November 2013 | Issue Brief

State-by-State Estimates of the Number of People Eligible for Premium Tax Credits Under the Affordable Care Act

Key provisions of the 2010 Affordable Care Act (ACA) create new Marketplaces for people who purchase insurance directly and provide new premium tax credits to help people with low or moderate incomes afford that coverage. We estimate that about 17 million people who are now uninsured or who buy insurance on their own ("nongroup purchasers") will be eligible for premium tax credits in 2014. This issue brief provides national and state estimates for tax credit eligibility for people in these groups. We also estimate that about 29 million people nationally could look to new Marketplaces as a place to purchase coverage.

ELIGIBILITY FOR PREMIUM TAX CREDITS

A key focus of the ACA is to reduce the number of uninsured by expanding the number of people who buy nongroup coverage. It does this by removing existing barriers that keep people with health problems from obtaining coverage and by providing financial assistance through premium tax credits for low and moderate income people who purchase coverage through new state Marketplaces operated by states or the federal government. The Congressional Budget Office estimates that by 2018 around 20 million people covered in marketplaces will receive premium tax credits to assist them with their premium costs.[1]

Under the law, people with incomes between 100 percent and 400 percent of the federal poverty level may be eligible for premium tax credits when they purchase coverage in a Marketplace. People who are eligible for other types of public or private coverage, for example Medicaid or coverage through an employer-provided plan, generally cannot claim a premium tax credit. These tax credits also are not available to people who are not lawfully present in the country or who are incarcerated. Legally residing immigrants who recently arrived in the country are eligible for premium tax credits despite being ineligible for Medicaid; they may qualify if their income does not exceed 400 percent of the federal poverty level.[2]

The amount of tax credit that a person receives depends on their family income and the cost of health insurance where they live. The law establishes a maximum percentage of income that people within the 100 to 400 percent of poverty income range must pay for a benchmark plan where they live. The percentages range from 2% of income for people with income at the federal poverty line to 9.5% of income for people with incomes at four times federal poverty. If the premium that a person or family faces for the benchmark plan in their area is higher than the maximum percent of income defined in the law for their income, they are eligible for a tax credit, and the tax credit is equal to the difference between the premium for the benchmark plan and the defined percent of their income. The benchmark plan is the second-lowest-cost plan in the silver cost-sharing tier offered through the marketplace for the area where they live.[3] Additional explanations and examples are available by using the Kaiser Premium Subsidy Calculator.

People who are eligible for a premium tax credit can apply it to reduce the premium for any plan (other than catastrophic plans) offered in the marketplace. Their cost will be the actual premium for the plan that they enroll in minus the value of the premium tax credit they receive. One thing to note is that because marketplace premiums vary by age in most states, people with the same income but different ages will qualify for different premium tax credit amounts. In some cases, the premium for a benchmark plan for people at younger ages will be less than the defined percentage of income specified in the law; in this case the person would not receive a premium tax credit and would have to pay the full premium for any plan that they choose. However, they would still be able to purchase coverage, and their cost as a share of income will match the cost for others with comparable incomes. Premiums also vary by geographic area, which means that premium tax credits may differ for otherwise similar people if they live in different places.

HOW MANY PEOPLE ARE ELIGIBLE FOR PREMIUM TAX CREDITS

We used data from the 2012 and 2013 Current Population Survey (CPS) Annual Social and Economic Supplement (ASEC) to estimate the number of people eligible for premium tax credits for marketplace coverage. The ASEC provides detailed information on family composition, income and insurance status for national and state samples of residents. We use that information to determine whether each individual would be eligible to purchase coverage through a marketplace and whether they would be eligible to receive a premium tax credit.

