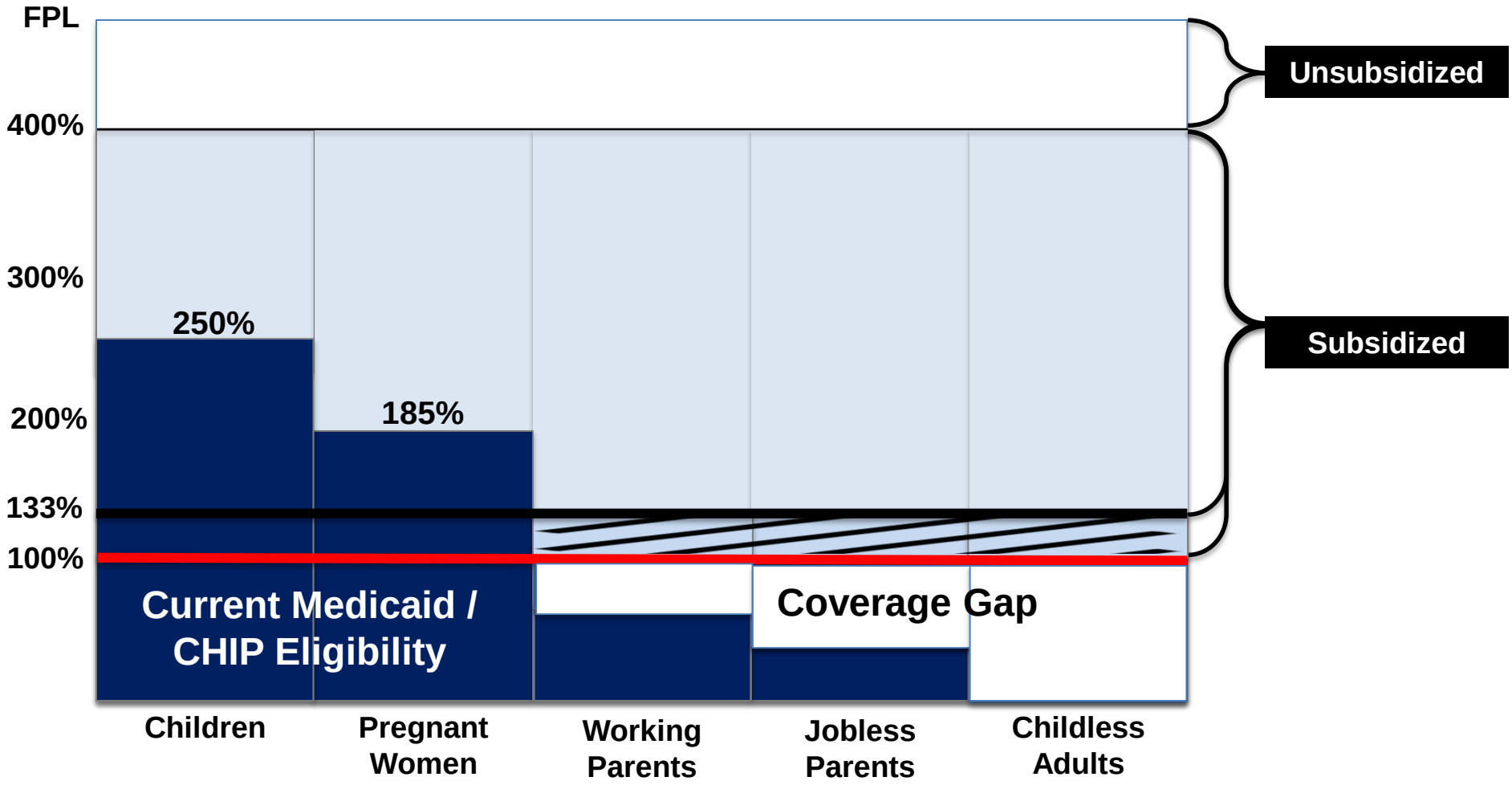
Putting it Together:
Beyond the Basics

Center on Budget and Policy Priorities
September 18, 2013

Topics

- Review and apply key concepts to three family scenarios:
  - Household and income determinations
  - Premium tax credit eligibility
  - Impact of offers of employer-sponsored coverage on the premium tax credit calculation
  - How cost-sharing reductions work
- Variations based on frequently asked questions

Coverage Landscape in 2014



Medicaid and CHIP coverage, based on 2012 eligibility levels in a typical state
Source: Kaiser Commission on Medicaid and the Uninsured

Example: John

John is 24 years old, single, lives alone and earns $23,000. He pays $100 in interest monthly on his student loans. He is currently uninsured.

