



Premium Tax Credits: Beyond the Basics

Center on Budget and Policy Priorities
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Topics

- Premium credit basics
- Determining the amount of the premium credit
- Factors that affect the amount of the credit
- How to get the premium credits
- Impact of changes during the year



What Are Premium Credits?

- Assistance with the cost of coverage for people purchasing coverage in the new Health Insurance Marketplaces (aka Exchanges)
- Available starting January 1, 2014
- Administered through the tax system and the Marketplaces

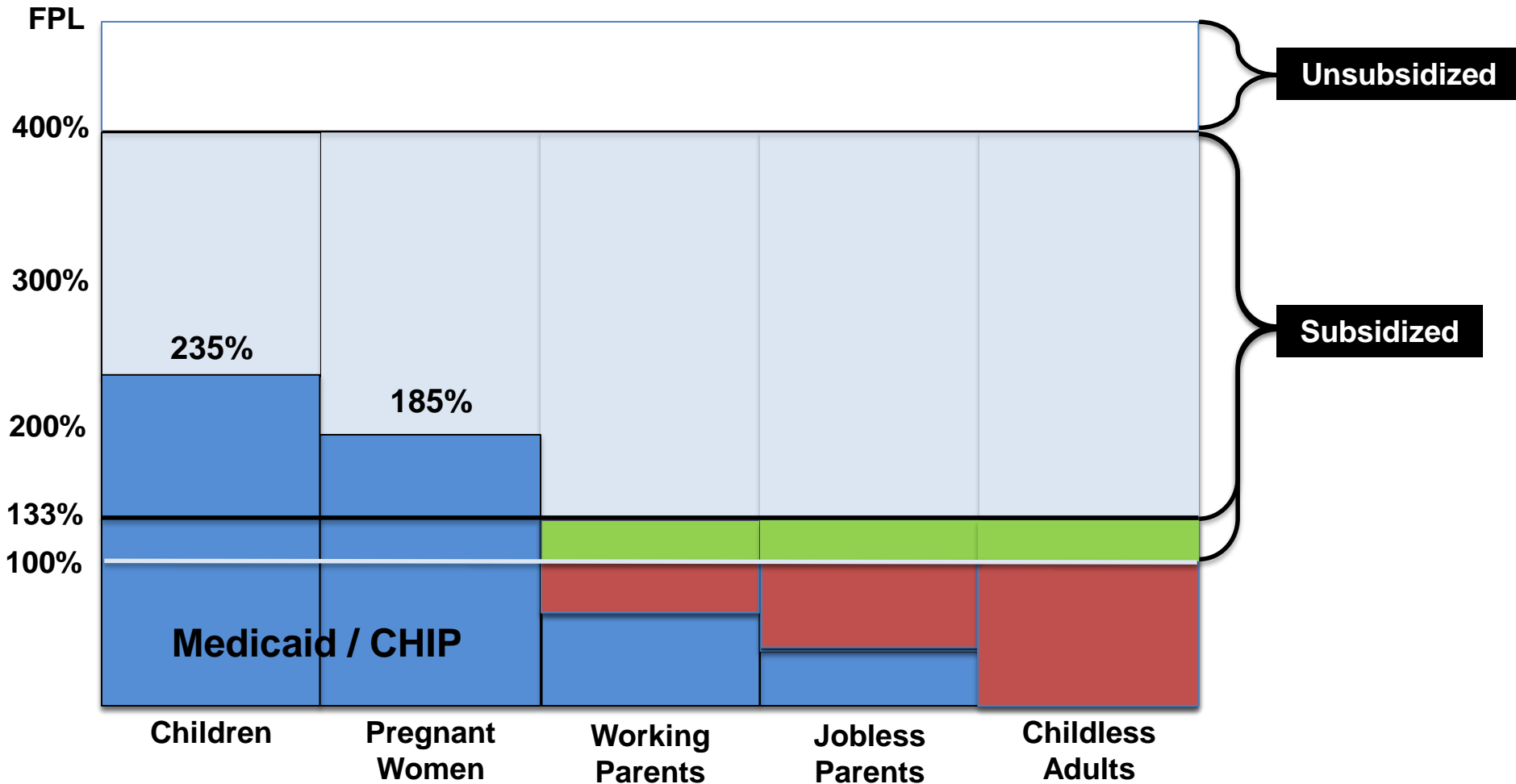


Who Is Eligible for Premium Tax Credits?

