

Health Reform Premium and Cost Sharing Subsidies

How will the health reform premium and cost sharing subsidies work?

Beginning in 2014, individuals who purchase health insurance coverage through one of the new health insurance exchanges will be eligible for financial assistance if their income is no more than 400% of the federal poverty line.¹ These amounts are updated for inflation annually and vary by family size. In 2010, this amount is \$43,320 for individuals and \$88,200 for a family of four. (Higher amounts apply in Alaska and Hawaii.)

Two forms of financial assistance will be provided. A <u>premium assistance tax credit</u> will be provided monthly to lower the amount of premium the individual or family must pay for their coverage. <u>Cost sharing assistance</u> will limit the plan's maximum out-of-pocket costs, and for some people will also reduce other cost sharing amounts (i.e., deductibles, coinsurance or copayments) that would otherwise be charged to them by their insurance plan.

Both types of assistance will be tied in some way to the value of the coverage available in the exchanges. Four levels of plans will be offered by insurers in the exchanges. All the plans must offer a set of essential health benefits that will be specified in future federal regulations and must cover certain categories of benefits.² The four plan levels vary in the total value of coverage they must provide. This amount is sometimes called "actuarial value" and represents the proportion of health insurance expenditures for covered benefits that, for an average population, would be paid by the plan. The health reform law requires that the actuarial value be 60% for "bronze" plans, 70% for "silver" plans, 80% for "gold" plans and 90% for "platinum" plans.³ In addition, the out-of-pocket maximum for any of these plans may not exceed a limit that is determined annually. For 2010, the limit is \$5,950 for individual coverage and \$11,900 for family coverage. Within the restrictions of the essential health benefit definition, the actuarial value rules, and the out-of-pocket maximums, insurers can design plans that vary in cost sharing amounts and benefits offered.

<u>Premium assistance.</u> The premium assistance tax credit is calculated to limit the amount that an individual or family must pay for health insurance coverage in the exchange as a percentage of income. A sliding scale is used to determine the amount of the tax credit. For those at the

¹ "Modified adjusted gross income" will be used in determining eligibility for assistance. This is defined as the adjusted gross income as defined on income tax returns plus any tax-exempt interest income and certain foreign income that is not counted as adjusted gross income.

² Essential health benefits must include at least ambulatory services; emergency services; hospitalization; maternity and newborn care; mental health and substance use disorder services, including behavioral health treatment; prescription drugs; rehabilitative and habilitative services and devices; laboratory services; preventive and wellness services and chronic disease management; and pediatric service, including oral and vision care.

³ The experience of plan enrollees will often be different from the actuarial value, which is an aggregate measure for an average population. That is, a plan with an 80% actuarial value will not pay 80% of covered medical expenses for all its enrollees. People with low medical expenses may have no coverage, for example, if they fail to meet the plan's annual deductible. People with extremely high medical expenses that exceed the plan's out of pocket maximum may have a much higher proportion of their expenses covered by the plan. Of course, the plan may not cover all their medical expenses, so these individuals may have other out of pocket costs.

lowest incomes (less than 133% of the poverty level) the tax credit amount is based on limiting the individual's premium contribution to no more than 2% of income. For those between 300% and 400% of the poverty line, the tax credit is amount is based on a limiting the contribution amount to 9.5% of income. The calculation is based on the premium for the second lowest cost silver plan available to them in the exchange, but individuals do not have to enroll in this plan for their coverage. A person who chooses to enroll in a less expensive plan (e.g., the lowest cost silver plan or a bronze plan) will receive the same tax credit amount and they will pay a lower premium. A person who chooses a more expensive plan (e.g., a higher cost silver plan or a gold plan) will receive the same tax credit amount, but will pay a higher premium.

