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Making Health Insurance Affordable: Assistance to Individuals and Families in the Affordable Care Act

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August 2013

Beginning October 1, 2013, Americans will face a new world of health insurance purchasing. Many individuals and families will have the opportunity to purchase health insurance from either state-operated or federally facilitated health insurance marketplaces. Millions of uninsured Americans will be purchasing health insurance for the first time, or the first time in awhile.

A major calculation for many as they begin to research and purchase insurance through the health insurance marketplaces will be the cost – the amount in premiums individuals and families must pay for their choice of coverage. The affordability of insurance will determine the success of the primary goals of the Affordable Care Act – enrollment in health insurance exchanges to increase insurance coverage and reduce the nation’s uninsured.

To help accomplish those goals, the Affordable Care Act has a system of tax credit assistance and automatic measures to subsidize the cost of health insurance and make it more affordable for individuals and families. This report will summarize these provisions in the Affordable Care Act, how they will work, and their importance to rural individuals and families.

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Premium Tax Credits

The Affordable Care Act provides for tax credits to offset the cost of health insurance premiums. These credits are dependent upon the income of the purchaser and the type of health insurance purchased.

Eligibility for Premium Tax Credits

Premium tax credits will be available to individuals and families purchasing insurance through a health insurance marketplace and with incomes between 100 and 400 percent of the federal poverty level (between about \$11,000 and \$45,000 for an individual and between about \$23,000 and \$94,000 for a family of four for 2013). Income will be based on Modified Adjusted Gross Income. This term may be confusing to some since it is not used on any ordinary federal tax return form. For most, Modified Adjusted Gross Income will be the same as Adjusted Gross Income that is found on line 4 of the 1040 EZ form; line 22 of the 1040A form; or line 38 of the 1040 form (based on 2012 federal tax return forms).

Besides income levels, certain people will be ineligible for the premium tax credits:

- Those who purchase health insurance outside a state-operated or federally facilitated health insurance marketplace (no matter their income).
- Those who are eligible for Medicaid and Medicare. However, those residing in a state that opted not to expand Medicaid to those with incomes between 100 percent and 138 percent of the federal poverty level will qualify for the premium tax credits. No credits will generally be allowed for those with income less than 100 percent of the federal poverty level. Those eligible for Medicaid and Medicare are not eligible for premium tax credits because they already are eligible for a public health insurance program.
- Those who are offered health insurance through their employer, unless that insurance is inadequate or the employee has to pay more than 9.5 percent of their income to purchase it.¹

How the Premium Tax Credit Will Work

When one goes to the relevant health insurance marketplace to research and purchase insurance, there will be several levels of types of plans from which to choose:²

¹ A health plan is “inadequate” or lacks minimum value if it does not pay at least 60 percent of the cost of medical services.

² Andrews, Michelle. “Benefits on Health Marketplace Plans Will be Similar But Costs Will Vary.” Kaiser Health News, July 30, 2013.

- Platinum Plans – Will pay 90 percent of the cost of covered medical services; the consumer will be responsible for 10 percent.
- Gold Plans – Will pay 80 percent of the cost of covered medical services; the consumer will be responsible for 20 percent.
- Silver Plans – Will pay 70 percent of the cost of covered medical services; the consumer will be responsible for 30 percent.³
- Bronze Plans – Will pay 60 percent of the cost of covered medical services; the consumer will be responsible for 40 percent.
- Catastrophic Plans – Will only be available to young adults.

Premiums will vary by those percentages. Platinum plans will generally be the most expensive and Bronze plans will generally be the least expensive.

When a consumer makes a choice of health plan on the marketplace and provides the necessary income data, the marketplace will provide the amount of premium tax credit.⁴ At that point the purchasing consumer can elect to have the tax credit applied to the insurance premium and sent directly to the insurance company, thus reducing the amount of premium the consumer owes; or claim the tax credit on one's tax return; thus reducing one's federal tax liability like other tax credits.

Premium tax credits will be delivered to all those eligible whether they are required to file federal tax returns or not. The premium tax credits are advance credits, meaning people using the credits to buy insurance do not have to pay the full premium and wait for reimbursement.

