Lower Taxes, Lower Premiums

The New Health Insurance Tax Credit

Families USA

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Introduction

The Patient Protection and Affordable Care Act (Affordable Care Act), enacted in March 2010, will extend health coverage to millions of Americans by expanding Medicaid to those with the lowest incomes and by creating a tax cut to help low- and middle-income individuals and families afford private coverage. These tax cuts will be provided in the form of new, refundable tax credits that will offset a portion of the cost of health insurance premiums.

This report takes a closer look at these premium tax credits, which will go into effect in 2014 and will help Americans with incomes up to four times the federal poverty level ($88,200 for a family of four in 2010) afford coverage. The unique structure of the tax credits means that individuals and families will have to spend no more than a specified portion of their income on health insurance premiums.

Families USA commissioned The Lewin Group to use its economic models to estimate how many individuals would benefit from the new premium tax credits in 2014 and the value of the dollars going to help pay for insurance (see the Methodology on page 12 for more details). We found that an estimated 28.6 million Americans will be eligible for the tax credits in 2014, and that the total value of the tax credits that year will be $110.1 billion.

The new tax credits will provide much-needed assistance to *insured* individuals and families who struggle harder each year to pay rising premiums, as well as to *uninsured* individuals and families who need help purchasing coverage that otherwise would be completely out of reach financially. Most of the families who will be eligible for the tax credits will be employed, many for small businesses, and will have incomes between two and four times poverty (between $44,100 and $88,200 for a family of four based on 2010 poverty guidelines). However, because the size of the tax credits will be determined on a sliding scale based on income, those with the lowest incomes will receive the largest tax credit, which will ensure that the assistance is targeted to those who need it the most.

As this key provision of the Affordable Care Act takes effect, millions of hard-working Americans will enjoy tax relief and the peace of mind that comes with knowing that they and their family members have affordable health insurance that they can depend on, even if they experience changes in income or become unemployed.

Key Findings

Beginning in 2014, new tax cuts will be available that will significantly reduce the cost of private health insurance for individuals and families. These tax cuts will be provided in the form of tax credits to offset a portion of the cost of health insurance premiums.

Numbers of People Eligible for the Tax Cut (Premium Tax Credit)

- Nationally, approximately 28.6 million Americans will be eligible for these new premium tax credits in 2014 (see Table 1).
- People in working families—those with annual incomes at or above 200 percent of the federal poverty level ($44,100 for a family of four in 2010)—will constitute nearly two-thirds (65.6 percent) of the people who will be eligible for a premium tax credit (see Table 1a).

Table 1. Individuals Eligible for the New Premium Tax Credit in 2014, By Income

Income As a Percentage of the Federal Poverty Level*			Total
0-199%	200-299%	300-399%	
9,854,000	11,117,300	7,664,900	28,636,200

Source: Data prepared by The Lewin Group for Families USA (see the Methodology for details).

Table 1a. Individuals Eligible for the New Premium Tax Credit with Income Above/Below 200% of Poverty

	Income As a Percentage of the Federal Poverty Level*		Total
	0-199%	200-399%	
Number	9,854,000	18,782,200	28,636,200
Percent	34%	66%	100%

Source: Data prepared by The Lewin Group for Families USA (see the Methodology for details).

* Since people's incomes fluctuate over the course of a year, there is some churning between income categories. Although there is no double-counting in this analysis, a small number of individuals' actual annual income may be higher or lower than the income category in which they appear. Moreover, some individuals with income less than 133 percent of the federal poverty level will be eligible for tax credits because they are ineligible for Medicaid.

Total Value of the Tax Cut to Help People Pay Health Insurance Premiums

- The total annual value of the tax cut (tax credits) that Americans will be eligible to receive to help pay premiums in 2014 will be approximately $110.1 billion (see Table 2).
- Although nearly two-thirds of the people who will be eligible for these premium tax credits will have incomes at or above twice the poverty level, because the size of the tax credit will be determined on a sliding scale based on income, more than half of the *dollars* from the tax cut (56 percent) will be targeted to lower-income families–families with incomes below 200 percent of poverty (see Table 2a).