Cost sharing assistance. People who qualify for the premium assistance tax credit will also be eligible for cost sharing assistance if they enroll in a silver plan. This assistance will further reduce the limit on the out of pocket maximum that can apply to their coverage, with the amount of the reduction depending on income. For those with incomes between 100% and 200% of poverty, a 2/3 reduction applies. (For 2010, this would make the out of pocket maximum \$3,967 for individual coverage and \$7,934 for a family.) For others, the reduction in the limit is either 1/2 or 1/3, depending on income. The precise amount by which an individual's out of pocket maximum is reduced by this assistance depends on what the maximum is for the plan in which they are enrolled.

In addition, federal payments will be made to health insurers to increase the actuarial value of the plan for people with incomes under 250% of poverty. For example, for people with incomes between 100% and 150% of poverty, the actuarial value of the plan will be increased to 94%. That means that in addition to keeping within the lower out of pocket maximums established above, insurers must make other changes to increase the actuarial value of the coverage. Most likely this will mean reducing plan deductibles, coinsurance or copayments in order to meet the higher actuarial value requirements.

For people with incomes over 250% of poverty, the actuarial value of their plan may not exceed 70%, which is the basic value of the silver plan even for those who receive no financial assistance. This means that, for some people, some cost sharing amounts could increase. That would happen if their out of pocket maximum was decreased to keep within the required lower maximum, because the deductibles, copayments or coinsurance that would otherwise apply would have to be increased to keep the actuarial value at 70%.

| | Exam | ples of Ho | w Premium Tax | Credit and C | ost Sharir | ng Assistan | ce Will Wo | × | |
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| | | | EXAMPLES – PREM | IUMS WILL VAF | 1 BY AREA | AND PLAN | | EXAMPLES | |
| Income as % of Poverty Single Person | Expected Premium as % of income | Income Single Individual (2010 \$) | Premium for Second Lowest Cost Silver Plan (Single coverage) | Individual's Chosen Exchange Plan | Individual Pays | Government Pays | Maximum out-of- pocket | Premium plus out-of- pocket maximum ^a | Required Actuarial Value ^a |
| | | | | Premium | | | cap ^a | | |
| <133% ^b | 2% | \$14,403 | \$4,000 | \$4,000 | \$288 | \$3,712 | \$1,964 | \$2,252 | 94% |
| 150% | 4% | \$16,245 | \$4,000 | \$4,000 | \$650 | \$3,350 | \$1,964 | \$2,613 | 94% |
| 200% | 6.3% | \$21,660 | \$4,000 | \$4,000 | \$1,365 | \$2,635 | \$2,975 | \$4,340 | 87% |
| 200% ° | 6.3% | \$21,660 | \$4,000 | \$3,500 | \$865 | \$2,635 | \$2,975 | \$3,840 | 87% |
| 200% ^d | 6.3% | \$21,660 | \$4,000 | \$4,500 | \$1,865 | \$2,635 | \$2,975 | \$4,840 | 87% |
| 250% | 8.05% | \$27,075 | \$4,000 | \$4,000 | \$2,180 | \$1,820 | \$2,975 | \$5,155 | 73% |
| 300% | 9.5% | \$32,490 | \$4,000 | \$4,000 | \$3,087 | \$913 | \$3,987 | \$7,073 | 20% |
| 400% | 9.5% | \$43,320 | \$4,000 | \$4,000 | \$4,000 ^e | \$0¢ | \$3,987 | \$8,102 | 20% |
| >400% | Full premium | >\$43,320 | \$4,000 | \$4,000 | \$4,000 | \$0 | \$5,950 | \$9,950 | None |
| Income as % | Expected | Income – | Premium for | Couple's | Couple | Government | Maximum | Premium | Required |
| of Povertv - | Premium ac | Counte/ | Second Lowest | Chosen | • | Dave | | nlus out-of- | Actuarial |
| Couple | % of income | | Cost Silver Plan | Exchange | Pays | | out-of- | pocket | Value ^a |
| | | | (Family coverage) | Plan | | | pocket | maximum ^a | |
| | | | | Premium | | | cap ^a | | |
| <133% ^b | 2% | \$19,378 | \$9,000 | \$9,000 | \$388 | \$8,612 | \$3,927 | \$4,315 | 94% |
| 150% | 4% | \$21,855 | \$9,000 | \$9,000 | \$874 | \$8,126 | \$3,927 | \$4,801 | 94% |
| 200% | 6.3% | \$29,140 | \$9,000 | \$9,000 | \$1,836 | \$7,164 | \$5,950 | \$7,786 | 87% |
| 250% | 8.05% | \$36,425 | \$9,000 | \$9,000 | \$2,932 | \$6,068 | \$5,950 | \$8,882 | 73% |
| 300% | 9.5% | \$43,710 | \$9,000 | \$9,000 | \$4,152 | \$4,848 | \$7,973 | \$12,125 | 20% |
| 400% | 9.5% | \$58,280 | \$9,000 | \$9,000 | \$5,537 | \$3,463 | \$7,973 | \$13,510 | 70% |
| >400% | Full premium | >\$58,280 | \$9,000 | \$9,000 | \$9,000 | \$0 | \$11,900 | \$20,900 | None |
| Income as % | Expected | Income – | Premium for | Family's | Family | Government | Maximum | Premium | Required |
| of Poverty - | Premium as | Family of | Second Lowest | Chosen | Pays | Pays | out-of- | plus out-of- | Actuarial |
| Family of | % of income | Four | Cost Silver Plan | Exchange | | | nocket | pocket | Value |
| Four | | | (Family coverage) | Plan Premium | | | cap ^a | maximum ^a | |
| <133% ^b | 2% | \$29,327 | \$9,000 | \$9,000 | \$587 | \$8,413 | \$3,927 | \$4,514 | 94% |
| 150% | 4% | \$33,075 | \$9,000 | \$9,000 | \$1,323 | \$7,677 | \$3,927 | \$5,250 | 94% |
| 200% | 6.3% | \$44,100 | \$9,000 | \$9,000 | \$2,778 | \$6,222 | \$5,950 | \$8,728 | 87% |
| 250% | 8.05% | \$55,125 | \$9,000 | \$9,000 | \$4,438 | \$4,562 | \$5,950 | \$10,388 | 73% |
| 300% | 9.5% | \$66,150 | \$9,000 | \$9,000 | \$6,284 | \$2,716 | \$7,973 | \$14,257 | 70% |
| 400% | 9.5% | \$88,200 | \$9,000 | \$9,000 | \$8,379 | \$621 | \$7,973 | \$16,352 | 70% |
| >400% | Full premium | >\$88,200 | \$9,000 | \$9,000 | \$9,000 | \$0 | \$11,900 | \$20,900 | None |

