

Fair Premium Payment Policies and Practices in Covered California¹

Under the Affordable Care Act (ACA), consumers applying for insurance in the new Marketplaces will be required to pay monthly premiums to private health insurance issuers. A significant number of individuals and families eligible for coverage will be interacting with the private insurance marketplace for the first time; they have little to no experience paying premiums.

Many consumers will be able to get help paying their insurance premiums. Yet, even with this important help, most people will still be responsible for making monthly premium payments on time in order to continue their insurance coverage. How premiums are paid, and particularly what methods of payment are accepted by insurance issuers, will be very important.

Payment policies must be designed with maximum flexibility to ensure that low and moderate income families – those most likely eligible to receive some financial assistance through the new Marketplaces – are able to pay for their insurance easily. Many low- and moderate-income people do not do business through banks – being either “unbanked” (they have no relationship with a bank at all) or “underbanked” (they have a relationship with a bank, but occasionally use alternative financial services (AFS) such as check-cashers and money transmitters). Because unbanked and underbanked individuals also may have limited access to traditional payment methods, such as credit and debit cards, a restriction on the methods accepted by insurers to receive payment for premiums can be a significant barrier in terms of eligible individuals getting and maintaining their health insurance coverage.

Covered California has the opportunity, obligation, and self-interest in seeing that those eligible for help paying for insurance have access to that insurance, free of barriers or discrimination. Adopting policies to support and encourage low- and moderate-income individuals and families to pay their premiums in a timely manner will be key to Covered California reaching its goal of insuring the millions of people who are currently uninsured or underinsured.

Population Eligible for Help Paying for Insurance through Covered California

Covered California has identified the population it is trying to target for coverage through its new Marketplace. The California Simulation of Insurance Markets (CaSIM) estimates that 3 million Californians will be eligible for subsidized coverage – people whose income is at 400 percent of the federal poverty level (FPL) or below.² By 2019, Covered California can expect between 1.7 and 2.1 million eligible Californians to sign-

up for help paying for health insurance through Covered California. Of those millions of people:

- Half are currently uninsured;
- More than 50 percent are Limited English Proficient; and
- Almost half are Latino.³

Exhibit 6. Characteristics of Californians under Age 65 who Take Up Subsidized Exchange Coverage, 2019

	Base		Enhanced	
Total	1,753,000		2,148,000	
Race and Ethnicity				
Latino	743,000	42%	1,034,000	48%
Asian	178,000	10%	205,000	10%
African American	83,000	5%	91,000	4%
White	692,000	39%	756,000	35%
Other	57,000	3%	61,000	3%
Gender				
Female	902,000	51%	1,088,000	51%
Male	851,000	49%	1,060,000	49%
Age				
0–18 years	144,000	8%	144,000	7%
19–29 years	416,000	24%	542,000	25%
30–44 years	536,000	31%	682,000	32%
45–64 years	658,000	38%	780,000	36%
Source of Coverage, without ACA				
Employer Sponsored Insurance Dropped	329,000	19%	330,000	15%
Employer Sponsored Insurance Unaffordable	29,000	2%	29,000	1%
Individual Market	580,000	33%	580,000	27%
Uninsured	815,000	46%	1,209,000	56%
Income				
138% FPL or less	88,000	5%	140,000	7%
139–200% FPL	630,000	36%	786,000	37%
201–250% FPL	335,000	19%	422,000	20%
251–400% FPL	699,000	40%	800,000	37%
Limited English Proficiency (18 and older)				
Yes	515,000	29%	774,000	36%
No	1,100,000	63%	1,236,000	58%

Source: UC Berkeley–UCLA CalSIM model, version 1.7.

Source: California Simulation of Insurance Markets (CalSIM) Version 1.7: Health Insurance Coverage in California under the Affordable Care Act," citation is UC Berkeley Labor Center, June 2012.

How the Eligible Population Pays for Goods and Services

Consumers in the United States no longer rely as heavily on checks and cash as in the past. We shop and purchase items with credit or debit cards, we pay our bills online or through automatic electronic payments, and some technology savvy consumers pay and purchase using mobile applications. While cash payments are still the most popular form of payment,⁴ electronic payments are on the rise (e.g., electronic payment methods increased 6 percent over a short 3 year period⁵). Yet even with new technologies, millions of Americans today are “unbanked – they have no checking or savings account.⁶ Many other households are “underbanked” – they have bank accounts, but household members rely on Alternative Financial Services (AFS) – such as check cashers – for their financial transactions.⁷