- Let's consider John's:
  - Household
  - Income
  - Offers of "minimum essential coverage"
  - Premium tax credit eligibility
  - Cost-sharing reduction eligibility

John's Household

John is 24 years old, single, lives alone and earns $23,000. He pays $100 in interest monthly on his student loans. He is currently uninsured.

Who is in John's household?

- John files a tax return, is not claimed as a dependent by anyone else, and has no dependents of his own.
- John is a household of 1 for Medicaid and premium tax credits.

John's Income?

What is John's gross income?

- $23,000

What is John's Modified Adjusted Gross Income (MAGI)?

- $21,800 ($23,000 minus $1,200 in deductible student loan interest)

Form **1040** Department of the Treasury—Internal Revenue Service (99) **U.S. Individual Income Tax Return** **2012** OMB No. 1545-0074 IRS Use Only—Do not write or staple in this space.

For the year Jan. 1–Dec. 31, 2012, or other tax year beginning , 2012, ending , 20 See separate instructions.

Your first name and initial | Last name | Your social security number

If a joint return, spouse's first name and initial | Last name | Spouse's social security number

Home address (number and street). If you have a P.O. box, see instructions. | Apt. no. | Make sure the SSN(s) above and on line 6c are correct.

City, town or post office, state, and ZIP code. If you have a foreign address, also complete spaces below (see instructions) | Presidential Election Campaign: Check here if you, or your spouse if filing jointly, want $3 to go to this fund. Checking a box below will not change your tax or refund. ☐ You ☐ Spouse

Foreign country name | Foreign province/state/county | Foreign postal code

Filing Status Check only one box.
1 ☐ Single
2 ☐ Married filing jointly (even if only one had income)
3 ☐ Married filing separately. Enter spouse's SSN above and full name here. ▶
4 ☐ Head of household (with qualifying person). (See instructions.) If the qualifying person is a child but not your dependent, enter this child's name here. ▶
5 ☐ Qualifying widow(er) with dependent child

Exemptions
6a ☐ Yourself. If someone can claim you as a dependent, do not check box 6a
b ☐ Spouse
Boxes checked on 6a and 6b
c Dependents: (1) First name Last name | (2) Dependent's social security number | (3) Dependent's relationship to you | (4) ✓ if child under age 17 qualifying for child tax credit (see instructions)
If more than four dependents, see instructions and check here ▶ ☐
No. of children on 6c who: • lived with you • did not live with you due to divorce or separation (see instructions)
Dependents on 6c not entered above
d Total number of exemptions claimed
Add numbers on lines above ▶

Income
Attach Form(s) W-2 here. Also attach Forms W-2G and 1099-R if tax was withheld.
If you did not get a W-2, see instructions.
Enclose, but do not attach, any payment. Also, please use Form 1040-V.

7	Wages, salaries, tips, etc. Attach Form(s) W-2		7
8a	Taxable interest. Attach Schedule B if required		8a
b	Tax-exempt interest. Do not include on line 8a	8b	
9a	Ordinary dividends. Attach Schedule B if required		9a
b	Qualified dividends	9b	
10	Taxable refunds, credits, or offsets of state and local income taxes		10
11	Alimony received		11
12	Business income or (loss). Attach Schedule C or C-EZ		12
13	Capital gain or (loss). Attach Schedule D if required. If not required, check here ▶ ☐		13
14	Other gains or (losses). Attach Form 4797		14
15a	IRA distributions 15a	b Taxable amount	15b
16a	Pensions and annuities 16a	b Taxable amount	16b
17	Rental real estate, royalties, partnerships, S corporations, trusts, etc. Attach Schedule E		17
18	Farm income or (loss). Attach Schedule F		18
19	Unemployment compensation		19
20a	Social security benefits 20a	b Taxable amount	20b
21	Other income. List type and amount		21
22	Combine the amounts in the far right column for lines 7 through 21. This is your total income ▶		22

