President Obama's Health Care Reform Proposal
Key Medicaid, CHIP, and Low-Income Provisions
(February 22, 2010)

President Obama released a health reform proposal on February 22, 2010, which lays out a roadmap of policies he wants included in a comprehensive health reform bill. The basic framework is the same as leading bills developed in Congress over the past year of debate.

In addition, the new proposal adds improvements aimed at addressing concerns with the earlier congressional proposals. This includes provisions to strengthen the affordability of coverage, changes to the structure of the excise tax on high-cost plans (increases the threshold from $23,000 to $27,000 for a family plan and delays the start date until 2018), and new authority for the Secretary of Health and Human Services (HHS) to monitor and, if appropriate, address sharp increases in health insurance premiums. Most of the provisions would begin January 1, 2014. The proposal would:

- Create state health Exchanges where individuals without affordable employer coverage and small employers can shop for and buy insurance from private insurers. Plans would provide specified benefit packages that provide minimum essential coverage.
- Provide Medicaid to non-elderly individuals with income up to 133 percent of the federal poverty level (FPL) and preserve the CHIP program (and Medicaid) for children above 133 percent of the FPL.
- Provide subsidies to help people with income up to 400 percent of the FPL purchase Exchange coverage and limit their out-of-pocket costs.
- Establish a new mandate that people with income above the federal tax-filing threshold obtain insurance or face a penalty (with some exceptions, including if the cost of available coverage exceeds eight percent of income).
- Require some employers (those with 50 or more workers) to pay penalties for employees who receive a premium subsidy through a state Exchange. Small businesses receive tax credits to purchase coverage for their employees.
- Adopt insurance market reforms, such as eliminating the practice of denying people coverage because they are sick, charging different premiums for people based on their health status, and establishing annual or lifetime limits on benefits. A temporary high-risk pool would be established immediately to assist families denied coverage prior to these new rules going into effect.
- Create a number of health care delivery and access, quality, wellness, and prevention initiatives, make investments in community health centers, and address fraud and waste in Medicaid and Medicare. Also implements Medicare reforms, including the elimination of the prescription drug "donut hole" by 2020.

The President estimates that his proposal would cost $950 billion over 10 years. It would primarily be paid for through Medicare savings, the excise tax on high cost insurance plans, fees on certain manufacturers and insurers, and an increase in Medicare hospital insurance contributions for higher income taxpayers.

Key Medicaid, CHIP, and Low-Income Provisions

The following provides an overview of some of the proposed changes to Medicaid and CHIP, as well as other provisions of particular importance to low-income families and children. The provisions primarily build upon the health reform bill passed by the Senate in December 2009, but incorporate elements from the House-passed bill and Administration priorities. See fact sheets on the Senate and House bills for more information.

Medicaid coverage expanded up to 133 percent FPL for children, adults, and parents.

- The expansion of Medicaid up to 133 percent of the FPL is in the Senate bill and, although not specified in the President's proposal, the related provisions to this measure are likely to apply. Specifically, states would be required to maintain Medicaid coverage (in effect when a final bill is enacted) until the Exchanges are operational (with potential exceptions for states facing budget deficits).
- As in the Senate bill, newly eligible adults would be covered by a benchmark benefit plan, which provides more limited coverage than what is usually provided under Medicaid

Federal financial assistance provided to states to help cover new Medicaid costs.

- The President's proposal addresses concerns about state variations in Medicaid assistance including the Senate bill's provision giving only Nebraska full federal funding on a permanent basis for its Medicaid expansion. Borrowing from the House and Senate bills, the President's proposal provides a uniform enhanced Medicaid match rate for states covering newly eligible adults and parents up to 133 percent of the FPL.[1] States would receive an enhanced matching rate of 100 percent between 2014 and 2017, 95 percent between 2018 and 2019, and 90 percent in subsequent years.
- States that have already expanded coverage for adults and parents above 100 percent of the FPL (and thus would have limited to no newly eligible beneficiaries) would receive a matching rate increase of eight percentage points. The increase would be provided for "certain health care services" for these adults and parents up the 133 percent threshold. These "early implementer states" would include states such as Massachusetts, New York, Minnesota, and Arizona, among others.

CHIP preserved and states required to maintain Medicaid and CHIP coverage for children above 133 percent of the FPL through fiscal year 2019.

- CHIP would be funded through September 30, 2015, two years beyond its current expiration date. No new funds are authorized after fiscal year (FY) 2015, although states must maintain coverage in effect at the time of the final bill's enactment through September 30, 2019. States also retain the option to expand CHIP. Starting October 1, 2015, states would receive an increase of 23 percentage points in their CHIP match rate. This is consistent with the Senate bill's provisions.
- The President's proposal does not address a possible transition between the Exchange and CHIP. However, the Senate bill allows states after September 30, 2015 (or before if federal financing is not available) to move children in separate CHIP programs to the Exchange if the coverage is comparable to what they receive in CHIP (as certified by the Secretary of HHS).

