

What You Need to Know

Premium Subsidies

The Affordable Care Act (ACA) provides premium tax credits and cost-sharing subsidies to help low- and moderate-income Americans afford coverage. While subsidies will help many people purchase coverage, millions of individuals and families are not eligible for subsidies and, for those that are eligible, the amount of the subsidy declines significantly as incomes rise. Furthermore, the ACA includes a new \$100 billion health insurance tax, costly benefit requirements, and restrictions on age rating that will drive up the cost of coverage, increasing the likelihood that younger and healthier people wait to purchase insurance until after they get sick or injured, further driving up costs for everyone else. To learn more, visit www.AHIP.org/Affordability.

Subsidies do not lower the underlying premium.

- Subsidies will help many families pay for health care coverage, but subsidies do nothing to bring down the actual cost of that coverage.
- Subsidies do not lower premiums any more than Pell Grants reduce the cost of college tuition. Pell Grants are an asset to families looking to cover the high cost of education, but they do not lower tuition levels. Meanwhile, tuition prices soar.

Millions of Americans are not eligible for subsidies and, for those that are eligible, the subsidy amount declines significantly as incomes rise.

- According to the [Congressional Budget Office \(CBO\)](#), more than 40 percent of people purchasing coverage in the individual market today would be ineligible for premium subsidies.
- The CBO analysis found that individuals with incomes between 250-300 percent of the federal poverty line (FPL) would receive subsidies sufficient to cover 42 percent of the cost of the second lowest-cost “silver” plan. Those with incomes between 350-400 percent of the FPL would receive subsidies sufficient to cover just 13 percent of the premium.
- Moreover, due to how the subsidies are indexed, CBO states that over time “the shares of the premiums that the subsidies cover will decline.”

Many individuals who receive subsidies will still pay more for their premiums than they do today.

- The ACA’s new \$100 billion health insurance tax, costly benefit mandates, and age rating restrictions will cause premiums to increase significantly for individuals and families – far more than the subsidies most people will receive.
- An [article](#) in *Contingencies* by actuaries at Oliver Wyman found that many people would face higher premiums, even after accounting for subsidies:
 - The article finds that “young, single adults aged 21 to 29 and with incomes beginning at about 225 percent of the FPL, or roughly \$25,000, can expect to see higher premiums than would be the case absent the ACA, even after accounting for the presence of the premium assistance.”
 - Similarly, the article finds that “single adults up to age 44 with incomes beginning above approximately 300 percent of FPL can expect to see higher premiums, even after accounting for premium assistance.”

As premiums increase, many younger, healthier people may wait to purchase coverage until they need it – driving up costs for everyone else.

- As costs rise, many younger and healthier people may forgo purchasing insurance until they get sick or injured. If that happens, costs will rise for everyone else – young and old.
- This is exacerbated by the fact that the penalty for failing to carry insurance in 2014 will be as low as \$95 for the entire year – far below the cost of purchasing insurance.

Subsidies – How They Work

The ACA provides premium and cost-sharing subsidies to help low- and moderate-income Americans afford health care coverage in the new exchanges. Premium subsidies are available on a sliding-scale to individuals and families with incomes between 100-400 percent of the federal poverty level (FPL). Additional cost-sharing subsidies are available for those with incomes below 250 percent of the FPL to help reduce out-of-pocket costs, such as deductibles, co-pays, and co-insurance.

Congressional Budget Office Estimate of Premiums and Subsidies for Exchange Enrollees in 2016

Single Policy



Income Relative to Federal Poverty Level	Premium Cap as a Share of Income ¹	Middle of Income Range ²	Enrollee Premium for the 2nd Lowest Cost Silver Plan ³	Premium Subsidy ⁴
100–150%	2.1%–4.7%	\$14,700	\$300	94%
150–200%	4.7%–6.5%	\$20,600	\$1,200	77%
200–250%	6.5%–8.4%	\$26,500	\$2,000	62%
250–300%	8.4%–10.2%	\$32,400	\$3,000	42%
300–350%	10.2%	\$38,300	\$3,900	25%
350–400%	10.2%	\$44,200	\$4,500	13%
400–450%	NA	\$50,100	\$5,200	0%

Family Policy (Family of Four)



Income Relative to Federal Poverty Level	Premium Cap as a Share of Income ¹	Middle of Income Range ²	Enrollee Premium for the 2nd Lowest Cost Silver Plan ³	Premium Subsidy ⁴
100–150%	2.1%–4.7%	\$30,000	\$600	96%
150–200%	4.7%–6.5%	\$42,000	\$2,400	83%
200–250%	6.5%–8.4%	\$54,000	\$4,000	72%
250–300%	8.4%–10.2%	\$66,400	\$6,100	57%
300–350%	10.2%	\$78,300	\$7,900	44%
350–400%	10.2%	\$90,100	\$9,200	35%
400–450%	NA	\$102,100	\$14,100	0%

Source: Congressional Budget Office, Letter to the Honorable Evan Bayh, 2009; Staff of the Joint Committee on Taxation

Note: These estimates are intended to be an illustrative example of premiums and subsidies in 2016, and are based on CBO's assumptions regarding the health reform bill under consideration by the Senate in the fall of 2009. Actual premium and subsidy amounts could vary to the extent that the enacted legislation differed from the proposed bill, and because of changes in CBO's assumptions (e.g. enrollment, medical trend, and risk pool composition).

¹ Under the ACA, individuals with incomes from 100-400 percent of the federal poverty level (FPL) will not have to pay more than a certain percentage of their income in health insurance premiums. While the caps will increase with inflation, medical costs continue to rise much faster than inflation. CBO has stated that over time "the shares of the premiums that the subsidies cover will decline" as medical costs outpace these caps.

² The projected income in 2016 that would fall in the middle of this FPL range.

³ The estimated yearly amount that an average person in this income range will pay in health insurance premiums for the second lowest-cost silver plan (based on income in column 3).

⁴ The proportion of the annual premium that the subsidy would cover based on CBO's estimate of what premiums will be in 2016. CBO estimates that the premium for the second lowest-cost silver plan in 2016 will be \$5,200 for a single policy and \$14,100 for a family policy. If premiums are higher than what CBO projects, the amount covered by the subsidy will be higher than reflected in this chart.