Subsidies to Buy Coverage in a Health Insurance Marketplace

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 (FPL) and they don't have "minimum essential coverage."[1] 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: To be eligible for the premium tax credit, an individual must meet all of the following criteria:

- Be enrolled in a plan through the health insurance Marketplace
- Is not eligible for other minimum essential coverage, other than coverage offered in the individual market, and
- Has a household income between 100 and 400% of the FPL.

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 premium, so the amount they owe is automatically lowered.

[1] In 2019, 400% FPL is $48,560 for an individual and $100,400 for a family of four. The poverty level varies by family size and is adjusted annually to reflect inflation. "Minimum Essential Coverage" includes most types of coverage, including Medicare, Medicaid, and employer-sponsored coverage that is considered affordable and adequate.

The subsidy is based on the premium for the second lowest cost silver plan available in the Marketplace, known as a benchmark plan. The tax credit can be used to purchase any plan in the Marketplace, but an individual or family who wants a more expensive or higher tier plan (i.e., gold or platinum), must pay the difference. For example, if John has income of 100% FPL ($11,770), his premium would be capped at 2.03% of his income, or $271. If the benchmark plan costs $5,000 a year, John would owe $271 and the credit would cover $4,729.

However, if John chose to buy a plan with a higher premium (i.e., either a higher cost silver plan or a gold plan), he would pay more than $271. For example, if the premium for the plan he buys is $5,500, John would pay $771 ($5,500 minus the $4,729 credit based on the benchmark).

PREMIUM LIMITS FOR CONSUMERS BASED ON INCOME, 2019

INCOME	PREMIUM LIMIT
Up to 133% FPL	2.08% of income
133 - 150% FPL	3.11 - 4.15% of income
150 - 200% FPL	4.15 - 6.54% of income
200 - 250% FPL	6.54 - 8.36% of income
250 - 300% FPL	8.36 - 9.86% of income
300 - 400% FPL	9.86% of income

Note: These amounts will increase annually

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% FPL 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.[2] First, the cost-sharing subsidy will lower the out-of-pocket limit for eligible individuals to a fraction of what would apply otherwise.[3] Second, the cost-sharing subsidy will increase the actuarial value of the silver level plan in which an individual enrolls. 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. This subsidy goes directly to the insurer to reduce an enrollees' 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, 2019

COST SHARING SUBSIDIES FOR CONSUMERS ENROLLED IN A SILVER LEVEL PLAN BASED ON INCOME, 2019		
INCOME	ACTUARIAL VALUE	OUT-OF-POCKET LIMIT
100 - 150% FPL	94%	$2,600 individual; $5,200 family
100 - 150% FPL	87%	$2,600 individual; $5,200 family
200 - 250% FPL	73%	$6,300 individual; $12,600 family

Reconciling premium tax credits: Individuals who receive premium tax credits must file taxes for the year in which they receive that financial assistance and reconcile the amount received with the amount they should have received based on actual income. Individuals whose actual income ends up lower than expected, would receive too few credits and would be entitled to a refund. Conversely, individuals whose actual income ends up higher than expected would receive too much in tax credits and would owe the difference on their taxes.

Individuals who have a change in income or mistakenly report income for purposes of calculating eligibility for cost sharing reductions, however, are not required to reconcile that financial help and are not expected to pay back any extra assistance received.

[2] 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%).

[3] The out-of-pocket limit for all plans in 2019 is $7,900 for an individual plan and $15,800 for a family plan.