Table 2. Total Dollars Available to Help Individuals Pay Health Insurance Premiums in 2014, by Income (Dollars in Millions)

Income As a Percentage of the Federal Poverty Level			Total Value of Premium Tax Credits in 2014
0-199%	200-299%	300-399%	
$61,618	$35,687	$12,799	$110,104

Source: Data prepared by The Lewin Group for Families USA (see the Methodology for details).

Table 2a. Total Dollars Available to Help Individuals Pay Health Insurance Premiums in 2014, by Income Above/Below 200% of Poverty (Dollars in Millions)

	Income As a Percentage of the Federal Poverty Level		Total Value of Premium Tax Credits in 2014
	0-199%	200-399%	
Number	$61,618	$48,486	$110,104
Percent	56%	44%	100%

Source: Data prepared by The Lewin Group for Families USA (see the Methodology for details).

Help for Working Families

- The vast majority of people who will be eligible for the premium tax credit—95 percent—will be in working families.
  - Nationally, nearly 24.8 million people—the majority of those who will be eligible for premium tax credits—will be in families with a worker who is employed full-time (see Table 3).
  - Another 2.5 million people will be in families with a worker who is employed part-time (see Table 3).

Table 3. Individuals Eligible for Premium Tax Credits in 2014, by Family Employment Status

Family Employment Status	Number	Percent
Total Working	27,210,300	95%
Employed Full-Time	24,755,200	86%
Employed Part-Time	2,455,100	9%
Unemployed	525,100	2%
Not in the Work Force	900,800	3%
Total	28,636,200	100%

Source: Data prepared by The Lewin Group for Families USA (see the Methodology for details).

Help for Employees of Small Businesses

- More than half of those who will be eligible for the premium tax credit will work for small businesses with fewer than 100 workers (52.9 percent).
  - Approximately 15.2 million people will be in families with a primary worker who is employed by a business with fewer than 100 workers (see Table 4).
  - Approximately 11.4 million people will be in families with a primary worker who is employed by a business with fewer than 25 workers (see Table 4).

Table 4. Individuals Eligible for Premium Tax Credits in 2014, by Firm Size of Family Worker

Firm Size of Family Worker (Number of People in Firm)					Non-Working	Total
Under 10	10-24	25-99	100-499	500 or More		
8,342,400 (29.1%)	3,096,500 10.8%)	3,710,300 (13.0%)	2,895,900 (10.1%)	9,504,200 (33.2%)	1,086,800 (3.8%)	28,636,200 (100%)
11,438,900 (39.9%)		Firm Size of Family Worker < 25				
15,149,200 (52.9%)			Firm Size of Family Worker < 100			

Source: Data prepared by The Lewin Group for Families USA (see the Methodology for details).

Help for People with and without Health Coverage

- Nearly 13.8 million uninsured people will be eligible for a premium tax credit that will help them purchase health insurance (see Table 5).
- Approximately 14.8 million insured people will be eligible for a premium tax credit that will relieve some of the burden of health costs by making health care premiums more affordable (see Table 5).

Table 5. Individuals Eligible for Premium Tax Credits in 2014, by Prior Insurance Status

Prior Insurance Status	Number	Percent
Uninsured	13,745,100	48%
Insured	14,891,100	52%
Job-Based Coverage	10,554,700	37%
Private, Non-Group Coverage	3,831,900	13%
Public Coverage	504,500	2%
Total	28,636,200	100%

Source: Data prepared by The Lewin Group for Families USA (see the Methodology for details).

Discussion

With the passage of the Affordable Care Act comes the promise of affordable health coverage for millions of Americans. At the time of enactment, an estimated 45.7 million Americans were uninsured.[1] Another 53.2 million non-elderly Americans with insurance paid more than 10 percent of their pre-tax income on health care in 2009.[2] The new premium tax credits, which are entirely financed by the federal government, will provide much-needed relief to millions of low- to moderate-income uninsured and underinsured Americans. This will enable these individuals and families to purchase affordable private health insurance through the new health insurance exchanges when they become available in 2014 (see "What's an Exchange?" on page 9). Some 28.6 million Americans will be eligible for premium tax credits that year. The size of the credit that an individual or family will be eligible to receive will depend on their income, and the lower a person's income, the larger his or her tax credit will be. This will ensure that the assistance goes to those who need it the most.

