Module IX

PREMIUM TAX CREDITS AND COST-SHARING SUBSIDIES

Tax Credits and Subsidies

- Premium Tax Credits
  - Qualification
  - Amount (sliding scale)
  - Advanceable and Refundable
  - Reconciliation
- Cost Sharing Subsidies
  - Qualification
  - Amount
- Eligible for MEC
  - Employee
  - Related Individuals

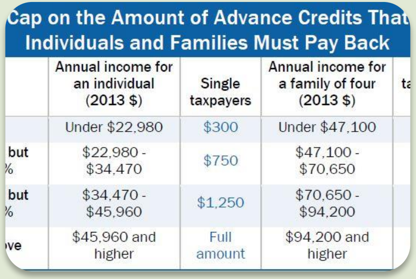
IRS / Treasury Department

Final rule on related individuals published February 1, 2013

Premium Tax Credits

Qualification	• People who earn up to 400% of FPL without affordable employer-sponsored coverage
Amount	• Limits cost for the second lowest priced silver level plan to a percentage of the individual's income, applied on a sliding scale
Advanceable	• The premium tax credits are advanceable. The IRS will pay its share directly to the insurance carriers.
Refundable	• Individuals whose tax liability is less than the credit amount still qualify.

Reconciliation


Cap on the Amount of Advance Credits That Individuals and Families Must Pay Back

	Annual income for an individual (2013 $)	Single taxpayers	Annual income for a family of four (2013 $)	ta
	Under $22,980	$300	Under $47,100	
but %	$22,980 - $34,470	$750	$47,100 - $70,650	
but %	$34,470 - $45,960	$1,250	$70,650 - $94,200	
ve	$45,960 and higher	Full amount	$94,200 and higher	

Because those who choose to have the IRS pay their premium directly to the carrier are receiving an advance, they must reconcile their credit amount when they file their taxes.

If their income is lower than originally anticipated, they will get a larger refund.

If their income is higher than originally anticipated, they will owe money back.

The amount they will have to pay back is capped and depends on their family status and household income.

Reconciliation: Cap on Payback Amount

Cap on the Amount of Advance Credits That Individuals and Families Must Pay Back				
Income as percentage of poverty line	Annual income for an individual (2013 $)	Single taxpayers	Annual income for a family of four (2013 $)	Married taxpayers filing jointly
Under 200%	Under $22,980	$300	Under $47,100	$600
At least 200% but less than 300%	$22,980 - $34,470	$750	$47,100 - $70,650	$1,500
At least 300% but less than 400%	$34,470 - $45,960	$1,250	$70,650 - $94,200	$2,500
400% and above	$45,960 and higher	Full amount	$94,200 and higher	Full amount

Source: http://www.cbpp.org/files/QA-on-Premium-Credits.pdf

From the IRS

Facts about the Premium Tax Credit

Publication 5120: Your Credit, Your Choice – Get it Now or Get it Later English | Spanish

Publication 5121: Need help paying for health insurance premiums? English | Spanish

Publication 5152: Report changes to the Marketplace as they happen English

Premium Tax Credit

Premium Tax Credit (ASL)

Basic Information

Basic Information

Starting in 2014, if you get your health insurance coverage through the Health Insurance Marketplace, you may be eligible for the premium tax credit. This tax credit can help make purchasing health insurance coverage more affordable for people with moderate incomes. The 2014 Open Enrollment Period has ended. However, under certain circumstances eligible individuals may qualify for a Special Enrollment Period and can buy a private health plan through the Marketplace. Visit Healthcare.gov for details of who is eligible for a Special Enrollment Period.

The Department of Health and Human Services administers the requirements for the Marketplace and the health plans they offer. For more information about your coverage options, financial assistance and the Marketplace, visit HealthCare.gov.

Source: http://www.irs.gov/uac/The-Premium-Tax-Credit

Eligibility

Eligibility

In general, you may be eligible for the credit if you meet all of the following:

- buy health insurance through the Marketplace;
- are ineligible for coverage through an employer or government plan;
- are within certain income limits;
- do not file a Married Filing Separately tax return (unless you meet the criteria in Notice 2014-23, which allows certain victims of domestic abuse to claim the premium tax credit using the Married Filing Separately filing status for the 2014 calendar year); and
- cannot be claimed as a dependent by another person.

