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Explaining Health Care Reform: Questions about Health Insurance Subsidies

Good health insurance can be expensive, and is therefore often out of reach for lower and moderate income families, particularly if they are not offered health benefits at work. To make coverage obtainable for families that otherwise could not afford it and to encourage broad participation in health insurance, the Affordable Care Act (ACA) includes provisions to lower premiums and out-of-pocket costs for people with low and modest incomes. The adequacy of this assistance will be a key determinant of how many people ultimately gain coverage and whether or not lower-income people will be able to use the health insurance they obtain.

This brief provides an overview of the financial assistance provided under the ACA for people purchasing coverage on their own through health insurance Marketplaces (also called exchanges). In addition to offering financial assistance to some people purchasing their own private coverage, the ACA also gives states the option to bolster public coverage by expanding their Medicaid programs to cover people with incomes under 138% of the Federal Poverty Level (FPL). While this brief focuses on the premium tax credit and cost-sharing subsidies for marketplace enrollees, expanded coverage for low income people through [Medicaid](#) and new tax credits for [small businesses](#) are addressed in other reports.

HEALTH INSURANCE MARKETPLACE SUBSIDIES

The ACA offers subsidies to reduce monthly premiums and out-of-pocket costs in an effort to expand access to affordable health insurance for moderate and low-income people – particularly those without access to affordable coverage through their employer, Medicaid, or Medicare. There are two types of subsidies available to marketplace enrollees. The first type of assistance, called the premium tax credit, works to reduce enrollees' monthly payments for insurance coverage. The second type of financial assistance, the cost-sharing subsidy, is designed to minimize enrollees' out-of-pocket costs when they go to the doctor or have a hospital stay. In order to receive either type of financial assistance, qualifying individuals and families must enroll in a plan offered through a health insurance [Marketplace](#).

PREMIUM TAX CREDIT

The premium tax credit reduces marketplace enrollees' monthly payments for insurance plans purchased through the Marketplace. Health insurance plans offered through the Marketplace are standardized into four "metal" levels of coverage: bronze, silver, gold, and platinum. Bronze plans tend to have the lowest premiums but leave the enrollee subject to higher out-of-pocket costs when they receive health care services, while platinum plans tend to have the highest premiums but have very low out-of-pocket costs. The premium tax credit can be applied to any of these metal levels, but cannot be applied toward the purchase of catastrophic coverage¹.

Who is eligible for the premium tax credit?

In order to receive the premium tax credit for coverage starting in 2015, a marketplace enrollee must meet the following criteria:

- Have a household income from one to four times the Federal Poverty Level (FPL), which for the 2015 benefit year will be determined based on 2014 poverty guidelines (In 2015, the subsidy range is from \$11,670 for an individual and \$23,850 for a family of four at 100% FPL, to \$46,680 for an individual and \$95,400 for a family of four at 400% FPL).²
- Not have access to affordable coverage through an employer (including a family member's employer)
- Not eligible for coverage through Medicare, Medicaid, the Children's Health Insurance Program (CHIP), or other forms of public assistance
- Have U.S. citizenship or proof of legal residency³
- If married, must file taxes jointly in order to qualify

For the purposes of the premium tax credit, household income is defined as the Modified Adjusted Gross Income (MAGI) of the taxpayer, spouse, and dependents. The MAGI [calculation](#) includes income sources such as wages, salary, foreign income, interest, dividends, and Social Security.

Table 1: Premium Subsidies, by Income in 2014 and 2015

Income % Poverty	Income Range in Dollars for the 2014 benefit year		Income Range in Dollars for the 2015 benefit year	
	Single Individual	Family of Four	Single Individual	Family of Four
Under 100%	Less than \$11,490	Less than \$23,550	Less than \$11,670	Less than \$23,850
100% - 133%	\$11,490 - \$15,282	\$23,550 - \$31,322	\$11,670 - \$15,521	\$23,850 - \$31,721
133% - 150%	\$15,282 - \$17,235	\$31,322 - \$35,325	\$15,521 - \$17,505	\$31,721 - \$35,775
150% - 200%	\$17,235 - \$22,980	\$35,325 - \$47,100	\$17,505 - \$23,340	\$35,775 - \$47,700
200% - 250%	\$22,980 - \$28,725	\$47,100 - \$58,875	\$23,340 - \$29,175	\$47,700 - \$59,625
250% - 300%	\$28,725 - \$34,470	\$58,875 - \$70,650	\$29,175 - \$35,010	\$59,625 - \$71,550
300% - 400%	\$34,470 - \$45,960	\$70,650 - \$94,200	\$35,010 - \$46,680	\$71,550 - \$95,400
Over 400%	More than \$45,960	More than \$94,200	More than \$46,680	More than \$95,400

NOTES: Alaska and Hawaii have different poverty guidelines. Note that tax credits for the 2015 benefit year are calculated using 2014 federal poverty guidelines, while tax credits for the 2014 benefit year are calculated using 2013 federal poverty guidelines.

