

# Subsidies to Buy Coverage in a Health Insurance Marketplace/Exchange

Under the Affordable Care Act (ACA), individuals who purchase coverage through a Health Insurance Marketplace may be eligible for financial assistance if their household income is less than 400% of the federal poverty level and they don't have "minimum essential coverage."<sup>1</sup> The ACA provides two forms of financial assistance, both of which are only available through a Health Insurance Marketplace: a monthly *premium tax credit*, which will lower the premium amount an individual or family must pay, and *cost sharing subsidies*, which will limit an insured's maximum out-of-pocket costs.

## Premium Tax Credits

Premium tax credits are determined on a sliding scale, based on income, so that individuals at the lower end of the income scale get the most financial assistance. Premium tax credits can be used at the time an individual must pay their monthly premiums, so the amount they owe is automatically lowered.

The subsidy is based on the premium for the second lowest cost silver plan available in a Health Insurance Marketplace, known as a benchmark plan. The tax credit can be used to purchase any plan in a Health Insurance Marketplace, but an individual or family who wants a more expensive or higher tier plan (i.e., gold or platinum<sup>2</sup>) must pay the difference. For example, if John has income of 100% of poverty (\$11,490), his premium would be capped at 2% of his income, or \$230. If the benchmark plan costs \$5,000 a year, John would owe \$230 and the credit would cover \$4,770. If John chose to buy a plan with a higher premium (for example, either a higher cost silver plan or a gold plan), he would pay more than \$230. For example, if the premium for the plan he buys is \$5,500, John would pay \$730 (\$5,500 minus the \$4,770 credit based on the benchmark).

## Premium Limits for Consumers Based on Income

Income	Premium Limit
Up to 133% FPL	2% of income
133 - 150% FPL	3 - 4% of income
150 - 200% FPL	4 - 6.3% of income
200 - 250% FPL	6.3 - 8.1% of income
250 - 300% FPL	8.1 - 9.5% of income
300 - 400% FPL	9.5% of income

Premium tax credits are adjusted to take into account premium differences because of age, family size and geography. However, premium tax credits will not take into account a premium surcharge for tobacco use. Tobacco users must pay that surcharge out of pocket, without the help of premium tax credits.

### **Cost Sharing Subsidies**

Individuals and families with income below 250% of poverty may also qualify for help paying out-of-pocket costs for services covered by their plan. This financial help, which is only available with a silver level plan, comes in two forms: a lower out-of-pocket limit and a higher actuarial value.

First, the cost-sharing subsidy will lower the out-of-pocket limit for eligible individuals to a fraction of what would apply otherwise.<sup>3</sup> Second, the cost-sharing subsidy will effectively increase the actuarial value of the Silver level plan in which an individual enrolls, since the individual will pay less of the costs. Where the standard value of a Silver plan is 70% of total average costs for covered services, individuals eligible for the cost-sharing reduction will get a Silver plan that covers 73%, 87% or 94% of total average costs for covered services, depending on income. The subsidy goes directly to the insurer to reduce an enrollee’s out-of-pocket costs at the time the covered service is received.

#### **Cost-Sharing Subsidies for Consumers Enrolled in a Silver Level Plan Based on Income**

<b>Income</b>	<b>Actuarial Value</b>	<b>Out-of-Pocket Limit</b>
<b>100 – 150% FPL</b>	94%	\$2250 individual; \$4,500 family
<b>150 - 200% FPL</b>	87%	\$2250 individual; \$4,500 family
<b>200 - 250% FPL</b>	73%	\$5,200 individual; \$10,400 family

<sup>1</sup> In 2013, 400 percent of the federal poverty level is \$46,000 for an individual and \$94,000 for a family of four. The poverty level is adjusted annually to reflect inflation and vary by family size. “Minimum Essential Coverage” includes most types of coverage, including Medicare, Medicaid, and employer-sponsored coverage that is considered affordable and adequate.

<sup>2</sup> The ACA requires insurers to offer four standardized levels of coverage: Bronze, Silver, Gold and Platinum. The four plan levels will vary based on the share of covered services paid by the plan. They range from the least generous level (Bronze, with an actuarial value of 60%) to the most generous level (Platinum, with an actuarial value of 90%).

<sup>3</sup> The out-of-pocket limit for plans offered on Marketplaces in 2014 will be \$6,350 for an individual plan and \$12,700 for a family plan.