- Individuals and families with income between 100% to 400% FPL
 - Must be US citizens or lawfully present in the US
 - Must not be eligible for other “minimum essential coverage”
- Lawfully residing immigrants with incomes below 100% FPL who are not eligible for Medicaid because of their immigration status



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



How Are Income and Household Size Measured?

- **Income:** Modified Adjusted Gross Income (MAGI)

$$\begin{aligned} & \text{Adjusted Gross Income (1040, line 37)} \\ & \quad + \text{ Foreign income} \\ & \quad + \text{ Tax exempt interest} \\ & \quad + \underline{\text{Non-taxable Social Security benefits}} \\ & \text{MAGI} \end{aligned}$$

- **Household size:** Household unit equals tax unit
 - “Household” may or may not be the same as who is in the insurance plan



How Is the Amount of the Tax Credit Determined?

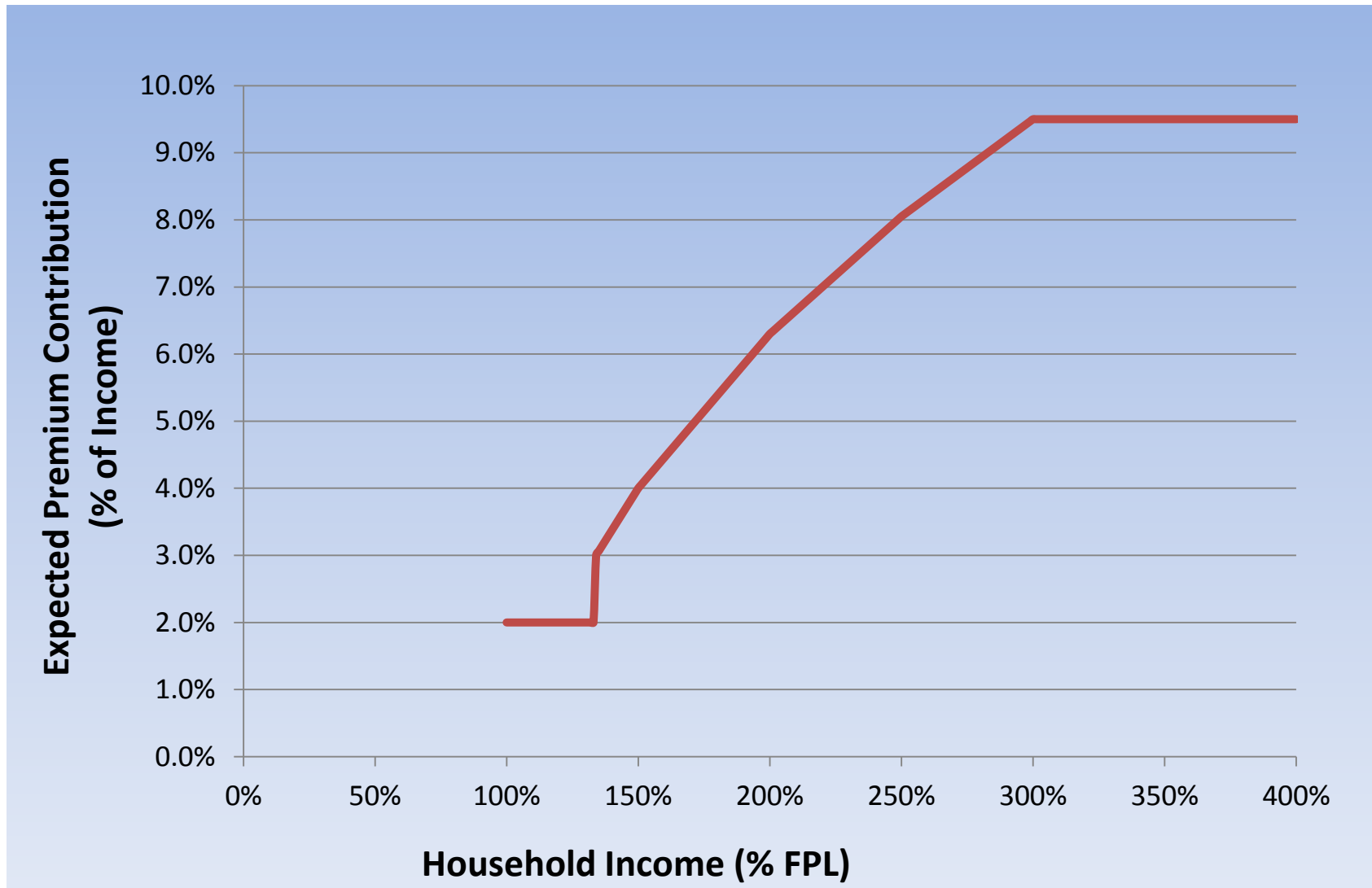
$$\begin{array}{c} \text{Credit amount} \\ = \\ \text{Cost of benchmark plan} \\ - \\ \text{Expected premium contribution} \end{array}$$

