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How West Virginia Can Strengthen Work Incentives and Lower Families' Health Care Costs Without Spending State Money

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Today, West Virginians who work harder and earn more money can be penalized with a significant increase in health care costs

HB 3001 is nationally significant, innovative legislation that promotes workforce development while lowering West Virginians' health care costs. It would lift a significant barrier—namely, terminating affordable access to health care—that now stands in the way of many West Virginians who want to earn more and move up the economic ladder to financial independence.

Under the Patient Protection and Affordable Care Act (ACA), financial assistance with health coverage is based on need. When someone's income rises, they get less help. That's not a problem if the decline is gradual. But if it is sharp, people can be forced to choose between moving up the earnings ladder and maintaining affordable access to health care.

Today, too many West Virginia families face that very choice, at two different points as income rises:

- When people move from below to above 138% of the federal poverty level (FPL),[1] they lose Medicaid eligibility and qualify for Marketplace coverage, funded by advance premium tax credits (APTCs). That sharply raises people's out-of-pocket costs. For example, when a single adult's income in Wheeling rises from $1,600 to $1,650 a month—just a $50 bump—their deductible goes from $0 to $450.[2] They also lose dental care coverage.
- When people move from below to above 200% of FPL,[3] the amount of help they receive from APTCs plummets sharply. Below that threshold, APTCs provide coverage with actuarial value (AV) of 87%, which means that the plan pays 87% of costs for an average person. Above it, AV falls to 73%. So if a single adult Wheeling resident's income rises from $2,100 to $2,160, their deductible skyrockets from $1,250 to $5,700 — a nearly $5,000 jump, resulting from a $60 income increase.[4]

* Stan is widely considered one of the country's leading experts on the Basic Health Plan (BHP) option in the Patient Protection and Affordable Care Act (ACA), which is at the core of the proposal discussed here. When he served as Senior Fellow at the Urban Institute's Health Policy Center, the Centers for Medicare & Medicaid Services asked for Stan to serve on assignment to lead the agency's development of the federal payment formula for BHP. Examples of his work on BHP are posted here, here, and here.

In effect, people face a health care tax when their income crosses either threshold. An approach to implementing HB 3001 is described below that would repeal this health care tax for West Virginians, at zero cost to the state.

The Work Support Health Plan (WSHP) will let West Virginians move up the economic ladder without their health care costs skyrocketing

HB 3001 would direct West Virginia to take advantage of all available federal dollars to expand access to Medicaid or a similarly affordable health insurance plan. Sometimes, that approach is termed, "Medicaid Buy-in." This analysis proposes to meet those HB 3001 specifications by establishing a Work Support Health Plan (WSHP) that has two components:

- **Basic WSHP**. For people with incomes between 138% and 200% of FPL, WSHP will implement the ACA's Basic Health Plan (BHP) option. Beneficiaries will receive the same kind of health insurance Medicaid provides them today, using the same Managed Care Organizations (MCOs) that serve the lowest-income West Virginians. The MCOs will receive higher capitated rates for this new population than for today's Medicaid families, on the expectation that they will share those rate increases with providers. The federal government will provide funding that equals 95% of the APTCs that WSHP beneficiaries would have received in the ACA health insurance exchange.
- **Extended WSHP**. For people with incomes above 200% of FPL, the state will seek a federal waiver letting it offer WSHP as an option on the exchange, without deductibles and with only modest co-payments.[5] The waiver will come through ACA §1332. Under the ACA, if a 1332 waiver lowers federal APTC costs, the federal government conveys those savings to the state via "federal pass-through payments," which states can use for any purpose. WSHP's 1332 waiver will save federal APTC dollars, as explained below, and use the resulting pass-through payments to cut consumer costs. Consumer health care payments will thus rise gradually as earnings grow from 200% to 300% of FPL, rather than jump up sharply when earnings cross any particular income threshold.[6]

The Work Support Health Plan will be funded entirely by the federal government

Each portion of WSHP will generate federal resources that cover all program costs. In addition, some state budget savings may result.

Basic WSHP

As noted earlier, the federal government will pay West Virginia 95% of the APTCs that enrollees in Basic WSHP would have received in the exchange. That funding will more than cover the cost of providing Medicaid-level coverage to adults who earn between 138% and 200% of FPL.

The most recent available information about APTC amounts in West Virginia comes from 2021 open enrollment data. At that time, the average APTC amount for West Virginians in this income band exceeded $850 a month.[7] The corresponding 95% federal payment would be $807 a month or more.[8] Medicaid costs for low-income adults are $408 per month, according to state Medicaid officials. WSHP could thus raise MCO capitated rates by 50% and still run a clear positive fiscal balance, accumulating significant surpluses to guard against a future rainy day.

Extended WSHP

Federal pass-through payments under a 1332 waiver can supplement APTCs and lower costs for Extended WSHP, on a sliding scale. The need for supplementation is limited, however. An APTC purchaser who enrolls in WSHP will already benefit from WSHP's considerably lower premiums, compared to other exchange plans. For example, a 50-year old in Wheeling who earns $32,000 a year (slightly below 250% of FPL) qualifies for a $746 APTC.[9] Today's lowest-cost gold plan has a $1,005 gross premium. If WSHP achieved even a 25% premium savings, relative to current gold offerings, this 50-year-old could buy the plan for just $8 a month.[10] State supplementation would build on and leverage those inherent consumer savings, enabling great public-sector efficiencies.

