

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

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State Health Reform Assistance Network
Charting the Road to Coverage



Robert Wood Johnson Foundation

BACKGROUND, APTC and CSRs

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 coverage 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. These costs are often called “out-of-pocket” costs. Cost-sharing represents only a part of someone's overall costs for health care, which often also will include premium payments.

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)

- 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)

- 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.

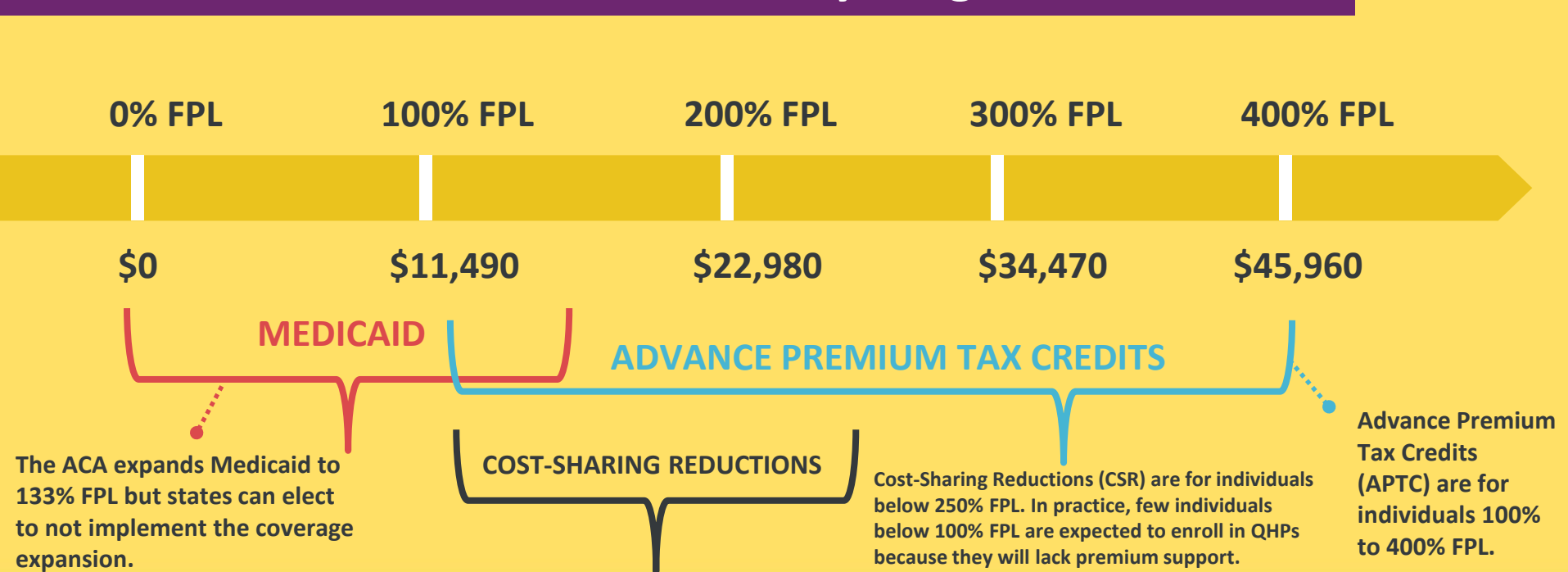
Children's Health Insurance Program (CHIP)

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

Continuum of Coverage

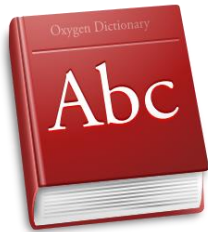
- Eligibility for insurance affordability programs falls along a continuum based on income, age, and other eligibility factors.
- On this continuum, income is measured as percent of the federal poverty level, or FPL.
- Children qualify for Medicaid and CHIP at higher income levels than their parents.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

Continuum of Insurance Affordability Programs for Adults



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 on average 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 (Platinum, 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 plan to take advantage of it.



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 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.

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 the APTC 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	=	\$341/mn
– \$559/mn		
Plan B		
\$620/mn	=	\$61/mn
– \$559/mn		
Plan C		
\$500/mn	=	\$0*
– \$559/mn		

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



Note: This example is for instructional purposes only. Numbers are rounded to the nearest whole number.

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 a QHP.
- Even when the benchmark plan changes, the family's expected contribution amount remains the same.

Benchmark plan costs vary by:



Geography



Family Size

End of Year Reconciliation

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.

If the IRS finds that 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.

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:

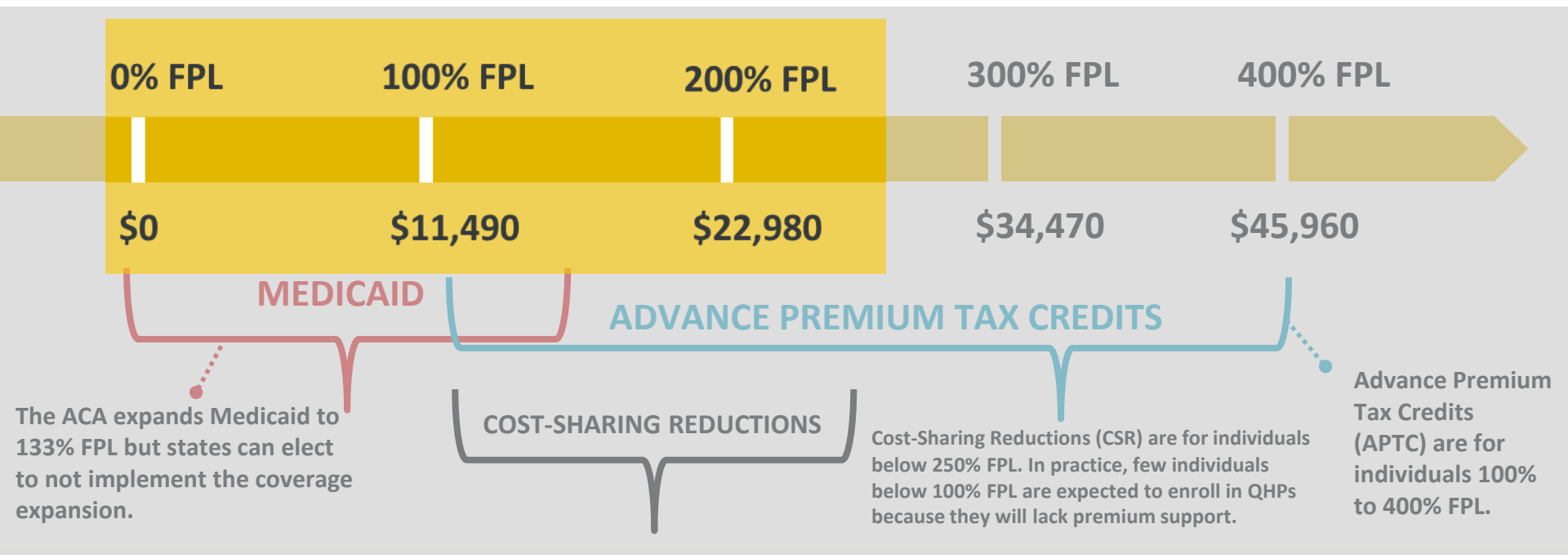
- For example, consider Suzie who qualifies for an APTC of \$100 a month. She can decide to take an advance premium tax credit of \$50 a month. If she does, she'll also receive a tax refund of \$600 at the end of the year when she files taxes. This helps protect her against the risk that she'll owe money to the IRS at the end of the year if she underestimated her income.

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



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

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
	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

TYPES OF HEALTH CARE SERVICES

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

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 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.