While approximately 28 percent of all American households are unbanked or underbanked and 10 percent of households lack a checking account,⁸ nearly 38 percent of households earning less than \$50,000 are unbanked or underbanked.⁹ Close to half of all unbanked households have incomes under \$30,000 and nearly three quarters have incomes below \$50,000 a year.¹⁰ Persons of color are disproportionately unbanked: 1 in 5 African American households lacks a bank account; and Latinos are nearly 3 times more likely to be unbanked than whites.¹¹ Additional demographic characteristics of the unbanked match up with those of the poor generally, including high rates of unemployment and low education levels.¹²

There are several reasons why low-income populations are disproportionately unbanked or underbanked. Bank accounts can be expensive, with high minimum balance requirements and a danger of high overdraft penalties. When asked why they did not have a bank account, the number one reason cited by unbanked individuals was that they “do not like dealing with banks.”¹³ Immigrants, who are also more likely to be unbanked,¹⁴ may have come from places where banks are unreliable, or may be uncomfortable providing identification to open an account.¹⁵ Despite the fact that banks are required under the Community Reinvestment Act¹⁶ to serve all of the communities where they are chartered, many poor neighborhoods are without mainstream financial services. For example, in California, 60 percent of low-income neighborhoods do not have a bank or a credit union.¹⁷

Research suggests that a significant portion of the low-income population pays for goods and services differently than the general population. The two most common AFS used by unbanked and underbanked populations are non-bank money orders and check cashers. Forty-nine percent of unbanked households used non-bank money orders in 2011 and 38 percent had used non-bank check cashing.¹⁸ Seventy-one percent of underbanked households used non-bank money orders in 2011 and 23 percent used non-bank check cashing.¹⁹ While these services can be costly, they are a reality for many lower income consumers.

Prepaid cards and payroll cards are also used by unbanked and underbanked households. In 2011 more than one-third of prepaid card users were underbanked and 14.5 percent were unbanked.²⁰ The percent of unbanked households using prepaid cards climbed over 5 percent between 2009 and 2011. Furthermore, nearly half of payroll card users were unbanked or underbanked.

Among underbanked households, non-homeowners, less educated households, and African American and Latino households generally used AFS most recently.²¹ Based on a survey of low-income Latino individuals across California, the methods of payment they used for bill payment included cash, debit card, credit card, prepaid card, check, gift card, money order, and electronic payments through the internet and kiosks.²² Cash was the most common method of payment, with over 50 percent of respondents reporting use cash for bill pay, followed by debit card use by just over 40 percent.²³

Cash payments can take many forms. In some instances consumers can pay their bill in person with cash. Alternatively, they can use money order or cashier's check. For those who are unbanked or underbanked, they may use cash in lieu of an electronic bank transfer. Consumers can use wire transfer services companies that accept cash and submit an electronic transfer of payment to a utility or other service provider.²⁴ For example, Pacific Gas and Electric has contracted with Neighborhood Payment Centers, allowing customers to pay with cash without a fee and providing customers with a written record of payment.²⁵ In California, Healthy Families offers this service for payment of premiums through Western Union Convenience Pay locations.²⁶

Covered California's Thirteen Qualified Health Plan Issuers

In May 2013, Covered California unveiled the names of the 13 health issuers who will offer Qualified Health Plans (QHPs) in the new insurance Marketplace. In early June, Consumers Union conducted an informal survey of the 13 issuers to help us better understand the methods of payment the plans currently accept and/or plan to accept come January 2014, for their Covered California plans.²⁷

Information gathered through the informal process indicated that there is a wide array of payment methods accepted amongst the plans. While some of the commercial insurers accept a range of payment methods, some accepted credit cards, debit cards, or prepaid debit cards for the first premium payment only. Some of the plans new to the individual market have yet to determine what premium payment methods they will accept, given that they had never historically collected payments, primarily dealing with Medicaid and Medicare programs where no consumer premiums are required. Not all plans said they accept electronic fund transfers.²⁸

Fair Premium Payment Policies and Practices for Covered California

Given the high percentages of low- and moderate-income households that are unbanked or underbanked, and the fact that un and underbanked households rely on AFS, Covered California needs to ensure that these populations are adequately served through the methods available for making premium payments to QHP issuers. The need to develop uniform, allowable premium payment methods for the millions of people shut out of the banking system is substantial. Covered California will want, and need, to ensure that premium payment is simple, does not add to consumer financial burdens, and does not “discriminate against individuals without bank accounts or credit cards.”²⁹

