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How Affordable Care Act Repeal and Replace Plans Might Shift Health Insurance Tax Credits

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An important part of the repeal and replacement discussions around the Affordable Care Act (ACA) will involve the type and amount of subsidies that people get to help them afford health insurance. This is particularly important for lower and moderate income individuals who do not have access to coverage at work and must purchase coverage directly.

The ACA provides three types of financial assistance to help people afford health coverage: Medicaid expansion for those with incomes below 138% of poverty (the Supreme Court later ruled this to be at state option); refundable premium tax credits for people with incomes from 100% to 400% of the poverty level who purchase coverage through federal or state marketplaces; cost-sharing subsidies for people with incomes from 100% to 250% of poverty to provide lower deductibles and copays when purchasing silver plans in a marketplace.

This analysis focuses on alternative ways to provide premium assistance for people purchasing individual market coverage, explaining how they work, providing examples of how they're calculated, and presenting estimates of how assistance overall would change for current ACA marketplace enrollees. Issues relating to changing Medicaid or methods of subsidizing cost-sharing will be addressed in other analyses.

Premium Tax Credits Under the ACA and Current Replacement Proposals

The ACA and leading replacement proposals rely on refundable tax credits to help individual market enrollees pay for premiums, although the credit amounts are set quite differently. The House Leadership proposal, "A Better Way," proposes refundable tax credits which vary with age but not income and grow annually with inflation. The [Empowering Patients First Act](#), proposed by Representative Tom Price, who is the new Secretary of Health and Human Services, takes a similar approach, as does the [House Discussion Draft](#) bill recently described in [media reports](#). The tax credits under the ACA vary with family income and the cost of insurance where people live, as well as age, and grow annually if premiums increase.

These various tax credit approaches can have quite different implications for different groups of individual market purchasers. For example, the tax credits under the ACA are higher for people with lower incomes than for people with higher incomes, and no credit is provided for individuals with incomes over 400% of poverty. The replacement proposals, in contrast, do not vary the credit amount with income and so would provide relatively more assistance to people with higher incomes. Similarly, the ACA tax credits are relatively higher in areas with higher premiums, while the replacement proposal credits do not vary by location. If premiums grow

more rapidly than inflation over time (which they generally have), the replacement proposal tax credits will grow more slowly than those provided under the ACA.

What is a Tax Credit, and How is it Different from a Deduction?

A **tax credit** is an amount by which a taxpayer can reduce the amount they owe in federal income tax; for example, if a person had a federal tax bill of \$2,500 and a tax credit of \$1,000, their tax liability would be reduced to \$1,500. A **refundable** tax credit means that if the amount of the tax credit is greater than the amount of taxes owed, the taxpayer receives a refund of the difference; for example, if a person had a federal tax bill of \$1,000 and a tax credit of \$1,500, they would receive a refund of \$500. Making the credit refundable is important if a goal is to assist lower-income families, many of whom may not owe federal income tax. An **advanceable** tax credit is made available at the time a premium payment is owed (which similarly benefits lower-income families so that they can receive the financial assistance upfront). The ACA and a number of replacement proposals allow for advance payment of credits.

A tax credit is different from a **tax deduction**. A deduction reduces the amount of income that is taxed, while a credit reduces the amount of tax itself. For example, if a person has taxable income of \$30,000, a \$500 deduction reduces the amount of taxable income to \$29,500. If the person's marginal tax rate is 15%, the deduction reduces the person's taxes by 15% of \$500, or \$75. Because people with lower incomes have lower marginal tax rates than people with higher incomes – and, typically don't itemize their deductions – tax credits are generally more beneficial to lower income people than deductions.

The differences between the benefit and rating rules in the ACA and replacement proposals also have implications for different groups of purchasers. For example, a replacement proposal might permit premiums in some circumstances to vary by health status and gender but not adjust the tax credit amount for these factors (as in the Price bill). This means that, for a similar level of coverage, different groups receive different levels of assistance relative to the premiums they face (e.g., the tax credit for younger men would cover a greater share of the premium than the credit for women of the same age). For benefits, the ACA requires all policies to cover a fairly comprehensive minimum package of health benefits, and the tax credits in the ACA can only be used for policies that include them. The replacement proposals, in contrast, generally do not specify a minimum set of benefits and would permit the tax credits to be used towards less comprehensive coverage if a purchasers chose to do so.

