State Health Reform Assistance Network
Charting the Road to Coverage

ISSUE BRIEF
August 2013

Advance Premium Tax Credits and Cost-Sharing Reductions: A Primer for Assistors

Prepared by Manatt Health Solutions

The purpose of this presentation is to provide Marketplace staff, eligibility workers, navigators, certified application counselors, and other assistors with detailed information on Advance Premium Tax Credits (APTCs) and Cost-Sharing Reductions (CSRs). Both programs are critical to the effort to ensure that Marketplaces can offer affordable coverage. While numerous regulations have been issued describing how APTCs and CSRs work, they are extremely technical. By using a more visual approach, this presentation is designed to make it easier to understand APTCs and CSRs at a deeper level.

The presentation begins with some "level-setting" information, such as a glossary of key terms and a refresher on the role that APTCs/CSRs play in the continuum of coverage created by the Affordable Care Act. It then presents a "deep dive" on how the APTCs and CSRs work, including the following:

- Eligibility criteria for APTCs, including financial and nonfinancial criteria
- The two ways in which APTCs can be received—in advance or at tax time
- Options for using APTCs to purchase an array of plans
- A detailed discussion of how the APTC is calculated, including how its size changes (or fails to change) based on age, family size, geography, and smoking status
- A detailed review of the income measure ("Modified Adjusted Gross Income") used to evaluate eligibility for and calculate the size of the APTC and CSRs
- Eligibility criteria for CSRs
- Information on how CSRs are used to reduce out-of-pocket spending on deductibles, co-insurance, and co-payments, including the role of actuarial value in this process

ABOUT STATE NETWORK
State Health Reform Assistance Network, a program of the Robert Wood Johnson Foundation, provides in-depth technical support to states to maximize coverage gains as they implement key provisions of the Affordable Care Act. The program is managed by the Woodrow Wilson School of Public and International Affairs at Princeton University. For more information, visit *www.statenetwork.org*.

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Manatt Health Solutions (MHS) is an interdisciplinary policy and business advisory division of Manatt, Phelps & Phillips, LLP, one of the nation's premier law and consulting firms. MHS helps clients develop and implement strategies to address their greatest challenges, improve performance and position themselves for long-term sustainability and growth. For more information visit *www.manatt.com/manatthealthsolutions.aspx.*

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Throughout the presentation, figures and examples are used to illustrate key concepts. Depending on the scope of the request, Manatt Health Solutions may be available to help states tailor the presentation to address some of their state-specific circumstances and needs. For further information, contact Deborah Bachrach at dbachrach@manatt.com or Jocelyn Guyer at jguyer@manatt.com.

Advance Premium Tax Credits and Cost-Sharing Reductions: A Primer for Assistors

Support for this resource provided through a grant from the Robert Wood Johnson Foundation's State Health Reform Assistance Network program.

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Manatt Health Solutions

August 5, 2013

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Outline

- Background
- Big Picture: The Marketplace
- Deeper Dive: Advance Premium Tax Credits
- Deeper Dive: Cost-Sharing Reductions

BACKGROUND

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ACA Glossary

- **Marketplace:** An online portal where people can shop for health coverage, compare plans, and see if they qualify for financial assistance.
- **Qualified Health Plan (QHP):** Private health plans offered on the Marketplace. They must cover a core package of benefits, known as essential health benefits, like prescription drugs and mental health.
- **Actuarial Value (AV):** The percentage of enrollees' health care costs that an insurance company is expected to cover.
- **Metal Levels:** Type of QHPs offered on the Marketplace that vary in their Actuarial Value. They include Platinum, Gold, Silver, and Bronze.
- **Insurance Affordability Programs (IAPs):** Programs designed to make it more affordable to enroll in a QHP and to use health care services. Includes premium tax credits, cost–sharing reductions, Medicaid and CHIP. A single application may be submitted to the Marketplace for all IAPs.
- **Premiums:** What a person must pay in order to enroll in health coverage. Premiums are usually paid monthly to the insurer.
- **Cost-Sharing:** What a person must pay when they use health services, such as doctors or hospital visits. They are often called "out-of-pocket" costs.

Health Coverage in the ACA

- The Affordable Care Act creates new coverage options by expanding Medicaid and creating Health Insurance Marketplaces that offer Qualified Health Plans (QHPs).
- The law includes several programs that help low- and moderate-income people purchase health insurance coverage. Together, they are known as insurance affordability programs.

Insurance Affordability Programs

Advance Premium Tax Credits (APTC)

- NEW federal program that uses tax credits to reduce premium costs for **QHP** enrollees.
- For people who meet financial criteria and don't have access to other coverage.
- Can be paid in "advance" to provide immediate help in paying premiums.
- IRS reconciles over/under payments of advance premium tax credits when people file taxes.

Cost-Sharing Reductions (CSR)

- NEW federal program
- Helps reduce out-of-pocket costs for enrollees in **QHPs.**
- Payments are made directly to issuers to reduce deductibles, co-insurance, and/or copayments (out-of-pocket) costs.

