EXPLAINER

Health Insurance in California 101: A Quick Guide to Understanding Health Insurance in California

JULY 2023

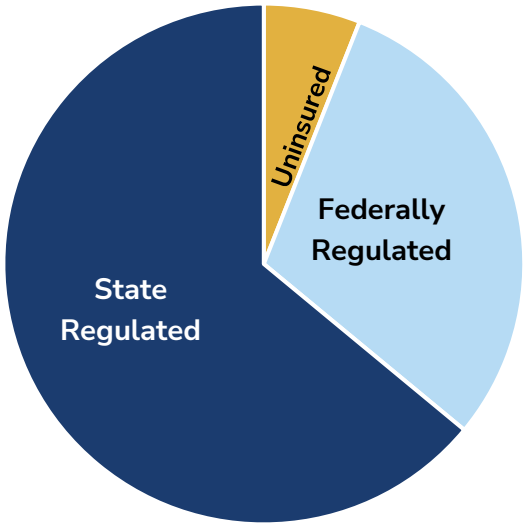
California Health Benefits Review Program (CHBRP)
University of California, Berkeley

This Explainer provides an overview of health insurance and policy in California. It includes an explanation of the California Health Benefits Review Program (CHBRP), an overview of health insurance coverage in California, and vocabulary to know for a better understanding of health policy legislation. This Explainer also provides useful links to several other resources and organizations that provide additional useful health policy information.

Understanding Health Insurance Coverage in California

Health insurance is provided to Californians through both public and private health plans and policies, and may be subject to federal regulation only or subject to federal and state regulation. Health insurance subject to California regulation is overseen by the Department of Managed Health Care (DMHC), the California Department of Insurance (CDI), and the California Department of Health Care Services (DHCS), which administers and oversees the Medi-Cal program. As seen in Figure 1, a majority of Californians are enrolled in health insurance subject to state regulation.

Figure 1. Sources of Health Insurance in California



Source: California Health Benefits Review Program. 2023

Generally, health insurance can be categorized as publicly funded or privately funded. The largest public sources for insurance are Medicare (federally regulated and primarily for the elderly), Medicaid (called Medi-Cal in California, state regulated, and primarily for low-income earners), CalPERS (state regulated insurance for public employees), and TriCare (federally regulated insurance for military personnel, retirees, and dependents). Private insurance is largely obtained through employer-sponsored plans and policies, which can be small group (1-100 employees), large group (101+ employees). Some employers offer self-funded or self-insured health insurance plans to employees, which are not subject to state regulation, but fall under federal regulation. Individuals can

also purchase private insurance, primarily through the Covered California marketplace, and may receive subsidies if their income falls below certain thresholds.

For an overview of the sources of health insurance for Californians, see CHBRP's annually updated resource, **Sources of Health Insurance in California**, which includes a breakdown of how many Californians are covered by different types of insurance and how these different plans and policies are regulated. CHBRP also produces an overview of pharmacy benefit coverage in California, in the annually updated resource **Pharmacy Benefit Coverage in State-Regulated Health Insurance**.

Getting to Know the Vocabulary of Health Insurance

When reading health policy legislation and analyses, it can be helpful to have a source to learn about key terms and definitions. CHBRP's **Glossary of Key Terms** can serve as a one-stop-shop for health insurance terminology. Listed below are some of the more commonly used terms in health insurance legislation with their definitions:

- **Beneficiary**: An individual entitled to benefits from a publicly funded health insurance program, such as Medicare or Medicaid.
- **California Public Employees' Retirement System (CalPERS):** A program that provides retirement and health benefits to more than 1 million California public employees, retirees, and their families. The program covers state employees by law, and local public agencies and school employers can contract to have CalPERS provide benefits to their employees. More than two-thirds of program members are enrolled in HMO plans, though regular and special PPO plans are also offered.
- **Coinsurance:** The percentage of covered health care costs, after any applicable deductible, for which a health plan enrollee is responsible.
- **Commercial health insurance:** Health insurance products sold in the private market, as opposed to those provided through publicly funded programs.
- **Copayment (copay):** A form of cost sharing in which a health plan enrollee pays a specific amount out-of-pocket at the time of receiving a health care service or when paying for a prescription (after any applicable deductible).
- **Cost sharing:** A provision of a health insurance policy that requires the insured to pay some portion of medical expenses to providers or health insurer (e.g., coinsurance, copays, and deductibles).
- **Covered California:** California's Health Insurance Marketplace, Covered California is a free service that connects Californians with brand-name health insurance under the Patient Protection and Affordable Care Act.
- **Deductible:** The amount a member is required to pay out-of-pocket before a health plan or policy begins to reimburse providers for medically necessary use of covered benefits. See CHBRP's **Deductibles in State-Regulated Health Insurance** for more information.
- **ERISA:** The Federal Employee Retirement Income Security Act (ERISA) regulates pension, retirement, and other benefit plans offered or provided by employers.
- **Enrollees:** Individuals signed up for a health insurance plan or policy.
- **Medi-Cal:** California's **Medicaid** program, providing health and long-term care coverage to eligible low-income adults, children and their families, as well as individuals who are elderly or have a disability. The **California Department of Health Services** administers the program, with support of counties.
- **Medicare:** The federal health insurance program for people who are 65 or older, certain younger people with disabilities, and people with End-Stage Renal Disease (permanent kidney failure requiring dialysis or a transplant, sometimes called ESRD).
- **Outpatient pharmacy benefit:** Covers self-administered drugs prescribed by a healthcare professional (i.e. outpatient prescription drugs). A pharmacy benefit is independent from a medical benefit, which covers office visits and hospitalizations, and is often administered through a third-party, called pharmacy benefit managers.