The next section describes the differing tax credit approaches in more detail and draws out some of the implications for different types of purchasers. The House Leadership proposal does not set out the actual tax credit amounts, so we have used the amounts in the recently circulated House Discussion Draft and the Price bill as examples. As noted above, the House Leadership proposal, the House Discussion Draft, and the Price bill take similar approaches, so using the tax credits in the House Discussion Draft and Price bill should provide a reasonable basis for comparing the relative effects of the different approaches.

How the Different Tax Credits Are Calculated

The ACA provides tax credits for individuals with family incomes from 100% to 400% of poverty (\$11,880 to \$47,520 for a single individual in 2017) if they are not eligible for employer-provided or public coverage and if they purchase individual market coverage in the federal or a state marketplace. The tax credit amounts are calculated based on the family income of eligible individuals and the cost of coverage in the area where they live.

More specifically, the ACA tax credit for an eligible individual is the difference between a specified percentage of his or her income (Table 1) and the premium of the second-lowest-cost silver plan (referred to as the benchmark premium) available in the area in which they live. There is no tax credit available if the benchmark premium is less than the specified percentage of premium (which can occur for younger purchasers with relatively higher incomes) or if family income falls outside of the 100% to 400% of poverty range. For families, the premiums for family members are added together (including up to 3 children) and compared to specified income percentages. ACA tax credits are made available in advance, based on income information provided to the marketplace, and reconciled based on actual income when a person files income taxes the following.

Take, for example, [a person age 40 with income of \\$30,000](#), which is 253% of poverty. At this income, the person’s specified percentage of income is 8.28% in 2017, which means that the person receives a tax credit if he or she has to pay more than 8.28% of income (or \$2,485 annually) for the second-lowest-cost silver premium where he or she lives. If we assume a premium of \$4,328 (the national average benchmark premium for a person age 40 in 2017), the person’s tax credit would be the difference between the benchmark premium and the specified percentage of income, or $\$4,328 - \$2,485 = \$1,843$ (or \$154 per month).

Income % Poverty	Premium Cap (maximum % of income one must pay for second-lowest silver plan available to in their area)
Under 100%	No Cap
100% - 133%	2.04%
133% - 150%	3.06% - 4.08%
150% - 200%	4.08% - 6.43%
200% - 250%	6.43% - 8.21%
250% - 300%	8.21% - 9.69%
300% - 400%	9.69%
Over 400%	No Cap

Source: Kaiser Family Foundation

The House Discussion Draft and Price bill take a simpler approach and specify the actual dollar amounts for a new refundable tax credit that could be used to purchase individual market coverage. The amounts vary only with age. In the House Discussion Draft, tax credits range from \$2,000 for people under age 30, to \$2,500 for people ages 30 to 39, \$3,000 for people age 40 to 49, \$3,500 for people age 50 to 59, and \$4,000 for people age 60 and over starting in 2020. In the Price bill, tax credit amounts in 2017 range from \$900 for people under age 18 to \$3,000 for people age 50 and over, which we estimate would increase by 2020 to range from \$900 to \$3,150. The tax credits in both of these replacement plans would be available to people of all incomes who purchase individual market coverage. People who sign up for public programs such as Medicare, Medicaid, public employee health benefit programs, would not be eligible for a tax credit. (The House leadership and Discussion Draft proposals further limit eligibility for tax credits to people who do not have an offer available for employer-provided health benefits.) Because tax credits under the Price bill and the House Discussion Draft do not vary by income, the eligibility process would likely be simpler than under the ACA.

Table 2 shows how projected ACA tax credits in 2020 compare to what would be provided under the Price bill and House Discussion Draft for people at various incomes, ages, and geographic areas. To show the ACA amounts in 2020, we inflated all 2017 premiums based on projections for direct purchase spending per enrollee from the National Health Expenditure Accounts. This method applies the same premium growth across all ages and geographic locations.

