



## Reconciliation of Advance Payments for Health Insurance Subsidies

Beginning in 2014, the Affordable Care Act (ACA) will make available federal subsidies to eligible individuals for the purchase of health insurance through newly created health insurance Exchanges. These subsidies are a centerpiece of the law and are designed to provide financial assistance to millions of Americans who cannot afford health coverage today. It is estimated that by 2019, as many as 19 million people will receive subsidies through the Exchanges. Promoting broader participation in health insurance and making coverage more affordable are fundamental goals of the law; however, requirements that may increase the tax liability for some who receive advance payments of the subsidies and later have changed circumstances could dampen the number of people who apply for the subsidies and, ultimately, limit the number of people who gain coverage.

### **Premium Assistance Credits: Overview**

The premium assistance credits are refundable tax credits available to U.S. citizens and legal immigrants with incomes up to 400% of the federal poverty level (\$43,560 for an individual and \$89,400 for a family of four in 2011) who are not eligible for other coverage. Offered on a sliding scale based on income, the premium credits limit what people will be required to pay for health insurance to a percentage of their income, ranging from 3% of income for people with incomes at 133% of the federal poverty level to 9.5% of income for people with incomes between 300 and 400% of the poverty level.

For most tax credits, people apply for the credits when they file their taxes. However, because the cost of insurance is so high and many low and moderate income people would not be able to afford the coverage without upfront assistance, the law allows for eligible individuals to take the tax credit in the form of an advance payment. In this case, once an eligible individual selects and enrolls in a plan, the advance payments are made directly to the insurer. The enrollee is then only required to pay the remaining share of the premium to the insurer.

With health insurance premiums estimated to cost about \$12,000 for a family of four in 2014 (and significantly more for older families because of the age rating rules), most families with incomes ranging from 133-400% of the poverty level will not be able to pay the premium without receiving advance payments. For a family making \$50,000 a year, this premium without assistance would account for nearly a quarter of their income. With the advance payments, this family's premium payment would drop from over \$1,000 per month, to just over \$280 per month, a significantly more manageable amount.

### **Determining Eligibility for Tax Credits and Advance Payments**

In general, the premium assistance credit amount individuals are eligible to receive will be based on the annual income as reported on the tax return. For those who choose to claim the credit when they file their taxes, this credit will be applied against any taxes they owe or will be refunded for taxpayers who do not owe any taxes. However, because annual income will not be available when people apply for advance payments, the law lays out a different process for determining the advance payment amounts people may receive. Eligibility for advance payments will be determined using prior year's income (as reported on the prior year's tax return) or current income if it is different from prior year income and can be verified through pay stubs or other documentation.

**Reconciling Advance Payments and Premium Assistance Credits**

Because of the different eligibility process for the advance payments, the law requires that any advance payments received in a year be reconciled against the tax credits for which individuals and families are eligible based on their annual income reported on their tax return. If the advance payments exceed the amount of the credit for which individuals are ultimately eligible, a portion of the overpayment must be repaid. While the ACA originally limited the amount that had to be repaid to \$250 for an individual and \$400 for a family, a provision in the Medicare and Medicaid Extenders Act of 2010 raised the minimum repayment amounts to \$300 for an individual and \$600 for a family below 200% of the poverty level (\$44,700 for a family of four in 2011) and created a scaled repayment structure for those with incomes up to 500% of the poverty level (see table below).

**Table 1: Repayment Amounts under Current Law by Income Level**

Household Income	Repayment Amount (Individual)	Repayment Amount (Family)
Less than 200% FPL (\$21,780 for an individual; \$44,700 for a family of four)	\$300	\$600
200-250% FPL	\$500	\$1,000
250-300% FPL	\$750	\$1,500
300-350% FPL	\$1,000	\$2,000
350-400% FPL	\$1,250	\$2,500
400-450% FPL	\$1,500	\$3,000
450-500% FPL	\$1,750	\$3,500
Greater than 500% FPL (\$54,450 for an individual; \$111,750 for a family of four)	Full amount of advance payment	Full amount of advance payment

**Implications of the Reconciliation Process**

Whether applicants use the prior year’s income or more current income when applying for the advance payments, it is likely that the income will be different from what is ultimately reported on the tax return at the end of the year. Many people’s income fluctuates throughout the year—the income of hourly workers can change as the number of hours worked varies, but even salaried workers with more stable earnings can receive bonus payments that increase their income or change jobs. Changes in circumstances, such as job loss or job gain can also alter income from what may have been used to determine the advance payments. These changes are often unpredictable. As a result, many people may be required to repay a portion of advance payments that were appropriate at the time they were received but no longer apply.

Examples help illustrate the problem.

**Moderate-income family experiencing job gain**

A family with a working spouse making \$35,000 begins the year receiving coverage within an Exchange. Midway through the year, the second spouse begins a job making \$60,000 annually (or \$30,000 over the remainder of the year) that also provides employer-sponsored coverage for the family. The family leaves the Exchange at the end of June and stops receiving advanced payments. The family received \$5,371 in advanced payments for the six months they were enrolled in coverage in the Exchange, based on their \$35,000 annual income during that time.