Eligibility for Tax Credits

Generally, the tax credits will be available to individuals and families without health insurance who have incomes between 133 and 400 percent of poverty (between $14,400 and $43,300 for an individual, and between $29,325 and $88,200 for a family of four in 2010) to help with the cost of health insurance premiums for coverage that is purchased through an exchange. Some people with incomes below 133 percent of poverty who do not qualify for Medicaid (mainly immigrants who are legal residents but have been in the United States for fewer than five years) will be eligible for tax credits as well. Undocumented immigrants will not be eligible for premium tax credits under any circumstance.

People who have an offer of job-based coverage may also be eligible for tax credits, depending on how much they must contribute to the cost of premiums for this coverage.

- People whose contribution to their premiums amounts to less than 8 percent of their household income will not be eligible.
- People whose contribution to job-based coverage is greater than 8 percent of their household income will be eligible to purchase coverage in an exchange, and they may also be eligible for premium tax credits (assuming their income is at or below 400 percent of poverty). For employees in this group, there are two ways that they will be able to purchase coverage in an exchange, depending on how much of their income goes toward premiums:
  1. Without tax credits: Employees who would have to pay between 8 and 9.8 percent of their household income to participate in their employer's plan can take their employer's premium contribution with them in the form of a "free choice voucher" that will help them purchase coverage in an exchange. Employers who provide free choice vouchers will have fulfilled their responsibility under the health reform law to cover employees and will not have to pay assessments.
  2. With tax credits: Employees who would have to pay more than 9.8 percent of their household income to participate in their employer's plan, or whose employer's plan pays less than 60 percent of the cost of covered benefits, will be eligible for the tax credits to help purchase coverage in an exchange. Large employers of people who receive premium tax credits may have to pay an assessment.

What Will Happen When A Family Receives a Tax Credit?

When a person or family qualifies for a tax credit, the dollars from the credit will flow directly to the health plan in which the individual or family enrolls, offsetting the total cost of the family's health insurance premiums for that plan.

The tax credits will be fully advanceable. This means that families will not need to wait until their taxes have been filed and processed in order to receive the credit and enroll in coverage, nor will they need to pay the full premium cost at the time of enrollment and then wait to be reimbursed. Instead, the tax credit will be available to pay the premium at the time the person enrolls in a plan (which will be during open enrollment periods that will be determined by the Secretary of Health and Human Services).

Finally, the tax credit will be refundable, which means that families with very low incomes who do not owe taxes will be eligible for these tax credits to assist with the cost of premiums. However, the majority of these very low-income families will be eligible for Medicaid, and hence, ineligible for premium tax credits.

How Much Will the Tax Credits Be Worth?

As described earlier, the size of the tax credit that an individual or family will be eligible for will depend on the individual's or family's income. And how much coverage that credit will help buy will depend on the plan the individual or family chooses. Below, we describe how income and plan choice come together to determine what an individual or family will have to pay out of pocket.

- To determine the size of an individual's or family's tax credit, start with the family's income. The family's household income will be used to determine the maximum premium contribution the family must pay. This maximum amount—a maximum percentage of family income—will be based on a sliding scale, with those with the lowest incomes paying the smallest proportion of their income on premiums.
- Next, identify the premiums for the second lowest-cost "silver" exchange plan that is available to the individual or family in the area in which they live.[3] This plan is the "silver reference plan," and the tax credit amount will be set so that the individual or family will not have to spend more than a specific percentage of their income on premiums for the silver reference plan. For example, a family of four with an income of $44,100 a year would not have to pay more than $232 a month for the silver reference plan that covers their entire family (see Tables 6 and 7).
- An individual or family will be free to pick any plan that is available to them through an exchange. However, the individual's or family's tax credit amount will be based on the premium for the silver reference plan. If a consumer selects a more expensive plan, he or she will pay the difference in price between this more expensive plan and the silver reference plan out of pocket. If a consumer selects a cheaper plan, he or she will still receive the tax credit amount based on the silver reference plan and thus will spend less out of pocket on the premiums for this cheaper plan.