Table 2: Projected Annual Premium Tax Credit available in the Individual Market under the Affordable Care Act, House Discussion Draft, and Empowering Patients First Act, 2020

Income (2020 FPL)	Age	Affordable Care Act			House Discussion Draft			Empowering Patients First Act		
		Reno, NV	US Average	Mobile, AL	Reno, NV	US Average	Mobile, AL	Reno, NV	US Average	Mobile, AL
\$20,000 (160% FPL)	27	\$2,899	\$3,225	\$4,522	\$2,000	\$2,000	\$2,000	\$1,350	\$1,350	\$1,350
	40	\$3,745	\$4,143	\$5,725	\$3,000	\$3,000	\$3,000	\$2,250	\$2,250	\$2,250
	60	\$9,030	\$9,874	\$13,235	\$4,000	\$4,000	\$4,000	\$3,150	\$3,150	\$3,150
\$40,000 (320% FPL)	27	\$0	\$103	\$1,400	\$2,000	\$2,000	\$2,000	\$1,350	\$1,350	\$1,350
	40	\$623	\$1,021	\$2,603	\$3,000	\$3,000	\$3,000	\$2,250	\$2,250	\$2,250
	60	\$5,908	\$6,752	\$10,113	\$4,000	\$4,000	\$4,000	\$3,150	\$3,150	\$3,150
\$60,000 (480% FPL)	27	\$0	\$0	\$0	\$2,000	\$2,000	\$2,000	\$1,350	\$1,350	\$1,350
	40	\$0	\$0	\$0	\$3,000	\$3,000	\$3,000	\$2,250	\$2,250	\$2,250
	60	\$0	\$0	\$0	\$4,000	\$4,000	\$4,000	\$3,150	\$3,150	\$3,150
\$100,000 (800% FPL)	27	\$0	\$0	\$0	\$2,000	\$2,000	\$2,000	\$1,350	\$1,350	\$1,350
	40	\$0	\$0	\$0	\$3,000	\$3,000	\$3,000	\$2,250	\$2,250	\$2,250
	60	\$0	\$0	\$0	\$4,000	\$4,000	\$4,000	\$3,150	\$3,150	\$3,150

Source: Kaiser Family Foundation analysis.

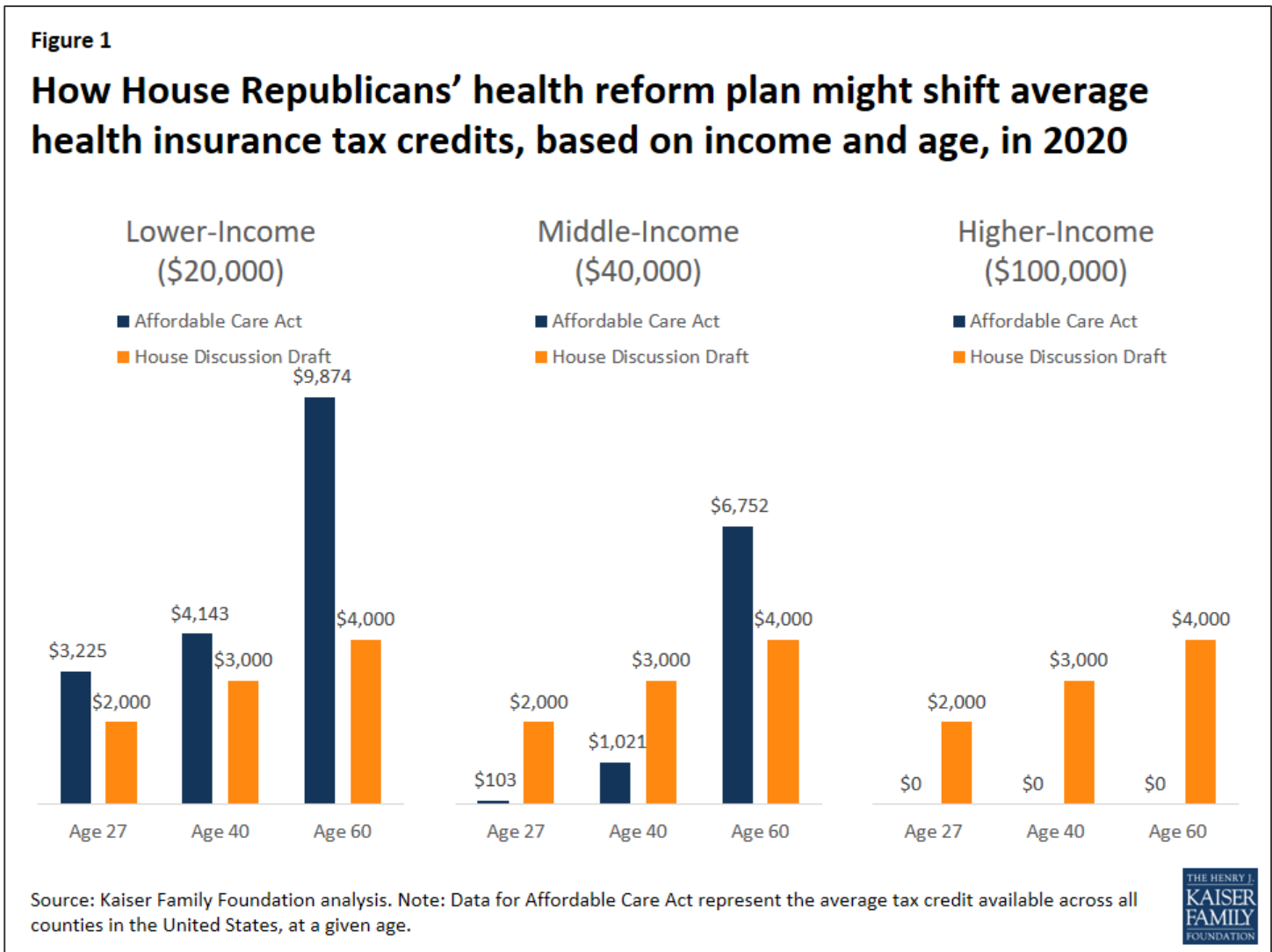
Notes: In the 2017 ACA exchange markets, premiums in Reno, NV and Mobile, AL are approximately representative of the 25th and 75th percentile, respectively. 2017 ACA premiums were increased according to National Health Expenditure projections for direct purchase. Under the ACA, people with incomes below 250% of the poverty level receive additional financial assistance for cost-sharing (not shown above).

