

Understanding Health Care Reform



Robert Hopper, Ph.D.

One of the nation's leading experts on HSA-qualified health plans explains the Affordable Care Act's premium subsidies and who will be eligible for them.

Health care subsidies? You may be surprised.

Initially published in *Santa Barbara News-Press*, April 14, 2013

In 2014, the Affordable Care Act (ACA) requires that everyone be covered by health insurance.

For many Americans under age 65 who get their coverage through employer sponsored group health plans, or over 65 and get their coverage through Medicare, this is not a problem.

Yet there is a significant group that buys their own health insurance, including self-employed individuals, people who work for employers that don't offer group health plans, and dependents of employees who can't afford the premiums for dependent coverage on the group health plan. This requirement to have insurance is easy for people who can afford coverage, but what about people who cannot afford health insurance premiums?

The Affordable Care Act provides a system of subsidies to help low- and moderate-income people buy affordable coverage. That raises the question: At what income levels can one receive a subsidy? In short, individuals who purchase health insurance plans after Jan. 1, 2014 in the California Health Insurance Exchange (called Covered California) will be eligible for subsidies for health insurance premiums if their income is less than 400 percent of the Federal Poverty Level (FPL). As a point of reference, here are the federal poverty levels for 2013:

Single	\$11,490
Couple	\$15,510
Family (4)	\$23,550

Let's look at some examples to see how the subsidies will work at different income levels.

- Income less than 138 percent Federal Poverty Level: eligible for Medi-Cal.

Individuals or families having a household income under the 138 percent FPL will qualify for the expanded federal/state Medicaid program (called Medi-Cal in California).

138 percent FPL

Single	\$15,856
Couple	\$21,403
Family (4)	\$32,499

An individual earning \$15,000 per year (\$1,250 per month) will qualify for this plan. This person will be able to get coverage at virtually no cost, and have a plan with small copays for medical services and prescription drugs. Nationally, the qualification guidelines for Medicaid will be 133 percent of FPL in 2014; California opted for a higher value of 138 percent FPL.

- Income 138 percent to 400 percent Federal Poverty Level: Subsidies apply.

People earning greater than 138 percent and less than 400 percent of FPL will be eligible for subsidies to make health insurance more affordable. Here are some examples of the 400 percent of FPL. An individual earning 400 percent of FPL (\$45,960) earns four times as much as the poverty level (\$11,490).

400 percent FPL

Single	\$45,960
Couple	\$62,040
Family (4)	\$94,200

There is a much larger population in this income category. Based on a sliding scale, people at the

lower level will get larger subsidies, while people at higher income levels will get lower subsidies. An individual making \$35,000 per year will have a monthly income of \$2,125 per month. After rent of \$1,000 to \$1,500 for an apartment in Santa Barbara, and the remaining money used for food, car and miscellaneous expenses, making a \$300 monthly insurance premium payment is expensive.

- Greater than 400 percent Federal Poverty Level: No subsidies.

In general, if the cost of health insurance is less than 9.5 percent of income, the plan is considered affordable and the individual will not qualify for a subsidy.

SUBSIDIES

The technical name of the subsidy is “Advanced Premium Tax Credit,” or APTC. This tax credit is paid — in advance — to the insurance company and applied to the insurance premium; the individual will pay the remainder of the premium.

The Affordable Care Act includes “The Insurer Premium Tax,” specifically designed to help fund these subsidies. Starting in 2014, insurance companies will be paying a tax of 2.4 percent tax on all health insurance plans.

To receive the subsidies, this individual will need to go to the exchange for the state of California called “Covered California.” In the exchange there are four levels, or tiers, of health plans — from the least expensive “bronze” plans to the moderate cost “silver” plans and more expensive “gold” and “platinum” plans. The subsidies are based on the premium for the “benchmark plan” (the second lowest cost silver plan available on the exchange). Tax credits can be applied to the premium for any of the metal plans; the credit can pay a larger percentage of bronze premiums or a smaller percentage of gold or platinum plans.

While the exchange is in the process of being completed, you can log on to the site and use the subsidy calculator at the bottom of the first page to see how the subsidies will work. After you log on to www.CoveredCA.com, you will have an opportunity to complete a form. Here is how it would look for a family of three with a household income of \$70,000 per year:

Estimated monthly premium (without subsidy):	\$1,436
Estimate tax credit from the government:	\$882
Estimated monthly premium:	\$554

To learn more about these subsidies, check with your local insurance agent who will be licensed to help individuals navigate the exchange. If you don’t have a local agent, go to the website www.Nahu.org for the National Association of Health Underwriters, the professional organization of health insurance agents, and click on “Find an Agent.”

The federal government uses a term called “tax expenditures” to make health insurance more affordable. According to Dictionary.com, tax expenditures are “any reduction in government revenue through preferential tax treatment, as deductions and credits.” Wikipedia’s definition is “government spending through the tax code.” Examples include tax-deductibility for employer-sponsored health plans; tax deductions for self-employed; as well as subsidies for Medicare Part B and D premiums; and fully subsidized Medi-Cal for the lowest income individuals.

Starting in 2014, low- and moderate-income individuals will also qualify for advanced premium tax credits to make coverage more affordable. It appears that many people will get some form of financial assistance from Uncle Sam

Robert Hopper, Ph.D., is author of “*The HSA Strategy: The future of health insurance in America*,” the continuing education text book for the insurance industry.

Here is a chart that can help you determine if you qualify for subsidies for health insurance.

Household Size	Eligible for Medi-Cal		Eligible for Premium Subsidies			
	100% FPL	138%	150%	200%	300%	400%
1	\$11,490	\$15,856	\$17,235	\$22,980	\$34,470	\$45,960
2	15,510	21,403	23,265	31,020	46,530	62,040
3	19,530	26,951	29,295	39,060	58,590	78,120
4	23,550	32,499	35,325	41,100	70,650	94,200
5	27,570	38,047	41,355	55,140	82,700	110,280

This chart was not included in the original News-Press editorial.

Source: Federal Poverty Levels (FPL) for 2013 from www.familiesusa.org.