Joint Informational Hearing – Senate and Assembly Health Committees
2027 Essential Health Benefits Benchmark Options
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Covered California would like to thank the Newsom Administration and the State Legislature for providing a forum that enables a public dialogue on California's Essential Health Benefit (EHB) Benchmark Plan options. In 2024, Covered California contributed to the funding to help support the actuarial analysis of benchmark plan options performed by Wakely. Covered California is also pleased to provide technical assistance from a purchaser perspective to the administration and legislature as they deliberate the options under consideration.

Covered California is the state-run health insurance marketplace established under the Affordable Care Act (ACA) to help individuals, families, and small businesses access affordable, high-quality health coverage. It provides a centralized platform for consumers to compare and enroll in health plans that meet federal and state standards, with financial assistance available for eligible enrollees to lower costs. Covered California operates as an active purchaser, meaning it selects the health plans that can participate in the marketplace, and sets strict contractual standards for quality, affordability, and benefits. This ensures consumers receive comprehensive, high-value coverage at the lowest possible cost.

Covered California, as an active purchaser, plays a crucial role in standardizing plan offerings, moderating premium growth, and promoting network adequacy and quality. Covered California's standard benefits designs ensure that all health plans provide consistent benefits and consumer protections while preventing insurers from designing plans with coverage gaps or disproportionate cost-sharing requirements. To contain premium growth, Covered California also negotiates rates annually with insurers to limit excessive premium increases, using data-driven analysis to balance consumer affordability with insurer financial stability. Additionally, it ensures network adequacy and quality by requiring insurers to maintain strong provider networks, facilitating timely and equitable access to care. Quality improvement initiatives further hold insurers accountable for patient health outcomes, reinforcing Covered California's commitment to high-quality, accessible, and affordable healthcare.

Covered California's role is fundamentally consumer-focused, holding plans accountable, working to improve the quality of care, and keeping coverage as affordable as possible for those who rely on marketplace coverage to meet their healthcare needs.

Essential Health Benefits (EHBs)

California's current Essential Health Benefits (EHB) benchmark plan is based on the 2014 Kaiser Foundation Health Plan Small Group HMO 30, which sets the minimum required benefits for all individual and small-group health plans. In accordance with our mission, Covered

California strives to insure as many Californians as possible with comprehensive, quality coverage and care. As such, we recognize that updating California's benchmark plan with the addition of new benefits, could improve health outcomes of some enrollee populations by increasing access to essential services. It may also lower financial barriers for some consumers by covering services and treatments that many may not be able to afford on their own. We also know that any changes to the EHB benchmark plan must be carefully evaluated to understand their full impact, particularly with respect to cost implications. While expanding EHBs may provide additional consumer benefits, it is essential to assess the potential financial impact on the enrollee population as a whole and the broader health of the insurance market.

Key Implications of Updating the EHB Benchmark Plan: Premium & Financial Considerations

While there could be benefits to expanding EHBs for some consumers, these changes will likely come with potential premium impacts that should be considered.

Wakely's actuarial analysis indicates that any additional benefits must fall within the 1.06% to 2.23% range to ensure compliance with federal guidelines for the proposed benchmark plan. This range reflects the maximum permissible cost increase for new benefits.

Covered California did not review a premium impact analysis at the time of the writing of this testimony. In evaluating the potential premium impact of proposed legislation, Covered California typically defers to the California Health Benefits Review Program's assessments or engages with Milliman for actuarial expertise.

It is also important to note that there is currently a great deal of uncertainty regarding federal financial help that supports nearly 90 percent of Covered California enrollees. In 2021, Congress and the federal administration took critical action to enhance federal premium tax credits that dramatically improved the affordability of marketplace coverage for millions of consumers, driving record enrollment in California and across the country. This year, Covered California's enrollment reached all-time high with nearly 2 million Californians signing up for coverage.

However, if Congress does not take action, the enhanced premium tax credits will expire at the end of 2025. This would put 1.7 million enrollees at risk of significant increases to their monthly premium costs and increase the ranks of the state's uninsured by an estimated 400,000 Californians. According to recent Covered California estimates, if the enhanced premium tax credits expire:

- 1.6 million lower-income enrollees making less than 400% of the federal poverty level (FPL) (under $60,240 for an individual in 2025) could see an average monthly premium increase from $121 to $191.
- The lowest income enrollees earning between 150%-200% FPL ($23,000 - $30,000) for an individual) could see their premiums double on average from $68 to $136.
- Over 500,000 older enrollees between ages 55 and 64 would see the largest monthly premium increase from $219 to $364.
- More than 170,000 middle income enrollees (earning more than $60,240) would lose eligibility for all enhanced premium tax credits, bearing the full cost of their monthly premiums with no financial help.

- Communities of color will be disproportionately impacted, with Latino enrollees facing an 80 percent increase in premiums and Black/African American enrollees seeing a 67 percent increase.

If these subsidies are not renewed, even modest premium increases could force hundreds of thousands of Californians to drop coverage, increasing the uninsured rate and destabilizing the healthcare marketplace.

Finally, if premium costs rise, younger and healthier enrollees - specifically those who are price sensitive - may choose to forgo coverage, weakening the overall risk pool. With fewer low-risk individuals participating, premiums for remaining members would increase, making coverage even less affordable. Additionally, a decline in enrollment could undermine Covered California's ability to negotiate competitive rates with insurers, further driving up costs. This cycle of rising premiums and decreasing participation threatens the stability of the marketplace, making it more difficult to maintain affordable, comprehensive coverage for all enrollees.

Balancing the Benefits with Potential Cost Increases

To ensure consumer affordability while expanding critical benefits, the state should consider a balanced approach:

1. Federal & State Engagement– Working with policymakers to extend enhanced federal subsidies beyond 2026, as their expiration could exacerbate affordability challenges.
2. Targeted Cost Controls – Collaborating with insurers and providers to implement cost-saving measures, such as negotiated provider rates.
3. Consumer Education – Ensuring enrollees understand how to maximize the value of new benefits while preventing unnecessary overutilization.

Expanding EHBs can significantly improve healthcare access, reduce long-term costs, and strengthen Covered California's marketplace stability. And, it is crucial to approach these changes with careful consideration of their impact on affordability. By balancing consumer needs with financial sustainability, California can continue to offer comprehensive, high-quality healthcare coverage that remains accessible to those who rely on it the most.