The amount of the premium tax credit will be based on the price of the second-lowest Silver plan available in the area the consumer resides. The premium tax credit will be based on this benchmark premium minus the expected contribution by the individual or family – calculated on a sliding scale from 2 percent to 9.5 percent of income (as seen in the table below).

The amount of any credit cannot be determined at this time. Too many unknown and individual variables exist, such as the cost of health plans on marketplaces and income levels of individuals and families purchasing on the marketplaces.

However, a recent report from the Kaiser Family Foundation estimates that 48 percent of people currently purchasing health insurance on their own would be eligible for premium tax credits in the health insurance marketplace. For all those currently purchasing health insurance in the individual market it is estimated the average tax credit will be \$2,672 per family. The average tax credit for the 48 percent eligible for premium tax credits is estimated to be \$5,548 per family,

³ By point of comparison, Medicare Parts A, B, and D pay approximately 74 percent of covered medical services.

⁴ These are general statements about how the premium tax credit will work on the health insurance marketplace. Each marketplace is designed somewhat uniquely and will not be available for use until October 1, 2013.

reducing the premium for the second-lowest cost Silver plan by two-thirds.⁵ Of course, significant variability will exist based on the unique circumstances of individuals and families.

The table below provides examples of the percentage of income and dollar amounts that families and individuals are required by the law to contribute to the cost of insurance purchased through the marketplaces.⁶ For example, a family of four at 250 percent of the poverty level would be required to pay \$395 per month for their health plan purchased on the marketplace. If all other requirements are met, the premium tax credit would pay the remainder of the premium cost. As a percentage of income, the most any family or individual at or below 400 percent of the poverty level would have to pay for health insurance through the marketplace is 9.5 percent.

| Premium Tax Credits Under the Affordable Care Act | | | |
|----------------------------------------------------------|----------------------|--------------------------------------|-----------------------|
| Income | | Required Premium Contribution | |
| Percentage of poverty level | Annual dollar amount | Percentage of income | Monthly dollar amount |
| 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% | \$17,325 - \$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 |
| 350 - 400% | \$40,215 - \$45,960 | 9.5% | \$318 - \$364 |

The table above is found in *Making Health Care More Affordable: The New Premium and Cost-Sharing Assistance* by the Center on Budget and Policy Priorities.

Eligible consumers can use the premium tax credit to buy any plan on the marketplace. However, some choices may cost consumers additional expenses or fewer benefits. Consumers may purchase a health plan on the marketplace that is more comprehensive (and likely more expensive), such as a Platinum or Gold plan. However, the individual or family will have to pay

⁵ Levitt, Larry, Claxton, Gary, and Damico, Anthony. *Quantifying Tax Credits for People Now Buying Insurance on Their Own*. Kaiser Family Foundation, August 2013.

⁶ Angeles, January. 2013. *Making Health Care More Affordable: The New Premium and Cost-Sharing Assistance*. Washington, DC: Center on Budget and Policy Priorities.

the full difference in cost between the more comprehensive plan and the Silver plan cost with premium tax credit. Individuals and families may also purchase a less comprehensive (and likely less expensive) plan, such as a Bronze plan, but will not receive cost-sharing assistance as described below if otherwise eligible.

What Happens if My Income Changes During the Year?

Things change during a year – raises at work, loss of jobs, changes of jobs. Individual and family financial situations are often quite different from one point in a year to another. And, naturally, those changes in financial circumstances will change an individual's or a family's ability to pay insurance premiums and the nature of their premium tax credit.

The Affordable Care Act and its regulations anticipated these life changes and how they relate to insurance purchases. If one's income increases during the year, one may no longer qualify for the same premium tax credit. Consumers should be able to maintain the same health plan, but may have to repay any overpayments made to insurers.⁷

One may be eligible for a larger premium tax credit if income decreases. Marketplaces will have a process set up to report changes in individual and family situations to allow for necessary modifications.⁸

Cost-Sharing Assistance

The Affordable Care Act also contains assistance that will increase the value of insurance for some individuals and families while also lowering health care costs. Unlike the premium tax credits, this assistance is automatic for eligible individuals and families and does not involve a transfer of funds like the premium tax credits.

Cost-sharing assistance increases an insurance company's share of covered medical benefits by reducing out-of-pocket costs for certain lower income individuals and families. The Affordable Care Act, through its cost-sharing assistance provisions, sets limits on out-of-pocket costs for certain consumers.