The analysis starts with a pool of people who have no insurance or who purchase nongroup insurance. People who are covered by a public program or by employer-based coverage are assumed to retain that coverage and would not be eligible for premium tax credits. Two other groups of people were then removed from this potential pool of tax-credit eligible individuals: uninsured adults and children whose incomes would make them eligible for Medicaid or CHIP and people who are not legally residing in the United States. Neither group is eligible for premium tax credits under the ACA. For those remaining in the pool, we looked at their family incomes under ACA rules and the premiums that they would face for benchmark coverage to determine whether they would qualify for a premium tax credit. The vast majority of potential eligibles with incomes between 100 percent and 400 percent of poverty would qualify for a tax credits; those who do not qualify in this income range are younger people who face a premium that is lower than the defined percent of income under the law. As a final step, we removed approximately 16 percent of potential eligibles because research shows that some people who are uninsured or have nongroup coverage have access to employer-based coverage, either through an offer from their own employer or through an offer through a spouse or parent. Those that remain in the potential pool constitute our estimate of tax-credit eligible individuals. A more complete description of this data and our methods is provided in the methods section below.

We estimate that over 17 million people nationally will be eligible for tax credits in 2014. The national and state totals are shown in Table 1. Three states (Texas, California, and Florida) each have more than 1 million tax-credit-eligible residents, and another seven states have more than 500,000 tax-credit-eligible residents. At the lower end, seven states have fewer than 50,000 tax-credit-eligible residents, with the District of Columbia (9,500) and Vermont (27,000) having the fewest. The five states with the most tax-credit-eligible individuals account for about 40 percent of all such individuals nationally.

Table 1

Estimated Number of Tax-Credit-Eligible Individuals and Potential Market for Marketplace Coverage, By State		
	Number of Tax Credit Eligible Residents	Potential Market Size
National	**17,187,000**	**28,605,000**
Alabama	270,000	464,000
Alaska	55,000	78,000
Arizona	313,000	551,000
Arkansas	150,000	227,000
California	1,903,000	3,291,000
Colorado	254,000	501,000
Connecticut	109,000	216,000
Delaware	29,000	48,000
District of Columbia	9,000	36,000
Florida	1,587,000	2,545,000
Georgia	654,000	1,063,000
Hawaii	29,000	58,000
Idaho	130,000	202,000
Illinois	501,000	937,000
Indiana	354,000	525,000
Iowa	127,000	262,000
Kansas	161,000	298,000
Kentucky	192,000	302,000
Louisiana	344,000	489,000
Maine	77,000	122,000
Maryland	201,000	419,000
Massachusetts	118,000	259,000
Michigan	436,000	725,000
Minnesota	90,000	298,000
Mississippi	204,000	298,000
Missouri	386,000	657,000
Montana	97,000	152,000
Nebraska	122,000	239,000
Nevada	155,000	249,000
New Hampshire	81,000	137,000
New Jersey	400,000	628,000
New Mexico	118,000	193,000
New York	779,000	1,264,000
North Carolina	684,000	1,073,000
North Dakota	43,000	77,000
Ohio	544,000	812,000
Oklahoma	256,000	446,000
Oregon	187,000	337,000
Pennsylvania	715,000	1,276,000
Rhode Island	40,000	70,000
South Carolina	336,000	491,000
South Dakota	70,000	118,000
Tennessee	387,000	645,000
Texas	2,049,000	3,143,000
Utah	206,000	331,000
Vermont	27,000	45,000
Virginia	518,000	823,000
Washington	272,000	507,000
West Virginia	71,000	117,000
Wisconsin	301,000	482,000
Wyoming	47,000	80,000

Source: KFF analysis of March 2012 and 2013 CPS. See Methods for more details.

HOW MANY PEOPLE MIGHT LOOK TO STATE MARKETPLACES FOR COVERAGE?

People eligible for premium tax credits are likely to look to new marketplaces when they want coverage because tax credits are only available to marketplace enrollees. Others looking to purchase coverage on their own also might want to purchase in new marketplaces, although nongroup policies will be available outside of marketplaces as well. Generally, nongroup policies written inside and outside of marketplaces will provide the same benefits, have the same cost-sharing tiers, and be subject to the same market rules.