Consumers Union recommends that participating plans be required to:

- I. **Accept alternative cash payment systems** that allow individuals to use cash for electronic premium payments, such as at Western Union, 7-11, or Neighborhood Payment Centers. We urge that any cash payment systems meet the following criteria in order to participate in Covered California:
 - No-fee transactions;
 - Sites located in low-income communities;
 - Sites accessible to public transportation;
 - Sites open during convenient hours, such as evenings and weekends;
 - Sites that accept various forms of payment, such as cash, cashier’s check, money order, or check
 - Sites that offer services in Spanish (and that provide information about how to get help in other languages);
 - Sites that confirm payments through a variety of different methods (paper receipts, e-mail confirmation, etc.); and
 - Privacy and security protections, as required under the ACA.
- II. **Accept all payment methods for collection of premium payments.** This will allow unbanked and underbanked households a variety of options for payment, including money order and cashier’s check. Without a uniform policy that applies to all 13 chosen issuers, the prospect of adverse selection and discrimination is considerable.³⁰ If all issuers do not accept all methods of payment – including the cash-type methods more likely to be used by unbanked or underbanked consumers – Covered California’s issuers may inadvertently engage in adverse selection. For example, given the fact that more than half of the low-income Latino population in California uses cash to pay bills,³¹ those plans that do not accept cash-type payments may be inaccessible to some Latino families.

III. **Provide additional payment-related protections** for the unbanked and underbanked. Such consumer protections should include, but may not be limited to:

- **Clear information** for applicants, customer service representatives, and certified enrollment counselors regarding payment methods, timelines, grace periods and penalties for late payments;
- **Flexible payment terms**, including financial hardship waivers or premium rescues, for consumers with a change in job status or other financial hardship; and
- **Friendly collection reminders** made by phone or mail, in which consumers are coached rather than intimidated.

In addition, Consumers Union urges Covered California to explore with QHPs incentives to encourage timely payments, such as those tested in the Healthy Families Program and amongst commercial interests in other contexts. These incentives include rebates or reductions in required payments for credit card auto-pay, for electronic funds transfers, or for pre-payment of several months of payments.³²

Conclusion

Millions of Californians are slated to apply for and enroll in health insurance plans through Covered California. Given the target population for enrollment, premium payment policies and practices must be designed to cater to the low- and moderate-income consumers who are unbanked or underbanked. Only by doing so will Covered California meet its ambitious enrollment and retention goals and serve its mission.

¹ Thanks to legal intern, Lauren Zachry, for her substantial help developing this policy paper.

² KOMINSKI ET AL., UC BERKELEY LABOR CENTER AND UC LOS ANGELES, HEALTH INSURANCE COVERAGE IN CALIFORNIA UNDER THE AFFORDABLE CARE ACT, June 2012, at 11, *available at* http://laborcenter.berkeley.edu/healthcare/aca_chartpack.pdf.

³ *Id.*

⁴ Posting of Catherine New, Huff Post Business, Cash is Still the Most Popular Form of Payment for Most Americans, Report Says, http://www.huffingtonpost.com/2012/01/24/cash-most-popular-payment_n_1224636.html (January 24, 2012, 12:02 PST).

⁵ Posting of Alex Gutow to truaxis insights, Most Popular Payment Methods, <http://www.truaxis.com/blog/12613/most-popular-payment-methods/> (December 14, 2011).

⁶ FDIC, NATIONAL SURVEY OF UNBANKED AND UNDERBANKED HOUSEHOLDS EXECUTIVE SUMMARY 3, September 2012, at 5, *available at* http://www.fdic.gov/householdsurvey/2012_unbankedreport_execsumm.pdf

⁷ *Id.*

⁸ FDIC, 2011 NATIONAL SURVEY OF UNBANKED AND UNDERBANKED HOUSEHOLDS, September 2012, at 4, *available at* http://www.fdic.gov/householdsurvey/2012_unbankedreport.pdf.

⁹ *Id.* at 15.

¹⁰ *Id.*

¹¹ Christopher Berry, *To Bank or Not to Bank? A Survey of Low-Income Households 4* (Joint Center for Housing Studies Harvard University Working Paper Series, BABC 04-3, February 2004), *available at* http://www.jchs.harvard.edu/sites/jchs.harvard.edu/files/babc_04-3.pdf.

