

REASONABLE COSTS: WHAT CAN OHIOANS AFFORD TO PAY FOR HEALTHCARE?

A REPORT FROM
POLICY MATTERS OHIO



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POLICY MATTERS OHIO, the publisher of this study, is a nonprofit, nonpartisan research institute dedicated to researching an economy that works for Ohio. Policy Matters seeks to broaden debate about economic policy by doing research on issues that matter to working people and their families. With better information, we can achieve more just and efficient economic policy. Areas of inquiry for Policy Matters include work, wages, education, housing, energy, tax and budget policy, and economic development.

Executive Summary

Affordable health care coverage should be available to all Ohioans. This report examines the basic expenses Ohio families face, to better understand why so many Ohioans cannot afford to purchase insurance or pay their growing portion of costs for premiums, co-pays, cost-sharing, deductibles and prescriptions. A basic family budget for Ohioans includes costs for housing, utilities, food, health care, child care, transportation, clothing, school supplies, and taxes. Approximately 20 percent of all Ohioans live in families earning less than needed to meet their basic family budget. When families do not earn enough to meet all of these basic needs, they spend more than they can afford on health care or go without health care coverage altogether.

While some Ohioans manage to pay for health care or health insurance, often they cannot afford to do so. Ohioans may forego essentials in order to pay for health care: instead of paying for safe and enriching child care. For instance, they may leave their children home alone or with unqualified babysitters; they may substitute cheaper and less nutritious food for more expensive fresh fruit, whole grains and vegetables; or, they may live in unsafe housing. Americans are also in debt—paying for essentials with credit cards, taking out payday loans, foreclosing on their homes, and filing for bankruptcy in record numbers.

Over one million Ohioans, 11 percent of Ohioans under the age of 65, lack health insurance. Many Ohioans earning wages above the federal poverty line do not earn enough to purchase health care coverage, without sacrificing other basic needs. Over half of the uninsured in Ohio (54 percent), more than 600,000 uninsured people, live in households under 200 percent of the federal poverty line. More than 22 percent of the uninsured, nearly 250,000 uninsured people, live in households between 200 and 300 percent of the federal poverty line. So, more than three out of four uninsured people in Ohio (76 percent) live in households below 300 percent of the federal poverty line. These families can afford to contribute little, if anything, toward health care without sacrificing other basic needs.

Wages in Ohio make health care unaffordable for many Ohioans. In Ohio, a single mother with two children must earn more than \$38,000, or nearly 225 percent of the federal poverty line, before she can afford to contribute any money towards health care for her family—requiring a wage higher than what most women (70 percent) earn in Ohio. A single father with two children must earn wages higher than what nearly 60 percent of other men earn in Ohio. Many dual-earning couples cannot afford health care either. Couples with two children must earn over \$43,000, or 210 percent of the federal poverty line, before they can afford to contribute towards health care without sacrificing other basic needs—an amount requiring both earners to receive a wage higher than nearly 40 percent of what other Ohioans earn.

Policymakers should use a progressive sliding scale when considering what families at different income levels can afford to spend on health care. People with lower incomes can afford to spend not only less in absolute dollars, but also less as a percentage of their income—they have less disposable income, with more of their basic family budgets devoted to other core necessities such as housing, food, and transportation.

People with low incomes can pay only nominal amounts toward health care. In Ohio, those at 200 percent of the federal poverty line, and below, cannot afford to make any contribution toward health insurance coverage or health care without sacrificing other basic needs.¹ People earning wages putting them under 300 percent of the poverty line can only pay nominal amounts of cost sharing, and they require public programs and heavy subsidies.

The nearly 2.8 million Ohioans earning incomes at or below 200 percent of the federal poverty line live in a hardships gap with a negative cash flow—struggling to keep up with rent, food, transportation, and other basic necessities—even before health care costs are considered. These Ohioans cannot afford to purchase health care coverage without sacrificing other basic needs. Ability to contribute towards health care coverage is also limited for the 1.8 million Ohioans earning wages between 200 and 300 percent of the federal poverty line, and depends largely on the size of the household. Many people in this group will be unable to afford coverage even with subsidies. Single individuals with no children can afford to begin contributing at a modest level towards health care once they earn over 200 percent of the poverty line, while a single mother with two children must earn nearly 225 percent of the federal poverty line before she can contribute anything toward health care costs. A couple with three children must earn nearly 250% of the poverty line before being able to contribute without skimping on other basic needs such as rent or food.

Limiting total health spending to 4 percent of household income, for households earning between 300 and 500 percent of the federal poverty line, would enable most of these Ohioans to “take up” coverage and enroll. Limiting household spending on health care to 4 percent of household income, requires an employer share and/or public subsidy for at least 70 percent of the cost for individuals, and 83 percent of the cost for families (on average).

The upper limit that anyone should be expected to pay is approximately 8.5 percent of income, and even this level will be unaffordable for some higher-income families.

According to a study from the Urban Institute, the majority of people with higher incomes have shown a willingness to devote up to 8.5 percent of their income towards their health care needs. After meeting basic needs, many people in Ohio with earnings above 500 percent of the federal poverty line should have enough discretionary income to cover their health expenses without public subsidy. However, some of these families could have extenuating circumstances that might put 8.5% income for health care expenses out of reach.