See notes on next page

Note: Income thresholds and out of pocket maximums are based on 2010 amounts, and will change by 2014.

value of the plan for this group may not be higher than a 70% actuarial value, which is the level for the silver plan. So, if the cap is reduced the other cost sharing requirements must be increased.)

^a A "silver" plan must be chosen to be eligible for cost sharing assistance. In addition to lowering the out-of-pocket cap, in some cases reductions may also be made to the plan

deductibles and coinsurance/copayments. In other cases, the maximum out-of-pocket cap might end up higher than these amounts because the law puts a floor on enrollee contribution levels. For people from 250% – 400% of poverty, a reduction in the out-of-pocket cap could result in increased deductibles and coinsurance/copayments. (The overall b Most people with incomes below 133% of poverty will be eligible for Medicaid. However, legal immigrants who are ineligible for Medicaid and who have income below poverty

are eligible for subsidies to purchase coverage in the exchanges.

° In this example, the individual chooses a plan that is less expensive than the second lowest cost silver plan in the exchange.

^d In this example, the individual chooses a plan that is more expensive than the second lowest cost silver plan in the exchange.

• In this case, the expected individual contribution of \$4,115 (9.5% of \$43,320) exceeds the cost of the premium. In a health insurance exchange where the second lowest cost silver plan premium exceeds \$4,115, the government will pay the difference.

Same figures apply to family of two that is one parent/one child.