Medicaid

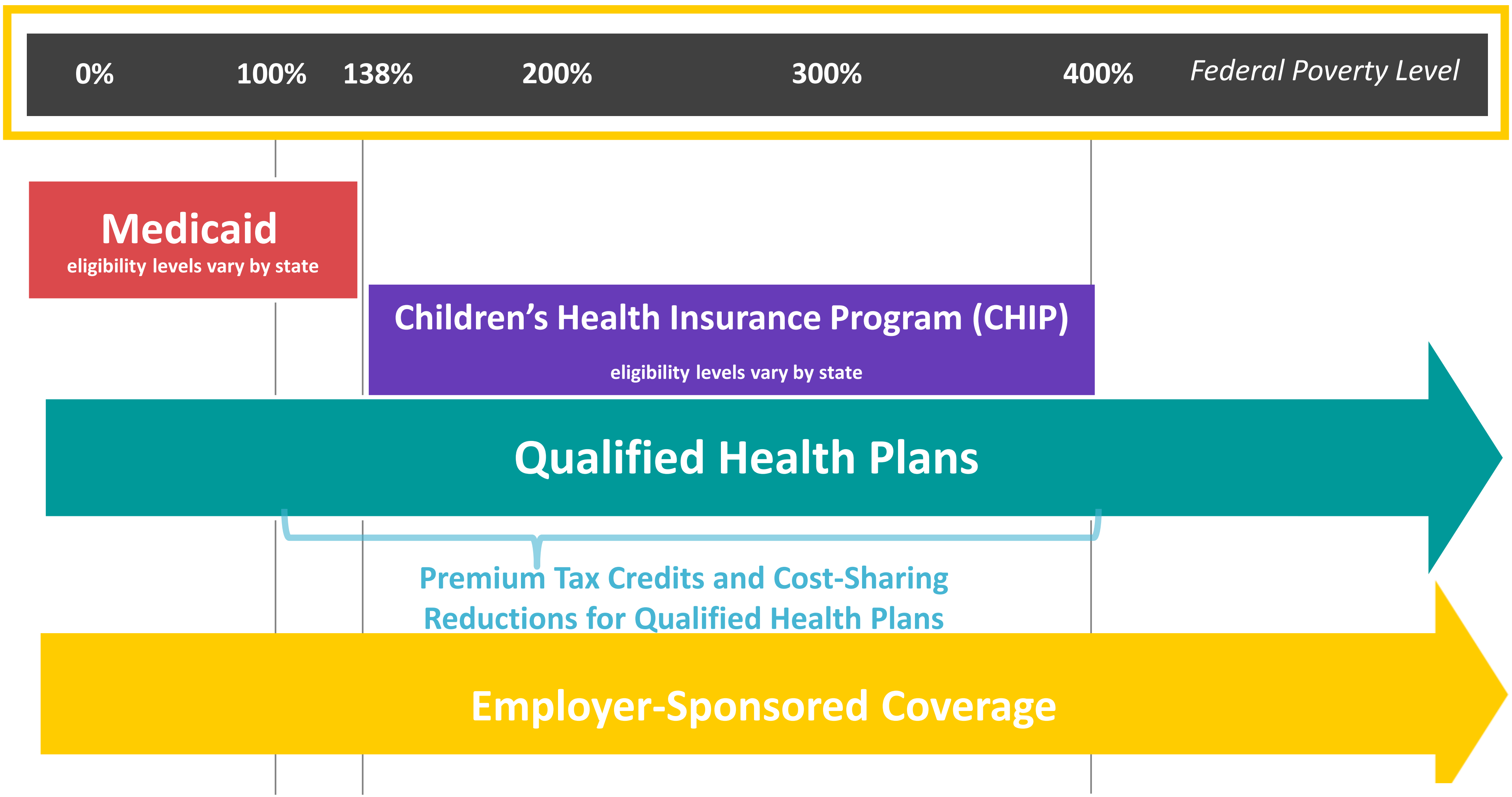
- Existing federal-state health insurance program for low-income people.
- Expanded to more low-income adults by the ACA. States can opt out of expansion.
- Provides comprehensive health care benefits.
- Minimal out-of-pocket costs.

Children's Health Insurance Program (CHIP)

- Existing federal-state health insurance program for low- and moderate-income children.
- Provides comprehensive health care benefits.
- Modest out-of-pocket costs.

Snapshot of Coverage in 2014

- The type of health coverage a person receives is based on their income (measured as percent of the FPL) and other factors, like citizenship.

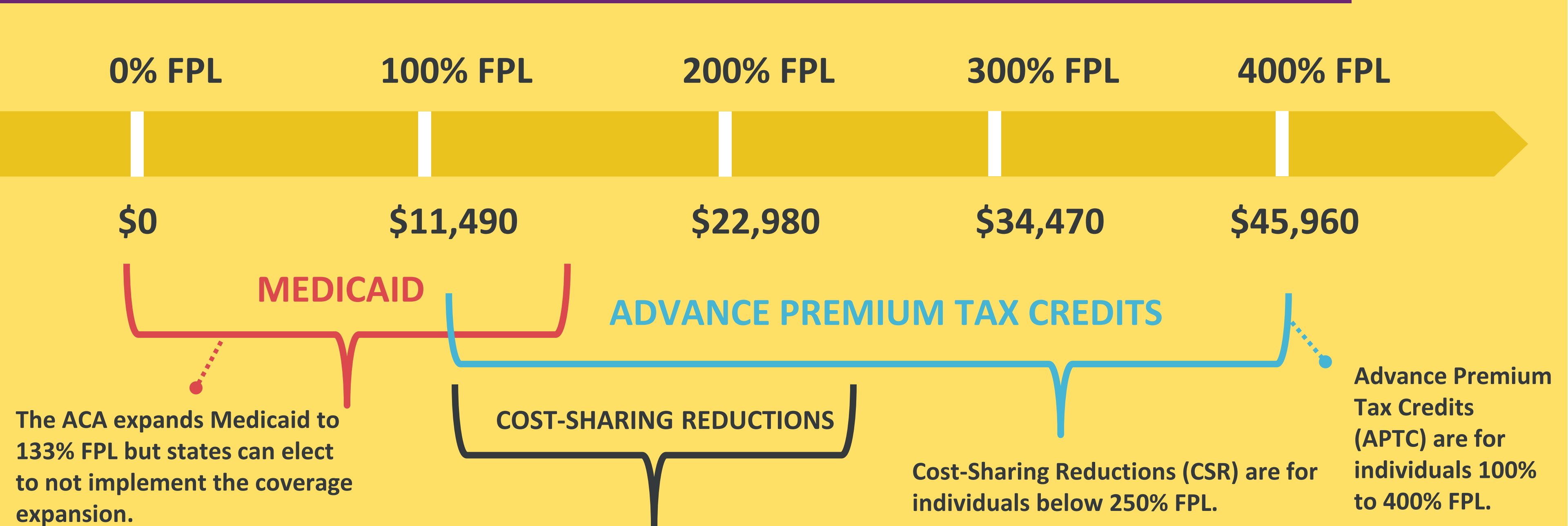


Continuum of Coverage

- Eligibility for insurance affordability programs falls along a continuum based on income, age, and other eligibility factors.
- On this continuum, income is measured as percent of the federal poverty level, or FPL.
- Children qualify for Medicaid and CHIP at higher income levels than their parents. As a result, families may have members in more than one insurance affordability program.

Continuum of Insurance Affordability Programs for Adults

(Figure illustrates 2013 thresholds for single adults in a state that expands Medicaid; thresholds differ for children)



Federal Poverty Level (FPL)

- The federal poverty level is used to identify who qualifies for insurance affordability programs.

2013 Monthly Federal Poverty Level Guidelines (all states and DC except Alaska and Hawaii)						
Household Size	**100%**	**133%**	**150%**	**200%**	**300%**	**400%**
1	$957	$1,273.48	$1,426.25	$1,915	$2,872.50	$3,830
2	$1,292.50	$1,719.03	$1,938.75	$2,585	$3,877.50	$5,170
3	$1,627.50	$2,164.58	$2,441.25	$3,255	$4,882.50	$6,510
4	$1,962.50	$2,610.13	$2,943.75	$3,925	$5,887.50	$7,850
5	$2,297.50	$3,055.69	$3,446.25	$4,595	$6,892.50	$9,190
6	$2,632.50	$3,501.23	$3,948.75	$5,265	$7,897.50	$10,530

The Marketplace and Medicaid agency use different timelines to determine federal poverty level.

Source: *Federal Registrar*, Vol. 78, No. 16, January 24, 2013, pp. 5182-5183.