Adjusted Gross Income

23	Educator expenses	23	
24	Certain business expenses of reservists, performing artists, and fee-basis government officials. Attach Form 2106 or 2106-EZ	24	
25	Health savings account deduction. Attach Form 8889	25	
26	Moving expenses. Attach Form 3903	26	
27	Deductible part of self-employment tax. Attach Schedule SE	27	
28	Self-employed SEP, SIMPLE, and qualified plans	28	
29	Self-employed health insurance deduction	29	
30	Penalty on early withdrawal of savings	30	
31a	Alimony paid b Recipient's SSN ▶	31a	
32	IRA deduction	32	
33	Student loan interest deduction	33	
34	Tuition and fees. Attach Form 8917	34	
35	Domestic production activities deduction. Attach Form 8903	35	
36	Add lines 23 through 35		36
37	Subtract line 36 from line 22. This is your adjusted gross income ▶		37

For Disclosure, Privacy Act, and Paperwork Reduction Act Notice, see separate instructions. Cat. No. 11320B Form 1040 (2012)

33 Student loan interest deduction 33

Modified Adjusted Gross Income (MAGI)

Adjusted Gross Income (1040, line 37)

+ Foreign income

+ Tax exempt interest

+ Non-taxable Social Security benefits

MAGI

- For many people, Social Security benefits are not taxable. Having additional income can make benefits taxable.
- To calculate MAGI, include all Social Security benefits received by the taxpayer – both taxed and untaxed.

20a	Social security benefits	20a			b Taxable amount . . .	20b	

Is John Eligible for Other MEC?

John is 24 years old, single, lives alone and earns $23,000. He pays $100 in interest monthly on his student loans. He is currently uninsured.

Is John eligible for Medicaid or other public coverage?

No, John's income is too high (190% FPL)

Does John have an offer of employer coverage?

No.

Does John have any other offer of coverage?

Yes, his father's employer-sponsored coverage.

Dad's Plan
Cost: $0 to John (Dad pays for family coverage)

→

John can join his Dad's family plan because he is under age 26.

→

BUT the offer does not make him ineligible for a premium tax credit.

John: Calculation of Premium Tax Credit

Credit amount =
Cost of benchmark plan –
Expected premium contribution

MAGI: $21,800 (190% FPL)

What is John's expected premium contribution?
5.83% or $1,270

What is John's benchmark?
Second lowest-cost silver plan in John's area

Plan A: $3,200
Plan B: $3,018 ← *Benchmark*
Plan C: $2,600

Premium Credit = $3,018 - $1,270 = $1,748

What Kind of Coverage Can John Buy with the Premium Credits?