¹ According to the 2007 Current Population Survey, approximately 2.9 million Ohioans, under the age of 65, live in households below 200 percent of the federal poverty line (28%). The 2004 Ohio Family Health Survey, a more comprehensive survey, suggests 4.4 million Ohioans live at or below 200% (but includes 65 and older). The Health Policy Institute, using the 2004 Ohio Health Family Survey, also estimates that 83% of the uninsured in Ohio live in households with incomes below 301% of the federal poverty line (over one million uninsured people), while 67% live in households with incomes at or below 201% (over 800,000).

Introduction

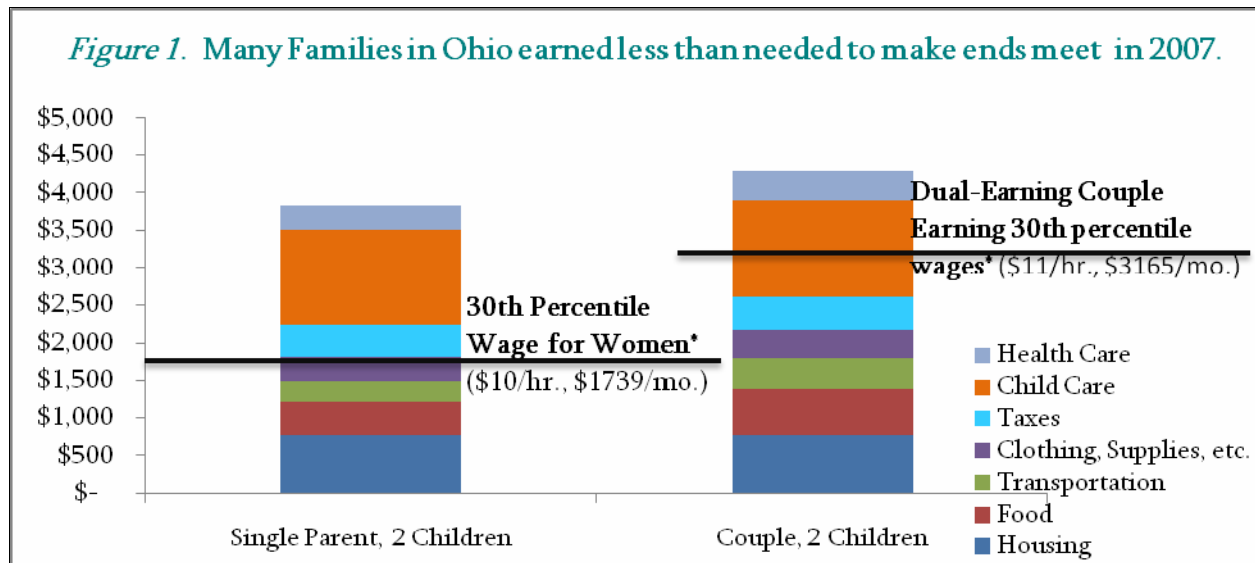
Affordable health care coverage should be available to all Ohioans. There are a variety of compelling proposals to move toward a system of comprehensive coverage, from universal, federally-funded coverage to requiring all employers to contribute toward coverage or allowing all individuals to buy into a public system. Comprehensive solutions are needed. This paper does not attempt to describe those solutions. Instead, our more narrow goal is simply to look at the basic needs that Ohio families have and the expenses they face, with an eye to understanding why so many Ohioans cannot afford to purchase insurance or even to pay their often growing portion of costs for premiums, co-pays, cost-sharing, deductibles and prescription drugs.

Ohioans get health insurance coverage in a variety of ways. Some receive insurance through their workplace while others qualify for the limited public programs available. Some purchase insurance entirely on their own while a too-large number don't have health insurance at all. Each of these scenarios leaves Ohioans with some health care costs and those costs have grown over the past decade. This paper explores how health costs fit into the family budget for Ohioans and at what level they might be considered reasonable. Without describing what Ohio or America's health insurance program should look like, this paper lays out some guidelines as to what families can be expected to afford to pay toward health care of any kind, given their other budget needs.

We examined the costs for basic needs in Ohio, excluding health care, to determine the income level at which individuals and families can afford to begin contributing towards health care without sacrificing other basic needs. We then determined the percentage of household income that is affordable to those Ohioans who can afford to contribute. We also compared these figures to the federal poverty line in order to help others make more informed policy recommendations and decisions in their efforts to reform the current health care system.

A basic family budget for Ohioans includes costs for housing, utilities, food, health care, child care, transportation, clothing, school supplies, and taxes. Housing costs included are slightly below-average for a small apartment, transportation costs include only essential trips, and food costs are based on the U.S. Department of Agriculture low-cost food plan, which includes no restaurant meals. The budget does not account for expenses beyond the bare necessities for the members of the household. While many families may be assisting elderly parents, paying child support to an ex-spouse, paying off debts or loans, saving for college or retirement, or managing other responsibilities, these costs are not accounted for here. Movies, dry-cleaning, meals out, children's sport fees, toys, and other similar items that many Americans may view as somewhat basic are not included in this basic budget either. See Appendix for more details on the basis for our basic family budgets.