BIG PICTURE: THE MARKETPLACE

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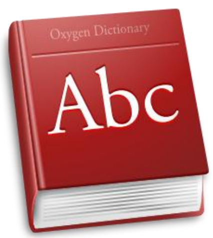
The Marketplace

- The Health Insurance Marketplace offers a “one stop shop” for consumers to compare health insurance plans, apply for coverage (with or without financial assistance), and enroll.
- Each state can establish its own Marketplace or rely on the federal government to operate one on its behalf.

What's Offered on the Marketplace?

- QHPs are health insurance plans offered by private issuers on the Marketplace.
- All QHPs must offer the same set of core benefits known as "essential health benefits."



Metal Levels: The Marketplace offers four categories of QHPs, known as "Metal Levels." The metal levels are distinguished by the share of health care costs QHPs are expected to cover.

"Actuarial Value" (AV): The percentage that insurance companies will pay for the health services consumers use. Consumers will have to pay the balance through co-insurance, co-pays, and deductibles.

Other Plan Options: The Marketplace also offers non-Metal plans, such as catastrophic plans. APTCs cannot be applied to catastrophic plans.

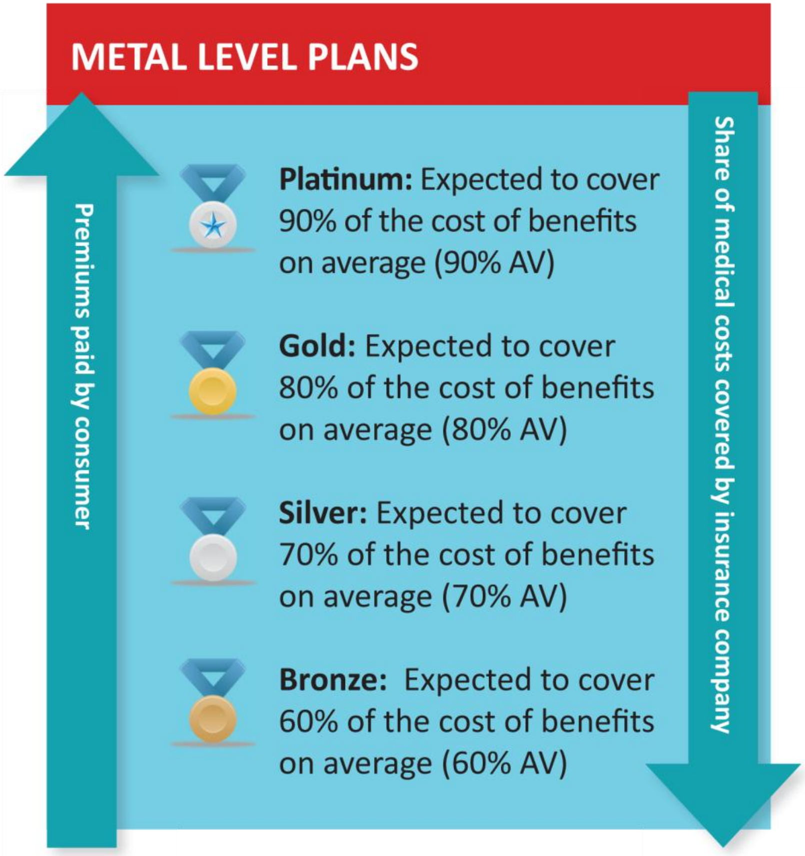
METAL LEVEL PLANS

- **Platinum:** Expected to cover 90% of the cost of benefits on average (90% AV)
- **Gold:** Expected to cover 80% of the cost of benefits on average (80% AV)
- **Silver:** Expected to cover 70% of the cost of benefits on average (70% AV)
- **Bronze:** Expected to cover 60% of the cost of benefits on average (60% AV)

Share of medical costs covered by insurance company

Metal Levels and Premiums

- Premiums are higher for plans that pay more out-of-pocket medical costs (Premium, Gold).
- Platinum plans have the highest premiums but the lowest out-of-pocket costs. This means the plan will cover more of the costs when a consumer uses services.
- Bronze plans have the lowest premiums but highest out-of-pocket costs. This means the consumer will have to pay a higher share of costs when he/she uses services.
- People who qualify for a cost-sharing reduction must enroll in a silver-level plan to take advantage of it.



Step-by-Step to Get Help Paying for QHP

1 Applies for Health Insurance

- Sheena is 34 yrs old.
- Makes $22,000 a year (~200% FPL).
- Applies for health coverage online through her Marketplace.

2 Provides Information on Family Characteristics

- Application asks for information on income, household size, access to coverage and other data elements needed to evaluate eligibility.

3 Marketplace Determines Eligibility for Financial Assistance

- Marketplace checks these data elements to see if she qualifies for an insurance affordability program.
- In this case, tells her how much she gets in APTC and that she qualifies for CSR.

4 Chooses a Health Plan

- Sheena takes her APTC and picks a plan.
- The APTC helps pay her premiums.
- In this case, she chooses a silver plan, so she also gets cost sharing reduction that reduces her out-of-pocket expenses.

5 Reports Changes

- During the year, Sheena must tell the Exchange if she experiences a change in her circumstances, like if she has a baby or loses a job.

6 Provides Information on Family Characteristics

- When Sheena files her taxes at the end of the year, the IRS compares the income information she provided on her application to her actual income for the year.
- It gives her an additional tax credit if her income was lower than expected OR increases her tax bill if it was higher than expected.

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How APTC is Used to Shop for Plans

- After the Marketplace determines Sheena's eligibility for APTC/CSR, she will be told the maximum amount of APTC she can receive.
- Sheena can then shop around for different plans.
- If she chooses a less expensive plan, the APTC will cover more of the overall costs. If she chooses a more expensive plan, the APTC will cover less of the overall costs, and she will need to pay more on her own.

Let’s See How it Works

Sheena makes $22,980 a year, or 200% FPL.

Her maximum APTC is $559/month.

She is deciding between three plans:

- Plan A: $900/month
- Plan B: $620/month
- Plan C: $500/month

Plan Premium — APTC		Sheena Owes
Plan A		
$900/mn − $559/mn	=	$341/mn
Plan B		
$620/mn − $559/mn	=	$61/mn
Plan C		
$500/mn − $559/mn	=	$0*

*if Sheena chooses a plan that costs less than the APTC, she cannot collect leftover “savings”

DEEPER DIVE:
ADVANCE PREMIUM TAX CREDITS

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What is a Premium Tax Credit?

New federal tax credit that will help subsidize the cost of purchasing a QHP on the Marketplace.

Available to:

- Low- and moderate-income families who meet financial criteria and other eligibility standards.

Two ways to take it:

- In Advance: Families can receive the tax credit on an "advance" basis when they buy their QHPs. Known as an "advance premium tax credit," the credit makes sure that families can receive help without having to wait to file taxes at the end of the year.
- At Tax Filing Time: Families can also "front" the money to pay their premiums and receive the credit when they file their tax returns. When taken at tax filing, it is known as a "premium tax credit."