Credit amount affected by:

- Individual or family's expected contribution based on their income
- Premium cost for benchmark plan



Expected Premium Contribution





Expected Contributions at Certain Income Levels

Annual Household Income		Expected Premium Contribution	
% of FPL	Income Amount ¹	% of Income	Dollar Amount ²
< 133% ³	< \$15,282	2%	< \$306
133 - 150%	\$15,282 - \$17,235	3% - 4%	\$459 - \$689
150 - 200%	\$17,235 - \$22,980	4% - 6.3%	\$689 - \$1,448
200 - 250%	\$22,980 - \$28,725	6.3% - 8.05%	\$1,448 - \$2,312
250 - 300%	\$28,725 - \$34,470	8.05% - 9.5%	\$2,312 - \$3,275
300 - 350%	\$34,470 - \$40,215	9.5%	\$3,275 - \$3,820
350 - 400%	\$40,215 - \$45,960	9.5%	\$3,820 - \$4,366
> 400%	> \$45,960	n/a	n/a

¹ for a household of one (i.e. an individual)

² based on second-lowest priced SILVER health plan in the Exchange

³ residents <133% FPL that would be eligible for Medicaid are ineligible for tax credits



John:

Age: **24**

Plan Cost: **\$5,000**



Example 1: 200% FPL

Income: **\$22,980**

Expected Contribution:

- Share of income: **6.3%**
- Amount: **\$1,448**

Premium Credit: **\$3,552**

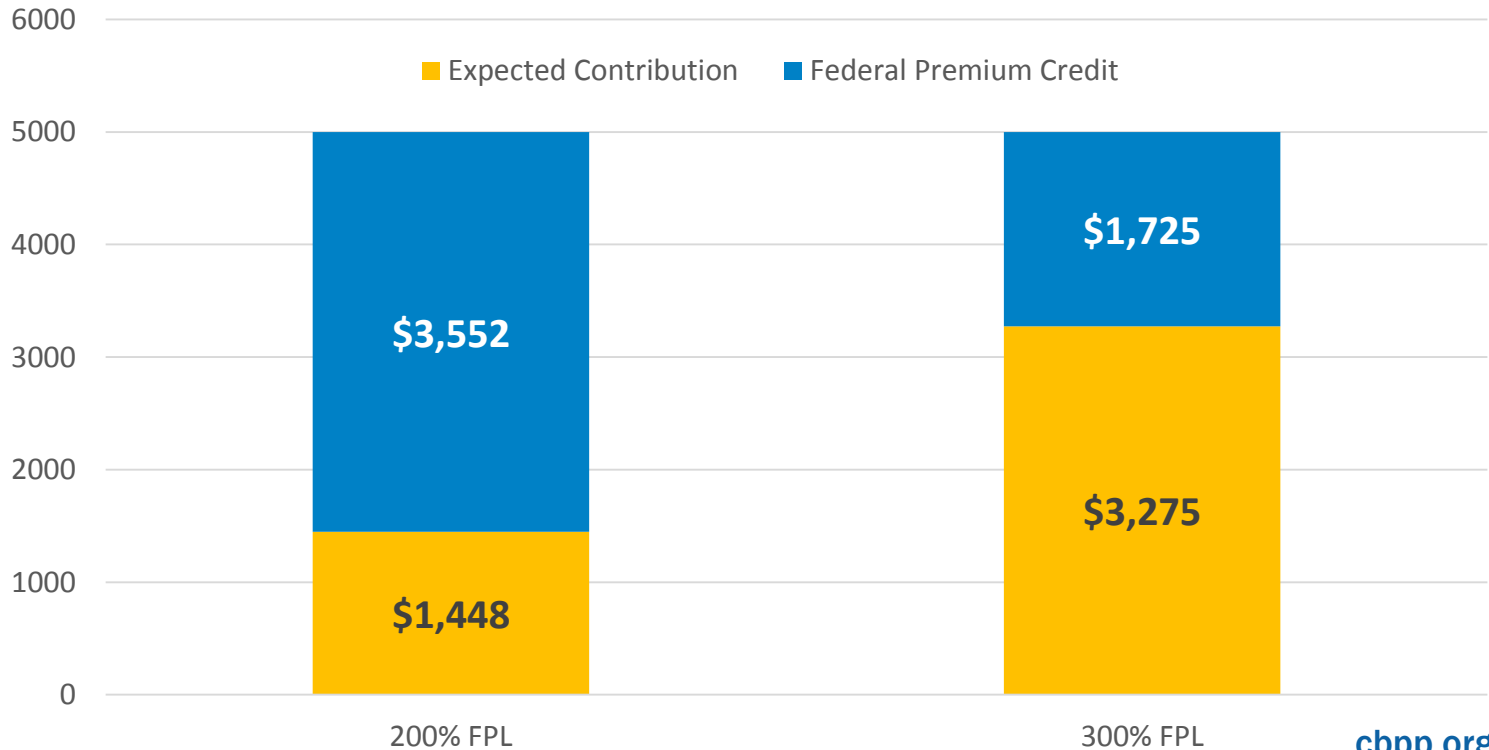
Example 2: 300% FPL

Income: **\$34,470**

Expected Contribution:

- Share of income: **9.5%**
- Amount: **\$3,275**

Premium Credit: **\$1,725**





What Is the Benchmark Plan? How Is it Determined?

- Second lowest cost silver plan available to each eligible household member
- When no one plan covers every member, may be based on one or more policies
- Examples:
 - Single individual
 - Family of four
 - Household with ineligible members
 - Household with members in different locations



Example: Single Individual



John:

- 24 years old
- Income of 22,980 (200% FPL)
- Expected contribution: 6.3% or \$1,448

3 Lowest Cost Silver Plans Covering John:

- Plan A: \$4,800
- Plan B: \$5,000 ← Benchmark
- Plan C: \$5,200

Premium Credit:

$$\$5,000 - \$1,448 = \$3,552$$



Example: Family of Four (Reyes Family)

Income: \$52,988 (225% FPL)

Expected contribution: 7.18% or \$3,802

3 Lowest Cost Silver Plans that Cover Entire Family:

- Plan A: \$14,800
- Plan B: \$15,000 ← Benchmark
- Plan C: \$15,200



Could be one or multiple policies

Premium Credit:

$\$15,000 - \$3,802 = \$11,198$



Example: Household with Ineligible Members

Reyes Family:

- Same income
- In a state with CHIP up to 250% FPL
- Mom and dad purchase coverage, kids on CHIP

3 Lowest Cost Silver Plans Covering Mom and Dad

- Plan A: \$9,800
- Plan B: \$10,000 ← Benchmark
- Plan C: \$10,200

Premium Credit:

$$\$10,000 - 3,802 = \$6,198$$



Example: Household with Members Residing in Different Locations



Reyes Family:

- Same income
- All members eligible
- Son goes to college in a different part of the state

3 Lowest Cost Silver Plans:

Mom, Dad, and Daughter

- Plan A: \$12,300
- Plan B: \$12,500
- Plan C: \$12,800



Son

- Plan A: \$2,800
- Plan B: \$3,000
- Plan C: \$3,200

Premium Credit:

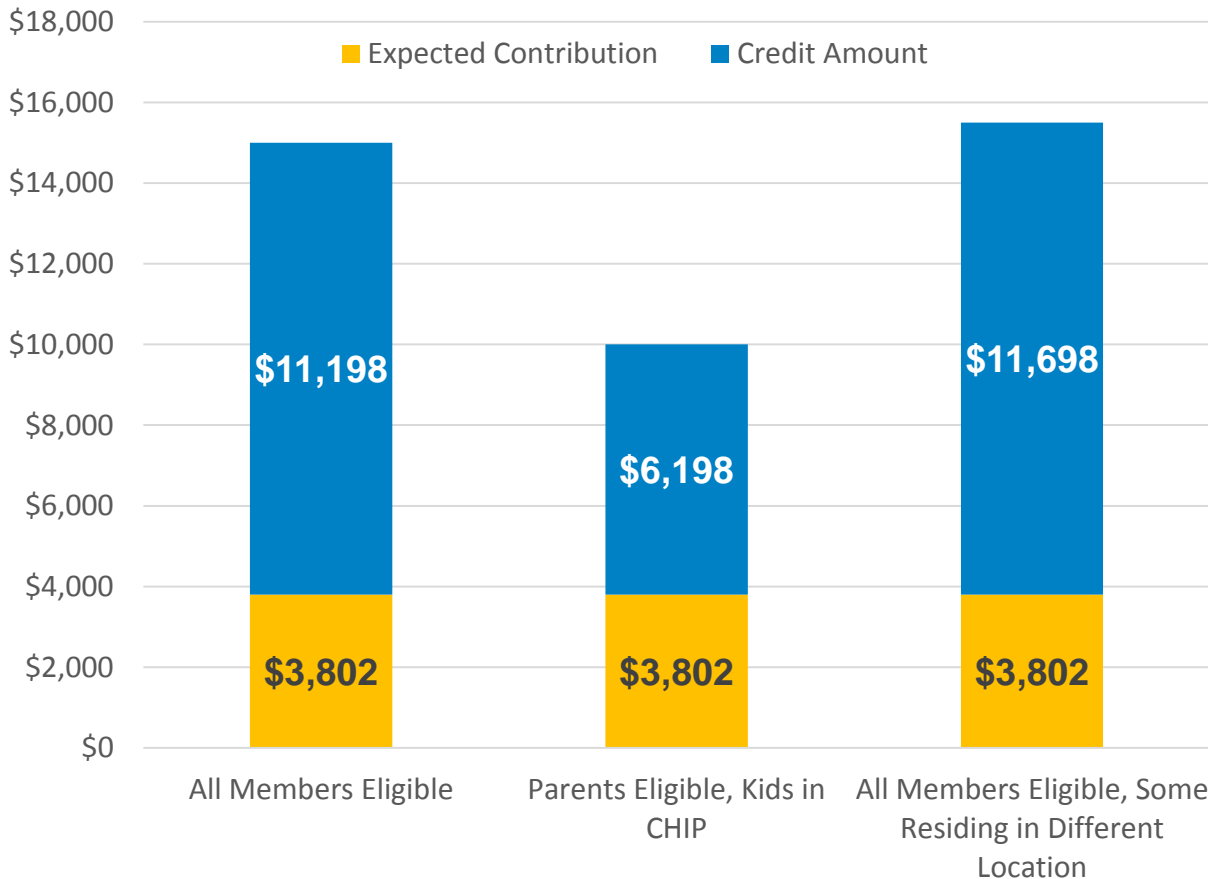
$$\$12,500 + \$3,000 - 3,802 = \$11,698$$



Comparing Three Reyes Family Scenarios

Income: \$52,988 (225% FPL)

Expected contribution: 7.18% or \$3,802



Key takeaway:
Choice of benchmark plan affects credit amount but not expected contribution



How Do Rating Factors Affect the Cost of the Benchmark Plan?

- Age
 - Limited to no more than 3 to 1 variation
 - Each family member rated separately
- Family size
 - Total premium for family = Sum of premiums for each family member
 - Exception: In families with > 3 members under 21, count only 3 oldest children
- Geographic area