When families do not earn enough to meet their needs, they may spend more than they can afford on health care or go without health care coverage altogether. Approximately 20 percent of all Ohioans live in families earning less than they need to meet a basic family budget.¹ Over one million Ohioans, 11 percent of Ohioans under the age of 65, lack health insurance. *Figure 1* demonstrates that a single mother earning wages higher than nearly one in three women in Ohio still cannot afford health care coverage, despite working full-time, year-round. Many dual-earning couples cannot afford health care either.



*Source: EPI Family Budget and Earnings Data. Monthly Earnings based on 40 hours per week for individual, and the average rate of 67 per week for dual-earning couples.

Health care costs are affordable when the percentage of income a household devotes to health care spending still allows enough income to cover other basic needs. Even before considering health care costs, many low-income working Ohioans cannot make ends meet. Ohioans earning wages above the federal poverty line do not necessarily earn enough to purchase health care coverage, without sacrificing other essentials. A single mother with two children must earn more than 2.2 times as much as the official federal poverty line, before she can reasonably afford to contribute even one dollar towards health care. A dual-earning couple with two children in Ohio must earn wages higher than nearly 40 percent of other Ohioans before the couple can afford to spend any of their income on health care.

¹ See Policy Matters Ohio, *Bridging the Hardships Gaps in Ohio* at <http://www.policymattersohio.org/BridgingTheGapsInOhio2008.htm>.

Basic Family Budgets in Ohio

The following several pages contain tables showing basic family budgets for individuals and families in Ohio. In Table 1, below, we outline average costs for single-parent families in Ohio, using a population-weighted average across 16 areas of Ohio (including both urban and rural areas). To see how family budget costs vary across Ohio, see our report, Bridging the Gaps, available at www.policymattersohio.org. Table 4, later in the report, looks at budgets for families with two working parents.

Table 1. 2007 Family Budgets in Ohio for Individuals and Single Parents. Budgets vary based on family size. Ability to afford health care changes accordingly.				
	Single Individual	Single Parent, 1 Child	Single Parent, 2 Children	Single Parent, 3 Children
<i>Housing</i>	\$537	\$656	\$656	\$848
<i>Food</i>	194	286	437	606
<i>Child Care</i>	0	612	1191	1769
<i>Transportation</i>	310	310	310	310
<i>Clothing, Supplies, etc.</i>	198	254	295	393
<i>Taxes</i>	463	254	302	595
Basic Needs Monthly Budget (before health care)	\$1,702	\$2,371	\$3,190	\$4,521
Basic Needs Annual Budget (before health care)	\$20,422	\$28,452	\$38,274	\$54,248
2007 Federal Poverty Line	\$10,210	\$13,690	\$17,170	\$20,650
Budget as % of federal poverty line, Earnings needed before can afford to contribute to health care	200%	208%	223%	263%
<i>Source:</i> Economic Policy Institute's Basic Family Budget Data, see technical document at http://www.epi.org/datazone/fambud/fam_bud_calc_tech_doc.pdf . 2004 data was inflated to 2007 prices using the Cleveland consumer price index for housing, child care, food at home, and transportation. Taxes were inflated using personal income growth for Ohio from the Bureau of Economic Analysis. Numbers for Ohio are based on a statewide weighted average of budgets across 16 regions in Ohio.				

Basic family budgets in Ohio vary based on the size of the household and the household's location within Ohio. Single parents have more expenses than single adults without children, and must earn more before they can afford to contribute towards health care coverage. Expenses such as housing tend to be higher in urban areas, while transportation costs can be higher for rural households. Budgets also vary based on children's ages – our budget assumes that a one-child family has a four-year-old, a two-child family has one four-year-old and one school-age child, and a three-child family has a four-year-old and two school-age children. A family with an infant, a toddler, or two preschoolers would have higher expenses than those described here, while a family with teenagers would have lower expenses, but as the budget includes nothing for college saving or sport or activity fees, families with teenagers have additional expenses not described here. See the appendix for more details on our assumptions about family expenses.

Example. The average single mother with two children in Ohio must earn approximately \$38,000 annually, pre-tax, just for housing, food, child care and other basic expenditures. If she earns less than \$38,000 she will have a negative cash flow, a gap between her earnings and her basic family budget. For a single parent with two children, \$38,000 is approximately 2.2 times the federal poverty income line of \$17,170 for a household of three in 2007. While this mother may not be considered “poor,” if she earns less than \$38,000 she and her family will struggle to make ends meet.

Wages in Ohio often make health care coverage difficult to afford. In Ohio, a single mother with two children must earn \$38,000, or 223% of the federal poverty line, before she can afford to contribute towards the purchase of health care coverage for her family—requiring a wage higher than most women (70 percent) in Ohio if she is working 40 hours per week. A single father with two children must earn wages higher than nearly 60 percent of men in Ohio to reach that same level of income. *Table 2*, below, divides Ohio working women into ten equal parts based on the wages they earn. Columns two and three show the earnings of women at each percentile, from the bottom 10 percent of women in Ohio to the top ten percent of women in Ohio. The bottom ten percent of women earn less than \$7.09 per hour—amounting to less than \$15,000 a year even when working 40 hours a week every week of the year—while 90 percent of women in Ohio earn more than this amount. Column three shows what women at these wage levels earn as a percentage of the poverty level.