Can be used on any metal level plan:

- *If buying a relatively expensive plan*, the family will need to contribute more of its own funds toward the costly premium.
- *If buying a cheaper plan*, the family will have more of its costs covered by the APTC. The APTC cannot exceed the cost of the actual plan.

While families can choose any plan, families with incomes below 250% FPL have an enormous incentive to pick a silver plan because doing so allows them to receive CSR.

Who's Eligible for Tax Credits?

Individuals are eligible for an APTC if they:

1. Enroll in a QHP
2. Have projected annual income between 100% and 400% FPL (with exception for legal immigrants)
3. Lack access to other coverage that meets some basic standards ("minimal essential coverage")
4. Meet various tax-based requirements:
   - Plan to file a federal tax return
   - If married, plan to file a joint tax return
   - Not eligible to be claimed as a dependent on someone else's tax return

Special Circumstances:

Households in Which Some Individuals are Not Eligible for APTC:

- It is not necessary for every household member to meet the APTC eligibility criteria. If at least one member qualifies, the household can receive tax credits on behalf of the eligible member(s).

Special Rule for Lawfully Present Individuals Below 100% FPL:

- Immigrants with incomes below 100% FPL who are lawfully present and ineligible for Medicaid because of their immigration status may be eligible for APTC.
- They must also meet all of the other APTC eligibility criteria that apply to individuals with incomes >100% FPL.

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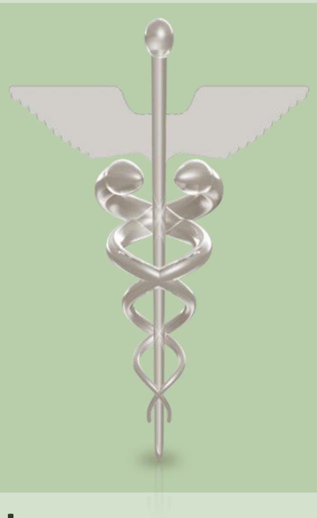
Minimum Essential Coverage

Access disqualifies someone from receiving APTC/CSR.

- Basic health coverage that meets minimum standards.
- Major example include:
  - Individual market policies
  - Job-based coverage that meets "**affordability**" and "**minimum value standards**"
  - Medicare, Medicaid, CHIP, TRICARE and certain other coverage
- With a few exceptions, people are ineligible for APTC if they have access to MEC even if they are not enrolled in it.

Affordability:

- A plan is considered affordable if the person is required to contribute 8% of their income or less towards the plan.



Minimum Value:

- Job-based coverage provides minimum value if it pays for 60% of the benefits covered by the plan. Individuals must pay no more than 40%.

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What Does NOT Count as Minimum Essential Coverage

You can still be eligible for an APTC if you have coverage that does not count as "Minimum Essential Coverage."

These limited coverage options do not count as Minimum Essential Coverage:

- Policies that cover only a specified disease or illness (e.g., cancer-only policies)
- Medi-gap policies
- Accidental death and dismemberment coverage
- Disability insurance
- Workers' compensation
- Coverage for employer-provided on-site medical clinics
- Limited-scope dental or vision benefits
- Long-term care benefits

Reminder: What is a Premium Tax Credit?

- A new federal tax credit that will help subsidize the cost of purchasing a QHP on the Marketplace.
- It reduces the cost of a plan's premium.
- It is available in advance or at tax filing time.
- It can be used to help purchase any metal level plan (though silver-level plans allow for the opportunity to also collect cost-sharing reductions).

How is the Tax Credit Calculated?

Congress decided how much families are expected to contribute to their premiums. Based on this expected contribution, APTCs are set at a level that allows people to purchase a relatively inexpensive silver plan.

NARRATIVE VERSION

Steps the Marketplace Must Take to Calculate the APTC

STEP 1 Determine the amount the family is expected to spend on premiums (expected contribution) given its income.

STEP 2 Identify the cost of the applicable silver plan (benchmark plan) for this family.

STEP 3 Fill the gap–after identifying a family's expected contribution, determine how much more it needs to purchase the benchmark plan. The APTCs are set at this dollar amount to "fill the gap."

How is the Tax Credit Calculated?

FORMULA VERSION

Advance Premium Tax Credit = **Cost of a Benchmark Plan** − **Expected Family Contribution**

The **Advance Premium Tax Credit** "fills the gap" between what a family is expected to contribute to health insurance and the cost of a benchmark plan.

The **cost of the benchmark plan** is the cost of the second lowest cost silver plan adjusted to reflect selected characteristics of the family, such as age and size.

The family's **expected contribution** is set on a sliding scale based on income.

It varies from 2% of income at 100% FPL to 9.5% at 400% FPL.

The expected contribution is not adjusted to reflect any additional costs a family might have for buying other insurance, such as employer-based coverage or CHIP.

How is Benchmark Cost Calculated?

TO CALCULATE THE BENCHMARK COST

Tax Credit Amount = Benchmark Cost − Household Contribution

STEP 1 Identify the cost of the second lowest cost silver plan (benchmark plan) in the geographic area in which the household resides.

STEP 2 Adjust the cost to reflect the age of the APTC-eligible members; if a family includes older members, it increases the cost of the benchmark plan and, thus, the size of an applicant's APTC.

How is the Family's Expected Contribution Calculated?

Families are expected to contribute between 2% and 9.5% of their income towards Qualified Health Plan premiums. The percentage they are expected to contribute is based on a sliding scale.

To find the contribution amount, the Marketplace must figure out:

1. Who's in the family?
2. How much income does the family have?
3. What is the family's income as a percentage of the federal poverty level?

Tax Credit Amount = Benchmark Cost − Household Contribution

Premium Credits by Income Under Health Reform[1]

Income (2013)		Expected Family Contribution	
Percentage of poverty line	Annual dollar amount (2013 $)	Premium contribution as percentage of income	Monthly premium contribution
Family of four			
100 - 133%	$23,550 - $31,322	2%	$39 - $52
133 - 150%	$31,322 - $35,325	3 - 4%	$78 - $118
150 - 200%	$35,325 - $47,100	4 - 6.3%	$118 - $247
200 - 250%	$47,100 - $58,875	6.3 - 8.1%	$247 - $395
250 - 300%	$58,875 - $70,650	8.1 - 9.5%	$395 - $559
300 - 350%	$70,650 - $82,425	9.5%	$559 - $652
350 - 400%	$82,425 - $94,200	9.5%	$652 - $745
Individual			
100 - 133%	$11,490 - $15,282	2%	$19 - $25
133 - 150%	$15,282 - $17,235	3 - 4%	$38 - $57
150 - 200%	$17,235 - $22,980	4 - 6.3%	$57 - $121
200 - 250%	$22,980 - $28,725	6.3 - 8.1%	$121 - $193
250 - 300%	$28,725 - $34,470	8.1 - 9.5%	$193 - $272
300 - 350%	$34,470 - $40,215	9.5%	$272 - $318

What Happens When Family Members Have Access to Other MEC?

