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MAKING HEALTH CARE MORE AFFORDABLE: The New Premium and Cost-Sharing Assistance

By January Angeles

Under the new health reform law, people of modest means will get help paying for health insurance premiums and “cost-sharing” expenses — costs that people with insurance have to pay out-of-pocket like co-payments for doctor visits and hospital care — beginning in 2014. This help will come in the form of subsidies that will be available in the new health insurance exchanges.

By providing low- and moderate-income families with affordable health insurance options, the premium and cost-sharing assistance will reduce the number of people without health coverage and allow such families to comply with the new requirement to obtain coverage starting in 2014. Without these subsidies, the new requirement would place undue burdens on low- and moderate-income people who could otherwise face the choice of paying for basic necessities such as housing and food, or purchasing insurance. This brief explains who is eligible for premium and cost-sharing assistance and how they work.

Who Is Eligible for Premium Credits?

Premium tax credits to help people pay for coverage are available to individuals and families with incomes between 100 and 400 percent of the federal poverty line (between about \$23,000 to \$94,000 a year for a family of four) who purchase coverage in the newly established exchanges. Individuals cannot get premium credits if they are eligible for Medicare or Medicaid, or if they are offered coverage through their employer, unless that coverage is inadequate or employees have to pay more than 9.5 percent of their income to purchase it.¹ Premium credits are also available to *legal* immigrants who have incomes below 100 percent of the poverty line but are not eligible for Medicaid because they have lived in the United States for less than five years.

How Much Is the Premium Credit Worth?

The amount of the premium credit is figured on a sliding scale, with those who make less getting a bigger credit and those who make more getting a smaller one. The credits ensure that people do not have to pay more than a certain percentage of their income to purchase a comprehensive health insurance package. For example, a family of four with an income of two times the poverty line, or about \$47,000, would pay no more than 6.3 percent of its income, or about \$247 a month, for a family policy. (See Table 1.)

What Kind of Health Plan Can Someone Buy With the Credit?

Four types of plans — bronze, silver, gold and platinum — will be sold in the exchange. These plans vary in the level of benefits covered, with bronze plans being the least comprehensive and platinum plans being the most comprehensive.

The amount of the premium credit is determined based on the price of the second-lowest cost *silver* plan available in the area in which the person receiving the subsidy lives. An individual can purchase a more comprehensive and expensive plan, such as a gold or platinum plan, but will have to pay the difference between the credit amount and the cost of the more expensive plan. An individual also may purchase a cheaper plan, but will not receive a cost-sharing credit if he or she is eligible for it.



Moving Forward with Health Reform

How Do the Premium Credits Work?

The premium credits will be delivered as tax credits and will be available to all people who are eligible for them, whether they file taxes or not. The credits will be paid directly to the insurer that the individual chooses, with individuals responsible for the remaining premiums. The credits will be delivered in advance, so that people do not have to pay all of their premiums up front and wait for reimbursement.

Who Is Eligible for Cost-Sharing Assistance?

People who earn less than 250 percent of the poverty line (about \$59,000 for a family of four) will also receive additional assistance in the form of cost-sharing subsidies to better ensure that they can afford to see a doctor or a hospital and seek care.

How Does the Cost-Sharing Assistance Work?

The premium credits allow people to buy a silver plan, which has a 70 percent actuarial value. That means that the plan will cover 70 percent of the costs for covered medical services of a typical beneficiary population, with beneficiaries, on average, paying the other 30 percent.³ However, people who receive *cost-sharing assistance* –

those with incomes below 250 percent of the poverty line – will not have to pay the full remaining 30 percent of the cost of covered services. As a result, people with incomes below 250 percent of poverty will effectively be enrolled in a plan that has a higher actuarial value than 70 percent. For example, people with incomes below 150 percent of the poverty line will have plans that have an actuarial value of 94 percent, while plans for people with incomes between 150 percent and 200 percent of the poverty line will have an actuarial value of 87 percent. These higher actuarial values mean

**Table 1:
Premium and Cost-Sharing Subsidies Under Health Reform²**

| Income | | Required Premium Contribution | | Actuarial value of coverage |
|----------------------------|----------------------|-------------------------------|-----------------------|-----------------------------|
| Percentage of poverty line | Annual dollar amount | Percentage of income | Monthly dollar amount | |
| Family of four | | | | |
| 100 - 133% | \$23,550 - \$31,322 | 2% | \$39 - \$52 | 94% |
| 133 - 150% | \$31,322 - \$35,325 | 3-4% | \$78 - \$118 | 94% |
| 150 - 200% | \$35,325 - \$47,100 | 4-6.3% | \$118 - \$247 | 87% |
| 200 - 250% | \$47,100 - \$58,875 | 6.3-8.1% | \$247 - \$395 | 73% |
| 250 - 300% | \$58,875 - \$70,650 | 8.1-9.5% | \$395 - \$559 | 70% |
| 300 - 350% | \$70,650 - \$82,425 | 9.5% | \$559 - \$652 | 70% |
| 350 - 400% | \$82,425 - \$94,200 | 9.5% | \$652 - \$745 | 70% |
| Individual | | | | |
| 100 - 133% | \$11,490 - \$15,282 | 2% | \$19 - \$25 | 94% |
| 133 - 150% | \$15,282 - \$17,235 | 3-4% | \$38 - \$57 | 94% |
| 150 - 200% | \$17,325 - \$22,980 | 4-6.3% | \$57 - \$121 | 87% |
| 200 - 250% | \$22,980 - \$28,725 | 6.3-8.1% | \$121 - \$193 | 73% |
| 250 - 300% | \$28,725 - \$34,470 | 8.1-9.5% | \$193 - \$272 | 70% |
| 300 - 350% | \$34,470 - \$40,215 | 9.5% | \$272 - \$318 | 70% |
| 350 - 400% | \$40,215 - \$45,960 | 9.5% | \$318 - \$364 | 70% |

that as a result of cost-sharing assistance, low-income individuals and families will be able to enroll in health plans with lower deductibles, co-payments, and/or total out-of-pocket costs.

¹ The Supreme Court decision gives states the choice whether to expand their Medicaid program to cover most adults below 133 percent of the poverty line. If a state does not expand Medicaid, individuals earning between 100 and 133 percent of poverty will qualify for premium tax credits. No credits will be generally available to those earning less than 100 percent of poverty, whether or not their state expands Medicaid.

² These amounts assume the coverage provisions in health reform were in effect in 2013.

³ This does not mean that each individual's cost-sharing will be set at 30 percent. Actual out-of-pocket costs incurred by individuals will vary based on the deductibles and cost-sharing levels set, and actual health care utilization. 30 percent is an average over the beneficiary population.