Examples. A single woman at the 30th percentile wage for women in Ohio earns \$20,862 if she works 40 hours per week, or 204 percent of the official poverty line. For a single mother with two children, however, this earnings level is only 122 percent of the poverty level. Cells in the chart with shading indicate households that earn too little to be expected to contribute anything to health insurance, given their family size. For a single mother with three children, even if she earns more than what 90 percent of Ohio women earn, she will be unable to contribute anything to health care costs without sacrificing other basic needs.

Table 2. 2007 Ohio women's wages as a percent of the federal poverty line.

Ohio Women's Wages	Hourly Wage	Full-time Earnings at this Wage	Single woman (200%)	Single Mother, 1 Child (208%)	Single Mother, 2 Children (223%)	Single Mother, 3 Children (263%)
10th percentile	\$7.09	\$14,747	144%	108%	86%	61%
20th percentile	\$8.49	\$17,659	173%	129%	103%	73%
30th percentile	\$10.03	\$20,862	204%	152%	122%	86%
40th percentile	\$11.58	\$24,086	236%	176%	140%	100%
50th percentile (Median)	\$13.32	\$27,706	271%	202%	161%	115%
60th percentile	\$15.22	\$31,658	310%	231%	184%	131%
70th percentile	\$18.18	\$37,814	370%	276%	220%	157%
80th percentile	\$21.97	\$45,698	448%	334%	266%	189%
90th percentile	\$27.87	\$57,970	568%	423%	338%	240%
						Insufficient Wages

Table 3, below, shows the same information for men, whose earnings tend to be higher than women's wages in Ohio. While a single woman earning more than what 30 percent of other women in Ohio earn would still earn too little to contribute towards health care costs, men earning more than twenty percent of other Ohio men earn enough to begin contributing modestly toward health care if they have no children. As with the table above, the shaded areas indicate families for whom earnings are insufficient to allow contributions toward health care. A single father with three children, even if he earned more than what 80 percent of Ohio men earned, would still not make enough to contribute toward health insurance without sacrificing other basic needs.

Table 3. 2007 Ohio Men's Wages as a Percent of the Federal Poverty Line						
Ohio Men's Wages	Hourly Wage	Full-time Earnings at this Wage	Single Man (200%)	Single Father, 1 child (208%)	Single Father, 2 children (223%)	Single Father, 3 children (263%)
10th percentile	\$8.10	\$16,848	165%	123%	98%	82%
20th percentile	\$10.03	\$20,862	204%	152%	122%	101%
30th percentile	\$11.96	\$24,877	244%	182%	145%	120%
40th percentile	\$13.91	\$28,933	283%	211%	169%	140%
50th percentile (Median)	\$16.10	\$33,488	328%	245%	195%	162%
60th percentile	\$18.78	\$39,062	383%	285%	228%	189%
70th percentile	\$21.94	\$45,635	447%	333%	266%	221%
80th percentile	\$26.02	\$54,122	530%	395%	315%	262%
90th percentile	\$33.77	\$70,242	688%	513%	409%	340%

Dual-earning families often have difficulty affording health care as well. The tables below consider households with two adults where both adults are working. Households with two adults earning incomes are better able to meet basic needs than their single counterparts.² If both adults work outside the home, earnings are significantly higher than for single people with comparable jobs (between both earners couples in Ohio work an average of 67 hours per week). However, many dual-earning households cannot afford health care coverage, and require significant subsidies.

Example. An Ohio couple with two children must earn \$43,341, or 210 percent of the federal poverty line, before they can afford to contribute towards the purchase of health care coverage without sacrificing other basic needs—an amount requiring both parents to earn a wage higher than nearly 40 percent of other working men and women in Ohio. For a couple with three children and two working adults, even if both the mother and the father earn more than the typical Ohioan (median wage), the family will still be unable to contribute toward health care without foregoing other basics.

² See A. Hanauer, Policy Matters Ohio, *State of Working Ohio 2007* at http://www.policymattersohio.org/sowo_07.htm.

Table 4. 2007 Family Budgets in Ohio for Couples. Family Budgets Vary Based on Family Size.

	Couple	Couple, 1 Child	Couple, 2 Children	Couple, 3 Children
<i>Housing</i>	\$537	\$656	\$656	\$848
<i>Food</i>	399	483	633	803
<i>Child Care</i>	0	612	1191	1769
<i>Transportation</i>	430	430	430	430
<i>Clothing, Supplies, etc.</i>	253	308	348	446
<i>Taxes</i>	542	325	354	604
Basic Needs Monthly Budget (before health care costs)	2162	2814	3612	4899
Yearly Budget (before health care costs)	\$25,945	\$33,766	\$43,341	\$58,791
Federal Poverty Line	\$13,690	\$17,170	\$20,650	\$24,130
Budget Needs as % of poverty line. Earnings needed before can afford to contribute to health care	190%	197%	210%	244%

Working wages for couples. The table below breaks men and women into ten equal shares of the workforce and looks at their combined earnings and ability to contribute to health care. As with the previous two tables, shaded areas depict families who earn too little to be expected to contribute toward health care without sacrificing other basic needs.