Table 6. Maximum Premium Contribution for Individual Coverage

Income		Maximum Premium Contribution	
Percent of Poverty	Dollars	Annual	Monthly
100%	$10,830	$217	$18
150%	$16,245	$650	$54
200%	$21,660	$1,365	$114
250%	$27,075	$2,180	$182
300%	$32,490	$3,087	$257
350%	$37,905	$3,601	$300
400%	$43,320	$4,115	$343

Table 7. Maximum Premium Contribution for Coverage for a Family of Four

Income		Maximum Premium Contribution	
Percent of Poverty	Dollars	Annual	Monthly
100%	$22,050	$441	$37
150%	$33,075	$1,323	$110
200%	$44,100	$2,778	$232
250%	$55,125	$4,438	$370
300%	$66,150	$6,284	$524
350%	$77,175	$7,332	$611
400%	$88,200	$8,379	$698

The following examples illustrate the amount of assistance that different kinds of individuals and families will receive.

Jane Smith, age 45, no children, annual income of $22,000 (just over 200 percent of poverty): If the annual premium for the silver reference plan in the exchange in Jane's zip code is $3,000, the most Jane would have to spend out of her own pocket on annual premiums would be about $1,386 (or about $115 a month). The remainder of her premium for the silver reference plan would be covered in the form of a tax credit for $1,614 (or that amount could be credited toward the premiums for a more or less expensive plan of her choice).

The Johnsons, a family of four (two adults, two children under age 18), annual income of $33,075 (150 percent of poverty): If the annual premium for the silver reference plan for family coverage in the exchange in the Johnson's zip code is $4,500, the most the Johnson family would have to spend out of their own pockets on annual premiums to cover their family would be about $1,323 (or about $110 a month). The remainder of their premium for the silver reference plan would be covered in the form of a tax credit for $3,177 (or that amount could be credited toward the premiums for a more or less expensive plan of their choice).[4]

Consumers will be able to select any health insurance plan that is available through the exchange in their area, and the law guarantees that there will be a range of plans with different coverage terms and different prices. Each family can pick the plan that meets their needs and still receive the same substantial premium tax credit. How much a family will have to spend out of pocket will vary depending on whether they choose a plan that is more or less expensive than the silver level reference plan.

Who Will Benefit Most from the Tax Credit?

Working Individuals and Families

As this report points out, most of the people who will be eligible for premium tax credits will be working or live in a working family. Although most Americans get health coverage through their employer, changes in the labor market have had a profound effect on the availability of affordable, job-based coverage for many workers. Job-based coverage is usually available for "white collar" workers (traditionally, those in professional or government jobs), but "blue collar" workers in the service, manufacturing, and agricultural sectors, as well as "nonstandard" workers who work on a part-time, temporary, seasonal, or contract basis, are far less likely to have job-based coverage.[5]

What's more, the recent recession has made it even harder for businesses to afford to offer their workers coverage. The rising costs of health insurance are a burden on businesses in the best of economic times, but the recession has forced many businesses to shift workers into nonstandard positions that do not offer coverage. The number of Americans who are involuntarily working part-time grew by 85 percent between December 2007 and June 2010.[6] This makes it even more important that the tax credit be available for these working individuals and families so that they can purchase coverage despite the changing labor market.

What's an Exchange?

Health reform requires the establishment of exchanges that will provide a regulated marketplace where eligible consumers and small businesses can choose from a range of health insurance plans. In this new marketplace, insurance companies will have to clearly explain what care is covered and at what cost, and explain how they spend the premium dollars they collect from consumers. This will help people shop for the best plan for the price, *and* it will promote competition among plans. Insurers that sell plans in the exchanges will all have to play by the same rules and will not be allowed to deny coverage to people with pre-existing conditions or charge exorbitant premiums, which will keep costs down for the individuals and businesses that buy coverage in the exchanges.