The family's **expected contribution** is not adjusted to reflect any other costs a family might have for buying insurance, such as employer-based coverage or CHIP.

Access to coverage outside of Exchange

The Smiths make $94,200 each year (400% FPL). Their expected contribution is 9.5%, or **$745 per month**.

\+

Ms. Smith has health coverage through her job, which costs **$500 per month**. No other Smith family members have access to MEC.

=

$1245 per month in total premium costs

No access to coverage outside of Exchange

The Smiths make $94,200 each year (400% FPL). Their expected contribution is 9.5%, or **$745 per month**.

\+

Ms. Smith does not have access to coverage through her job, so she pays **$0 per month**. No other Smith family members have access to MEC.

=

$745 per month in total premium costs

Who’s in Your Family?

HOUSEHOLD SIZE

- The Marketplace uses IRS rules to decide who is in a household.

- **General Rule:** A taxpayer’s household includes the individuals for whom he/she claims a deduction for a personal exemption.

- **The Details:** A taxpayer may claim a personal exemption deduction for:
  - Himself/herself
  - His/her spouse
  - His/her tax dependents

- **Let’s Take this Example:**
  - If a single mother with two children plans to claim both of them as dependents when she files her taxes, her household size = 3 (herself plus the two children).
  - If her ex-husband plans to claim the children on his tax form, her household size = 1 (just herself).

How Much Income Does Your Family Have?

INCOME

- **Whose Income Counts:**
  - Add up the income of all household members who must file taxes.
- **What Income Counts:**
  - APTC and CSR rely on a measure of income known as “Modified Adjusted Gross Income,” or “MAGI.”
  - The IRS establishes the rules for what counts as MAGI for APTC/CSR purposes.
  - Two ways to get a person’s projected annual income:
    - <u>Option 1:</u> Pull off last year’s tax return (Form 1040)
      - Only works if no change in circumstances
      - Line 37 + (if applicable) Line 20A + Line 7 + Line 8b
    - <u>Option 2:</u> “Construct” their MAGI using IRS rules and definitions based on information provided on the application.

Adjusted Gross Income (AGI)

+

Any Social Security benefits (not already included in AGI)

+

Tax Exempt Interest

+

Foreign Earned Interest

= MAGI

Types of Income Included in MAGI

Income Counted

- Taxable wages/salary (before taxes are taken out)
- Self-employment (profit once business expenses are paid)
- Social Security benefits
- Unemployment benefits
- Alimony received
- Most retirement benefits
- Interest (including tax-exempt interest)
- Post investment income, such as interest and dividends
- Rental or royalty income (profit after subtracting costs)
- Other taxable income, such as canceled debts, court awards, jury duty pay not given to an employer, cash support, and gambling, prizes, or awards; net capital gains (profit after subtracting capital losses); and foreign earned income

Income NOT Counted

- Child support received
- Supplemental Security Income (SSI)
- Workers' compensation payments
- Veteran's benefits
- Gifts

Deductions

- Allowed:
  - Tax deductions allowed on page one of the 1040 Form. For example: student loan interest paid; selected higher education expenses (tuition and fees); self-employment tax; alimony payments
- Not Allowed:
  - States' current Medicaid deductions
  - Itemized deductions (like charitable contributions)

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Let’s Pull it All Together

Tax Credit Amount = Benchmark Cost − Household Contribution

1 Who’s in the Bailey family?

Mr. Bailey files taxes and lists his wife and two children as dependents. The Bailey family size = 4.

2 How much income does the Bailey family have?

Mr. Bailey and Ms. Bailey have a combined projected annual MAGI income of $58,875.

3 What’s their FPL?

Their FPL is 250%, which qualifies them for APTC and CSR!

BENCHMARK COST: The total premiums for the benchmark plan that would cover all of the Bailey family members is $17,000 a year.

EXPECTED FAMILY CONTRIBUTION: At 250% FPL, The Baileys are expected to contribute 8.1% of their income, or $4,768 a year (8.1% x $58,875 = $4,768).

Let’s calculate their APTC:

- **ANNUALIZED APTC = benchmark premium ($17,000) - household contribution ($4,768) = $12,202 per year**
- **MONTHLY APTC = $12,202 / 12 months = $1,106 per month. APTC is paid directly to the Insurer; the Baileys must pay the rest ($414).**

Factors that Impact the Benchmark Plan Cost

- **REMEMBER:** The size of the tax credit equals the silver benchmark plan minus a family's expected contribution.
- The higher the cost of the benchmark plan, the larger the APTC.
- Benchmark plan costs will change based on where the family lives, the ages of the family members seeking coverage, and the number of household members enrolled in QHP.
- Even when the benchmark plan changes, the family's expected contribution amount remains the same.

Benchmark plan costs vary by:

Geography **Age** **Family Size**

But, the plan costs <u>do not</u> vary by:

Tobacco

How Does Geography Impact APTC?

Where you live matters!

Issuers can vary plan costs by geographic area.

HHS publishes “rating areas” which set boundaries in states.

All issuers need to follow these geographical boundaries when setting rates, but the issuer can decide how much they want to charge per area.

Approved Rating Areas:

States are divided into rating areas by county, zip code, etc.

Example: CA has 9 rating areas, which are split among counties and zip codes.

- Rating areas include:
  - Alpine
  - Calaveras
  - Santa Cruz
  - Fresno
  - 912 (zip)
  - 917 (zip)

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Impact of Geography on APTC Size

Meet John. He is 60 and lives in California.

Income: $22,980 (200% FPL)

Expected Contribution: 6.3% or $121/month

If John lived in Region 1 (Alpine, Del Norte, etc.)

- Benchmark Plan: $676/month
- John's Contribution: $121/month
- APTC = $555/month

If John lived in Region 4 (San Francisco)

