IHPS

INSTITUTE FOR **H**EALTH **P**OLICY **S**OLUTIONS

Likelihood of Exceeding Family Cost Sharing Limits

Mark Merlis
prepared with support from the David and Lucile Packard Foundation

December 1998

The CHIP legislation limits combined premiums and cost-sharing to 5 percent of family income. Table 1 shows the limits on cost-sharing for families at 175% of the federal poverty level in a state imposing a $10 per month premium per child or a $25 per month premium.

Table 1. Cost Sharing Limits,
Families at 175% of Poverty, 1998

	$10 premium per kid		$25 premium per kid	
Kids	One parent	Two parent	One parent	Two parent
1	$ 829	$ 1,074	$ 649	$ 894
2	$ 954	$ 1,199	$ 594	$ 839
3	$ 1,079	$ 1,324	$ 539	$ 784
4	$ 1,204	$ 1,449	$ 484	$ 729
5	$ 1,329	$ 1,574	$ 429	$ 674
6	$ 1,454	$ 1,699	$ 374	$ 619
7	$ 1,579	$ 1,824	$ 319	$ 564
8	$ 1,704	$ 1,949	$ 264	$ 509

Source: IHPS, based on 1998 HHS poverty guidelines.

Because many managed care plans impose very limited cost-sharing, children in such plans are unlikely to reach the limits unless they have a catastrophic illness or they are in a family with many kids.

Table 2 estimates, using data from the 1996 Medical Expenditure Panel Survey (MEPS), the proportion of kids in families likely to reach the applicable cost-sharing limit under three scenarios:

1. The state imposes a premium of $10 per month. The HMO charges $5 per physician or other outpatient visit and $50 per emergency room visit. There is no cost-sharing for inpatient hospital services.

Institute for Health Policy Solutions ♦ 1444 I St., NW Suite 900 ♦ Washington, DC 20005 ♦ 202/857-0810 ♦ FAX 202/857-0833

2. The state imposes a premium of $25 per month. The HMO charges $10 per physician or other outpatient visit and $50 per emergency room visit. There is no cost-sharing for inpatient hospital services.
3. The state imposes a premium of $25 per month. The HMO charges $10 per physician or other outpatient visit and $50 per emergency room visit. There is a $100 deductible for each inpatient hospital admission.

The table applies the HMO cost-sharing requirements to the combined utilization of all kids in each family to determine whether the family would exceed the limit. Note that the figures reflect utilization by all kids with employer coverage in 1996, not just kids in families at 175% of poverty (MEPS has no income data yet). In effect, then, it assumes that kids at 175 percent of poverty will use services at the same rate as kids at other income levels. This will not necessarily be true if cost-sharing deters utilization by lower-income families.

Table 2. Percentage of Kids Reaching Applicable Cost-Sharing Limit Under Three Scenarios

Kids in family	$5 copay, $50 ER, $10 premium	$10 copay, $50 ER, $25 premium	$5 copay, $50 ER, $100 inpatient, $25 premium
1	0	0.2%	0.2%
2	0	0.1%	0.1%
3 or more	0	0.2%	1.0%
Total	0	0.1%	0.4%

Source: IHPS, based on 1996 Medical Expenditure Panel Survey (MEPS). Reflects full-year utilization of kids reporting employer coverage in Round 1.

The number of children likely to reach the cost-sharing limits under any of the three schemes is negligible. It should be emphasized, however, that these cost-sharing schemes are characteristic of pure HMOs. PPOs are likely to require coinsurance—payment of a certain percentage of each bill—instead of fixed copayments. For in-network utilization, this percentage may be 5 or 10 percent, and inpatient charges are often paid in full. Thus it is still likely that relatively few children will reach the applicable limit. The likelihood cannot, however, be estimated from the MEPS data available at this time.

Finally, the estimates omit one key service: prescription drugs, for which copayments are routinely required. Chronically ill children might be much more likely to reach cost-sharing limits if they require both routine ambulatory visits and costly maintenance medications. Again, the necessary data for estimating the incidence of such children are not yet available through MEPS.

Institute for Health Policy Solutions ♦ 1444 I St., NW Suite 900 ♦ Washington, DC 20005 ♦ 202/857-0810 ♦ FAX 202/857-0833