[1] Since children are already covered up to 133 percent of the FPL through Medicaid or CHIP and would not be considered "newly-eligible," it appears that this provision would apply only to adults and parents.

Optional five-year waiting period maintained for lawfully residing immigrants.

- The President's proposal (in keeping with the congressional bills) does not change current Medicaid (and CHIP) rules that require states to establish a five-year waiting period for lawfully residing adults (with the state option to waive the waiting period for children and pregnant women). However, lawfully residing immigrants not eligible for Medicaid or CHIP could seek subsidized Exchange coverage.
- Undocumented immigrants would remain ineligible for Medicaid and CHIP. Under the Senate bill, undocumented immigrants could not obtain coverage through the Exchange although the House bill would allow them to purchase unsubsidized coverage. It appears that the President's proposal would disallow undocumented immigrants from entering the Exchange.

Affordability protections provided for individuals and families purchasing coverage through the Exchange.

- The President's proposal provides stronger premium and cost sharing subsidies relative to the Senate bill. Specifically, those with incomes below 150 percent of the FPL and above 300 percent of the FPL would pay less in premiums.[2]
- Refundable tax credits would be set so that the premium contribution is no more than 2 percent of income for individuals and families with income at 100 percent of the FPL and no more than 9.5 percent of income for those with income from 300 to 400 percent of the FPL.[3]
- There would be no cost sharing for preventive services and immunizations and those with income up to 250 percent of the FPL (originally 200 percent in the Senate bill) would receive a reduction in overall cost sharing, expressed as an increase in the plan's actuarial value.[4] In addition, plan out-of-pocket costs would be capped.

Table 1. Premium and Cost Sharing Subsidies in President's Proposal

Percent of the FPL	Premium Limit as a Share of Income	Actuarial Value after Cost Sharing Applied
100% and below	2%	94%
133%	3%	94%
150%	4%	94%
200%	6.3%	85%
250%	8.1%	73%
300%	9.5%	70%
350%	9.5%	70%
400%	9.5%	70%

[2] Under the Senate bill, those at or below 133 percent of the FPL would pay 2 percent of income, which would rise to 4 percent of income at 134 percent of the FPL. The President's proposal tries to eliminate this abrupt increase by capping the premium share at 2 percent of income for those at 100 percent of the FPL and increasing it gradually to 3 percent for those at 133 percent of the FPL and to 4 percent at 150 percent of the FPL.

[3] Households with income below 134 percent of the FPL would generally be eligible for Medicaid. Lawfully residing immigrants in this income range who are not eligible for Medicaid due to their immigration status would instead be eligible for subsidies.

[4] The actuarial value is a measurement of the percentage of medical expenses paid by a health plan for a standard population. Each plan offered in the Exchange will have a set actuarial value, ranging from 60 percent to 90 percent. The subsidies are calculated based on an actuarial value of 70 percent.

Coordination and unified enrollment implemented between Medicaid, CHIP, and the Exchange subsidies.

- The President's proposal envisions a "seamless enrollment" system between Medicaid, CHIP, and the Exchange subsidies. To provide for better coordination between the programs, Medicaid, CHIP, and the subsidies would utilize a modified adjusted gross income standard consistent with the tax system (as in the House bill). Since many states use net income (gross income minus deductions for certain expenses such as child care) when determining Medicaid or CHIP eligibility, the President's proposal would substitute a standard five percent income disregard for these policies in order to make it easier to simplify enrollment.
- As in the Senate and House bills, enrollment in the Exchange would be web-based and the tax credits would be administered and verified through the tax system. Under the President's proposal, Medicaid and CHIP individuals could also enroll through "streamlined, easy to use, State-by-State websites." More detail is required to understand how the enrollment and coordination provisions would work in practice.

Initiatives designed to address children's health care needs.

- As included in the Senate bill, the President's proposal would immediately (six months after the final bill's enactment) require group policies to provide dependent coverage for children up to age 26 and prohibit insurers from denying coverage to children for pre-existing conditions (the new regulations for adults would go into effect in 2014).
- While not specified in the President's proposal, the Senate bill also included important child provisions. This includes requiring that all health plans cover, at no cost, the preventive care and screenings identified in Bright Futures (the American Academy of Pediatrics' "gold standard" for preventive care) and providing Medicaid and EPSDT benefits to former foster care children. To the extent the Senate bill serves as the base for the President's proposal, it is likely these improvements are included.