

## In the Spotlight: Health Care Reform and Health Insurance Subsidies

A signature achievement of the Affordable Care Act (ACA) is its expansion of health care coverage; when fully enacted, it is projected that another 32 million Americans will be insured. To get there, the ACA will dramatically expand the [Medicaid](#) program for those with low-incomes and require that most Americans carry insurance or face a penalty – commonly referred to as the law’s “[individual mandate](#)”. While the ACA has been a political firestorm for almost two years, there has been little debate about the importance of ACA’s subsidies. Health care costs continue to rise at an alarming rate and both parties seem to agree that if Americans are *required* to buy health insurance, the government has an obligation to provide financial assistance for those who can’t afford it on their own.

To that end, the ACA outlines two categories of health insurance subsidies which will be available to people who meet eligibility criteria:

- **Premium subsidies** will be provided to lower the amount of premium the individual or family must pay for their coverage on a month-to-month basis.
- **Cost-sharing assistance** will limit out-of-pocket costs (i.e., deductibles, coinsurance or copayments) that would otherwise be charged at the point of service.

### Essentials of Eligibility

Generally speaking, in order to obtain ACA health insurance subsidies an individual must:

- Be a citizen or national of the United States, or a lawfully present immigrant who files a tax return
- Be enrolled in a plan offered through a [Health Benefits Exchange](#) (‘Exchange’)
- Have a household income below 400% of the federal poverty line (FPL) – roughly \$43,500 for an individual and \$89,000 for a family in 2011
- *Not be eligible* for “other acceptable coverage”, which includes both public programs (ex. Medicaid, Medicare, etc.) and ‘affordable’ employer-sponsored group health insurance. *(An individual eligible for, but not enrolled in, an employer-sponsored plan may be eligible for subsidies only if their premium contribution exceeds 9.5 percent of household income OR if the plan’s payments cover less than 60 percent of total allowed costs.)*

### Premium Subsidy Specifics

Beginning 2014, premium assistance tax credits (“premium subsidies”) will be available to eligible individuals and families purchasing insurance through the Exchange. The amounts, tied directly to the cost of premiums in the region where insurance is purchased, will be determined using a sliding scale with subsidies decreasing as income increases.

If your household income level is...	The most you will pay in premium (as a percentage of your income) is...
133-150% FPL*	3-4%
150-200% FPL	4-6.3%
200-250% FPL	6.3-8.05%
250-300% FPL	8.05-9.5%
300-400% FPL	9.5%

The calculation is complex but income is the biggest factor that will determine the federal government's defined contribution (subsidy), which may then be "used to shop" for an insurance plan on the Exchange. Unlike most tax credits, which are made available once per year when a person files their taxes, ACA premium subsidies can be paid monthly by the federal government – directly to the insurer – the insured individual will then be responsible for paying the balance that remains. These subsidies will also be available as a tax refund; however, most individuals eligible for subsidies are likely to opt for the assistance upfront.

## Cost-Sharing Subsidy Specifics

There are a few types of cost-sharing subsidies which will also be available to those who qualify. The idea is to protect lower income people (who now have health insurance with subsidized premium assistance) by reducing the total amount of out-of-pocket costs (OOP) charged at the point of service. To get there, cost-sharing subsidies will reduce OOP limits which are set at Internal Revenue Code levels for Health Savings Account-eligible plans (\$5,950 for individuals; \$11,900 for families in 2010), effectively capping OOP limits based again on an income-based sliding scale shown below.

If your household income level is...	The Possible Reduction in Your Out-of-Pocket Liability is...
100-200% FPL	Two-thirds of the maximum
200-300% FPL	One-half of the maximum
300-400% FPL	One-third of the maximum

*Additional cost-sharing provisions not discussed in this paper are outlined in ACA in less detail and subject to detailed regulations.*

## Cost Uncertainty

Scored by the Congressional Budget Office at nearly \$500 billion over ten years, subsidies are the ACA's single biggest line item. Despite being years away from implementation, there have already been major changes that will impact the cost of subsidies. Two acts of Congress have [already cut](#) into the subsidies originally authorized by the ACA, and because subsidies make up such a large portion of ACA costs, future cuts are [likely to be considered](#).

Another major concern regarding subsidies surrounds the sheer number of individuals [potentially eligible](#). Some employers may decide that their employees under 400% of the federal poverty line are better off shopping for insurance coverage on the Exchange with access to subsidies than offering coverage themselves. This could create an influx of individuals eligible for subsidies currently unaccounted for in the ACA, raising the cost of subsidies to the government (hence taxpayers) even higher.

## BCBSNC Views

Blue Cross and Blue Shield of North Carolina (BCBSNC) believes subsidies are critical to the successful implementation of the individual mandate and the ACA as a whole. With about two-thirds of North Carolina residents falling below 400% FPL, subsidies are a powerful means for increasing access to insurance. Yet already, subsidy supports have fallen victim to tight budgets and a tense political atmosphere. Rising health care costs are the number one threat to our health care system and the reason why insurance premiums have skyrocketed; if significant, systematic progress to curb health care costs is not made by 2014, the federal government (and hence taxpayers) will pay a much steeper price than anticipated since as premiums rise, so too will subsidies.

\*PPACA called for expansion to 133% FPL; HCERA (the reconciliation bill) directs states to apply a 5% disregard, effectively raising eligibility to 138% FPL.

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