Higher premiums; Lower cost-sharing

Lower premiums; Higher cost-sharing

Plan Tier	Actuarial Value
Platinum	90%
Gold	80%
Silver	70%
Bronze	60%

Cost-Sharing Reductions Available

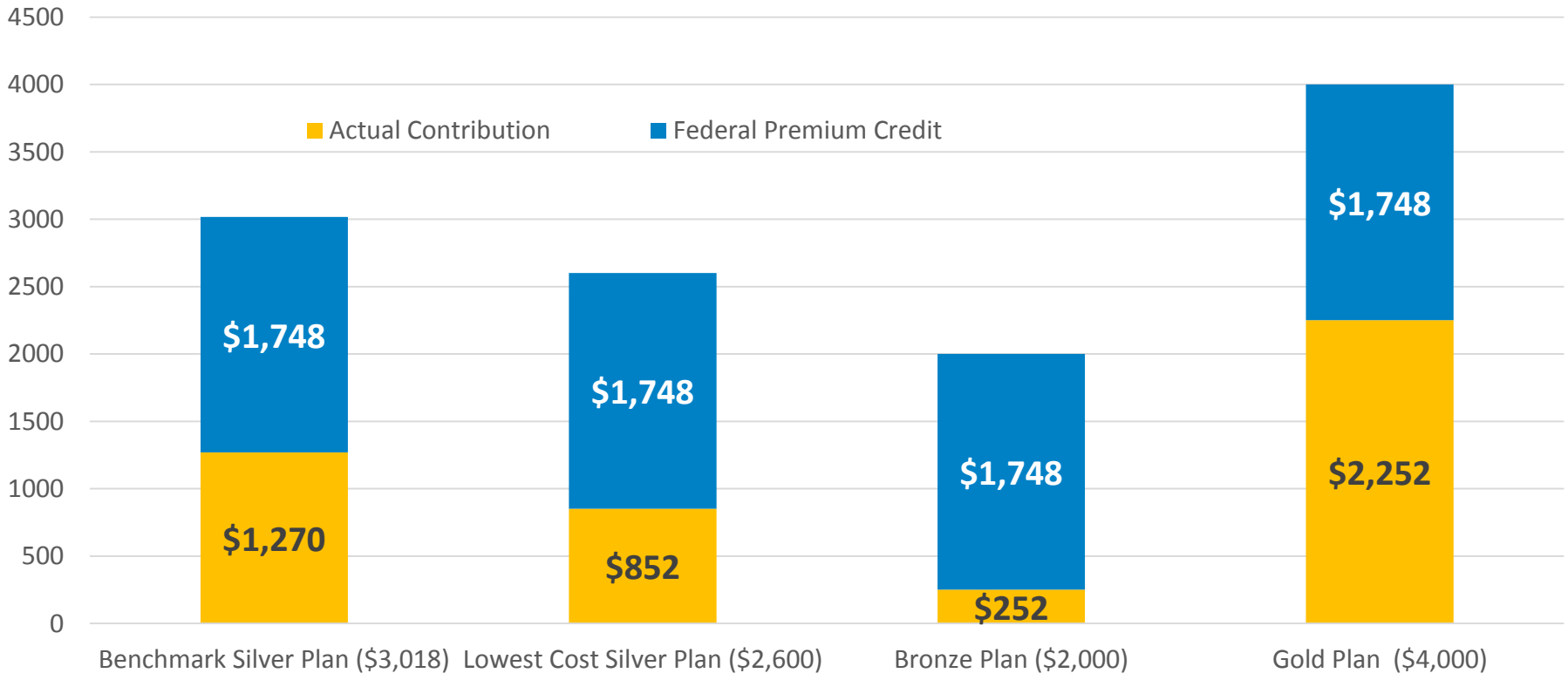
Actuarial Value

- Indicates what percentage of a typical population's costs for covered services the plan would pay for.
- Does not represent what the plan would pay for any particular individual

Impact of Plan Choice on What John Pays

John:

Eligible for a premium credit of $1,748 regardless of the plan he chooses



Cost-Sharing Reductions

- **Who is eligible?**
  - People with income up to 250% FPL
  - Must enroll in a silver plan in the Marketplace to receive cost-sharing reductions

Standard silver: No cost-sharing reduction	Cost-sharing reduction varies by income	Actuarial value after cost-sharing reduction
70%	<150% FPL	94%
	151-200% FPL	87%
	201-250% FPL	73%

Impact of Cost-Sharing on Plan Choice

Premium Credit:
$1,748

MAGI:
$21,800
(190% FPL)

Example 1: Silver Plan	Example 2: Bronze Plan
Total Premium: **$3,018**	Total Premium: **$2,000**
John's Premium Contribution: **$106/month**	John's Premium Contribution: **$21/month**
Plan AV with CSR: **87%**	Plan AV without CSR: **60%**

	Sample Silver-CSR Plan (enrollee pays)	Sample Bronze Plan (enrollee pays)
Deductible	$250	$5,000
Maximum OOP limit	$2,000	$6,350
Inpatient hospital	$250 / admission	50% of the charge
Office visit	$15	$50

Reyes Family

Mrs. Reyes works at Acme. She earns $35,000/year.
Mr. Reyes receives $1,000/month in unemployment benefits.

Let's consider the Reyes family's:

- Household
- Income
- Eligibility for other MEC
- Premium tax credit eligibility
- Cost-sharing reduction eligibility

Reyes Family: Household and Income

Mrs. Reyes earns $35,000.
Mr. Reyes receives $1,000/month ($12,000/year) in unemployment benefits.