The proposed waiver would generate pass-through payments in several ways:

1. The waiver will include Basic WSHP consumers in the same risk-adjustment system that serves the individual market.[11] The exchange's risk pool will benefit from the considerable influx of young and healthy adults that results from WSHP's substantially more affordable insurance offerings. The resulting across-the-board decrease in gross premiums will lower APTC amounts, thus saving federal dollars for people with incomes above 200% of FPL who remain in the exchange. The federal government will convey those savings to the state, via pass-through payments.
2. Extended WSHP's low premiums will exert competitive pressure on other carriers in the exchange, leading them to lower premiums.[12] The resulting savings cuts APTC amounts, generating additional federal pass-through dollars.
3. Basic WSHP removes from the exchange consumers who currently receive high-AV silver coverage. Today, these consumers' presence in the exchange increases silver premiums, since West Virginia insurance regulators authorize "silver loading"—that is, raising silver premiums to cover the extra claims that insurers pay for high-AV silver plans. Once Basic WSHP takes everyone out of the highest-AV silver plans in the exchange, silver loading will effectively end, substantially lowering silver premiums and generating significant APTC savings.[13]

To protect the General Fund from any exposure, whatever financial support Extended WSHP provides should be capped at the total federal pass-through payments West Virginia receives for any particular year. Once that cap is reached, additional enrollees would benefit only from APTCs, combined with the premium savings achieved by Extended WSHP's efficiencies. In addition, state officials should conservatively set the upper income bound for assistance, to reduce the odds of hitting the cap.

Additional state budget savings

As noted earlier, Medicaid MCOs will receive higher capitated rates for WSHP enrollees, compared to Medicaid members. As a practical matter, that may help the Medicaid program obtain MCO bids that accept lower Medicaid capitated rates. That would generate state budget savings.

Conclusion

Too many West Virginians are subjected to significant health care cost increases if they raise their earnings to better provide for their families. HB 3001 recognizes this significant barrier to work. The bill directs West Virginia to solve this problem by drawing down the maximum possible amount of federal dollars to provide a plan similar to Medicaid that serves people whose incomes rise above Medicaid

levels. The two-component Work Support Health Plan described here would implement HB 3001 by intelligently tapping into available federal dollars so that, at zero cost to the state, people could work harder, earn more, and not experience significantly higher health care costs.

West Virginians increasingly struggle with rising costs for everything from gasoline to groceries. WSHP would cut their health care costs, making it easier for hard-working West Virginians and their families to make ends meet.

Endnotes

[1] 138% of FPL is $1,563 a month for an individual and $2,648 for a family of three.
[2] This example of the impact of income on coverage is based on the lowest-cost silver plan in Ohio County, "CareSource Marketplace Low Silver," https://www.healthcare.gov/see-plans/#/plan/results/50328WV0010021/details.
[3] 200% of FPL is $2,265 a month for an individual and $3,838 for a family of three.
[4] At the same time, their maximum out-of-pocket cost cap would jump from $2,800 to $6,600; their copayment for generic drugs would double from $10 to $20 for each prescription; and their copayment to visit the doctor would nearly double, rising from $15 to $25.
[5] Currently, gold-level Exchange coverage is available with no deductible, no copays for generic drugs, and $15 copays for primary care and specialty care physician visits. For such a plan that also includes dental care, see "my Access WV EP Premium Gold 0," https://www.healthcare.gov/see-plans/#/plan/results/31274WV0540001/details.
[6] The upper income level for financial support could be higher or lower than 300% of FPL, depending on the amount of pass-through payments the federal government agrees to provide West Virginia. We present this income threshold for illustrative purposes.
[7] This is a very conservatively calculated average. Public Use Files (PUF) from the 2021 Open Enrollment Period, available from the federal government, show that 81% of West Virginians who would qualify for Basic WSHP, with incomes at or below 200% of FPL, enroll in silver exchange coverage, 18% enroll in bronze, and 1% enroll in gold. Based on the average APTC amount at each metal level, their total weighted-average APTC would be $850. However, because these consumers are at the lowest end of the income scale, their APTCs will be higher than the average for each metal level. That is especially true for bronze, where only 22% of enrollees have incomes below 200% of FPL. Moreover, if federal legislation continues the American Rescue Plan Act's significant APTC increases, West Virginia's BHP payments will almost certainly be substantially higher than what is stated in the text.
[8] This is only an approximation. As noted earlier, the actual APTC amount on which the federal payment is based would likely be higher. Moreover, the federal payment formula is complex, and would likely include increases to account for silver loading and potential tax reconciliation gains.
[9] This example is based on calculations performed by healthcare.gov, based on input information consistent with the text examples.
[10] A 25% premium savings results in a gold premium of $754 — just $8 above the consumer's $746 APTC.
[11] In its risk adjustment system, the Center for Consumer Information and Insurance Oversight (CCIIO) provides software that insurers load onto servers with anonymous claims data. The software reports results to CCIIO based on the demographic characteristics and claims history of enrollees, which CCIIO uses to calculate risk adjustment payments. The waiver suggested here would simply have that software loaded onto servers operated by BHP insurers. If those insurers already sponsor exchange plans, they know what to do. If they do not yet sponsor exchange plans, they will need to learn how to load and use CCIIO's software. For an example of how a leading actuarial firm advises insurers to navigate this process, see https://www.milliman.com/en/insight/in-it-for-the-long-haul-best-practices-for-edge-server-submissions.
[12] Analyzing a similar policy, the RAND Corporation found that, due to competition with a plan paying reimbursement rates halfway between Medicaid and commercial levels, silver benchmark premiums charged by other insurers (hence federal APTC payments) would fall by 7%. Note: what researchers call "Option 1" is the policy that resembles WSHP.

[13] This category of pass-through payments breaks new ground. It has been proposed by the Center on Budget and Policy Priorities, and one of the original proponents now has a significant leadership role at the White House's Office of Management and Budget.