Filing Status

Filing Status

If you file your tax return using the filing status Single, Married Filing Jointly, Head of Household (including married individuals who qualify to use the Head of Household status) or Qualifying Widow/Widower, you may be eligible for the premium tax credit if you meet the other criteria. If you are married and you file your tax return using the filing status Married Filing Separately, you will not be eligible for the premium tax credit unless you meet the criteria in Notice 2014-23, which allows certain victims of domestic abuse to claim the premium tax credit using the Married Filing Separately filing status for the 2014 calendar year.

Source: http://www.irs.gov/uac/The-Premium-Tax-Credit

Getting the Credit

Getting the Credit

To qualify for the credit, you must get insurance through the Marketplace.

If you are eligible for the credit, you can choose to:

- Get It Now: have some or all of the estimated credit paid in advance directly to your insurance company to lower what you pay out-of-pocket for your monthly premiums; or
- Get It Later: wait to get all of the credit when you file your tax return.

During enrollment through the Marketplace, using information you provide about your projected income and family composition for the year, the Marketplace will estimate the amount of the premium tax credit you will be able to claim on your tax return.

You will then decide whether you want to have all, some or none of your estimated credit paid in advance directly to your insurance company.

Change in Circumstances

Change in Circumstances

Report income and family size changes to the Marketplace throughout the year. Reporting changes will help make sure you get the proper type and amount of financial assistance and will help you avoid getting too much or too little in advance. Receiving too much or too little in advance can affect your refund or balance due when you file your tax return.

For example, if you do not report income or family size changes to the Marketplace when they happen, the advance payments may not match your actual qualified credit amount on your federal tax return. This might result in a smaller refund or a balance due.

Source: http://www.irs.gov/uac/The-Premium-Tax-Credit

Claiming the Credit on Your Tax Return

Claiming the Credit on Your Federal Tax Return

For any tax year, if you receive advance credit payments in any amount or if you plan to claim the premium tax credit, you must file a federal income tax return for that year.

If you choose to get it now: When you file your tax return, you will subtract the total advance payments you received during the year from the amount of the premium tax credit calculated on your tax return. If the premium tax credit computed on the return is more than the advance payments made on your behalf during the year, the difference will increase your refund or lower the amount of tax you owe. If the advance credit payments are more than the premium tax credit, the difference will increase the amount you owe and result in either a smaller refund or a balance due.

If you choose to get it later: You will claim the full amount of the premium tax credit when you file your tax return. This will either increase your refund or lower your balance due.

An Example

(Benchmark Plan)

Gold Plan: $350	Silver Plan: $300	Bronze Plan: $250
• Government pays $200 • Member pays $150	• Government pays $200 • Member pays $100	• Government pays $200 • Member pays $50

What if Premiums Go Up?

Gold Plan: $403	Silver Plan: $345 (Benchmark Plan)	Bronze Plan: $288
• Government pays $245 • Member pays $158	• Government pays $245 • Member pays $100	• Government pays $245 • Member pays $43