Who is in the Reyes household?

Mr. and Mrs. Reyes are joint tax filers and they claim their children as dependents. The family is a household of 4.

What is the Reyes household's income?

$47,000 ($35,000 + $12,000)

What is the Reyes household's MAGI?

$47,000 (200% of the poverty line)

Reyes Family: Other MEC?

MAGI: $47,000 (200% of the poverty line)

- **Is anyone eligible for Medicaid or CHIP?**
  YES: The Reyes family lives in a state where children under 19 are eligible for CHIP if family income is less than 250% of the poverty line. The Reyes children are eligible for CHIP and not eligible for premium tax credits.

- **Is anyone eligible for employer-sponsored coverage?**
  YES: Mrs. Reyes is offered coverage at work for herself and her family

Impact of Mrs. Reyes' offer of employer-sponsored coverage

1) Is the coverage affordable?
2) Does it meet minimum value?

- If the answer to ***either*** question is ***no***, Mr. and Mrs. Reyes can jump the firewall and obtain premium tax credits.
- If the answer to ***both*** questions is ***yes***, Mr. and Mrs. Reyes are ineligible for premium tax credits.

How will Mrs. Reyes know whether her coverage is affordable and meets minimum value?

- Employer form included in application
- Summary of benefits and coverage

Is Mrs. Reyes' Offer Affordable and Minimum Value?

MAGI: $47,000 (200% of the poverty line)

Plan A:
Employee-Only
Cost: $196/mo
5% of income
MV: 58%

Plan B:
Employee-Only
Cost: $376/mo
9.6% of income
MV: 85%

Plan B:
Family
Cost: $550/mo
14% of income
MV: 85%

Is employee-only plan affordable?
Yes, cost <9.5% MAGI
Is employee-only plan adequate?
No, MV <60%

Is employee-only plan affordable?
No, cost > 9.6%

Is employee-only plan adequate?
Yes, MV >60%

Mr. and Mrs. Reyes Jump the "Firewall" Between Employer Coverage and Premium Tax Credits

Because insurance is unaffordable or inadequate

Offer of Employer Coverage

Premium Tax Credits

How will the Reyes Family Calculate their Premium Tax Credit?

MAGI: $47,000 (200% of the poverty line)

Expected contribution: 6.28% or $2,952

Note: Even though Mr. and Mrs. Reyes are seeking coverage for themselves and not their children, household size is still 4.

What is the Reyes household's benchmark plan?

Second lowest-cost silver plan covering Mr. and Mrs. Reyes.

Plan A: $7,500
Plan B: $8,000 → *Benchmark*
Plan C: $8,500

Premium Credit: $8,000 - $2,952 = $5,048

What does this mean for the Reyes's plan choice?

Income: $47,000 (200% of the poverty line)
Expected contribution: 6.28% or $2,952
Premium credit: $5,048

Plan Choices for the Mr. and Mrs. Reyes

	Bronze	Silver	Gold	Platinum
AV	60%	~~70%~~	80%	90%
Cost-sharing reduction →		87%		
Plans in Tier	$6,010 $6,134 $6,534 $6,730 $7,236	$7,500 **$8,000** $8,010 $8,300 $8,500	$8,010 $8,300 $8,500 $8,650 $8,810	$8,810 $9,000 $9,225 $9,800 $10,000

Rose: Three-generation household

Rose lives with and supports her 60-year-old mother and 7-year-old daughter. Her mother earns about $3,000 during the year by doing household tasks for an elderly neighbor. Rose has asthma, which is aggravated by her mother's smoking.

What is Rose's household MAGI?