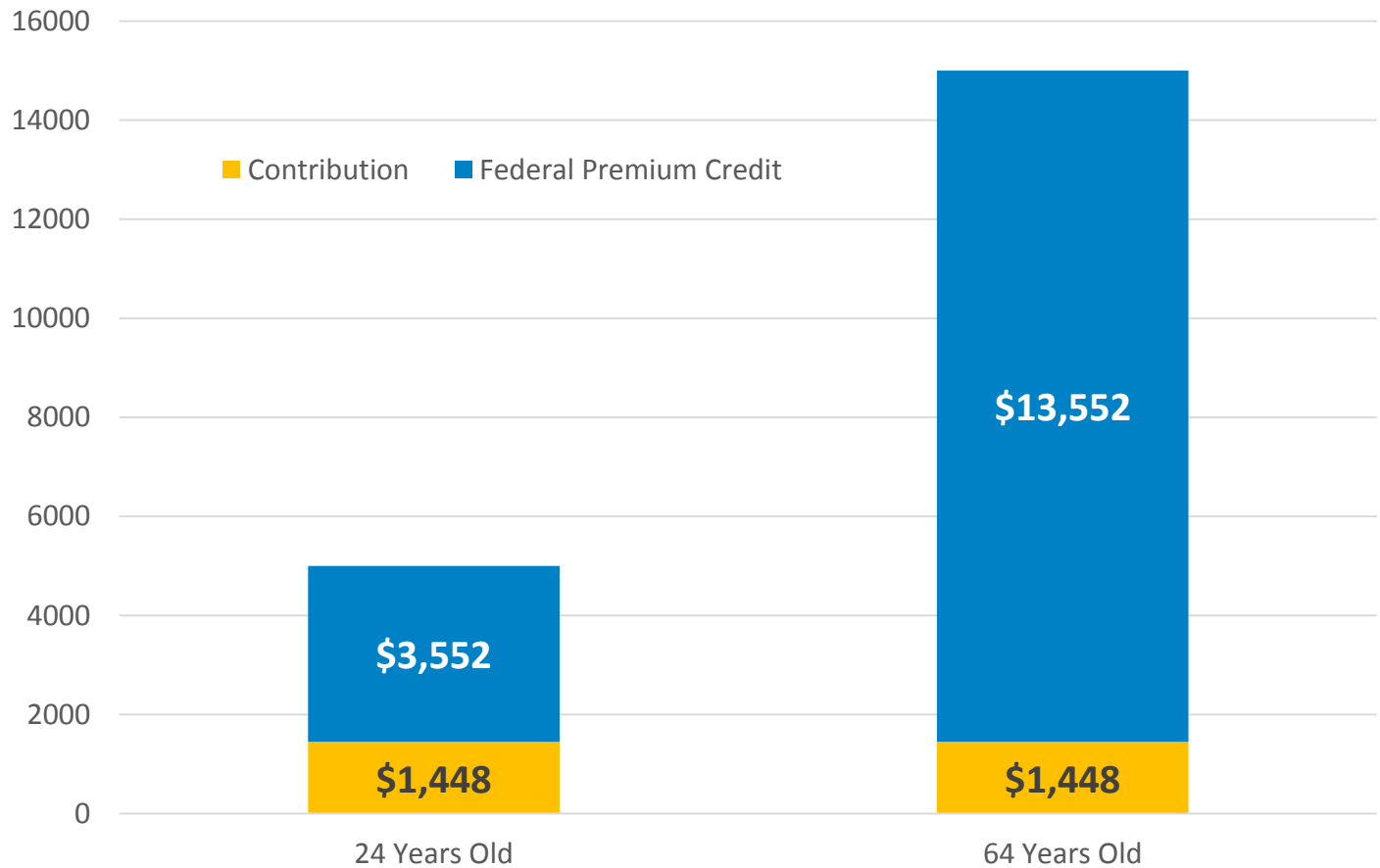
John:

Income:
22,980 (200% FPL)

Expected
Contribution:
6.3% or \$1,448

Age 24
Premium: **\$5,000**
Premium Credit: **\$3,552**

Age 64
Premium: **\$15,000**
Premium Credit: **\$13,552**





What Factors Affect What People Will Actually Pay for Coverage?

- Tobacco use
 - Limit to no more than 1.5 to 1 variation
 - Difference due to tobacco use not accounted for in premium credit calculation
- Plan chosen by consumer
 - Amount of credit pegged to second lowest cost silver plan
 - But consumer can purchase any metal plan



John:

Income:
22,980 (200% FPL)