Subsidized Premiums – Silver Level

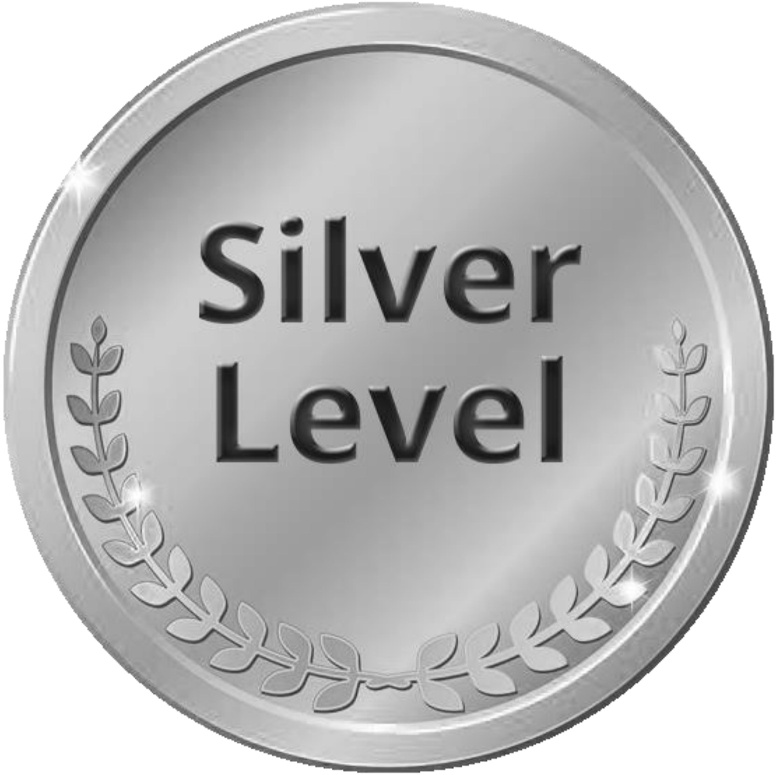
Number of Family Members

Household Income	1	2	3	4	5	6	7	8
$20,000	$83	$33	$33	Medicaid	Medicaid	Medicaid	Medicaid	Medicaid
$25,000	$142	$92	$42	$42	Medicaid	Medicaid	Medicaid	Medicaid
$30,000	$207	$147	$102	$50	$50	Medicaid	Medicaid	Medicaid
$35,000	$277	$207	$153	$111	$58	$58	Medicaid	Medicaid
$40,000	$317	$273	$212	$160	$120	$67	$67	Medicaid
$45,000	$356	$341	$272	$216	$169	$129	$75	$75
$50,000	No subsidy	$396	$338	$276	$222	$178	$138	$83
$55,000	No subsidy	$435	$406	$337	$282	$229	$188	$148
$60,000	No subsidy	$475	$475	$404	$341	$286	$237	$198
$65,000	No subsidy	No subsidy	$515	$471	$403	$347	$291	$246
$70,000	No subsidy	No subsidy	$554	$543	$470	$405	$351	$298
$75,000	No subsidy	No subsidy	$594	$594	$536	$468	$411	$355
$80,000	No subsidy	No subsidy	No subsidy	$633	$607	$536	$470	$417
$85,000	No subsidy	No subsidy	No subsidy	$673	$673	$602	$534	$475
$90,000	No subsidy	No subsidy	No subsidy	$713	$713	$671	$602	$535
$95,000	No subsidy	No subsidy	No subsidy	$752	$752	$744	$667	$600
$100,000	No subsidy	No subsidy	No subsidy	No subsidy	$792	$792	$736	$668

Source: http://www.benefitslearningnetwork.org

COST-SHARING SUBSIDIES

Only Available in the Silver Level



Cost Sharing Subsidies

Only available in the silver level of the individual exchange

OOP max

- Beginning in 2014, the out of pocket maximum on all non-grandfathered plans in all markets will be tied to the HSA out of pocket maximum ($6,350 for single coverage and $12,700 for family coverage in 2014)
- The actuarial value will be reduced for anyone who earns up to 250% of the FPL and purchases a plan in the silver level.
  - 100% to 200% of FPL: OOP max reduced by two-thirds
  - 200% to 250% of FPL: OOP max reduced by 20%

Actuarial value

- For individuals who earn up to 250% of the FPL, the actuarial value is increased
  - 100% to 150% of FPL: 94% actuarial value
  - 150% to 200%: 87%
  - 200% to 250%: 73%

New Standards for Cost-Sharing Reductions

New Standards Related to Cost-Sharing Reductions

To implement requirements in the Affordable Care Act, we propose that QHP issuers reduce cost sharing for individuals with household incomes between 100 percent and 250 percent of the federal poverty level (FPL), who are enrolled in a silver level QHP in the individual market on an Exchange. In addition, issuers must eliminate cost sharing for Indians with household incomes under 300 percent of FPL who are enrolled in a QHP in the individual market on an Exchange. Finally, issuers must eliminate cost sharing for Indians enrolled in a QHP in the individual market on the Exchange, regardless of income, when services are provided by the Indian Health Service, an Indian Tribe, Tribal Organization, or Urban Indian Organization, or through referral under contract health services.

Source: http://www.cms.gov/CCIIO/Resources/Files/Downloads/proposed-payment-notice-technical-summary-11-30-20.pdf