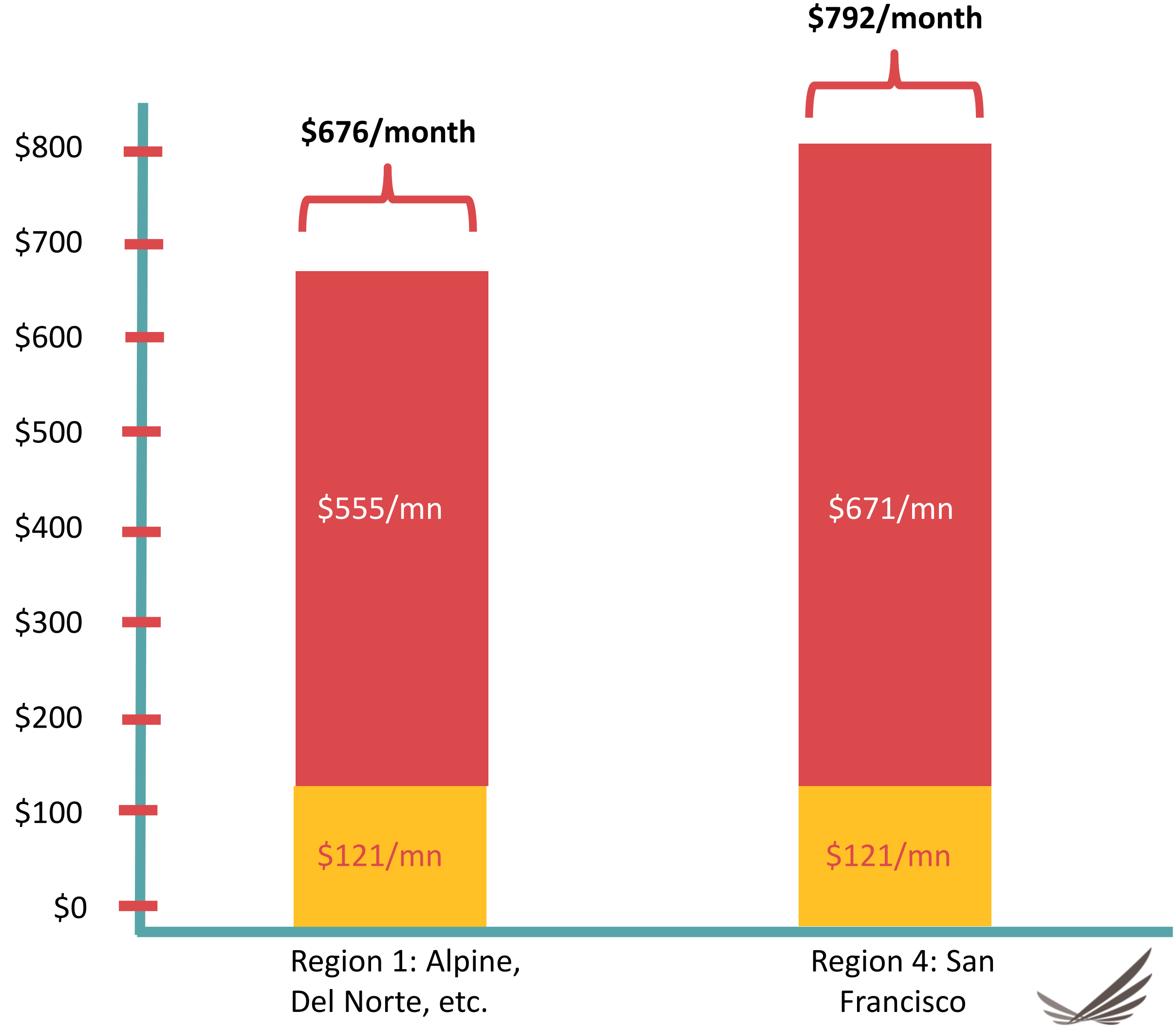
- Benchmark Plan: $792/month
- John's Contribution: $121/month
- APTC = $671/month

KEY

Contribution

APTC Amount

These rates were selected for illustrative purposes. They were adapted from the 6/28/13 Covered California Health Insurance Plans Brochure



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How Does Age Impact APTC?

How old you are matters!

Issuers can vary plan costs by age.

HHS publishes "age rating curves" for adults. The curve shows the maximum amount (rate) an insurance company can charge per age group.

The ratio can't be higher than 3:1. This means that older people can never pay more than 3 times as much for coverage as younger people.

Approved Age Ratings:

21 *years old*

- Rating factor = 1.0
- This means they are the reference point

49 *years old*

- Rating factor = 1.7
- This means they will pay up to 1.7 times as much as a 21-year-old

65+ *years old*

- Rating factor = 3.0
- This means they will pay up to 3 times as much as a 21-year-old

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Impact of Age on APTC Size

Meet Martin, Age 29

- Income: $22,980 (200% FPL)
- Expected Contribution: 6.3% or $1,452
- Base Premium (before Age Rate): $3,000
- Age Rate: 1.19

Meet Whitley, Age 63

- Income: $22,980 (200% FPL)
- Expected Contribution: 6.3% or $1,452
- Base Premium (before Age Rate): $3,000
- Age Rate: 2.95

Martin, Age 29:

- Premium = $3,570 ($3,000 x 1.19)
- Benchmark Plan = $3,570
- John’s Contribution = $1,452
- APTC = $2,118

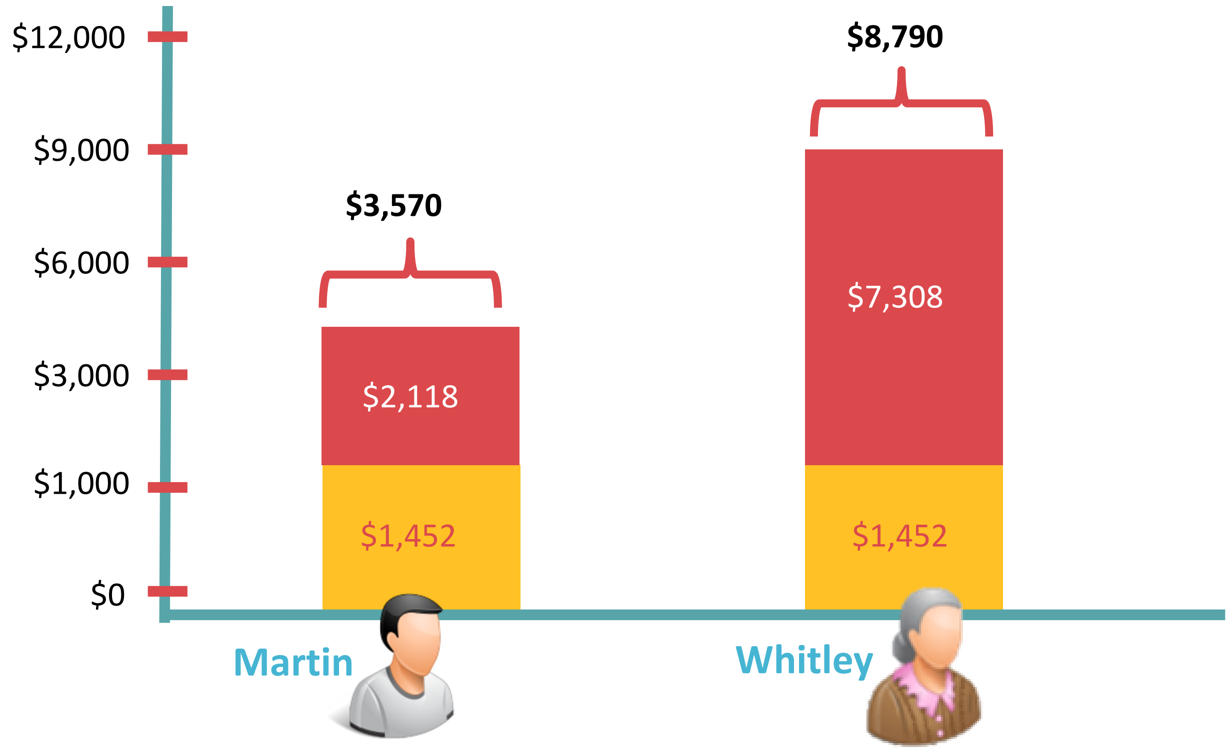
Whitley, Age 68:

- Premium = $8,760 ($3,000 x 2.92)
- Benchmark Plan = $8,760
- Whitley’s Contribution = $1,452
- APTC = $7,308

KEY

Contribution

APTC Amount



How Does Smoking Impact APTC?