The exchanges will, among other things, certify that plans meet certain minimum requirements; help connect consumers to available sources of coverage, including private plans, Medicaid, and the Children's Health Insurance Program (CHIP); and help consumers calculate the amount of tax credit they are eligible to receive to offset the cost of premiums. (For more information, see www.healthcare.gov.)

To participate in an exchange, insurance companies must offer a range of plans. However, only plans that meet certain minimum benefit requirements can be sold in an exchange. The Secretary of Health and Human Services will determine exactly how plans must meet this requirement, including the scope of benefits, but the general categories of required services are ambulatory care, emergency care, hospitalization, prescription drugs, maternity and newborn care, mental health and substance abuse treatment, rehabilitative and habilitative care, laboratory services, preventive and wellness services, chronic disease management, and pediatric services. Plans can also cover benefits that are outside the essential benefits package.

Employees of Small Businesses

Americans who work for small businesses are far less likely to be offered affordable job-based coverage—or even any job-based coverage at all. Particularly for the smallest businesses, the cost of providing health insurance can be prohibitively expensive, especially in these tough economic times. The smaller the business, the less likely it is to be able to insure its workers. In 2009, less than half (46 percent) of businesses that employed three to nine workers offered coverage to their employees. Among businesses with 10 to 24 workers, the offer rate increased to only 72 percent.[7] As this report shows, more than half of those who will be eligible for the new premium tax credits will work in firms with fewer than 100 workers, about 40 percent will work for businesses with fewer than 25 workers, and nearly a third will work in small firms with fewer than 10 workers. Thus, the financial relief will be targeted to exactly those who need it the most.

Conclusion

Health reform will provide significant help to the 28.6 million Americans who will become eligible for the new premium tax credit in 2014. This assistance with the cost of premiums will allow individuals and families to purchase affordable health coverage even if they have a pre-existing condition, and even if they change jobs or experience a drop in income. This, in turn, means added economic security for millions of America's working families. As our nation looks to 2014, it is critical that the states and the federal government work closely together to educate the public about how the new tax credits will work and to make it as simple as possible to connect people with this significant new source of help with the cost of health insurance.

Endnotes

[1] Carmen DeNavas-Walt, Bernadette D. Proctor, and Jessica C. Smith, U.S. Census Bureau, *Current Population Reports, P60-236, Income, Poverty, and Health Insurance Coverage in the United States: 2008* (Washington: U.S. Government Printing Office, 2009).

[2] Kim Bailey and Laura Parisi, *Too Great a Burden: Americans Face Rising Health Care Costs* (Washington: Families USA, April 2009).

[3] Plans that offer essential benefits can offer varying levels of coverage, labeled "bronze," "silver," "gold," and "platinum." These levels refer to the percentage of costs that will be paid for by the plan: A bronze plan will pay for 60 percent of the cost of covered benefits, a silver plan will pay for 70 percent, a gold plan will pay for 80 percent, and a platinum plan will pay for 90 percent.

[4] Depending on the state, the children might be eligible for the Children's Health Insurance Program (CHIP). Premiums for exchange coverage will likely be much higher than CHIP premiums.

[5] Elaine Ditsler, Peter Fisher, and Colin Gordon, *On the Fringe: The Substandard Benefits of Workers in Part-Time, Temporary, and Contract Jobs* (New York: The Commonwealth Fund, December 2005).

[6] Calculation by Families USA based on data in U.S. Department of Labor, Bureau of Labor Statistics, *The Employment Situation: June 2010* (Washington: Bureau of Labor Statistics, August 6, 2010), available online at http://www.bls.gov/news.release/pdf/empsit.pdf, accessed on July 29, 2010.

[7] Kaiser Family Foundation and Health Research and Educational Trust, *Employer Health Benefits: 2009 Annual Survey* (Washington: Kaiser Family Foundation, 2009).