Under the ACA in 2020, we project that a typical 40-year-old making \$20,000 per year would be eligible for \$4,143 in premium tax credits (not including the additional cost-sharing subsidies to lower his or her deductibles and copayments), while under the House Discussion Draft or Price bill, this person would be eligible \$3,000 or \$2,250, respectively. For context, we project that the average ACA premium for a 40-year-old in 2020 would be \$5,101 annually (meaning the tax credit in the ACA would cover 81% of the total premium) for a benchmark silver plan with comprehensive benefits and reduced cost-sharing. A \$3,000 tax credit for this same individual under the House Discussion Draft would represent 59% of the average 40-year-old benchmark silver premium under the ACA, and the Price bill tax credit of \$2,250 for a 40-year-old would represent 44% of the ACA benchmark. Under the House Discussion Draft and Price bill, premiums could be lower if fewer benefits are covered (though out-of-pocket costs would therefore be higher for people who use health care services).

Generally, the ACA has higher tax credit amounts than both the House Discussion Draft and the Price bill for lower-income people – especially for those who are older and live in higher-cost areas -- and lower credits for those with higher incomes. Unlike the ACA, the House Discussion Draft and Price bill provide tax credits to people over 400% percent of the poverty level, as well as to people current buying individual market coverage outside of the marketplaces (not included in this analysis).

While both the House Discussion Draft and the Price bill tax credits vary by age – by factors of 2 to 1 and 2.5 to 1, respectively, for older adults relative to younger ones – the variation is substantially less than under the ACA. The big differences in ACA tax credits at different ages is due to the fact that premiums for older adults can be three times the level of premiums for younger adults, but all people at a given income level are expected to pay the same percentage of their income towards a benchmark plan. The tax credit fills in the difference, and this amount is much higher for older adults. These differences by age would be even further magnified under the Price bill (which would permit unlimited variation in premiums due to age) and the House Discussion Draft