Expected Contribution:
6.3% or \$1,448



Age 24, Non-Smoker

Premium: **\$5,000**

Benchmark: **\$5,000**

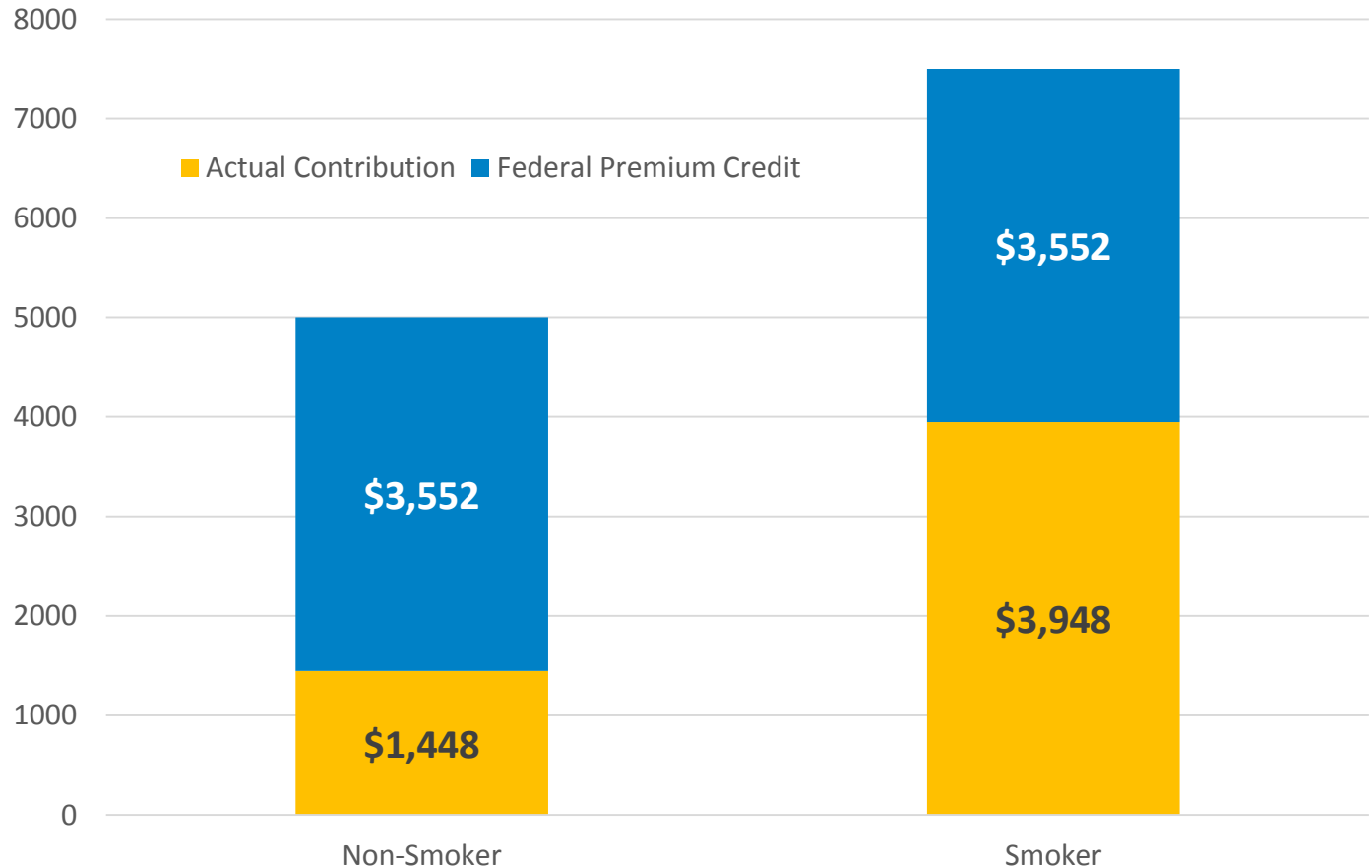
Premium Credit: **\$3,552**

Age 24, Smoker

Premium: **\$7,500**

Benchmark: **\$5,000**

Premium Credit: **\$3,552**





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

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

Higher premiums

Benchmark

Lower premiums

The diagram consists of a table with four rows representing plan tiers: Platinum (90%), Gold (80%), Silver (70%), and Bronze (60%). To the right of the table, a bracket groups the Platinum and Gold rows under the label 'Higher premiums'. An arrow points to the Silver row, which is labeled 'Benchmark'. Another bracket groups the Bronze row under the label 'Lower premiums'.