Table 5. 2007 Ohio Wages as a Percent of the Federal Poverty Line; Annual Earnings of Couples based on Median Hours Worked by Dual-Earning Parents (3488 Annual Hours, or 67 hours per week).

	Ohio Wages (all Ohioans)	Annual Earnings of Couples in Ohio	Couple (190%)	Couple, 1 Child (197%)	Couple, 2 Children (210%)	Couple, 3 Children (244%)
10th percentile	\$7.51	\$26,195	191%	153%	127%	109%
20th percentile	\$9.20	\$32,090	234%	187%	155%	133%
30th percentile	10.89	\$37,984	277%	221%	184%	157%
40th percentile	12.61	\$43,984	321%	256%	213%	182%
50th percentile (Median)	\$14.76	\$51,483	376%	300%	249%	213%
60th percentile	\$17.00	\$59,296	433%	345%	287%	246%
70th percentile	\$20.04	\$69,900	511%	407%	338%	290%
80th percentile	\$24.17	\$84,305	616%	491%	408%	349%
90th percentile	\$30.79	\$107,396	784%	625%	520%	445%

Health Care is unaffordable for those at 200 percent of the poverty line and below. The basic family budgets described above show that health care is unaffordable for some families no matter the cost. Households earning less than 200 percent of the federal poverty line have no disposable income to contribute towards health care without sacrificing other basic needs, regardless of household size. These families live in a hardships gap—where their budget needs are greater than their household earnings and they have a negative cash flow—even before considering health care costs. For families at 200 percent of the federal poverty line and below, health care coverage is unaffordable.

Depending on household size and location, the point at which Ohio families can afford to begin contributing towards health care coverage varies. For families between 200 and 300 percent of the federal poverty line, ability to contribute is always modest, but depends largely on household size. See Table 6 for an approximate point in earnings at which the average Ohioan emerges from hardship, depending on household size, to be able to contribute towards health care without sacrificing other basic needs.

Table 6. Earnings needed in Ohio to cover other basic needs before contributions toward health care are affordable (in 2007 dollars and as a % of the federal poverty line).

	Single	Single Parent, 1 Child	Single Parent, 2 Children	Single Parent, 3 Children	Couple	Couple, 1 Child	Couple, 2 Children	Couple, 3 Children
Basic Needs Budget, 2007 Earnings needed before can contribute	\$20,000	\$28,000	\$38,000	\$54,000	\$26,000	\$34,000	\$43,000	\$59,000
% of poverty line	200%	210%	225%	260%	200%	200%	210%	250%

Examples. A single individual with no children can afford to begin contributing towards health care once he or she earns over 200 percent of the federal poverty line, while a single mother with two children must earn nearly 225 percent of the federal poverty line before she can contribute even one dollar. A couple with three children must earn nearly 250 percent of the federal poverty line before being able to contribute without skimping on other basic needs such as rent or food, even if both parents are working outside the home. See *Appendix 1 and 2* for a breakdown of Ohio's households, and percent uninsured, by the size of the household and their income-to-poverty ratio.³

- Over half of the uninsured in Ohio (54%), more than 600,000 uninsured people, live in households under 200 percent of the federal poverty line.
- Over 22 percent of the uninsured in Ohio, nearly 250,000 uninsured people, live in households between 200 and 300 percent of the federal poverty line.
- The majority of the uninsured in Ohio (76%) live in households below 300 percent.

³ According to the Health Policy Institute, the 2004 Ohio Health Family Survey indicates even larger numbers than the Current Population Survey used in this report—83% of the uninsured live in households with incomes below 301% of the federal poverty line (over one million uninsured people), while 67% live in households with incomes at or below 201% of the poverty line (over 800,000 adults and children).

Lower-income families have less discretionary income to spend on health care than higher-income families. Lower-income families devote larger portions of their income to housing, food, transportation, and other basic necessities and cannot afford to devote as much of their income towards health care as people with higher incomes. We treat the percent of household income that moderate-income families are willing and able to spend on health care as an upper limit of what people can be expected to pay.⁴ We focus on non-group health insurance spending since most uninsured lack access to employer coverage.

According to a study conducted by Holahan, Hadley, and Blumberg of the Urban Institute, analyzing current national spending trends on health care for both low- and moderate-income people, moderate-income families typically pay 8.5 percent of their income for non-group health insurance together with out-of-pocket costs. While not everyone can afford to spend 8.5 percent of income on health care, families should not be expected to spend more than this amount. Total spending on health care should not exceed 8.5 percent of household income in any health care reform purporting to ease the health care burden on Ohio's families. The Holahan et al. report considers both premium and out-of-pocket costs because low-benefit plans may have low premiums but high out-of-pocket costs. A family caring for someone with a chronic condition, for instance, should not end up with a low-benefit plan that results in high out-of-pocket costs and causes the family spend more than they can afford. Table 7 describes health care spending for moderate-income families, and the typical cost-sharing scenario between employees and employers.