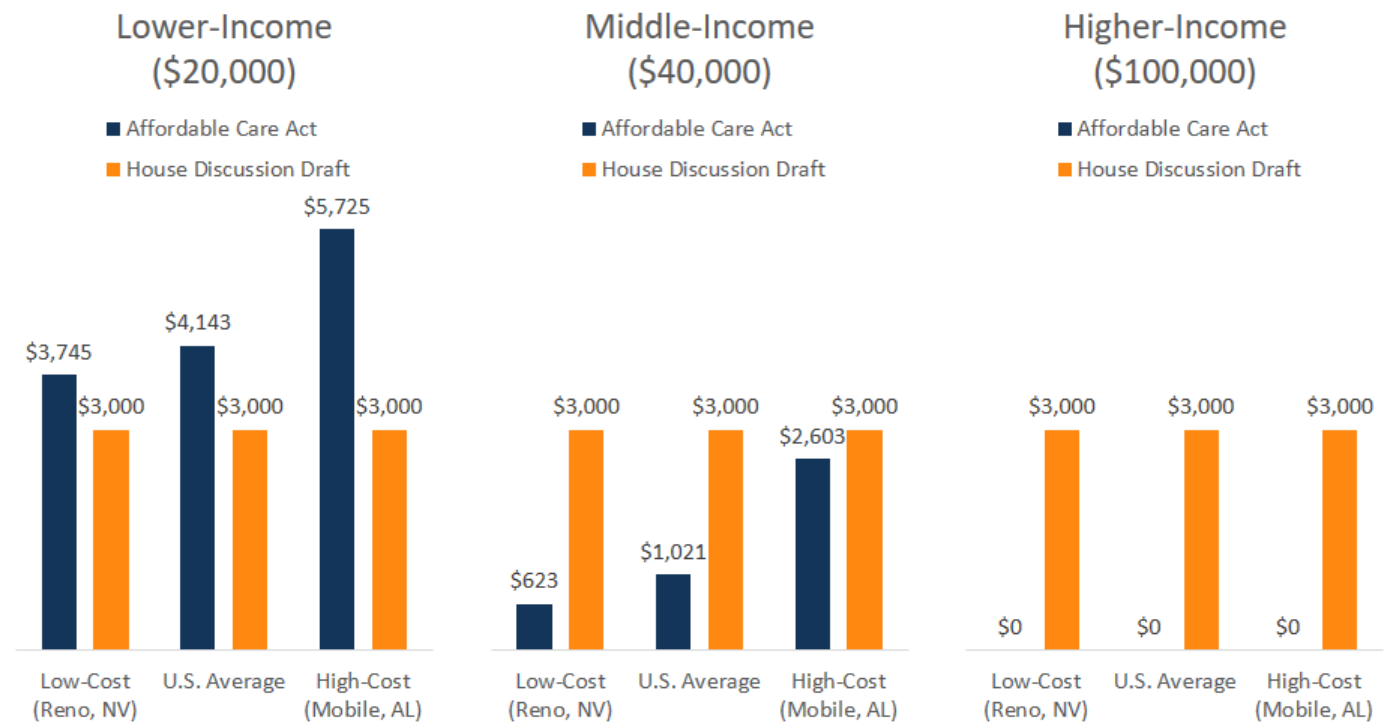
(which permits premiums to vary by a factor of 5 to 1 due to age). Before the ACA, premiums for older adults were typically four or five times the premiums charged to younger adults.



The tax credits in the ACA vary significantly with premium costs in an area (see Table 2 and Figure 2). At a given income level and age, people receive bigger tax credits in a higher premium area like Mobile, Alabama and smaller tax credits in a lower premium area like Reno, Nevada. Under the ACA in 2017, premiums in Mobile, Alabama and Reno, Nevada approximately represent the 75th and 25th percentile, respectively. The disparities between the ACA tax credits and those in the House Discussion Draft will therefore vary noticeably across the country.

Figure 2

How House Republicans' health reform plan might shift health insurance tax credits for a 40-year-old, by income & geography, 2020



Source: Kaiser Family Foundation analysis. Notes: Data represent the tax credit available for a 40 year old adult. In the 2017 ACA exchange markets, premiums in Reno, NV and Mobile, AL are approximately representative of the 25th and 75th percentile, respectively. 2017 ACA premiums were increased according to National Health Expenditure projections for direct purchase.



Estimates of Tax Credits Under the ACA, the House Discussion Draft, and the Price Bill Over Time

We estimated the average tax credits that current ACA marketplace enrollees are receiving under the ACA and what they would qualify for if the House Discussion Draft or Price bill were in place.