SOURCE: Kaiser Family Foundation

Employer coverage is considered affordable if the employee's contribution is less than 9.5 percent of his or her household income (for the employee's coverage only, not including the cost of adding family members).⁴ The employer's coverage must also meet the "minimum value" standard, meaning that the plan has an actuarial value of at least 60 percent (equivalent to a bronze plan). In situations in which the employer's plan fails to meet one or both of these requirements, the employee and their family may be eligible for subsidized coverage through the Marketplace if they meet the other criteria listed above.

In states that [decide to expand Medicaid](#), tax credit eligibility effectively ranges from 138% to 400% of the poverty level (because almost all people with incomes below 138% of poverty are eligible for Medicaid and therefore are not eligible for subsidized Marketplace coverage). In states that [do not decide to expand](#)

[Medicaid](#), tax credit eligibility ranges from 100% to 400% of poverty. Residents of these states who have incomes below 100% of poverty and who do not qualify for Medicaid under their state's [eligibility criteria](#) are not eligible for the premium tax credit. The Kaiser Family Foundation estimates that 4.5 million Americans living in states that did not decide to expand Medicaid fall into this coverage gap.

The ACA includes stipulations to offer tax credits and Medicaid coverage to eligible lawfully present immigrants. Like U.S. citizens, lawfully present immigrants are eligible for subsidized coverage in the marketplaces if they meet their state's income eligibility rules. Lawfully present immigrants who meet the income eligibility rules for Medicaid in their state may be eligible for Medicaid, but are generally subject to a five-year waiting period before they can apply.⁵ Immigrants who would otherwise be eligible for Medicaid but have not yet completed their five-year waiting period may instead qualify for tax credits through the Marketplace. If an individual in this circumstance has an income below 100 percent of poverty, for the purposes of tax credit eligibility, his or her income will be treated as though it is equal to poverty (meaning that the enrollee would pay no more than 2% of income for a benchmark silver plan in 2014). Immigrants who are not lawfully present are ineligible to enroll in health insurance through the marketplace, receive tax credits through the marketplaces, or enroll in non-emergency Medicaid and CHIP.

What amount of premium tax credit is available to people?

The premium tax credit works by setting a cap on the amount an individual or family must spend on their monthly payments for health insurance if they enroll in a "benchmark" plan. The cap depends on the family's income, with lower-income families having a lower cap and higher income families having a higher cap (detailed in the table below).

The "benchmark" for determining the amount of the subsidy is the second-lowest cost silver plan available to the individual or family through their state's Marketplace. If the cost of the enrollee's benchmark silver plan exceeds their premium cap, then the federal government will pay any amount over the cap. The amount of the tax credit, therefore, is equal to the difference between the individual or family's premium cap and the cost of the benchmark silver plan.

As noted above, the premium tax credit can then be applied toward any other plan sold through the Marketplace (with the exception of catastrophic coverage). The amount of the tax credit remains the same, so a person who chooses to purchase a plan that is more expensive than the benchmark plan will have to pay the difference in cost. Conversely, a person who chooses a less expensive plan, such as a bronze plan, may end up paying as little as zero dollars per month for the premium. An example shows how the premium tax credits would work for an individual during the 2015 benefit year.

Table 2: Premium Cap, by Income in 2014 and 2015

Income % Poverty	Premium Cap	
	max % of income for 2nd lowest silver plan	
	2014	2015
Under 100%	No Cap	No Cap
100% – 133%	2%	2.01%
133% – 150%	3% – 4%	3.02% – 4.02%
150% – 200%	4% – 6.3%	4.02% – 6.34%
200% – 250%	6.3% – 8.05%	6.34% – 8.1%
250% – 300%	8.05% – 9.5%	8.1% – 9.56%
300% – 400%	9.5%	9.56%
Over 400%	No Cap	No Cap

NOTES: Alaska and Hawaii have different poverty guidelines. Note that tax credits for the 2015 benefit year are calculated using 2014 federal poverty guidelines, while tax credits for the 2014 benefit year are calculated using 2013 federal poverty guidelines.