Table 7. Health Costs, as Percent of Income, for Moderate-Income Families (300% of the federal poverty level and above).

Source: Reprinted from Community Catalyst Report citing figures from national study (Holahan et al.)

	Non-Group	Employer Sponsored Insurance <i>Employee Portion</i>	Employer Sponsored Insurance <i>Total Cost – Employer and Employee Portion</i>
Individuals			
Premium	6.4%	1.5%	10.4%
Out of Pocket	1.2%	0.6%	0.6%
<i>Total Spending</i>	8.2%	2.3%	11.0%
Families			
Premium	6.0%	3.0%	14.1%
Out of Pocket	2.2%	1.2%	1.2%
<i>Total Spending</i>	8.5%	4.6%	15.3%

⁴ See Community Catalyst report, *Affordable Health Care for All: What Does Affordable Really Mean?* (April 2007) at www.communitycatalyst.org. Note: The Holahan et al. report examines both employee and employer contributions to measure the actual costs of health care. However, both the employer and employee contributions fail to account for the health care tax expenditures arising from favorable tax treatment for employer contributions, and therefore not an accurate picture of total health costs.

As household income increases, Ohioans are better able to devote an increasing percentage of their income towards health care. Using a progressive sliding scale of affordability, with an upper limit of 8.5 percent of income, Table 8 shows the upper limit of household income that families can afford to devote towards their health care needs, and the employer share or public subsidy needed to limit total health care spending accordingly.⁵ We also factor in economist Kenneth Thorpe’s “take-up rate” formula in order to determine the point at which most of the uninsured will enroll (based on the percent of income families would need to devote towards health care coverage and the size of the public subsidy involved).⁶

Families with lower incomes either devote a larger percent of household income towards health care than affordable—forcing them to sacrifice on other basic needs such as food or housing—or go without health insurance altogether. An unsubsidized premium payment for non-group coverage, for a family earning between 100 and 200 percent of the federal poverty level, can demand over 20 percent of their household income. A family struggling to cover costs for food and housing cannot afford health care at this level, without sacrifices to other basic needs.

Table 8. Most Uninsured Individuals and Families in Ohio Require an Employer Share or Public Subsidy to afford Health Care.

% of Federal Poverty Level	Affordability	% Household Income Ohioans Can Afford for Health Care	% Employer Share and/or Public Subsidy Necessary	
			Individual	Family
200% and below	Unaffordable	None	100%	100%
250%	Ability to Contribute limited (families with 3 children remain unable to contribute)	2%	88%	93%
300%	Able to Pay, Employer Share or Public Subsidy Required	4%	70%	83%
500% and above	Affordable for Most	8.5%	None	None

200 percent and below (\$20,420 Single; \$27,380 Couple). People at twice the federal poverty line, or below, cannot afford to contribute towards the cost of health care. Covering the people in this income bracket requires a public subsidy for the entire amount or an employer who will cover the entirety.

⁵ See Blumberg, Holahan, Hadley, and Nordahl, *Setting a Standard of Affordability for Health Insurance Coverage*, HEALTH AFFAIRS WEB EXCLUSIVE (2007).

⁶ Kenneth E. Thorpe, *Overview of Catamount Health* (Feb. 2006) at www.leg.state.vt.us/healthcare/overview_of_catamount_health_by_ken_thorpe_feb_2006.htm.

250 percent. At 250 percent of the poverty level single individuals and families with one or two children can begin to contribute towards the purchase of health care coverage, although families with three or more children cannot, even with two parents in the workforce. However, families at 250 percent of the poverty line barely emerged from the hardships gap, with a negative cash flow, and their ability to contribute is limited. Therefore, total health care spending for these families should be no more than 2 percent of their household income (2 percent amounts to \$43/mo. for an individual and \$57/mo. for a couple).

300 percent to 500 percent. Limiting total health spending to 4 percent of household income, for households between 300 and 500 percent of the federal poverty level, will provide the impetus for vast majority of the uninsured, with incomes above 300 percent, to “take up” coverage and enroll. For those earning 300 percent of the federal poverty line, 4 percent of household income amounts to a monthly payment of \$102 for a single individual, and \$137 per month for a couple. In order to achieve nearly universal coverage for this income group, some combination of an employer contribution and public subsidy is required for at least 70 percent of the cost for individuals, and 83 percent of the cost for families (on average). Health care plans must also provide enough benefits so that total household spending amounts to 4 percent of household income, including both premiums and out-of-pocket expenses, in order to make health care truly affordable to this income group.

500 percent and above. Families with higher incomes have shown a willingness to pay up to 8.5 percent of household income for health care costs. These families should be able to meet their other basic expenses while still paying for health care coverage or health care. Families should not be expected to pay more than 8.5 percent of their income, however, toward their health care costs.