Plan Variations for Cost-Sharing Reductions

Plan Variations **(§156.215, §156.400, §156.410, §156.420, §156.425 and §156.440)**
To implement the cost-sharing reduction program, we propose that QHP issuers develop variations of their QHPs. These variations would not be separate QHPs, but rather, variations of the QHP under which a portion of the cost sharing would be paid by the federal government, and the remainder would be paid by the enrollee. In the proposed Payment Notice, we provide specific instructions to QHP issuers for developing the plan variations and submitting the variations to the Exchange for approval. QHP issuers would be required to assign eligible enrollees to the appropriate plan variation based on an eligibility determination made by the Exchange. This approach would ensure that eligible enrollees receive the appropriate cost-sharing reductions at the point of service. QHP issuers may not create a system in which an eligible enrollee is required to pay the full cost sharing requirement and apply for a reimbursement or refund. We also clarify that if an Exchange notifies a QHP issuer of a change in an enrollee's eligibility for cost-sharing reductions, the QHP issuer must reassign the enrollee to the appropriate plan variation. Following such a reassignment, the QHP issuer must ensure that any cost sharing paid by enrollee under the previous plan variation is accounted for in the calculation of deductibles and annual limitations on cost sharing in the enrollee's new plan variation for the remainder of the benefit year – in other words, cost-sharing amounts would "carry over" to the new plan variation. An issuer would not be required to "carry over" cost sharing following a change in QHP.

Payments to Carriers for Cost-Sharing Reductions

***Payments for Cost-Sharing Reductions* (§155.1030, §156.430, and §156.470)**
The Affordable Care Act directs the Secretary to make periodic and timely payments to QHP issuers to offset the cost-sharing reductions. To fulfill this requirement, we propose to implement a payment approach under which HHS would make monthly advance payments to issuers to cover projected cost-sharing reduction amounts, and then reconcile those advance payments at the end of the benefit year to the actual cost-sharing reduction amounts. In this proposed Payment Notice, we propose that QHP issuers submit to the Exchange, for approval by HHS, estimates of the value of the cost-sharing reductions to be provided over the benefit year. Given the lack of data on costs associated with coverage offered through an Exchange, we propose a simplified methodology for calculating these estimates for benefit year 2014. After the close of the benefit year, QHP issuers would submit to HHS information on the actual value of the cost-sharing reductions. HHS would then reconcile the advance payments and the actual cost-sharing reductions.

EMPLOYER-SPONSORED COVERAGE

Eligibility Criteria

- **In general, household income must be between 100 percent and 400 percent of the Federal Poverty Level.**
- **Cannot have access to minimum essential coverage, other than individual market coverage:**
  - Minimum essential coverage is defined as any coverage in the individual, small group or large group markets, Medicare, Medicaid, CHIP, TRICARE, veterans' health care and Peace Corps coverage, and any other coverage the Departments of Health and Human Services and IRS deem minimum essential coverage in future regulations.
  - There is an exception to this rule if coverage offered by an employer either does not meet a minimum value test (at least 60 percent actuarial value) or an affordability test (the employee share of the premium for self-only coverage cannot exceed 9.5 percent of household income).
- Credit only applies to coverage months for an individual market QHP purchased through an Affordable Care Act Exchange.
- **Married couples must file a joint tax return.**
- Those receiving advance premium tax credits are required to file a tax return for the taxable year in which the advanced payment is received.
- Must be a legal resident.
- Cannot be incarcerated.
- An individual cannot be an "applicable taxpayer" if the individual can be claimed as a dependent by another taxpayer
- Taxpayer's share of the premium for the coverage month must be paid in full by the taxpayer's tax filing date.

Source: http://www.bcbsm.com/content/microsites/health-care-reform/en/reform-alerts/irs-issues-final-rule-regarding-premium-tax-credits-for-the-exch.html

Can someone eligible for group coverage qualify for a subsidy?

Only if:

MV	>9.5%
The group coverage does not provide minimum value (60% bronze level)	The group coverage is unaffordable (EO premium vs. household income)

What about dependents?

"an eligible employer-sponsored plan is affordable for related individuals if the portion of the annual premium the employee must pay for self-only coverage (the required contribution percentage) does not exceed 9.5% of the taxpayer's household income."

Household Income $45,000	$45,000 x 9.5% = $4,275	$4,275 / 12 months = $356.25

If an employee's household income is $45,000 per year, he and his family members can only access a subsidy if his share of the single premium is more than $356.25 per month.

Different from affordability exemption

"for purposes of applying the affordability exemption from the shared responsibility payment in the case of related individuals, the required contribution is based on the premium the employee would pay for employer-sponsored family coverage."

Household Income $45,000	$45,000 x 8% = $3,600	$3,600 / 12 months = $300

If an employee's household income is $45,000 per year, he and his family members are exempt from the penalty if their share of the family premium is more than $300 per month.