Whether you smoke matters!

Plans can charge people up to twice as much for premiums if they smoke (unless a state prohibits it).

But, tobacco use is NOT taken into account when calculating the benchmark plan. As a result, it does not impact tax credit size.

This means that smokers must use their own money to pay for the higher premium costs associated with their smoking.

Impact of Smoking on Plan Costs:

↑ Premium

= APTC

↑ Plan cost

↓ Premium

= APTC

↓ Plan cost

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Impact of Smoking on Plan Spending

Meet Joanne and Samantha. They are adult sisters who each select the same Marketplace plan. Joanne does not smoke, but Samantha does. Both work at a pizza shop and make $35,325 (150% FPL). Because Samantha smokes, the health plan can charge her twice as much as Joanne for premiums.

Joanne:

- Premium = $7,000
- Benchmark Plan = $7,000
- Joanne's Contribution = $1,416
- APTC = $5,584

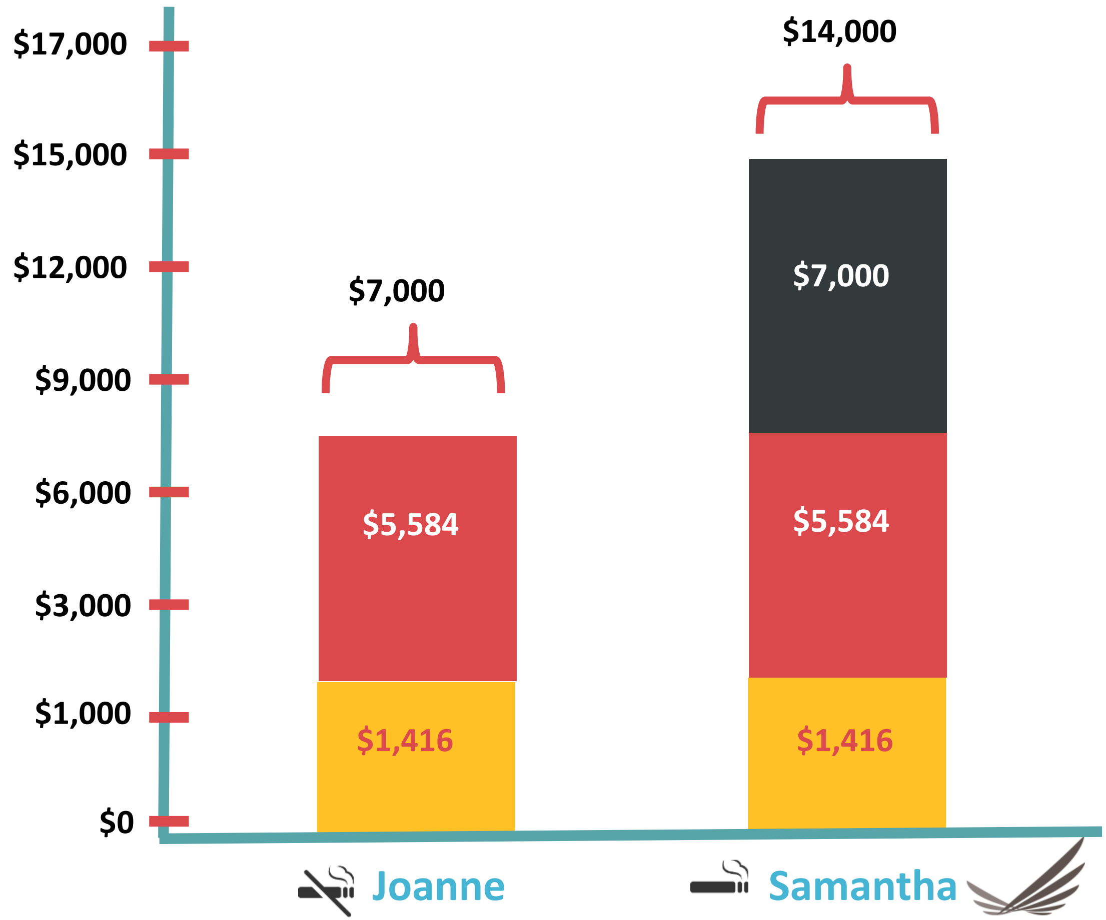
Samantha:

- Premium = $14,000 ($7,000 x 2)
- Benchmark Plan = $7,000
- APTC = $5,584
- Samantha's Contribution = $1,416
- Additional Contribution for Smoking = $7,000

Smoking does not impact APTC, so use base premium ($7,000) to calculate APTC

KEY

- Contribution
- APTC Amount
- Smoking Contribution



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End of Year Reconciliation

If the IRS finds that if the individual has to repay credits, there is a cap on the amount they have to pay back. The cap is a sliding scale based on income.

Reconciliation: People who receive an APTC are obligated to file taxes; when they do, the IRS conducts a "reconciliation" to ensure they received the right amount of premium tax credit.

Step-by-Step Process for Reconciliation:

STEP 1 APTC recipients file their annual taxes.

STEP 2 IRS uses their tax return income to determine the appropriate size of their premium tax credit for the prior year.

STEP 3 IRS compares the size of the amount they already received in APTC to their actual premium tax credit.

- If they received more APTC than their income tax data indicates they qualify for, they must repay the excess. This might happen if someone gets a salary increase in the middle of a year and forgets to report it.
- If they receive less APTC than their income tax data indicates they qualify for, they receive a tax refund (or offset to any tax liability). This might happen if someone loses a job in the middle of a year and forgets to report it.

Reducing the Repayment Risk

Strategies Available to Consumers:

- **PROVIDE ACCURATE PROJECTIONS**: When applying for an APTC, answer any questions about your projected income and family size as accurately as possible.
- **REPORT CHANGES**: Promptly report any changes in income or family size that occur in the midst of the year; this allows Marketplaces to adjust your APTC to the right level.
- **TAKE LESS APTC:** Consider taking less than the full APTC for which you qualify or even waiting until you file your tax return to take advantage of the premium tax credit if you can afford to "front" the money.

Example:

- For example, consider Suzie who qualifies for an APTC of $100 a month. She can decide to take an advance premium tax credit of $50 a month. If she does, she'll also receive a tax refund of $6,000 at the end of the year when she files taxes. This helps protect her against the risk that she'll owe money to the IRS at the end of the year if she underestimated her income.