Table XX. Total Monthly Spending Expected for Health Care based on an Ohio Affordability Schedule (including both Premiums and Out-of-Pocket Costs)

	Single	Single, 2 Children	Couple	Couple, 2 Children
200% poverty line	\$20,420	\$ 34,340	\$ 27,380	\$ 41,300
<i>0% Monthly Contribution</i>	\$ -	\$ -	\$ -	\$ -
250% poverty line	\$25,525	\$ 42,925	\$ 34,225	\$ 51,625
<i>2% Monthly Contribution</i>	\$43	\$ 72	\$ 57	\$ 86
300% poverty line	\$30,630	\$ 51,510	\$ 41,070	\$ 61,950
<i>4% Monthly Contribution</i>	\$102	\$ 172	\$ 137	\$ 207
500% poverty line	\$51,050	\$ 85,850	\$ 68,450	\$103,250
<i>8.5% Monthly Contribution</i>	\$ 362	\$ 608	\$ 485	\$ 731

Conclusion

Ohioans and Americans should have access to equitable, affordable, comprehensive health care coverage that encourages preventive care. Analysts and advocates promote a variety of approaches from federally-provided fully-funded insurance coverage, to a system that requires all employers to contribute, to an approach that allows individuals to purchase subsidized coverage from a shared pool. As we consider various solutions, one thing is clear—some Ohio families do not have room in their budgets to contribute anything meaningful toward health coverage, and many families cannot afford to pay the full costs of health care. No system will succeed if it expects individuals to pay more than they are capable of paying. In order for Ohioans to be able to afford health care coverage, most need higher wages, large employer contributions, public subsidies or better access to current public health care programs. *See Appendix III* for a breakdown of eligibility guidelines for current public health care programs in Ohio. While advocates continue to work toward a more comprehensive solution, the following guidelines help illustrate what families at different income levels may be able to pay toward health care:

A progressive sliding scale for total health care spending, based on percent of household income, should be used when determining what Ohio families can afford to pay toward health insurance, if anything.⁷ People with lower incomes have less disposable income, with more of their basic family budgets devoted to other core necessities such as housing, food, transportation, and child care. Therefore, people with lower incomes can afford to spend not only less in absolute dollars, but also less as a percentage of their income.

People with low incomes can pay only nominal, or symbolic, amounts for health care. The nearly 2.8 million Ohioans earning incomes at or below 200 percent of the federal poverty line live in a hardships gap with a negative cash flow—struggling to keep up with rent, food, transportation, and other basic necessities, even before health care costs are considered. These Ohioans cannot afford to pay anything toward health care coverage without sacrificing other basic needs. For the 1.8 million Ohioans earning wages between 200 and 300 percent of the federal poverty line, the ability to contribute towards health care coverage is also limited. People earning wages that put them under 300 percent of the federal poverty line can only pay a nominal share of health care costs, and they require public programs and heavy subsidies to obtain coverage.

The maximum that most financially stable families can be expected to pay should be approximately 8.5% of income. According to the Holahan et. al study from the Urban Institute, people with higher incomes can afford to devote up to 8.5% of their income towards their health care needs, assuming typical other expenses.

⁷ These conclusions are largely adopted based on comparisons made to a similar study conducted by Community Catalyst on Massachusetts (however, the cost of living is higher in Massachusetts and calls for different limitations). *See* Community Catalyst, *Affordable Health Care for All: What Does Affordable Really Mean?* (April 2007), for more in-depth discussion of assumptions and methodology underlying this report.

Appendix 1. 2007 Ohio Population Under 65, and % Uninsured, by Household Size and Type of Family

	# of Ohioans	Household Size				
		1 Person	2 Persons	3 Persons	4 Persons	5 Persons
Ohio Population (Under 65)	9,888,000	1,347,000	2,301,000	1,907,000	2,356,000	1,397,000
% Uninsured within Group	11%	21%	12%	13%	7%	4%
Husband-Wife	6,402,000	n/a	1,503,000	1,246,000	1,955,000	1,231,000
% Uninsured within Group	7%	n/a	7%	10%	6%	4%
Male-Headed Household	1,131,000	697,000	227,000	124,000	50,000	15,000
% Uninsured within Group	24%	22%	26%	33%	12%	27%
Female-Headed Household	2,354,000	649,000	571,000	539,000	349,000	151,000
% Uninsured within Group	18%	20%	19%	17%	17%	4%

Source: 2007 Current Population Survey, Annual Social and Economic Supplement

Appendix 2. Ohio Population Under 65, and Percent Uninsured, by Household Size and Income-to-Poverty Ratio.

	Total	Household Size				
		1 Person	2 Persons	3 Persons	4 Persons	5 Persons
Below 100%	1,272,000	275,000	237,000	254,000	146,000	145,000
% Uninsured within Group	21%	47%	17%	20%	16%	1%
100% to below 200%	1,520,000	265,000	222,000	239,000	309,000	266,000
% Uninsured within Group	22%	27%	26%	29%	20%	6%
200% to below 250%	966,000	142,000	211,000	269,000	119,000	194,000
% Uninsured within Group	14%	25%	18%	6%	10%	16%
250% to below 300%	881,000	132,000	145,000	191,000	233,000	163,000
% Uninsured within Group	13%	12%	21%	17%	13%	-
300% to below 350%	772,000	80,000	217,000	118,000	182,000	156,000
% Uninsured within Group	7%	5%	9%	14%	8%	-
350% to below 400%	620,000	99,000	177,000	85,000	167,000	84,000
% Uninsured within Group	9%	11%	11%	25%	-	-
400% to below 450%	593,000	72,000	176,000	124,000	152,000	53,000
% Uninsured within Group	6%	4%	8%	11%	5%	-
450% to below 500%	568,000	65,000	113,000	86,000	203,000	69,000
% Uninsured within Group	2%	-	5%	-	2%	1%
500% and above	2,696,000	218,000	803,000	692,000	666,000	270,000
% Uninsured within Group	4%	7%	5%	5%	3%	2%

Source: 2007 Current Population Survey, Annual Social and Economic Supplement.

