Attachment E

THE COST OF CARE: CAN COLORADANS AFFORD HEALTH CARE

EXECUTIVE SUMMARY

As the debate around health care reform evolves at the state and federal levels, there are three critical areas that policymakers must consider: adequacy, accessibility, and—the subject of this study—affordability.

Affordability is often mentioned as critical in the health care debate, but is seldom put into context. That is the aim of this study—to assist in determining what affordability means for Colorado families.

As families grapple with increasingly difficult economic realities, this study shows clear evidence that low-income Coloradans struggle to make ends meet, many families have little or nothing at all to pay for health care, and, in many cases, health care costs require financial tradeoffs elsewhere.

The research shows that families living below 200% of the Federal Poverty Level (FPL) have little if anything to spend on health care after paying for necessary expenses and other financial responsibilities. Most families between 201%-400% of the FPL (between $42,400 and $84,800 for a family of four) could contribute something to health care, but there is nonetheless a substantial minority in this income group who could not contribute anything toward health care. What this research also shows—that is unique to this study—is that families in all income categories, even those up to 500% of FPL ($106,000 for a family of four) make significant tradeoffs when it comes to investing in long-term opportunities, such as savings and education, once the cost of health care consumes more than 5% of family income.

> "FAMILIES LIVING BELOW 200% OF THE FEDERAL POVERTY LEVEL (FPL) HAVE LITTLE IF ANYTHING TO SPEND ON HEALTH CARE AFTER PAYING FOR NECESSARY EXPENSES AND OTHER FINANCIAL RESPONSIBILITIES."

Other key findings on affordability include:

- Most families' expenses are greater than their incomes.
- Debt plays an integral role in families' financial decisions.
- Families earning between 201% and 400% FPL have some income available to spend on health care, but cannot afford health insurance without a substantial subsidy. At least some of these families would require a full subsidy. Only above 400% FPL can most families make a substantial contribution to their coverage.
- Many families that can afford health insurance are only able to do so because they have access to group coverage where the employer's share of the cost serves as a significant "subsidy."
- The more a family spends on health care and health insurance, the less it spends on basic necessities and investments in long-term opportunities. When families spend more than 5% of their household income on health care, they make substantial tradeoffs on other important expenditures, such as transportation, housing, and child care.
- As families have to spend more on health care, the largest tradeoffs are often in savings and education.

These findings are a result of input from more than 1,000 participants at nearly 100 community workshop forums throughout Colorado. Participants all were below 500% FPL and provided detailed income and expenditure data. Additional research also came from the Consumer Expenditure Survey, which gauges consumer spending in a number of areas.

This research has numerous policy implications centered primarily on the need to recognize a minimum standard of affordability and to define such a standard very broadly.

- "Affordable" varies widely depending on family composition, income level, age, employment status, cultural values about spending obligations, catastrophic events, and other factors.
- Available income varies widely even within income groups. Therefore, there is no single dollar amount or percentage of income that will be suitable for all families, even within the same income group.
- A common sense measure for expenditures should include both necessary expenses (food, housing, etc.) and other financial responsibilities (student loans, debt payments, etc.).
- Public policy should not punish lower income people for savings, especially for education, housing, and retirement. Any affordability standard should be based on income minus such savings.
- 5% of household income is a threshold at which health care requires substantial tradeoffs, and is therefore a starting point for the consideration of an affordability standard. However, many households will still require targeted assistance even under this threshold.

These policy implications should inform lawmakers as they consider the affordability, or lack of affordability, of health care in Colorado.

"PUBLIC POLICY SHOULD NOT PUNISH LOWER INCOME PEOPLE FOR SAVINGS, ESPECIALLY FOR EDUCATION, HOUSING, AND RETIREMENT. ANY AFFORDABILITY STANDARD SHOULD BE BASED ON INCOME MINUS SUCH SAVINGS."

Colorado is in the grip of a significant national recession and struggling with the problems that result from a broken health care system. Colorado families face increasingly difficult challenges. Wages and incomes are stagnant or falling, health care costs are rising, there are dramatic increases in the number of the unemployed and uninsured, and Colorado's fiscal landscape is in crisis.

A 2008 publication of the Colorado Center on Law and Policy entitled, "The Self-Sufficiency Standard for Colorado 2008: A Family Needs Budget," reports that health care costs, on average across the state, increased by 35% over the previous four-year period. Put simply, it is becoming harder and harder for lower-income families both to make ends meet and afford health care.

This study addresses fundamental questions. What is affordability? What does affordability mean for Colorado families? How should policymakers address this question of affordability? And what reasonable definition of affordability would ensure that all Coloradans can access health care? With more than 800,000 Coloradans uninsured, and with Colorado ranking among the worst in the nation for children living in poverty who have health insurance, defining affordability is a critical step in the march toward long-term, comprehensive health care reform.

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