Cost-Sharing Assistance Eligibility

Those with incomes below 250 percent of the federal poverty level (about \$59,000 for a family of four, about \$29,000 for an individual under the 2013 guidelines) are eligible for cost-sharing assistance under the Affordable Care Act. The cost-sharing assistance depends on income levels

⁷ Andrews, page 1.

⁸ Id.

between 100 percent and 250 percent of the federal poverty level as outlined in the table below. All out-of-pocket limits are compared to 30 percent for all other individuals and families purchasing a Silver plan in the health insurance marketplace.

| Pct. of federal poverty level | Individual Income | Family of 4 Income | Out-of-pocket expenses limit (pct. of covered expenses) |
|--------------------------------------|--------------------------|---------------------------|----------------------------------------------------------------|
| 100-150% | \$11,490 to \$17,235 | \$23,550 to \$35,325 | 6% |
| 150-200% | \$17,235 to \$22,980 | \$35,325 to \$47,100 | 13% |
| 200-250% | \$22,980 to \$28,725 | \$47,100 to \$58,875 | 27% |

In addition to the out-of-pocket percentage limits, consumers will also have their maximum out-of-pocket expenses capped at lower levels than others who purchase insurance on the health insurance marketplaces. The Affordable Care Act’s 2014 general cap for out-of-pocket expenses is \$6,350 for individuals and \$12,700 for families.⁹ But for those who qualify for cost-sharing assistance out-of-pocket expenses are capped as outlined in the chart below.¹⁰

| Pct. of federal poverty level | Individual Income | Family of 4 Income | Individual out-of-pocket cap | Family out-of-pocket cap |
|--------------------------------------|--------------------------|---------------------------|-------------------------------------|---------------------------------|
| 100-200% | \$11,490 to \$22,980 | \$23,550 to \$47,100 | \$2,250 | \$ 4,500 |
| 200-250% | \$22,980 to \$28,725 | \$47,100 to \$58,875 | \$5,200 | \$10,400 |

The result of cost-sharing assistance is that lower income consumers can purchase insurance on the health insurance marketplace that has much higher value. Premium tax credits are based on a marketplace’s Silver plan, which has an actuarial value of 70 percent (the amount the plan will pay in covered medical expenses). The cost-sharing assistance increases that actuarial value, so that, for example, individuals and families with incomes below 150 percent of the federal poverty level can now purchase insurance with an actuarial value of 94 percent (i.e., the consumer at this income level is only responsible for 6 percent of out-of-pocket medical expenses).¹¹ This will allow these individuals and families to enroll in and purchase health plans with lower deductibles, co-payments or total out-of-pocket costs, benefiting their overall economic well-being.¹²

⁹ In February 2013 it was announced this provision would be delayed to 2015 as it applies to group health plans and only to plans that use independent managers to handle pharmaceutical or other benefits. This delay does not apply to health plans that will be sold in the health insurance marketplaces.

¹⁰ Andrews, Michelle. “In addition to Premium Credits, Health Law Offers Some Consumers Help Paying Deductibles and Co-Pays.” Kaiser Health News, July 9, 2013.

¹¹ Angeles, page 2.

¹² *Id.*

Importance of Cost-Sharing Assistance to Rural Residents

Rural residents face many challenges related to the cost of health care. Rural residents who live nonadjacent to metropolitan areas are responsible for nearly 22 percent more of their total health care costs (premiums and out-of-pocket costs) than are urban or rural residents adjacent to a metropolitan area.¹³ It has also been found that the “actuarial value of private health plans held by rural residents is lower than for urban residents.”¹⁴ Cost-sharing assistance hopes to address both issues by decreasing the amount of out-of-pocket health care expenses owed by certain individuals and families and by increasing the actuarial value of insurance for those same individuals and families.

Rural areas also have generally lower incomes. Combined with higher uninsured rates and higher rates of purchases on the individual health insurance market, more rural residents are likely to be eligible for cost-sharing assistance and receive more valuable health insurance through the health insurance marketplace.