Note: We chose to use the Current Population Survey, Annual Social and Economic Supplement, produced by the Census Bureau because it is updated annually and conveniently broken down by household size and income-to-poverty ratio. However, the Ohio Family Health Survey, a larger and more comprehensive survey conducted in 2004, estimates that a larger number of Ohioans live under 200 percent of the poverty line than estimates from the Current Population Survey suggest. According to the Health Policy Institute, using Ohio Family Health Survey data, more than 4.4 million Ohioans lived in families with incomes at or below poverty in 2004. The Current Population Survey data we used, which is limited to those under the age of 65 who cannot access Medicare, estimates 2.8 million Ohioans are below 200 percent. The Ohio Family Health Survey is not limited to those under 65, but the limitation accounts for only about 1/3 of the difference between surveys. The Ohio Family Health Survey also indicates 83% of the uninsured live in households with incomes below 301% of the federal poverty line (over one million uninsured people), versus the 76% estimated by the Current Population Survey, while 67% live in households at or below 201% of the poverty line (over 800,000 adults and children).

Appendix 3. Public Sector Health Programs Make Health Care More Affordable for Some Ohioans, but Could be Expanded to Include More Ohioans.		
Ohio Medicaid	FPL	
Adults without Children	N/A	Adults without children are ineligible for Medicaid.
Parents	90%	Adults with children can access Medicaid if very low income.
Children	200%*	*Legislation passed to raise limit to 300%, but Bush Administration denied waiver necessary for federal funding. Appeal is pending.
Pregnant Women	200%	
Working Disabled	250%	First \$20,000 of Income is Disregarded. After reach 150% of fpl, Premium charged (10% of difference between income and 150%)
Ohio Children's Buy-In Program	Above 300%	Covers Children with Special Medical Needs who are otherwise uninsurable. Premiums paid based on level of income.

Appendix 4. Basis for Basic Family Budget Data in Ohio. The basic family budgets used in this report are based on the basic family budget data available on the Economic Policy Institute's web site (www.epi.org). Basic family budgets are a population-weighted average of 16 areas in Ohio (including both urban and rural areas). 2004 Basic Family Budget Data was inflated to 2007 figures, using the specific Consumer Price Index category, for Ohio, appropriate to each cost calculated in the budget. See the Policy Matters Ohio report, *Basic Family Budgets in Ohio*, for greater detail at http://www.policymattersohio.org/making_ends_meet_2006.htm.

Housing costs included the cost of shelter and utilities and were based on "fair market rents" at the 40th percentile as defined by the U.S. Department of Housing and Urban Development for privately owned, non-luxury, structurally safe and sanitary rental housing in each community. Rents for two-bedroom apartments were used for families with one or two children; rents for three-bedroom apartments were used for families with three children.

Food costs were based on the "low-cost plan" taken from the U.S. Department of Agriculture's report, "*Official USDA Food Plans: Cost of Food at Home at Four Levels*." The USDA food plans represent the amount families need to spend to achieve nutritionally adequate diets using only food prepared at home (no restaurant meals); they present a national average with no adjustment for the Ohio region. Food costs have risen tremendously in the last six months, but those changes are not reflected here.

Transportation expenses were based on the costs of owning and operating a car for work and other necessary trips. The National Travel Household Survey was used to derive costs based on average miles driven per month by size of the metropolitan statistical or rural area, multiplied by the 2004 cost-per-mile published by the Internal Revenue Service, and inflated to 2007 dollars using the Consumer Price Index for transportation. The rising fuel prices since the end of 2007 are not reflected here.

Child care expenses Child care costs are differentiated between urban and rural areas based on family size. However, only one specific urban and rural area is available. Costs are calculated for 4-year-olds in one-child families, one 4-year-old and one school-age child in two-child families, and a 4-year-old and two school-aged children in three-child families. These figures are reported by the Children's Defense Fund. Families with one infant or two preschoolers would have higher expenses than those shown here while families with teenagers would have lower childcare expenses, although such families might have other higher costs that are not included in basic family budgets (such as saving for college, activity or sport fees, or saving for retirement).

The cost of other necessities includes the cost of clothing, personal care expenses, household supplies, reading materials, school supplies, and other miscellaneous items of necessity from the Consumer Expenditure Survey.

Taxes - Citizens for Tax Justice (CTJ) computed the taxes for tax year 2004, which we inflated to 2007 numbers using income growth in Ohio. Taxes include federal personal income taxes, Social Security and Medicare payroll taxes (direct worker payments only), and state and local income taxes. Federal tax credits for children and the earned-income tax credit were taken into account. Sales and excise taxes were not counted.

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