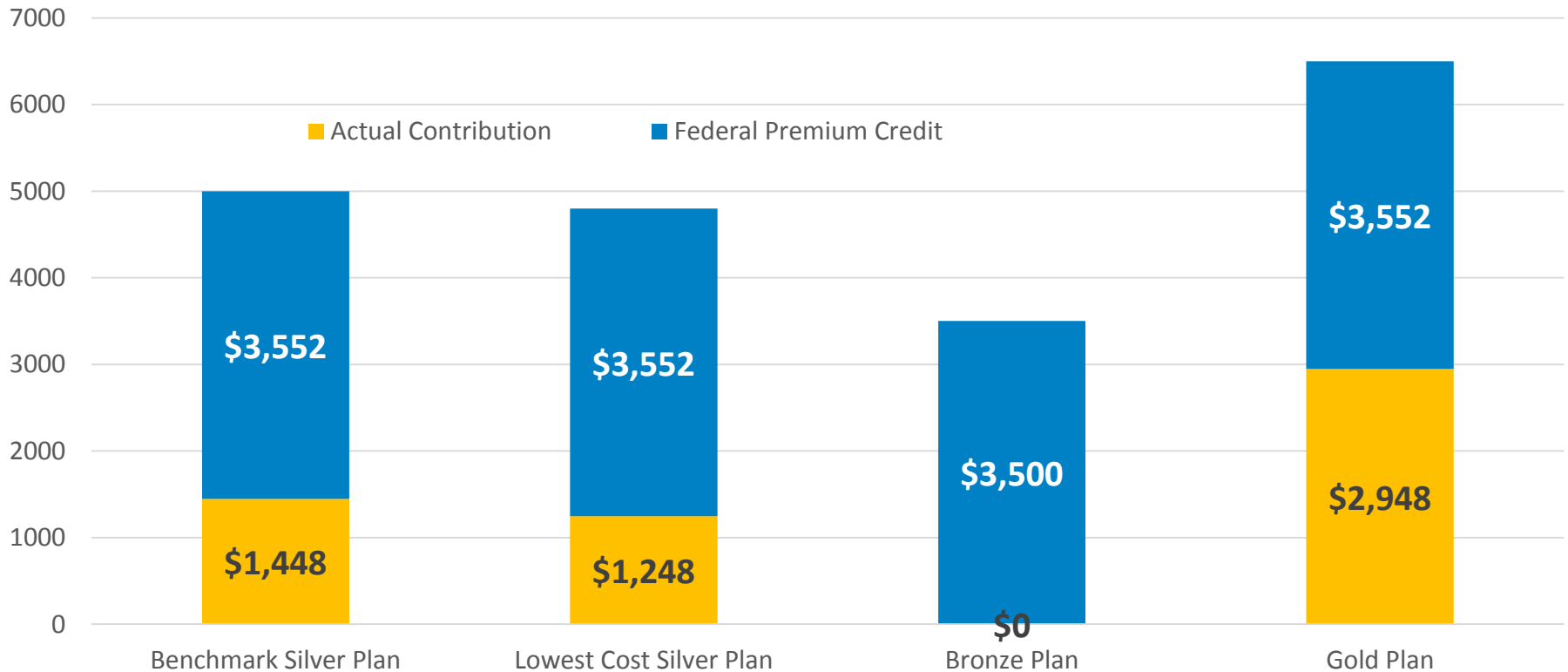


Impact of Plan Choice on What People Pay



John:

Eligible for premium credit of \$3,552





How Do People Get Premium Credits?

- Submit application to the Marketplace for advance payment of credits
 - Marketplace estimates amount of advance payment based on projected income
 - Credit is sent directly to insurer, individual pays insurer balance of premium
- Can also wait until tax filing and claim on return
 - Only available for months enrolled in a Marketplace health plan



Taking the Credit in Advance vs. at Tax Time

John:

Annual income: **\$22,980**

Annual premium credit amount: **\$3,552**



	Taking the Credit in Advance	Taking the Credit at Tax Time
Monthly premium cost	\$417	\$417
Monthly advance credit	\$296	\$0
Monthly payment for premium balance	\$121	\$417
Credit due to John at tax time	\$0	\$3,552



What Happens When Estimated Income for the Year is Different from Actual Income?

- Final amount of credit based on ***actual*** income
- At tax filing time, advance payments received are reconciled with actual credit amount
 - If income increases, may have to repay
 - If income decreases, may get more credit at tax time
- To avoid repayment, can reduce the amount of advance payment received during the year



Cap on Amount of Advance Credits that Must Be Paid 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 reconciliation	\$94,200 and higher	Full reconciliation



What if an Individual's Tax Liability is Less than the Credit Amount?

- Credit is *refundable*, so people with little or no tax liability can still get the credit



John:

- Income of 22,980 (200% FPL)
- Eligible for credit of \$3,552
- Tax liability of \$1,500

➔ Credit (\$3,552) will offset tax liability (\$1,500), and John will still get remaining credit (\$2,052)



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