

# How will Healthcare Reform Help Me Afford Coverage?

Understanding **premium tax credits** and **cost-sharing subsidies**

After 2014, most people in the U.S. will be required get health insurance or pay a penalty.<sup>1</sup> Some people will get that insurance through an “Exchange” – a new online marketplace where people can compare plans and enroll in coverage. Health insurance is expensive, and the law recognizes that. If you make too much money to qualify for Medicaid but earn less than 400% of the federal poverty level (about \$45,000 for a single person or \$93,000 for a family of 4), you probably can get financial help to buy health coverage through an Exchange.

There are two major costs that people must pay for healthcare when they have insurance. One is the **premium** that you pay every month to have insurance. The other is through **copays and deductibles** – (like the \$15 you must pay when you fill a prescription or the bill you get for 15% of the costs of an emergency room visit.)

## Every Health Plan on the Exchange Will Be Rated by Costs:

### Sample Exchange **Health Plans** & Their Costs<sup>2</sup>

	Monthly Premium	Prescription Drug Copay	Emergency Room Visit
Platinum Plan	\$500	\$10	Patient pays 5% of cost
Gold Plan	\$425	\$15	Patient pays 10% of cost
Silver Plan	\$350	\$25	Patient pays 20% of cost
Bronze Plan	\$200	\$45	Patient pays 40% of cost

After 2014, the federal government will help people buy health insurance by providing two types of financial assistance: **tax credits** to lower monthly premiums, and **subsidies** to lower copays and deductibles.

## Understanding **Actuarial Value**

Actuarial value (AV) is the percentage of your total healthcare costs that a health plan will cover.<sup>3</sup> If your plan has an AV of 85%, the plan will pay 85% of your covered health costs and you will be responsible for 15% of the costs in the form of copayments and deductibles.

Plans with high AV have higher monthly premiums than plans with low AV.

Under the healthcare reform law, plans will be given one of four AV ratings:

**Platinum:** 90-100% AV

**Gold:** 80-90% AV

**Silver:** 70-80% AV

**Bronze:** 60-70% AV

<sup>1</sup> People who are not required to have healthcare coverage include Native Americans and very low-income people whose incomes are below about 85% FPL (for a single person) and about 125% FPL (for a couple).

<sup>2</sup> Healthcare costs in this table are examples. They are intended to make actuarial value and cost-sharing easier to understand. They do not represent precise dollar amounts for costs on the Exchange.

<sup>3</sup> Actuarial value is averaged across all enrollees in a health plan. This means that while, on average, if your plan has an AV of 85% you are responsible for 15% of the costs out of pocket, actual cost-sharing (copayments and deductibles) might be higher or lower depending on the healthcare services you need in a given year.

## Tax Credits Will Help You Pay Your Monthly Premium

The first type of assistance is **Premium Tax Credits**. These credits are “advanceable” – they are available throughout the year through the Exchange and you don’t have to wait until the end of the year to get them. The amount of tax credit you receive is based on income. If your income is below the federal poverty level (FPL), then you are expected to contribute 2% of your income toward insurance premiums and the tax credit will pay the rest. If your income is at 400% FPL, then you are expected to contribute 9.5% of your income toward premiums. Your tax credit is calculated based on your expected contribution for a “Silver Plan.”

### Sample **Premium Tax Credit** Calculations

	Annual Income	Expected Monthly Contribution	Size of Tax Credit (Per Month) if Silver Plan Costs \$350
Abby (single, no children)	<b>\$27,925</b> (250% FPL)	<b>\$187</b> (8.05% of income)	\$350 - \$187 = <b>\$163</b>
Jacob & Emilia (married, 2 children)	<b>\$34,575</b> (150% FPL)	<b>\$115</b> (4% of income)	\$700 - \$115 = <b>\$585</b>

You can use your tax credit to buy any plan in the Exchange. For example, in the chart above, Abby could decide she wants a Platinum Plan, and after her \$163 tax credit would have to pay \$337 each month. With their tax credit, Jacob and Emilia could choose to buy the Bronze Plan. The monthly cost (\$200 per person) would be fully covered by their tax credit.

## Subsidies Help Lower Copays and Deductibles

The second type of assistance is called “**Cost-Sharing Subsidies.**” The subsidies **cap** the total copayments and deductibles a person can be required to pay. The cap level is based on income. For example, Abby would pay a maximum of \$3,025 per year in cost-sharing; subsidies pay the rest. The subsidies also **lower copays and deductibles** for people at certain income levels by increasing the plan’s actuarial value, but only if you buy a Silver Plan. This means that getting Silver coverage – even if it costs a little bit more each month – can make a big difference. For example, if Jacob and Emilia choose the Bronze Plan, their cost-sharing stays very high. But if they spend \$115 per month to get Silver coverage, the cost-sharing subsidies transform their Silver Coverage into Platinum Coverage. This means they pay \$5 instead of \$30 for each prescription and 5% instead of 40% of the costs of a visit to the emergency room; subsidies pay the \$25 and 35% difference. Note that Native Americans with incomes below 300% FPL do not have to pay any cost-sharing for Exchange plans, but they must still contribute to premiums.

## The Exchange Will Provide Assistance with Enrollment and Choosing Coverage

As you can see, deciding which coverage is best for you will be complicated: premium costs, cost-sharing amounts, and actuarial values will all factor into the decision. The Exchange will provide help with enrollment decisions through an online calculator so you can compare costs of the different plans, a 24-hour enrollment assistance hotline, and “navigators” – enrollment specialists that can help you decide which plan is best for you.