- **Pharmacy benefit manager (PBM):** A company under contract with employers, health plans, insurers, self-insured companies, and government programs to manage prescription drug benefits. Basic management techniques include pharmacy network management, formulary management, and drug utilization review. Many PBMs also provide disease management programs.
- **Premium:** The amount paid to a health plan or health insurance company by the buyer of health insurance, which is an employer, a **beneficiary** of coverage, or both, for a specified period of coverage. CHBRP's estimates of premiums include **actuarial** estimates of the **utilization rates** for each mandated service multiplied by the expected payment per unit of service, plus estimated **administrative costs** associated with the mandated benefit.
- **Self-funded (or self-insured) plan:** A health plan in which a group, usually a large employer, labor union, or group of employers, assumes financial responsibility for the health care expenses of its **members** rather than purchasing health insurance through an insurance company. However, such a group may contract with an insurance or other company (as a third-party administrator) for claims processing and other administrative services and may purchase reinsurance to limit its liability for medical claims. These plans are regulated by ERISA.
- **Utilization:** In CHBRP analyses, the frequency or volume of use of a health care service, treatment, or procedure. This is calculated as the product of the number of health plan members who use the mandated service and the average number of mandated services they use per calendar period.

More CHBRP Resources

In addition to providing analyses for the California legislature, CHBRP creates numerous other publications to inform on topics pertinent to health policy. Listed below are a selection of CHBRP resources that may be helpful to first time legislators:

Health Insurance Benefit Mandates in California State and Federal Law
The Federal Preventive Services Benefit Mandate and Related California Mandates
What is Cost Sharing in Health Insurance?
California's Population Aged 65 Years and Older
Outpatient Prescription Drug Cost Sharing
Telehealth: Current State of the Evidence

Other Resources

Summary of the Affordable Care Act – **Published by the Kaiser Family Foundation (KFF)**
What's Medicare? – **Published by Medicare.gov**
The Medi-Cal Program: An Overview – **Published by the California Health Care Foundation (CHCF)**
Trends in Healthcare Spending – **Published by the American Medical Association (AMA)**
Health and Economic Costs of Chronic Diseases – **Published by the Centers for Disease Control and Prevention (CDC)**
Prescription Drugs: Spending, Use, and Prices – **Published by the Congressional Budget Office (CBO)**

Additional Health Policy Organizations to Follow

California Health Care Foundation (CHCF) A California nonprofit organization aimed at improving health care delivery, particularly for Californians with lower incomes.

Insure the Uninsured Project (ITUP) A California nonprofit organization working towards policy solutions to expand health care access to all Californians.

Kaiser Family Foundation (KFF) **A national non-partisan nonprofit organization that reports health policy news and analyzes health policies.**

RAND A national nonprofit research organization that uses research and analysis to improve public policies and decision making.

UCLA Center for Health Policy Research A leading health policy research center focused on California health policy analysis. The Center is the home of the California Health Interview Survey (CHIS) and is affiliated with the UCLA Fielding School of Public Health.

About the California Health Benefits Review Program (CHBRP)

Drawing on the experience and assistance of multi-disciplinary faculty, researchers, and analysts based at the University of California, CHBRP provides the California Legislature with timely, independent, and rigorous evidence-based analyses of introduced health insurance benefits-related legislation. Most frequently, CHBRP analyzes proposed health insurance benefit mandates (e.g., mandates to cover a test, treatment, or service, such as continuous glucose monitors). For more about CHBRP's 60-day analysis process, see the resource Academic Rigor on a Legislature's Timeline.

To read any of the 200+ bill analyses CHBRP has completed, see the Completed Analysis page on CHBRP's website. In addition to analysis of introduced legislation, CHBRP produces other publications including several annually updated resources, as well as issue briefs and explainers.