SOURCE: Kaiser Family Foundation

Premium tax credits at 250% FPL

- ❖ Pat is 45 years old and has an income in 2014 that is 250% of poverty (about \$29,175 per year)
- ❖ Suppose the second-lowest cost silver plan available to Pat in the Marketplace is \$280 per month
- ❖ Under the ACA, with an income of \$29,175 per year, Pat would have a cap of 8.1% of income for the second-lowest cost silver plan
- ❖ This means that Pat would have to pay no more than \$197 per month (8.1% times \$29,175, divided by 12 months) to enroll in the second-lowest cost silver plan.
- ❖ The tax credit available to Pat would therefore be \$83 per month (\$280 premium minus \$197 cap)
- ❖ Pat can then apply this \$83 per month discount toward the purchase of any bronze, silver, gold, or platinum Marketplace plan available

How will premium tax credit be provided?

To receive the premium tax credit, an individual or family must purchase insurance coverage through the Marketplace. When they apply for Marketplace coverage, enrollees will receive a subsidy determination, letting them know whether they are eligible for a premium tax credit and the amount they may receive. The person or family then has the option to receive the tax credit in advance or wait until they do their taxes the following year.

The advanced payment option allows consumers to receive their tax credit at the time of purchase and choose how much advance credit payments to apply toward their premiums each month. If the enrollee chooses the advanced payment option, then the IRS will pay insurers directly such that the cost of the premium is reduced upfront. With this option, the enrollee would need to reconcile their premium tax credit at tax time the following year. (For people receiving an advanced payment of the premium tax credit in 2014, the reconciliation would occur when they file their taxes in 2015). If the individual or family had a significant change in their income from the time they first applied for Marketplace coverage, they may be asked to repay some or all of the tax credit; or conversely, they may be owed an additional amount when they do their taxes. The table below indicates the maximum repayment limits for an individual and family, which varies depending on income level.

Table 3: Repayment Amounts under Current Law by Income Level

Income (% Federal Poverty Level)	Maximum repayment amount for a single individual	Maximum repayment amount for couples and families
Less than 200% FPL	\$300	\$600
200% – less than 300% FPL	\$750	\$1,500
300% – less than 400% FPL	\$1,250	\$2,500
400% FPL or greater	Full Amount	Full Amount

Source: 2012–24 Internal Revenue Bulletin, § 1.36B-4.

Alternatively, an individual or family can opt to pay their entire premium costs each month and wait to receive their tax credit until they file their annual income tax return the following year. The premium tax credit is available to qualifying enrollees regardless of whether they have federal income tax liability, although an individual is required to file taxes in a given benefit year in order to receive financial assistance.

COST-SHARING SUBSIDIES

In addition to the premium tax credit, the second form of financial assistance available to Marketplace enrollees is a cost-sharing subsidy. Cost-sharing subsidies work by reducing a person or family's out-of-pocket cost when they use health care services, such as deductibles, copayments, and coinsurance.

Unlike the premium tax credit (which can be applied toward any metal level of coverage), cost-sharing subsidies can only be applied toward a silver plan. In essence, the cost-sharing subsidy increases the actuarial value (protectiveness) of a silver plan, in some cases making it similar to a gold or platinum plan.

Who is eligible for the cost-sharing subsidy?

People who are eligible to receive a premium tax credit and have household incomes from 100% to 250% of poverty are eligible for cost-sharing subsidies. (The cost-sharing subsidies are available only to the lowest-income Marketplace enrollees who meet all of the other criteria for receiving the premium tax credit). Again, the eligible individual or family must purchase a silver level plan in order to receive the cost-sharing subsidy.

What amount of cost-sharing subsidies are available to people?

The ACA sets maximum out-of-pocket (OOP) spending limits, but otherwise does not specify the combination of deductibles, copayments, and coinsurance that plans must use to meet the actuarial value requirements. For example, one insurer may choose to have a relatively high deductible but low copayments for office visits and other services, while another may choose a lower deductible but higher copayments or coinsurance for each service.

Without the cost-sharing subsidy, the out-of-pocket maximum may be no more than \$6,600 for an individual and \$13,200 for two or more people in 2015. (This is the highest a plan may set the OOP max, but plans frequently come with a lower OOP max). With the cost-sharing reduction, the out-of-pocket maximum can be no higher than \$2,250 to \$5,200 for an individual, or \$4,500 to \$10,400 for a family in 2015, depending on

income. The table below presents the reduced out-of-pocket maximums and increased actuarial values after cost-sharing subsidies are applied, within each income range.