We estimate the potential market for coverage in marketplaces by starting with current nongroup purchasers and uninsured people who are legally residing in the United States and who are not eligible for Medicaid or CHIP. We then excluded two groups from among the current uninsured. The first group is people with incomes above Medicaid eligibility levels but below poverty, referred to as the gap group. Because they are not eligible for financial assistance, few will have the means to afford nongroup coverage. We also excluded current uninsured people who are in a household of a full-time worker who either has or is offered employer-based insurance. As noted above, these people would be ineligible for premium tax credits, so we assume that they would choose employer-based coverage rather than nongroup coverage if they choose to become insured.[4]

This calculation leaves about 29 million people nationally who might look to the new marketplaces. The largest potential markets are in the states with the largest tax-credit eligible population: California, Texas, and Florida. Six states have a potential market of more than 1 million people, and another 12 have a potential market of more than 500,000 people.

DISCUSSION

The Congressional Budget Office (CBO) projects that 7 million people will enroll in health insurance exchanges in 2014, including 6 million who will be receiving tax credits to subsidize their premiums. Based on our analysis above, these enrollment levels would mean that 25% of potential exchange enrollees would choose to participate in year one of the ACA, with a slightly higher proportion of people eligible for tax credits (35%) buying coverage in an exchange.

From the perspective of delivering assistance to people eligible for it, enrollment in exchanges is a key measure, since tax credits are only available to those who buy coverage on their own in an exchange. It often takes time for enrollment in a new program to ramp up, and consistent with this view, CBO projects the number of people receiving tax credits in exchanges to triple by 2016.

The take-up of tax credits may vary significantly across states, for a variety of reasons. In the early stages of open enrollment, it's clear that the enrollment process is working more smoothly in some state-based exchanges than in others, and the difficulties with the federal marketplace have been widely reported. In addition, significantly greater outreach and consumer assistance resources are available in state-based exchanges due to the availability of federal grants under the ACA and limited budget for implementation of the federal marketplace. Our estimates of the number of people eligible for tax credits by state can serve as a barometer for tracking the success of enrollment efforts.

The overall enrollment in Marketplace coverage is likely to be a metric that is watched closely. While it is not, in fact, the most relevant measure for assessing the stability of the individual insurance market, it may provide some signals as to the health of the market and where premiums may be heading in 2015.

More important than how many enroll is who enrolls – Are they disproportionately younger and healthier or older and sicker? And, it is the composition of the entire individual market that is important, not just who enrolls in exchanges. That is because insurers are required to set premiums for individual insurance market coverage across all plans they offer, inside and outside of exchanges. Also, the risk adjustment system – which will redistribute money from plans that serve disproportionately healthy enrollees to those that enroll a disproportionately sick population – applies to plans inside and outside exchanges as well.

However, the likelihood of getting a balanced mix of enrollees in the individual market is related to the total number of new signups. It is expected that people who have a pre-existing condition and have been excluded from the individual insurance market previously will likely be among the early entrants. In addition, many people in state-based high risk pools will likely switch over to the individual market as well. Therefore, low enrollment levels may indicate a disproportionately sick risk pool, while higher enrollment levels may suggest a more balanced pool. And, it is likely that many new entrants to the individual market will enter through Marketplaces, so the number and composition of Marketplace enrollment may be suggestive of how the market is doing overall. Because insurance pools operate at the state level, the composition of enrollment state-by-state will be what drives the stability of insurance markets. Enrolling a large number of young and healthy people in California, for example, would not offset low take-up in Texas.

METHODS

The analysis uses pooled data from the 2012 and 2013 Current Population Survey (CPS) Annual Social and Economic Supplement (ASEC). The CPS ASEC provides socioeconomic and demographic information that can be used for national and state estimates.

Estimating eligibility for Medicaid, CHIP and premium tax credits for marketplace coverage requires grouping individuals together in different ways to determine their income under the different program rules. Our approach is described here. We analyzed people without coverage or with nongroup coverage to determine their potential eligibility for premium-tax-credits and as potential marketplace participants. The first step was to remove adults and children with incomes below Medicaid and CHIP eligibility levels in their state.[5] We also removed people who are not legal residents from the pool of potential eligibles. The ASEC does not ask about legal status of non-citizens, so we imputed documentation status as described here. Programming code to create the households and to perform the immigration status imputation is available upon request.