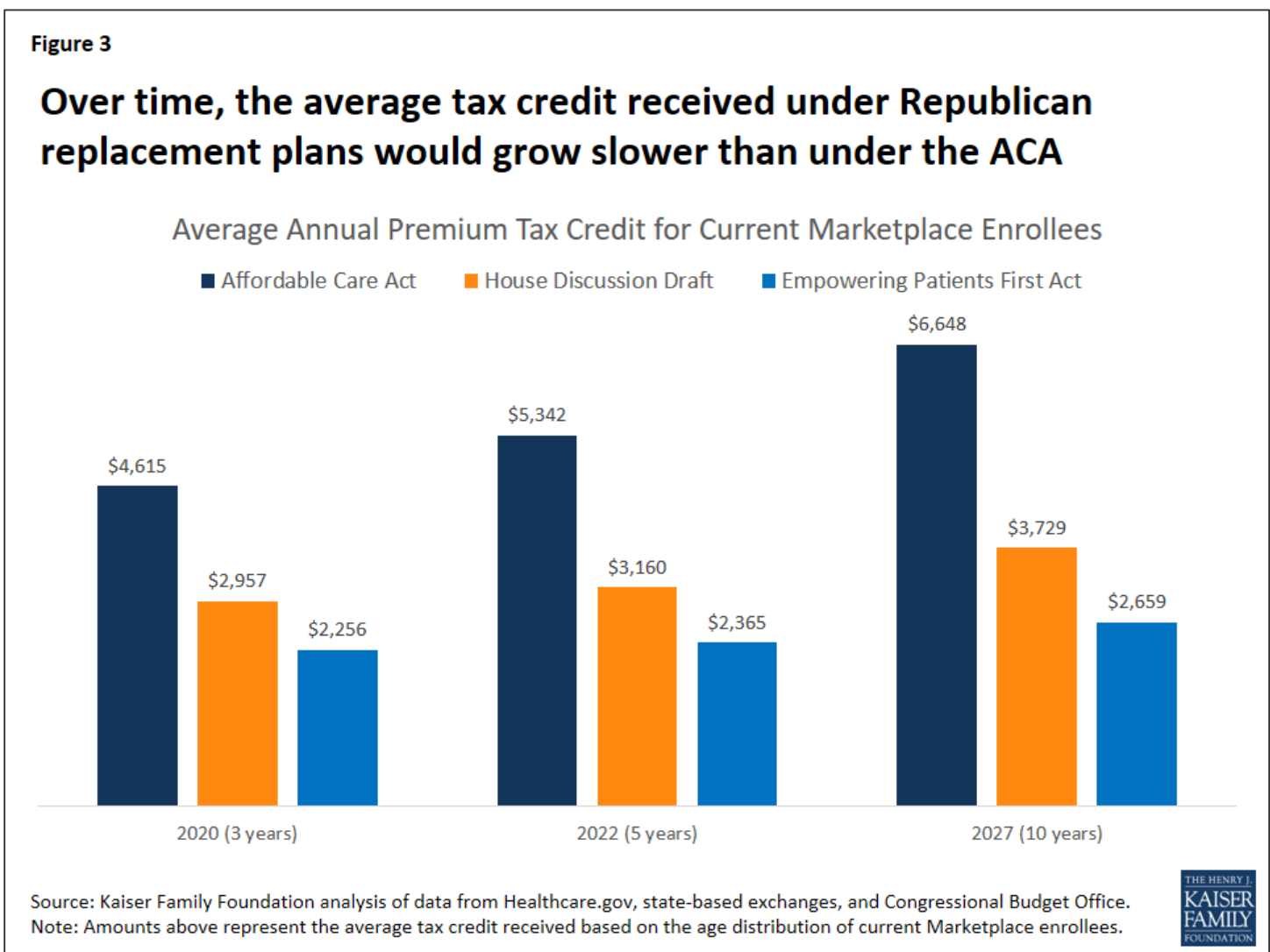
Table 3: Average Annual Premium Tax Credit for Current Marketplace Enrollees under the Affordable Care Act (ACA), Empowering Patients First Act, and House Discussion Draft Bill: 3-year, 5-year, and 10-year projections

Year	Affordable Care Act	House Discussion Draft		Empowering Patients First Act	
	Average Tax Credit	Average Tax Credit	Change from ACA	Average Tax Credit	Change from ACA
2020 (3 years)	\$4,615	\$2,957	-36%	\$2,256	-51%
2022 (5 years)	\$5,342	\$3,160	-41%	\$2,365	-56%
2027 (10 years)	\$6,648	\$3,729	-44%	\$2,659	-60%

Source: Kaiser Family Foundation analysis of data from Healthcare.gov, state-based exchanges, and Congressional Budget Office. Note: Amounts above represent the average tax credit received based on the age distribution of current Marketplace enrollees.