Table 4: Maximum Annual Limitation on Cost-Sharing			
Income (% Federal Poverty Level)	Actuarial Value of a silver plan	OOP Max for Individual/Family	
		2014	2015
Under 100%	70%	\$6,350 / \$12,700	\$6,600 / \$13,200
100% – 150%	94%	\$2,250 / \$4,500	\$2,250 / \$4,500
150% – 200%	87%	\$2,250 / \$4,500	\$2,250 / \$4,500
200% – 250%	73%	\$5,200 / \$10,400	\$5,200 / \$10,400
Over 250%	70%	\$6,350 / \$12,700	\$6,600 / \$13,200

SOURCE: “Patient Protection and Affordable Care Act; HHS Notice of Benefit of Payment Parameters for 2015,” *Federal Register* 79, no. 47 (March 11, 2014): 13744.

Typically, silver plans have an actuarial value of 70%, meaning that on average the plan pays 70% of the cost of covered benefits for a standard population of enrollees, with the remaining 30% of total costs being covered by the enrollees in the form of deductibles, copayments, and coinsurance. By lowering an individual or family’s out-of-pocket costs, the cost-sharing subsidies increase the actuarial value of the silver plan (to 73, 87, or 94 percent depending on the enrollee’s income).

How will cost-sharing subsidies be provided?

When enrolling in a silver plan, an eligible enrollee is placed into a plan that has the cost-sharing subsidy automatically applied. This means that the silver plan they choose will already have a lowered out-of-pocket maximum than the same plan would in the absence of a cost-sharing subsidy. The federal government pays cost-sharing subsidies directly to the insurer. (Unlike the premium tax credit, there is no option for cost-sharing subsidies to be paid to the enrollee).

SUBSIDIES AND THE FEDERAL BUDGET

In its most recent [estimates](#), the Congressional Budget Office estimates that the subsidies will cost roughly \$15 billion in 2014 and increase to \$112 billion by 2020. The cost of the subsidies is a function of the number of people that are eligible for subsidies, and the price of the [second-lowest silver plan](#) in each area (which determines how generous the subsidies are). Premiums have been lower than originally projected by CBO, helping to keep the cost of subsidies down for the federal government. Because health insurance premiums have historically grown more rapidly than income, the ACA adjusts the percent of premium that people are required to pay to reflect the excess of the premium growth over the rate of income growth.

CONCLUSION

In combination, the premium tax credit and cost-sharing reductions require health plans offering coverage to lower-income people in the exchange to increase the actuarial value of the coverage of the plans that they receive, and to do so in a way that caps enrollee out-of-pocket liability within the specified levels.

Subsidies to make insurance more affordable and increase insurance coverage are a key element of the Affordable Care Act. Premium and cost-sharing subsidies of varying levels will be available to individuals and families with low to moderate incomes, making coverage and care more affordable. These subsidies – which represent a substantial share of the federal cost of the ACA – will provide assistance for low to moderate income families, enabling them to purchase coverage and gain better access to care.

Endnotes

¹Catastrophic health plans typically have a lower monthly premium than other Qualified Health Plans in the Marketplace, but generally require beneficiaries to pay all of their medical costs until the deductible is met. To qualify for a catastrophic plan, an individual must either be under 30 years of age or eligible for a “hardship exemption.” For more information, see <https://www.healthcare.gov/can-i-buy-a-catastrophic-plan/>

² These figures represent the FPL in the continental United States. The 2014 FPL is slightly higher in Hawaii (\$13,420 for an individual and \$27,430 for a family of four) and in Alaska (\$14,580 for an individual and \$29,820 for a family of four).

³ Lawfully present immigrants whose household income is below 100% FPL and are not otherwise eligible for Medicaid are eligible for tax subsidies through the Marketplace if they meet all other eligibility requirements.

⁴ Employee contributions for family coverage may exceed 9.5% of household income and still be considered affordable under the ACA so long as the employee’s individual premium would not exceed 9.5% of household income.

⁵ With the exception of pregnant women in certain states, most lawful permanent residents must wait 5 years after receiving “qualified” immigrant status before being eligible for Medicaid. For more information, see <https://www.healthcare.gov/what-do-immigrant-families-need-to-know/>