¹² FDIC, *supra* note 8 at 16. Mehmet Zafer Danis, *General Characteristics of Underclass Poor, Reasons of Their Poverty, Their Condition of Showing Depressive Symptoms and Their Level of Hopelessness*, 4(2) HUMAN. & SOC. SCI. J. 143, 147 (2009). WEI LI ET AL., CENTER FOR RESPONSIBLE LENDING, PREDATORY PROFILING: THE ROLE OF RACE AND ETHNICITY IN THE LOCATION OF PAYDAY LENDERS IN CALIFORNIA 4, available at <http://www.responsiblelending.org/payday-lending/research-analysis/predatory-profiling.html>.

¹³ John P. Caskey, *Bringing Unbanked Households into the Banking System*, January 2002, at 2-4, available at http://www.cfsinnovation.com/system/files/imported/managed_documents/caskey_jan2002.pdf.

¹⁴ Una Okonkwo Osili & Anna L. Paulson, *Immigrants Access to Financial Services and Asset Accumulation*, at 296, in INSUFFICIENT FUNDS (Rebecca Blank & Michael Barr, eds., 2009).

¹⁵ *Id.* at 303.

¹⁶ 12 USC Sec. 2901

¹⁷ Ford Foundation, Press Release: *Ford Foundation \$30 Million Investment Kick-starts Effort to Expand Low-Income Families' Access to Financial Services in California* (Feb. 2, 2012), <http://www.foxcarolina.com/story/16658482/ford-foundation-30-million-investment-kick-starts-effort-to-expand-low-income-families-access-to-financial-services-in-california> (last retrieved February 21, 2012).

¹⁸ FDIC, *supra* note 4, at 33.

¹⁹ *Id.* at 33.

²⁰ *Id.* at 35.

²¹ *Id.* at 39.

²² NATIONAL COUNSEL OF LA RAZA, LATINO FINANCIAL ACCESS AND INCLUSION IN CALIFORNIA, June 4, 2013, at 16. Retrieved from

http://www.nclr.org/index.php/publications/latino_financial_access_and_inclusion_in_california/. The median income for respondents was \$25,000 and 21% of respondents did not own a checking or savings account.

²³ *Id.*

²⁴ The concern with sending consumers to these stores, such as check cashers, for services is less the practice of check cashing, purchasing a money order or the wire transfer itself, and more the exposure on site to other harmful products such as payday loans. Posting of Felix Salmon, *When Check-Cashing Goes Mobile*, <http://blogs.reuters.com/felix-salmon/2013/06/07/when-check-cashing-goes-mobile/> (June 7, 2013).

²⁵ PG&E, *Ways to Pay*, <http://www.pge.com/en/mybusiness/account/pay/index.page#inperson> (last visited June 17, 2013).

²⁶ *Paying Premiums: The California Healthy Families Program*, http://www.healthyfamilies.ca.gov/HFProgram/Paying_Premium.aspx (last visited June 19, 2013).

²⁷ Telephone calls were made by a Consumers Union law student intern on June 6, 2013 to the thirteen plans. She contacted the customer service numbers provided on the plans' websites. They were asked the following questions: What type of payment methods do you accept for payment of premiums? Do you accept cash, debit card, credit card, prepaid debit card, money order, check, cashier's check, or electronic funds transfer? Are credit and debit cards accepted for only the first payment or for all subsequent payments? Will the forms of payment be the same under the plan through Covered California?

²⁸ The question was asked broadly and did not define what electronic fund transfers might be included.

²⁹ Patient Protection and Affordable Care Act; Program Integrity: Exchange, SHOP, Premium Stabilization Programs, and Market Standards, 78 Fed. Reg 118 (proposed June 19, 2013), <http://www.gpo.gov/fdsys/pkg/FR-2013-06-19/pdf/2013-14540.pdf>

³⁰ While Consumers Union recommends uniform payment method options for each of the 13 issuers, in the event that different payment methods are allowed for different QHPs, we urge Covered California to include prominently in its plan comparison tool information on premium payment forms accepted by each plan. Consumers need full information about payment choices at the time they choose and enroll in a plan. No one will be well served if a consumer signs up for a plan, only to find out later that the plan does not accept the only form of payment that is viable for that consumer. Full transparency, before enrollment, on permitted payment methods will allow consumers to shop effectively.

³¹ *Id.* Note that the report did not distinguish between documented and undocumented individuals.

³² For example, in the Healthy Families Program, a 25% discount on premiums is given to consumers who sign up for monthly automatic payments or who pay by EFT from their own personal account or someone else's. *Paying Premiums: The California Healthy Families Program*, http://www.healthyfamilies.ca.gov/HFProgram/Paying_Premium.aspx (last visited June 19, 2013).