Rose's salary: $35,000 (counted)

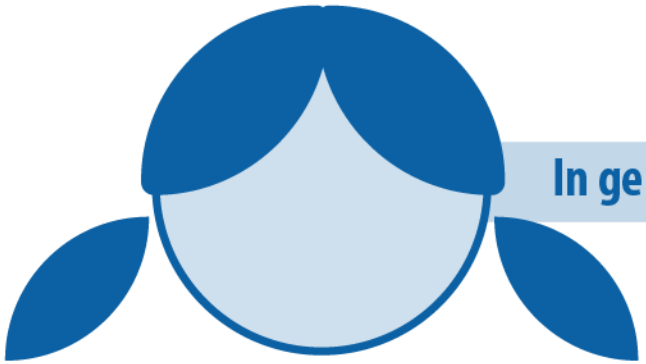
Mom's income: $3,000 (not counted for PTC; counted for Medicaid)

Who is in Rose's household for premium tax credits and Medicaid?

Who qualifies as a dependent?

Children

A child can include your child, step child, adopted child, foster child, brother, sister, niece, nephew or grandchild



In general qualify if…

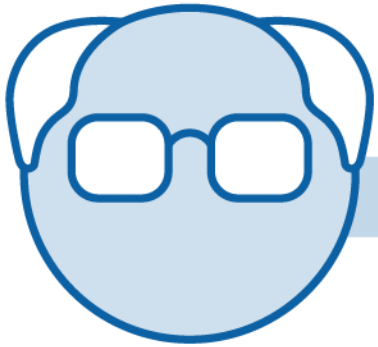
- Are a U.S. citizen or resident of the U.S., Canada or Mexico
- Live with you for more than half the year
- Under 19 at the end of the year (or 24 if a full-time student)
- Child doesn't provide more than half of his own support

Special rules for divorced, separated or never married parents!

Who qualifies as a dependent?

Other individuals

Other individuals can include a relative, in-law or a full-time member of your household



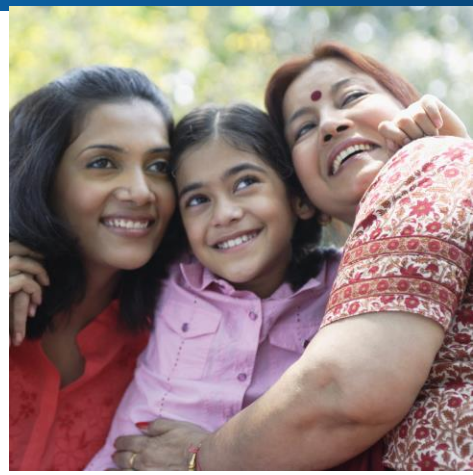
In general qualify if…

- Are a U.S. citizen or resident of the U.S., Canada or Mexico
- Provide more than 50% of the dependent's support
- Be related to you or live in your home all year
- Make less than $3,900 (in 2013). Generally doesn't include social security

How are Households Determined in Medicaid?

If an individual expects to be a:		
Tax Filer Not Claimed as a Dependent	**Tax Dependent**	**Non-Filer/ Non-Dependent**
Individual's household is…		
Tax filer and all persons whom taxpayer expects to claim as a tax dependent	The household of the tax filer claiming individual as a dependent	<u>For adults:</u> Household is the individual plus, if living with individual, spouse and children <u>For children:</u> Household is the child plus siblings and parents (including step-parents) living with child At state option, children are either: ▪ Under age 19, or ▪ Under age 19, or full-time students under age 21
Exceptions and special rules:		
For married couples filing jointly, each spouse is considered a tax filer. Married couples living together are always in each other's household regardless of how they file.	Apply the rule for <u>non-filers</u> for: ▪ Tax dependents not a child or spouse of the taxpayer ▪ Children living with both parents not expected to file a joint return ▪ Children claimed as tax dependent by non-custodial parents	

Who is in Rose's Household?



Rose lives with and supports her 60-year-old mother and 7-year-old daughter. Her mother earns about $3,000 a year by doing tasks for an elderly neighbor.

	Medicaid	PTC
Rose	3 (Rose, daughter, mom)	3 (Rose, daughter, mom)
Daughter	3 (Rose, daughter, mom)	3 (Rose, daughter, mom)
Mother	1 (mom)	3 (Rose, daughter, mom)

FAQ: *Why is Rose's mother a household of one for Medicaid?*

Answer:

- She is Rose's tax dependent but she is not Rose's child or spouse, which means she is treated as a non-filer.
- Under the rules for non-filers, Mom's household includes herself and any spouse or children living with her. Rose is her daughter, but she is not considered a child because she is 35 years old.