Methodology

Families USA contracted with The Lewin Group to produce national and state estimates of the number of people who will be eligible for a premium tax credit subsidy in 2014 under the Patient Protection and Affordable Care Act (Affordable Care Act). In addition, Families USA asked The Lewin Group to produce demographic data on people who would be eligible for the premium tax credit (including breakdowns according to income, insurance coverage, and work status), and to estimate by income category the average amount of premium tax credit subsidy people will receive in 2014.

The Lewin Group developed these estimates using their Health Benefits Simulation Model (HBSM). HBSM is a micro-simulation model of the United States health care system.[1] HBSM is based on a representative sample of households in the United States, which includes information on the economic and demographic characteristics of these individuals, as well as their health care utilization and expenditures.[2]

The estimates produced by the HBSM for this study are projected to 2014 using state-level population growth estimates from the U.S. Census Bureau.

The Lewin Group is an Ingenix company. Ingenix, a wholly-owned subsidiary of UnitedHealth Group, was founded in 1996 to develop, acquire, and integrate health care information technology capabilities. The Lewin Group operates with editorial independence and provides its clients with expert, impartial health care and human services policy research and consulting services. Randy Haught, who is a Director at The Lewin Group, was the principal researcher on the project.

Modeling Eligibility for the Premium Tax Credit

The Lewin Group used the Medical Expenditure Panel Survey (MEPS) household data in HBSM to identify people who are potentially eligible for premium tax credit subsidies under the Affordable Care Act. The health reform law provides premium tax credit subsidies for legal residents who are under age 65, don't have access to employer coverage, and who are in families with incomes below 400 percent of poverty who purchase private coverage in the new state health insurance exchanges. In addition, employees with access to coverage are eligible for subsidies if their share of the premium for their employer's plan exceeds 9.8 percent of their income.

The Affordable Care Act provides premium tax credit subsidies to individuals enrolled in the new state exchanges. Premium tax credit subsidy amounts are linked to the second lowest cost of a "Silver Plan" (70 percent actuarial value plan) in the area. The subsidy amounts are set on a sliding scale such that the family premium contribution for a Silver Plan does not exceed the following percentage of income for the specified poverty levels in 2014:

- Below 133 percent of poverty: 2.0 percent of income
- 133 up to 150 percent of poverty: 3.0-4.0 percent of income
- 150 up to 200 percent of poverty: 4.0-6.3 percent of income
- 200 up to 250 percent of poverty: 6.3-8.05 percent of income
- 250 up to 300 percent of poverty: 8.05-9.5 percent of income
- 300 up to 400 percent of poverty: 9.5 percent of income

For this analysis, The Lewin Group simulated eligibility for premium credit subsidies based on family income and whether a person meets all of the eligibility requirements described above. The Lewin Group estimated Silver Plan premium costs for all eligible families and individuals. It included in the counts all people who will be eligible for the premium tax credit (people who meet all of the income and eligibility requirements) without consideration of whether the cost for employer-based coverage was more or less than the after-subsidy cost of coverage in the exchange.

The Lewin Group assumed that people with Medicare, CHAMPUS, or Medicaid were not eligible for the premium tax credit. For determining Medicaid eligibility, The Lewin Group assumed that states that currently cover adults with incomes above 133 percent of poverty would discontinue eligibility at that level, since federally funded premium subsidies would be available. Finally, The Lewin Group assumed that those adults whose Medicaid coverage was discontinued would enroll in a private plan in an exchange and receive the premium tax credit subsidy.

Modeling People with Employer-Based Coverage Who Will Be Eligible for the Premium Tax Credit

Under the Affordable Care Act, workers with employer-based coverage are typically ineligible for premium tax credit subsidies in an exchange. However, if the employee's share of the premium exceeds 9.8 percent of income, or if the actuarial value of the employer's plan is less than 60 percent and the employee's income is below 400 percent of poverty, then the employee is eligible to purchase coverage in an exchange with a premium tax credit subsidy.