Source: https://www.federalregister.gov/articles/2013/02/01/2013-02136/health-insurance-premium-tax-credit#print_view

Bad News for Families with Modest Incomes

By Phil Daigle on February 5, 2013

The ACA says that someone with access to affordable employer-sponsored coverage cannot get a premium subsidy from state exchanges in 2014, unless the cost of the employer-based health care coverage for that employee exceeds 9.5 percent of the worker's household income. The IRS ruled last week that the calculation of affordability will be based on the cost of employee-only coverage, not family coverage.

Many Families Priced Out

This is highly disappointing ruling. Estimates made in 2011 by respected research organizations suggested that **some 2 million to 3.9 million non-working spouses and dependents would be harmed by the strict ruling**. It could leave millions of Americans with modest incomes unable to afford family coverage under their employers' health insurance but ineligible for subsidies to buy coverage in the Exchange. A Kaiser Family Foundation survey found that in 2012, employees' annual share of insurance premiums averaged $951 for individual coverage and $4,316 for family coverage. Under the I.R.S. rule, such costs would be considered affordable for an employee with a household income of $35,000 a year — making the employee's spouse and children ineligible for a premium subsidy on a health exchange, even though that family would have to spend 12 percent of its income for the employer's family plan.

Exempt form Penalties

The IRS said in a proposed rule also issued today that **most families in such a situation won't have to pay a penalty if they choose not to buy insurance coverage.** This helps some, but it still leaves families that can't afford health coverage either through an employer or on their own without the subsidy they need. There will be a substantial number of families who are priced out of needed health care.

Source: http://www.cahba.com/blog/2013/02/a_lousy_deal_for_families_for.html

Rule for employees and family members:

No subsidies for employees or dependents

- Employees who have access to employer-sponsored coverage as well as their family members who are eligible to enroll are ineligible for a subsidy if the employer-sponsored plan is considered affordable.

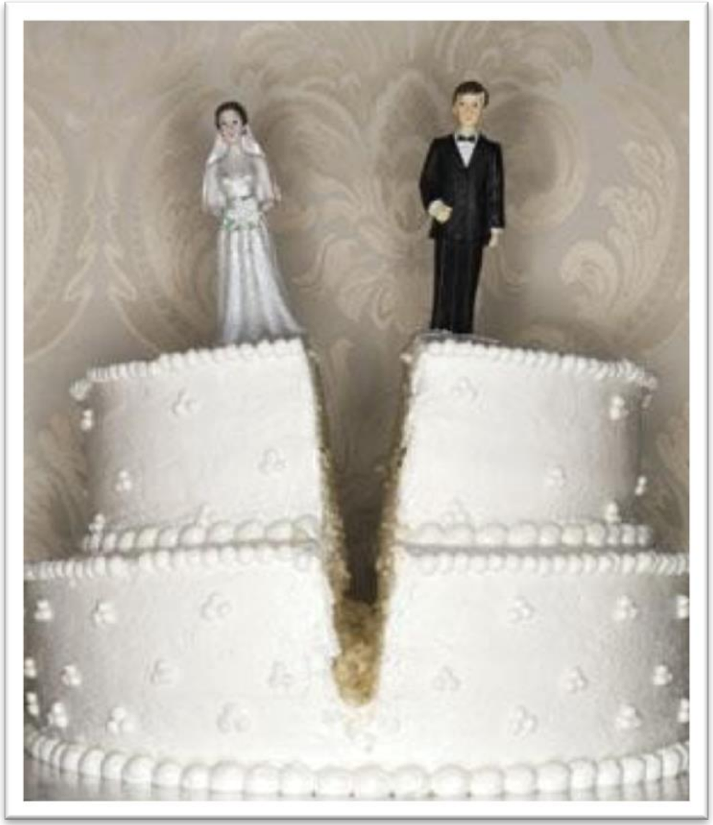
Affordable defined

- Affordable means that, after the employer contribution, the employee's share for single coverage is less than 9.5% of his household income.

Dependents defined

- Large employers must offer coverage to dependent children but not to spouses, step-children, or foster children. If coverage is offered to spouses then they are subject to these same regulations.

Ditch the Spouse



- Not included in definition of dependent
- If spouse is not eligible for group coverage, he/she is not blocked from a subsidy
- Would still pay family rate (% of household income) in individual market
- Hurts higher-paid employees

Small Group Law in Texas

In Texas, small group carriers and employers must offer coverage to dependents as well.

May be an option in the large group market.

Premium Tax Credits & Cost-Sharing Subsidies

ANY QUESTIONS?