Finally, cost-sharing assistance and the limiting of out-of-pocket medical expenses will be crucial for many rural residents and families. The Center on an Aging Society at Georgetown University summarizes the health status of the nation as this: “The rural population is consistently less well-off than the urban population with respect to health.”¹⁵ More rural people have arthritis, asthma, heart disease, diabetes, hypertension and mental disorders than urban residents. The differences are not always large, but they are consistent — the proportion of rural residents with nearly every chronic disease or condition is larger.

The Kaiser Commission on Medicaid and the Uninsured found that despite an older population and higher rates of disability in rural areas — which *should* require *higher* health care needs — rural residents actually receive comparable or less care in many measures, suggesting rural residents may not be receiving adequate care. For example, rural residents receive fewer regular medical check-ups, blood pressure checks, cholesterol checks, pap tests, and mammograms than they medically and statistically should.¹⁵ The ultimate result of less than adequate care is a worsening of health status and an increasing of chronic conditions — exactly what has been

¹³ Ziller, Erika C., Andrew F. Coburn, and Anush E. Yousefian. 2006. “Out-of-pocket Health Spending and the Rural Underinsured,” *Health Affairs*, Vol. 25, No. 6, 1688-1699, 2006.

¹³ *Id.*

¹⁴ Center on an Aging Society. 2003. *Rural and Urban Health*. Washington, DC: Georgetown University.

¹⁵ Kaiser Commission on Medicaid and the Uninsured. 2003. *The Uninsured in Rural America*.

found. Cost-sharing assistance will allow some rural people to obtain the tests and check-ups they should at lower cost and with higher value insurance, thus potentially enhancing their long-term health.

Health Plan Premium Comparisons and Premium and Cost-Sharing Assistance

One of the primary activities before health plan enrollment in the health insurance marketplaces commences on October 1, 2013, is comparing current premium costs with the premium costs of plans sold in the marketplaces. Several states that have elected to operate state-based marketplaces have released preliminary premium costs of health plans offered through the marketplace. Reactions to these releases have taken two basic responses — “rate shock” (premiums are increasing significantly) or “rate joy” (premiums are lower than current costs or not as high as anticipated).

Health plan premiums in federally-facilitated marketplaces will generally be released before October 1.

As discussed above, the roles played by premium assistance tax credits and cost-sharing assistance in making health insurance affordable are critical to many rural individuals and families. It is, therefore, essential to include those roles in any comparison between current health plans and marketplace health plans. Unfortunately, reactions to marketplace health plan premiums have been incomplete and in a way disingenuous to the public for three reasons:

- Because of the Affordable Care Act it is difficult to make “apples to apples” comparisons. The law adds many new benefits and makes health insurance generally more valuable. The numerous reforms to health insurance contained in the law will make health plans available in the marketplaces different from health plans any consumer has now. The “apples to oranges” comparison currently being employed by many does not provide much useful information to the public.
- Comparisons of current premium costs and premium costs through the marketplaces focus solely on sticker prices. Because premium assistance tax credits are so individualized, general statements are not possible. So the sticker price remains as the only price point open to comparison. However, as with many items consumers purchase, the sticker price is not the price one ultimately pays, and the sticker price is not the figure of ultimate comparison. As health plan premium prices are released for more marketplaces it is important to note those costs do not include the reduction in premium prices for many due to premium assistance tax credits. It is critical not to jump to conclusions based solely on the marketplace listed price. Only a true and honest comparison will make that statement and point that out to consumers.
- Current comparisons of health plan premium costs generally do not even mention the cost-sharing assistance and its affect on the value of health plans and the economic affect

on eligible individuals and families. As individuals and families begin to make decisions on what to purchase in health insurance marketplaces, it is important for them to realize the cost-sharing assistance exists and what it means to their circumstances. It is also incumbent on those making comparisons between current health plans and marketplace health plans to include cost-sharing assistance in comparisons and the positive role it can have for individuals and families.

It is also important to remember that the majority of Americans will not purchase their health plans through the marketplace. But for those that do, it is also important to consider all relevant factors in making cost comparisons.

ABOUT THE CENTER FOR RURAL AFFAIRS

Established in 1973, the Center for Rural Affairs is a private, nonprofit organization with a mission to establish strong rural communities, social and economic justice, environmental stewardship, and genuine opportunity for all while engaging people in decisions that affect the quality of their lives and the future of their communities.

This report is made possible by the generous assistance of the Nathan Cummings Foundation.

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