Health Insurance Tax Credits for Individuals and Families

The Patient Protection and Affordable Care Act (ACA) seeks to make insurance more affordable for uninsured individuals by providing tax credits towards the purchase of comprehensive health coverage. Most people receive health insurance through their employers or through public programs like Medicare or Medicaid, but 47 million people were without insurance in 2012, according to the Kaiser Family Foundation. Beginning in 2014, the ACA will provide tax credits to assist U.S. citizens and legal residents who do not have access to comprehensive, affordable health insurance purchase coverage through state-based health insurance exchanges. The federal government released a final rule on health insurance tax credits in May 2012.

Who qualifies?

Sliding scale premium tax credits will be made available to people with incomes between 100 percent and 400 percent of the Federal Poverty Level. In states that are expanding Medicaid, qualified individuals and families with incomes ranging from 100-138 percent of FPL will be enrolled in Medicaid coverage.

- Individuals with incomes between $11,490 and $45,960 (in 2013 dollars).
- Families depending on income and family size. A family of four, for instance, would be eligible if their income is between $23,550 and $94,200 (in 2013 dollars—actual income amounts to be updated by 2014).
- Individuals whose required contribution to their employer-based insurance exceeds 9.5 percent of their annual income.
- People covered by employer-based insurance that is deemed incomprehensive. Coverage is considered incomprehensive if it does not have an actuarial value of at least 60 percent. An actuarial value is a measure of an insurance plan's generosity; plans that have a high actuarial value have lower cost-sharing requirements.

Is anyone ineligible for the credits?

- In general, a person is ineligible for insurance credits if they are offered comprehensive, affordable health insurance through their employer or a public program such as Medicare.
- Some legal residents with incomes between $11,490 and $15,282 (2013 dollars—actual income amounts to be updated by 2014) who are ineligible for Medicaid (because they are required to wait 5 years prior to enrolling) will be eligible for premium credits. Individuals who apply for premium credits and are determined to be eligible for Medicaid coverage will be enrolled in the Medicaid program.

How do the credits work?

- The premium credits reduce the cost of insurance and ensure that the cost of coverage does not exceed a certain percentage of an individual's income.
    - The amount of credit varies with income and is based on purchase of a Silver plan with a 70 percent actuarial value, which is a measurement of insurance plan generosity. A less-comprehensive Bronze plan (with 60 percent actuarial value) will have a lower premium than a Silver-level plan. People who receive tax credits are able to purchase a more generous Gold or Platinum-level plan, but will have to pay the difference.
    - Age and geographic area, among other factors, affect premium cost. Premiums for younger individuals are lower than that for older enrollees. An older individual living in a high-cost area

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  - would receive a larger tax credit to compensate for the higher premium cost than a young person living in a low-cost area.
  - The Kaiser Family Foundation provides the following example: a 45-year old person with an income of $28,735 would be eligible for a credit that would reduce the premium cost of a Silver-level health plan (valued at $5,733) to about 8 percent of their income, or $2,313.
  - A family of four earning an income of about $80,000 purchasing a Silver-level health plan with a premium cost of $9,435 would receive a credit of $1,835.
- The premium credits are directed to the insurer that is chosen by the individual receiving the credit and are used to reduce the premium amount of the enrollee.
- The tax credits are *advanceable*, meaning the credit can be used when the coverage is purchased. Eligible individuals may also choose to take a portion of the tax credits and then receive a tax rebate after they file a tax refund.
- The premium credits are also *refundable,* so people who do not pay income tax because of their low income can still use the credits to reduce the cost of health insurance.

In addition to premium credits, some individuals and families with incomes up to 250 percent of the federal poverty level would also qualify for cost-sharing assistance to help with co-payments and out-of pocket expenses. Cost-sharing subsidies will be most generous for lower-income people and will phase-down as income increases. Cost-sharing subsidies increase the generosity of the insurance plan and limit the amount of out-of-pocket costs for eligible individuals. Out-of-pocket costs will also be capped for people receiving health benefits through the exchange.

What kind of insurance can an eligible person purchase with the tax credit?

Eligible individuals and families are required to purchase a "qualified health plan (QHP)" through a health insurance exchange (see the previous section). Qualified health plans are required to abide by a number of regulations, including restrictions that prohibit insurers from basing premiums on a person's health status and excluding coverage of an individual's pre-existing condition. Qualified health plans c*an't* exclude persons with pre-existing conditions, rescind policies, or impose annual or lifetime limits, and they can only vary premiums based on age (limited to a 3 to 1 ratio), where a person lives, family composition, and tobacco use. Insurers offering QHPs must offer at least one qualified Silver-level and Gold-level insurance plan. Qualified health plans are also required to meet marketing rules, have adequate provider networks, and provide a minimum essential health benefit package (at either the Bronze, Silver, Gold, Platinum, or for individuals up to age 30 and some low-income individuals, a catastrophic plan coverage levels), among other things. Minimum essential health benefits must cover services in 10 benefit categories, such as hospitalization, ambulatory patient services, and preventive and wellness services and chronic disease management. QHPs must also provide coverage of certain preventive services without cost-sharing. The minimum benefit package must also be equivalent to the scope in benefits of a typical employer health plan. According to the rule and a preceding Bulletin released by the federal government, states are permitted to choose a benchmark plan, such as the state's largest-enrollment small group health plan. All qualified health plans will have to provide benefits that are substantially equal to those of the benchmark plan.

Additional Resources

- ACP's *Help Your Patients Enroll in Health Insurance Marketplaces* campaign provides general information on resources that are available to you and your patients, and answers to frequently asked questions about insurance enrollment. In addition, ACP has also assembled state-specific resources to tell you more about what is happening in your area and help you provide your patients with accurate contact information. The campaign can be accessed here.

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- *Kaiser Family Foundation: Health Reform Subsidy Calculator*; *An online calculator that helps determine tax credit eligibility.*

  http://healthreform.kff.org/SubsidyCalculator.aspx

- *Kaiser Family Foundation: Questions About Health Insurance Subsidies; An overview of how premium credits and cost-sharing assistance work.*

  http://www.kff.org/healthreform/upload/7962-02.pdf

- *American College of Physicians: Public comments on the proposed rule regarding essential health benefits, actuarial value, and accreditation.*

  http://www.acponline.org/advocacy/ehb_proposed_final.pdf

- *Healthcare.gov: Essential Health Benefits, Actuarial Value, and Accreditation Standards: Ensuring Meaningful, Affordable Coverage.*

  http://www.healthcare.gov/news/factsheets/2012/11/ehb11202012a.html

- *Kaiser Family Foundation: Essential Health Benefits Benchmarks*

  http://kff.org/health-reform/state-indicator/ehb-benchmark-plans

- *Healthcare.gov: What are my preventive benefits?*

  https://www.healthcare.gov/what-are-my-preventive-care-benefits/

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