The average estimated tax credit received by ACA marketplace enrollees in 2017 is \$3,617 on an annual basis, and that this amount will rise to \$4,615 by 2020 based on projected growth rates from the Congressional Budget Office. This includes the 81% who receive premium subsidies as well as the 19% who do not.

We estimate – based on the age distribution of marketplace enrollees – that current enrollees would receive an average tax credit under the House Discussion Draft of \$2,957 in 2020, or 36% less than under the ACA, and under the Price bill would receive an average of \$2,256 in 2020, or 51% less than under the ACA (see Table 3 and Figure 3). While many people would receive lower tax credits under the Price bill and House Discussion Draft, some would receive more assistance, notably the 19% of current marketplace enrollees who do not qualify for ACA subsidies.



While ACA tax credits grow as premiums increase over time, the tax credits in the Price bill are indexed to inflation (which is usually lower than premium growth), and the tax credits in the House Discussion Draft are indexed to inflation plus 1 percentage point. Based on CBO’s projections of ACA tax credit increases and inflation, the disparity between the average credits under the ACA and the two replacement plans would widen

over time. The average tax credit current marketplace enrollees would receive under the House Discussion Draft would be 41% lower than under the ACA in 2022 and 44% lower in 2027; the average Price bill tax credit would be 56% lower than the ACA in 2022 and 60% lower in 2027.

Discussion

Like the ACA itself, replacement proposals – such as those by the House leadership; the House Discussion Draft recently circulated; and Tom Price, a former member of Congress and now Secretary of HHS – include refundable tax credits to help make premiums more affordable for people buying their own insurance. This might seem like an area where a replacement plan could preserve a key element of the ACA. However, the tax credits are, in fact, structured quite differently, with important implications for affordability and which groups may be winners or losers if the ACA is repealed and replaced, as illustrated by the House Discussion Draft and Price proposal.

For current marketplace enrollees, the House Discussion Draft and Price bill would provide substantially lower tax credits overall than the ACA. People who are lower income, older, or live in high premium areas would be particularly disadvantaged under the House Discussion Draft and Price bill relative to the ACA. People with incomes over 400% of the poverty level – including those buying individual market insurance outside of the marketplaces – do not get any financial assistance under the ACA but would receive tax credits under the Price proposal.

The underlying details of health reform proposals, such as the size and structure of health insurance tax credits, matter crucially in determining who benefits and who is disadvantaged.

Methods

We compare estimated tax credit amounts for the year 2020 because that is the first year credits are available under the House discussion draft. To inflate ACA tax credits, we started by inflating unsubsidized premiums across all ages and geographies according to the National Health Expenditure (NHE) projections for growth in direct purchase insurance spending per enrollee, then inflated poverty guidelines using CPI projections from the Congressional Budget Office (CBO), and required premium contributions using the ratio of growth in employer-sponsored insurance spending per enrollee and GDP per capita (from NHE). To project 2020 tax credits in the Price bill, we inflated the amounts in 2015 based on actual cost of living adjustment in 2017 and projected CPI for future years (from CBO), then rounded to the nearest \$50.

To compare the average tax credit received by current marketplace enrollees (in Table 3 and Figure 3) under the ACA, we estimated the average 2017 tax credit across all states (in state-based exchanges, we based this on premium growth in those states, adjusted for differences in how fast tax credits grow relative to premiums) then adjusted for the share of Marketplace enrollees receiving a tax credit and inflated it based on CBO projections for average tax credits. For the House Discussion draft and Price bill, average tax credits were weighted based on the age distribution of current marketplace enrollees and then indexed based on CPI + 1% and CPI, respectively.