However, with the second job, the family's actual annual income is \$65,000, which qualifies them for a tax credit of only \$3,190 for the six months. The family received excess advanced payments of \$2,182, but the repayment would be limited to \$1,500 with the current caps in place. A moderate income family such as this may not have the resources to pay this unexpected cost.

**Higher-income, older family**

Another family with two working spouses makes \$90,000 per year. Because the head of this family is older (55 years old), the family faces a premium of nearly \$20,000 per year in the Exchange. With advance payment subsidies of \$933 per month, the family pays \$713 a month toward the premium. At the end of December, one spouse receives a \$5,000 bonus. This bonus pushes the family's annual income above 400% of the poverty level and above the eligibility threshold for the subsidies. During the reconciliation process, the family is determined to have received \$11,200 in excess payments (the full amount of the subsidies received). The family's repayment requirement would be limited to \$3,000 under the current caps. However, if these caps were lifted, the family would have to pay back the full \$11,200. Even for a family with greater means, having to repay sums of this magnitude would be financially burdensome.

Many people experience changes in income over the course of a year or two. Using data from the Survey of Income and Program Participation, we estimate that nearly one in five nonelderly adults who would be eligible for subsidies based on their prior year's income would not be eligible using annual income for the current year (see Appendix A).

The effect of the reconciliation process may be to suppress participation in the Exchanges and limit the number of people obtaining coverage. The possibility of having to repay some of the advance payments they receive may discourage people from taking advantage of the advance payments, leading to fewer people obtaining coverage. Currently, repayment obligations are capped, except for those with incomes above 500% of the poverty level, but the amounts may still pose financial challenges for many families. Raising or eliminating the repayment caps would further exacerbate the problem and discourage participation in the Exchanges by the very population the law was intended to help.

**Appendix A: Income Change Over Three-Year Period**

Under the ACA, people with incomes under 400% of poverty purchasing coverage in Exchanges are eligible for tax credits to help them afford the cost of health insurance. People will be eligible for advance payments so that assistance can begin when they enroll, with eligibility initially determined based on their most recent tax return, although the ACA permits the Department of Health and Human Services to develop methods for considering changes in circumstances which may permit more current income information to be used. For people enrolling at the beginning of a year, their most recent available tax return will be for two years prior to the year in which they are enrolled (e.g., a person enrolling January 1, 2014 will have the return they filed in spring of 2013 reflecting 2012 income).

As discussed in the attached issue brief, people whose annual family income is higher than they projected when they enrolled (e.g., person or family member changes jobs or hours) may have to repay some or all of the advance payments made to insurers for their coverage. We used the data from the Survey of Income and Program Participation (SIPP) to look at the likelihood that adults in families with incomes in the subsidy-eligible range (138% to 400% of poverty) in a year would see their incomes increase above 400% of poverty two years later (see Methods below). The table below provides information on the percent of nonelderly adults who would potentially be eligible for premium tax credits based on income from their prior tax return but who would no longer be eligible based on actual income over the year. We examined adults because a number of children with incomes above 138% of poverty will be eligible for Medicaid or CHIP. We excluded Medicare beneficiaries, SSI recipients and people who are not citizens from the analysis. Because insurance status changes for many people over the course of a year, we did not exclude others based on health insurance status or attempt to determine if they would actually qualify for tax credits, so the table includes many who ultimately would not be eligible for tax credits for some or all of the year (e.g., people with employer-sponsored insurance).

**Percent of Adults Ages 19 to 64 with 2004 Incomes between 138 and 400% of Poverty with 2006 Income Exceeding 400% of Poverty**

2004 Income (as Percent of FPL)	Population (in Millions)	Percent and Number With 2006 Income 400% FPL – 499% FPL		Percent and Number With 2006 Income 500% FPL or more	
		Percent	Number (in Millions)	Percent	Number (in Millions)
138 – 200%	11.8	2%	0.3	4%	0.4
200 – 250%	11.5	5%	0.6	6%	0.7
250 – 300%	11.6	9%	1.0	6%	0.7
300 – 350%	10.9	15%	1.6	9%	0.9
350 – 400%	10.4	24%	2.5	15%	1.6
Total	56.2	11%	5.9	8%	4.4

## Methods

The table is based on data from the U.S. Census Bureau's 2004 Panel of the Survey of Income and Program Participation (SIPP). SIPP is a nationally-representative survey of the civilian, non-institutionalized American population, with interviews conducted every four months over a period of four years.

In each year analyzed, the following individuals were excluded: Medicare beneficiaries, foster children, SSI recipients (both Federal and state), non-citizens, and Americans older than 64. The exclusion of non-citizens decreased the observed income volatility, making our estimates more conservative. We also did not include people under the age of 19 in the analysis, although the presence of children is used in determining the size of a health insurance unit.

Income and poverty level are based on Health Insurance Units (HIU), which were defined as nuclear families including children up to the age of 26. Since SIPP designates a primary guardian to each child, Americans under the age of 26 with unmarried parents were assigned to the same HIU as their designated guardian. HIU poverty levels were based on the published HHS Poverty Thresholds, and HIU income reflected the sum of all reported earnings among the members of the HIU.



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