Is anyone in Rose's household eligible for other coverage?

EXPANSION STATE						
	Medicaid/CHIP			Premium Tax Credits		
	HH	Income	FPL	HH	Income	FPL
Rose	3	$35,000	179%	3	$35,000	179%
Daughter	3	$35,000	179%	Not eligible		
Mother	1	$3,000	26%	Not eligible		

NON-EXPANSION STATE						
	Medicaid/CHIP			Premium Tax Credits		
	HH	Income	FPL	HH	Income	FPL
Rose	3	$35,000	179%	3	$35,000	179%
Daughter	3	$35,000	179%	Not eligible		
Mother	Not eligible			3	$35,000	179%

Let's assume Rose lives in a state that is not expanding Medicaid.

Result:

- Rose's daughter is eligible for CHIP.
- Rose and her mother are eligible for premium tax credits

Note: If Rose's mother's was not Rose's dependent, she would not be eligible for Medicaid *or* premium tax credits.

What is Rose's Premium Tax Credit?

Household Size: 3 (Rose, mother, daughter)

MAGI: $35,000 (179% of the poverty line)

What is the household's benchmark plan?

- Second lowest-cost silver plan covering Rose and her mother ***or***
- If no plan covers them both, combine each person's individual benchmarks to achieve one family benchmark.

Rose's Benchmark: $3,700 (Second-lowest cost silver plan for a 35-year-old)

Mom's Benchmark: $8,200 (Second-lowest cost silver plan for a 60-year-old)

Household benchmark: $3,700 + $8,200 = $11,900

What is Rose's Premium Tax Credit?

Household Size: 3 (Rose, mother, daughter)

MAGI: $35,000 (179% of the poverty line)

Cost of Benchmark plan(s): $11,900

Expected contribution: 5.34% of income ($1,869/year, $156/month)

Credit amount = Cost of benchmark plan – Expected premium contribution

Premium credit amount: $11,900 – $1,869 = $10,031

What will Rose and her mother actually pay?

Premium credit amount: $10,031

- Rose selects a silver plan with an actuarial value of 87% that costs $4,500/year. A cost-sharing reduction raises her AV and lowers her out-of-pocket costs for frequent doctor visits.
- Mom selects a silver plan with an AV of 87% (after her cost-sharing reduction) that costs $8,000/year. But, because she smokes, the insurer adds a 50% tobacco surcharge, Mom's premium is $12,000/year.
- The total cost of health coverage for Rose and her mother is:

  Combined premium ($4,500 +12,000) – $10,031 = $6,469
- If Rose's mother did not smoke, they would pay $2,469.

John: Frequently Asked Questions

- What happens if John loses his job and moves in with his parents?
  - Can they claim him as a dependent?
    - Must provide >50% of support and he must earn less than $3,900 *(for 2013)*
  - If they can claim him as a dependent …
    - Parent's income will count for both premium tax credits and Medicaid
  - If they cannot claim him as a dependent
    - He will be a household of one for both premium tax credits and Medicaid

Reyes Family: Frequently Asked Questions

- What happens if the Reyes son gets a summer job?
  - If the child has a tax filing requirement (earnings >$5,950), then his income counts toward the family's MAGI.
  - If he does not have a filing requirement, his income doesn't count.
- What if one of the children received Social Security survivor's benefits?
  - As long as the child did not have a tax filing requirement, the benefits would not count toward family's MAGI.

Rose's Family: Frequently Asked Questions

- What if Rose's mother was supporting Rose and her daughter and claimed them as dependents?
  - Rose's daughter would be a dependent claimed by someone other than a spouse or parent, so non-filer rules would apply.
  - Under the non-filer rules for a child, she is in a household with her mother (Rose).

	Medicaid	PTC
Rose	3 (mom, Rose, daughter)	3 (Rose, daughter, mom)
Daughter	2 (Rose, daughter)	3 (Rose, daughter, mom)
Mother	3 (mom, Rose, daughter)	3 (Rose, daughter, mom)

Contact Info

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CNN Money Facebook Chat on the ACA,

Friday, September 20 at 2:30 pm Eastern