Premium tax credits. We analyzed the sample of remaining uninsured and nongroup people to determine eligibility for premium tax credits based on the income for their tax household and the premiums in the state where they lived. More than 40 percent of the unweighted records in the 2012-2013 CPS have a county identified -- so a second lowest silver plan premium for that county was directly merged on to these records. Other records were assigned a premium based on the within-state average premium for all undisclosed counties, weighted by the Census Bureau's 2010 Small Area Health Insurance Estimates (SAHIE) of the uninsured population of those counties. Premiums were adjusted for age based on the age-rating curve in each state. We assumed that all eligible members of a tax household would enroll in nongroup coverage and calculated their premium as a percent of household income. This premium percentage was compared to the maximum percentages in the ACA that families in the tax credit range (100 to 400 percent of poverty) must pay toward the cost of the second-lowest cost silver plan where they live. People in families with incomes between 100 and 400 percent of poverty and whose household premium exceeded the maximum ACA percentage were identified as potentially tax credit eligible, subject to one additional adjustment described below.

As a final step, we reduced the number of people eligible for premium tax credits to reflect offers of employer-sponsored coverage. Under the law, people offered employer-sponsored coverage that meets minimum standards are not eligible to receive premium tax credits, even if they purchase nongroup coverage in a marketplace. The ASEC does not ask whether respondents were offered coverage at work, so we derived offer rates using data from Wave 6 of the 2008 Survey of Income and Program Participation (SIPP). Wave 6 asks respondents if they were offered health insurance at their main job. We assume that people who live with a spouse or parent that has coverage or an offer of coverage through a job also was offered coverage. We calculated offer rates for people without insurance and with nongroup insurance, stratified by age and income. We applied these percentages to the ASEC sample to reduce each state's count of uninsured and current nongroup individuals potentially eligible for premium tax credits.

Potential Market. As with our estimates for tax-credit eligibles, the estimate for the number of people who might look for coverage in Marketplaces starts with people legally residing in the United States who are uninsured or have nongroup coverage and have incomes above Medicaid and CHIP eligibility levels. We retain all remaining nongroup purchasers, even those with low incomes, as potential Marketplace purchasers because they are purchasing nongroup coverage now. Among the current uninsured, we excluded two groups from potential purchasers. The first group is people with access to employer-based coverage. As discussed above, we assume that these people would choose coverage through a job rather than nongroup coverage if they want to get insurance. We used information from Wave 6 in SIPP, as described above, to remove them from the number of potential marketplace purchasers. Excluding currently uninsured people with access to employer-sponsored insurance reduces the number of potential purchasers by a little over five million people. The second group we excluded was uninsured people with incomes below poverty, referred to as the gap group. These uninsured adults live in states that elected not to adopt the ACA Medicaid expansion and are not eligible for financial assistance to help them get coverage in exchanges. We assume that few would have sufficient resources to purchase nongroup coverage. Excluding this gap group reduces the number of potential purchasers by about 4.8 million people.

The issue brief was prepared by Gary Claxton, Larry Levitt, Anthony Damico, Rachel Garfield, Nirmita Panchal, Cynthia Cox and Matthew Rae.

---

[1] http://cbo.gov/sites/default/files/cbofiles/attachments/44190_EffectsAffordableCareActHealthInsuranceCoverage_2.pdf

[2] Recent legally residing immigrants with incomes below the poverty line are treated as if their income were at the poverty line, making them eligible for premium tax credits.

[3] Health plans sold in the individual market in a state all have essentially the same benefits. Plans are organized into five tiers based on the amount of cost sharing (e.g., deductibles, copayments, coinsurance) they have. The five tiers are catastrophic, bronze, silver, gold and platinum. For more information, see http://kaiserfamilyfoundation.files.wordpress.com/2013/01/8303.pdf.

[4] We did not remove current nongroup purchasers with an offer of employer-based coverage from the potential market total. These people have already made the decision not to take employer-provided coverage and to purchase nongroup coverage.

[5] Because some states have chosen to take the optional Medicaid expansion under the ACA and others have not, people with incomes from 100 to 138 percent of poverty will have different forms of financial assistance dependent on the state's decision. These people will be eligible for Medicaid in states taking the expansion but will be potentially eligible for premium tax credits in states not expanding Medicaid.