Using the synthetic firm model in the HBSM, The Lewin Group estimated a premium for the employer plan and the percent of the premium that would be paid by the employee and the employer for each worker with employer-based coverage. Using these data, the model identifies workers in families with incomes below 400 percent of poverty where the employee's share of the premium exceeds 9.8 percent of income.

The Lewin Group analyzed a sample of employer health plans and found that only a very small number had an actuarial value below 60 percent. For this analysis, The Lewin Group assumed that these employers would upgrade to the minimum level of benefits.

Modeling Shifts in Employer-Based Coverage

The Lewin HBSM models employer behavior under the Affordable Care Act. The model estimates that some employers would begin to offer coverage because of the new *small employer* tax credits and because of the employer responsibility provisions that apply to employers with more than 50 employees.[3]

However, some employers who currently offer coverage may decide to discontinue that coverage, since employees could obtain coverage through the Medicaid expansion or premium subsidy program. Some employers may find that their employees are, on average, better off if the employer were to "cash-out" their plan by terminating coverage and giving the savings to the workers in the form of higher wages. Workers could then use these wages to obtain coverage in the non-group market with the help of the subsidies, or enroll in the Medicaid expansion. These benefits cash-outs are most likely to occur in employers with lower-wage workers where the cost of coverage in an exchange (after the premium tax credit subsidy) is less than the worker's current contribution in the employer's plan.[4]

Thus, the model's estimates of people who are potentially eligible for premium tax credits reflect these counterbalancing trends in employer offer rates of insurance, and they include workers and their dependents whose employer is predicted to discontinue coverage and who will meet the income and other eligibility criteria.

Modeling the Average Premium Tax Credit by Income Categories

To estimate the average premium tax credit subsidy amount by income category in 2014, The Lewin Group used the HBSM. The HBSM assigns premiums for the subsidized level of coverage (the Silver Plan) for each person who would be eligible for the premium tax credit based on that person's age (premiums can vary by a ratio of 3:1 depending on age) and family composition.

As explained above, the Affordable Care Act provides premium tax credits to individuals who buy coverage in the new state exchanges. Premium tax credit subsidy amounts are linked to the second-lowest cost of a Silver Plan (70 percent actuarial value plan) in the area. The subsidy amounts are set on a sliding scale such that the family premium contribution for a Silver Plan does not exceed the following percentage of income for the specified poverty levels in 2014:

- Below 133 percent of poverty: 2.0 percent of income
- 133 up to 150 percent of poverty: 3.0-4.0 percent of income
- 150 up to 200 percent of poverty: 4.0-6.3 percent of income
- 200 up to 250 percent of poverty: 6.3-8.05 percent of income
- 250 up to 300 percent of poverty: 8.05-9.5 percent of income
- 300 up to 400 percent of poverty: 9.5 percent of income

The Affordable Care Act simultaneously provides cost-sharing subsidies for people with incomes below 400 percent of poverty, which effectively increases the actuarial value of the basic benefit plan to 94 percent for families with incomes between 100 and 150 percent of poverty, 87 percent for families with incomes between 150 and 200 percent of poverty, 73 percent for families with incomes between 200 and 250 percent of poverty, and 70 percent for families with incomes between 250 and 400 percent of poverty.

The Lewin Group used the HBSM to compute the full subsidy amount for each person who was eligible for the premium tax credit based on the assigned premium of the Silver Plan plus the cost-sharing subsidies for which the family would be entitled. For example, subsidies for a family with income at 350 percent of poverty would be based on the amount of the Silver Plan (70 percent actuarial value) above 9.5 percent of income. However, subsidies for a family with income at 175 percent of poverty would be based on the amount of the Silver Plan adjusted for cost-sharing subsidies (87 percent actuarial value) above 5.2 percent of income.

The Lewin Group identified the people that the HBSM predicted would be eligible for a premium tax credit and computed the value of their subsidy, and the total number of people who would be eligible for subsidies, including the policyholders and their dependents. The count of eligible people included all who met the income, citizenship, and coverage access criteria.