Special Considerations

APTC may only be used for essential health benefits. They can't be used to subsidize the cost of add-ons or optional benefits, like adult dental coverage.

- Example: If a plan costs $15,000 BUT $1,000 is attributable to an adult dental add-on, then the APTC will be calculated as if the plan costs $14,000 ($15,000 - $1,000).

The amount of APTC can't be more than the cost of the plan.

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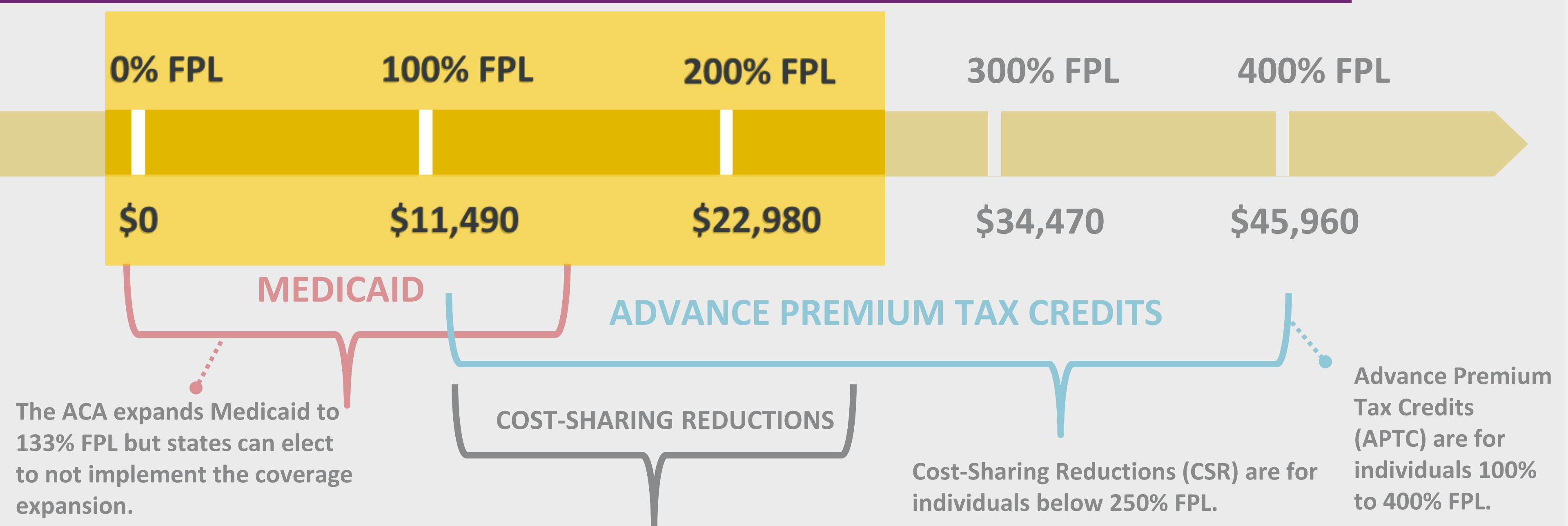
COST-SHARING REDUCTIONS

Cost-Sharing Reductions

- Families are eligible to receive cost-sharing reductions (CSR) to help with out-of-pocket costs (not premiums) if their income is below 250% FPL.
- The amount of help provided by a CSR depends on a person's income–more substantial help is available to people at lower income levels.
- People who apply for insurance affordability programs are automatically assessed for CSR.

Continuum of Insurance Affordability Programs for Adults

(Figure illustrates 2013 thresholds for single adults in a state that expands Medicaid; thresholds differ for children)



What is a Cost-Sharing Reduction?

After payment of premium and plan enrollment, cost-sharing reductions help people with their out-of-pocket costs like deductibles, coinsurance and copayments.

Only available to people who enroll in a silver plan.

There are three levels of savings available to people who qualify for a CSR.

- The level of savings (or tier) for which a family qualifies is based on the family's income.
- The issuers provide the extra help with out-of-pocket costs by offering a silver plan with higher actuarial value.
    - The higher the actuarial value, the lower the deductibles, coinsurance, and/or copayments.

TIERS OF COST-SHARING REDUCTIONS

CSR Tier	Income Range	Actuarial Value of the Silver Plan
1	Special populations < 100% FPL; 100% FPL - 150 %FPL	94%
2	150% FPL - 200% FPL	87%
3	200% FPL - 250% FPL	73%

Silver plan variations offered in these levels

Let’s See How it Works

Meet Ameera. Use this chart to find out what she will pay out-of-pocket for services at different cost-sharing reduction levels.

IMPACT OF COST-SHARING REDUCTIONS ON AMEERA’S OUT-OF POCKET COSTS

TYPES OF HEALTH CARE SERVICES

IF SHE QUALIFIES FOR…	TIER 1 CSR Silver Plan: 94% Actuarial Value	TIER 2 CSR Silver Plan: 87% Actuarial Value	TIER 3 CSR Silver Plan: 73% Actuarial Value	NO CSR Silver Plan: 70% Actuarial Value
	<150% FPL	150% FPL - 200% FPL	200% FPL - 250% FPL	250% FPL - 300% FPL
	Up to $17,235	$17,236 - $22,980	$22,981 - $28,725	$28,726 - $45, 960
Primary Care Visit	$3	$15	$40	$45
Specialist Visit	$5	$20	$50	$65
Laboratory Tests	$3	$15	$40	$45
X-Rays and Diagnostics	$5	$20	$50	$65
Generic Drugs	$3	$5	$20	$25

These rates were adapted from the 6/28/13 Covered California Health Insurance Plans Brochure

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Who's Eligible for CSR?

Individuals are eligible for a CSR if they:

1. Meet the eligibility criteria for APTC
2. Anticipate annual household income below 250% FPL
3. Enroll in a silver QHP

Special Circumstances:

Special Rule for Lawfully Present Individuals Below 100% FPL:

- Lawfully present immigrants with income below 100% FPL who are ineligible for Medicaid because of immigration status may qualify for a CSR.

Special Rule for Families with Members who Qualify for Different CSR Levels:

- In families where members qualify for different levels of CSR (e.g., one American Indian (AI) member and one non-AI member), the "least common denominator" rule is used.
- This means that everyone qualifies only for the CSR variation available to the member who qualifies for the least generous CSR.

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Special Rule for American Indian/Alaska Native Populations

No Cost-Sharing Obligation Below 300% FPL

- AI/IN applicants below 300% FPL are exempt from out-of-pocket costs. They are not required to enroll in a silver plan to qualify for this "no cost-sharing" protection.

Limited Cost-Sharing Obligation Above 300% FPL

- AI/IN applicants above 300% FPL are exempt from cost-sharing for services provided by the Indian Health Service, an Indian Tribe, Tribal Organization, or Urban Indian Organization or through referral under contract health services.

Questions?

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Select slides were adapted from work of Center on Budget and Policy Priorities and Consumers Union.

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