

Marketplace Subsidies

Subsidized Premiums for Exchanges in 2014

By Jeff Adams

As part of the ACA, health insurance exchanges will offer health policies to individuals. There will be subsidies available to these individuals if their household income is less than 400% of the Federal Poverty Level ("FPL") and they do not qualify for health care coverage through another source. Persons will either need to have some form of health care coverage (employer-based, government, individual, etc.) or pay a penalty. The purpose of this narrative is to describe the government premium subsidy for individuals with incomes less than 400% of FPL.

Persons with household income between 100% and 400% of FPL eligible for coverage through the Exchange may get a subsidy on premium payment to coverage through their regional exchange. In order to get this subsidy these persons must not be eligible for coverage through any other source (employer-based, government coverage, coverage through a family member, etc.) .

The FPL is set by the federal government and is based on the number of persons in the household. There is an FPL for the continental United States, an FPL for Alaska, and an FPL for Hawaii. For example, in 2014 the FPL for states other than Alaska and Hawaii may be \$11,450 for the first individual and \$4,000 for each additional household member. That would mean the FPL for a three-person household in 2014 would be \$19,450 ($\$11,450 + 2 \times \$4,000$). A three-person household that submits an income tax filing totaling \$58,350 would have Income as a Percent of FPL of 300% ($\$58,350 / \$19,450 \times 100\%$).

Once income as a % of FPL has been calculated, the following table will be used to determine the % of the household income that the household will have to pay for the Benchmark plan set of benefits, which will be described later:

Income as % of FPL	Contribution as % of Income
100%	2.0%
133%	3.0%
150%	4.0%
200%	6.3%
250%	8.0%

300%	9.5%
400%	9.5%

As an example, the three-person household would be able to purchase a Benchmark set of benefits in 2014 for \$5,543.25 (\$58,350 times 9.5%) since the household income is 300% of FPL. If the income as % of FPL does not appear in the table above then the contribution % would be a linear interpolation of the values in the table (275% would result in contributions as a % of income of 8.75%).

The Benchmark set of benefits to which a policyholder would be entitled for the contribution described above would vary by exchange but would be the second least expensive Silver plan offered in the appropriate regional exchange. The ACA dictates that a Silver plan must pay for approximately 70% of eligible expenses. Eligible expenses are defined by the Federal government and are called Essential Health Benefits. A sample of what a Silver plan might look like is a \$3,000 deductible, 30% policyholder copay, and a \$6,250 out-of-pocket maximum.

Additionally, households eligible for the subsidy whose income are less than 250% of FPL are entitled to benefit plans richer than the Benchmark plan described above. Specifically, the regulation describes these increases through the use of the Actuarial Value table below:

Range of Income as % of FPL		Actuarial
<u>Minimum</u>	<u>Maximum</u>	<u>Value</u>
100%	149.9%	94%
150%	199.9%	87%
200%	249.9%	73%
250%	400%	70%

As an example, a household with income at 150% of FPL would be entitled to a benefit plan which paid approximately 94% of eligible charges if they were to contribute 4.0% of their household income.

After 2014 and through 2018, policyholders will be responsible for the contributions calculated via the formula above but will also be responsible for the difference between the % increase in premiums for the Benchmark plan for each of those years and the % increase in a national income index for that particular year. Thus, the policyholder will have to pay additional amounts if health care costs increase more than national average incomes in 2015

through 2018. Similarly, after 2018 policyholders will need to pay any increases in health care costs greater than the general United States Consumer Price Index increases. These possible additional policyholder contributions give added importance to implementing controls to restrain out-of-control health care cost increases in future years.

A publicly available subsidy calculator has been published by the Kaiser Foundation and can be found at:

<http://healthreform.kff.org/Subsidycalculator.aspx>

Adams Actuarial LLC also has a more detailed subsidy calculator. If you have any questions or comments please feel to contact Adams Actuarial LLC.