- Guarantee that **800,000** residents with pre-existing conditions can obtain coverage.
- Protect **66,000** families from bankruptcy due to unaffordable health care costs.
- Allow **3.2 million** young adults to obtain coverage on their parents' insurance plans.

### Middle Class Tax Credits and Other Federal Assistance

**Historic health care tax cuts.** California residents that do not receive health care coverage through their employer will be able to purchase coverage at group rates through the new health insurance exchange. To make this insurance affordable, the new health care reform law contains the largest middle-class tax cut for health care in history, providing middle class families with incomes up to \$88,000 for a family of four with tax credits to help pay for coverage in the exchange. For a family of four making \$50,000, the average tax credit will be approximately \$5,800.

There are 7.2 million households in California that could qualify for these credits if they purchase health insurance through the exchange or, in the case of households with incomes below 133% of poverty, receive coverage through Medicaid. These families will receive \$106 billion in tax credits and other federal health care assistance over the next decade.

### Small Business Tax Credits

Small businesses with 25 employees or less and average wages of less than \$50,000 will qualify for tax credits of up to 50% of the costs of providing health insurance. There are approximately 775,000 small businesses in California that could qualify for tax credits for providing coverage. These businesses will receive \$4.6 billion in tax cuts over the next decade.

### **Filling the Part D Donut Hole**

There are 465,000 California seniors who hit the donut hole each year. Under the new law, these beneficiaries will receive a \$250 rebate in 2010, 50% discounts on brand name drugs beginning in 2011, and complete closure of the donut hole within a decade. A typical beneficiary who enters the donut hole will see savings of over \$700 in 2011 and over \$3,000 by 2020. Over the next decade, seniors in California who hit the donut hole will save a total of \$9.3 billion.

### **Community Health Centers**

There are almost 1,100 community health centers in California that provide health care to the poor and medically underserved. Nationwide, the legislation would provide \$11 billion in new funding for these centers. If the community health centers in the state receive the average level of support, the 1,100 centers will receive \$1.4 billion in new assistance.

### **Reducing the Cost of Uncompensated Care**

California hospitals and health providers incur billions of dollars in uncompensated costs for providing health care for individuals without health insurance or with inadequate insurance. By providing quality, affordable health care coverage for almost every American, the new health care reform law will reduce the costs of uncompensated care for California health care providers by \$2.6 billion over the next decade.

### **Other Benefits of Health Care Reform**

**Coverage of the uninsured.** The new reforms will extend coverage to 94% of all Americans. If this level of coverage is reached in California, 3.8 million residents who currently do not have health insurance will receive coverage.

**Essential health insurance reforms.** Approximately 21 million California residents receive health care coverage from an employer or through policies purchased on the individual market. Under the new law, individuals with insurance can keep the coverage they have now, and it will get better. The new insurance reforms prohibit annual and lifetime limits, eliminate rescissions for individuals who become ill while insured, and reduce the cost of preventive care. To rein in soaring insurance costs, the reforms also limit the amount insurance companies can spend on administrative expenses, profits, and other overhead.

**Coverage for individuals with pre-existing conditions.** There are 800,000 uninsured individuals in the state who have pre-existing medical conditions like cancer, heart disease, and diabetes. Under the law's insurance reforms, they cannot be denied affordable coverage.

**Financial security for families.** There were 66,000 health care-related bankruptcies in California in 2009, caused primarily by the health care costs not covered by insurance. The new reforms cap annual out-of-pocket costs at \$6,200 for individuals and \$12,400 for families who purchase insurance through the exchange or who are insured by small businesses. They also eliminate annual and lifetime limits on all insurance coverage. These reforms ensure that no family will have to face financial ruin because of high health care costs.

**New lower-cost health care options for young adults.** The new reforms will allow young adults to remain on their parents' policies until they turn 26. There are 3.2 million young adults in the state who could benefit from this option. For individuals under age 30, the law creates new, inexpensive policies that allow them to obtain protection from catastrophic health care costs.

### **Fiscal Responsibility**

**No deficit spending.** The cost of health care reform under the legislation is fully paid for, in large part by eliminating waste, fraud, abuse, and excessive profits for private insurers. The new reforms will reduce the deficit by \$130 billion over the next ten years and by about \$1.2 trillion over the second decade for a total savings of over \$1.3 trillion over the next 20 years.

*This analysis is based upon the following sources: the U.S. Census (data on insurance rates, small businesses, and young adult population); the Centers for Medicare and Medicaid Services (data on Medicare and Part D enrollment); the Department of Health and Human Services (data on health care-related bankruptcies, uncompensated care, and pre-existing conditions); the Health Resources and Services Administration (data on community health centers); and the Congressional Budget Office (estimates of the percentage of citizens with health insurance coverage under health care reform legislation). Estimates of the total value of tax credits for families are extrapolated from statewide information on the percentage of families with incomes below 400% of the federal poverty level, the percentage of uninsured residents, and the estimated average tax credits received by middle-income families under the legislation. This estimate takes into account new federal assistance through Medicaid for individuals and families with incomes below 133% of the federal poverty level.*