Some of these eligible families would not actually receive a subsidy because their estimated premium would be less than the percent of income threshold. However, these people were counted toward the calculation of the average subsidy amount. These people were categorized based on their poverty level. The Lewin Group computed the average premium tax credit per subsidized person as total subsidies divided by total eligible people (including policyholders plus dependents). The following shows the average premium tax credit subsidy in 2014 by income categories:

- Below 138 percent of poverty:[5] $6,570
- 138-199 percent of poverty: $6,140
- 200-299 percent of poverty: $3,210
- 300-399 percent of poverty: $1,920
- 400 percent of poverty or higher: $850

Predicting the Aggregate Value of Premium Tax Credits for Eligible People in Each State and Nationally

To estimate the aggregate dollar value of all premium tax credit subsidies if all people who were eligible for the premium tax credit were enrolled, the above estimated average premium tax credit subsidy levels were multiplied by the number of premium tax credit eligible individuals in each corresponding income category as predicted by the HBSM for 2014.

Methodology Endnotes

[1] A more detailed discussion of the Health Benefits Simulation Model is presented in The Lewin Group's technical documentation, which is available online at http://www.lewin.com/content/publications/HBSMDocumentationMar09.pdf.

[2] The HBSM household data are based upon the 2002-2005 Medical Expenditure Panel Survey (MEPS) used together with the March 2008 Current Population Survey (CPS). It also uses the 2006 Kaiser-HRET survey of employers for policy scenarios involving employer-level decisions. In addition, we used the 1997 Robert Wood Johnson Foundation *Employer Health Insurance Survey* to identify the characteristics of workers at the employer level. The health spending data in HBSM were adjusted to replicate the amount of health spending by type of service and source of payment as estimated by the Office of the Actuary of the Centers for Medicare and Medicaid Services (CMS) and various other agencies.

[3] Starting in 2014, the employer responsibility provision assesses employers with more than 50 employees if they fall within either of the two following categories: First, employers of more than 50 employees are assessed if they do not offer coverage and have at least one full-time employee who receives a premium tax credit subsidy through an exchange. Employers in this group pay $2,000 a year for each full-time-equivalent employee, excluding the first 30 employees. Second, employers with more than 50 employees who do offer coverage may also be assessed if one or more employees receives a premium tax credit.

[4] The Lewin Group modeled the employer decision to terminate (i.e., cash-out) benefits using the database of "synthetic firms." These data provide economic and demographic information for each firm's workforce that enable the model to simulate the employer's decision to cash-out their health benefits. These data reflect the distribution of workers within each individual firm across income and family status group, which enables the model to estimate the amount of the premium tax credit subsidy that each individual worker in each synthetic firm would be qualified to receive.

Using these data, The Lewin Group calculated the after-tax cost of their current employer coverage to each worker and the after-tax cost of comparable non-group insurance for these individuals, less the premium tax credit and plus the employer penalty, which would be a cost to the employer of not offering coverage. These amounts are summed and averaged for all of the workers in the firm. These estimates reflect the fact that the amount of the premium tax credit subsidy would vary with income and family type, and that many higher-income employees may not qualify for subsidies at all.

Once The Lewin Group identified the firms where it would be less costly for workers to obtain coverage in the non-group market, they simulated the employer decision to discontinue coverage. The Lewin Group used a multivariate analysis of how changes in the relative price of coverage for coverage alternatives affect the likelihood that people will switch to the lower-cost plan. Based on current price elasticity research, The Lewin Group estimated a price elasticity of about -3.8, which varies with the age and health status of the individual. Using this price elasticity factor applied to the workers in the synthetic firm to predict behavior, The Lewin Group predicted whether an employer would decide to discontinue coverage.

[5] The income category "Below 138 percent of poverty" includes the uniform 5 percent income disregard for Medicaid and CHIP that the Affordable Care Act provides to replace any other disregards that states currently use in calculating income for most groups of beneficiaries. This new, uniform 5 percent disregard does not apply to Medicare or disability-related determinations, or to those who are eligible through the medically needy "spend-down" category. Existing income methodologies can continue to be used for these eligibility categories.

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