



Minimizing Families' Health Care Subsidy Repayments Due to Income Volatility

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Exchange subsidies under the Affordable Care Act (ACA) are provided in the form of advanced premium tax credits. The payments are made directly to the insurance company by the United States Treasury and are subtracted from the premiums owed by families. The ACA requires reconciliation at the time that taxes are filed between the amount the family received in subsidies and the amount they qualify for based on their actual income for the year. If the taxpayer is entitled to more than was paid in the advance payment, the taxpayer will receive a tax refund or a reduction in tax liability. If the subsidy credit was an overpayment, the taxpayer will be required to repay all or part of the overage depending on the taxpayer's final income for the tax year.

Repayments are capped on a sliding scale for families whose annual income is under 400 percent of the Federal Poverty Level (FPL):

- If annual family income is under 200% FPL, repayment is capped at \$600 (\$300 for individuals).
- If annual family income is at least 200% FPL but less than 300% FPL, repayment is capped at \$1,500 (\$750 for individuals).
- If annual income is at least 300% but less than 400% FPL, repayment is capped at \$2,500 (\$1,250 for individuals).
- If the final annual family income is 400% FPL or greater, the subsidy must be repaid in full.

If subsidy repayments are high, the uncertainty could deter some families from taking up coverage in the Exchange, even with an individual mandate. Fear of repayments was one factor contributing to the low take-

up rates for the Advanced Earned Income Tax Credits, which was discontinued in 2010.

Methods

In order to understand the extent of subsidy repayments in California and how they might impact enrollees in the California Health Benefit Exchange, we use the California Simulation of Insurance Markets (CalSIM 1.7) model to provide a demographic profile of the population projected to receive subsidies through the California Health Benefit Exchange in the period up to 2019 when the ACA will be regarded as fully implemented. We calibrate the sample weights of the Survey of Income and Program Participation (SIPP) to match the profile of the California subsidized Exchange population from CalSIM. We adjust the odds of becoming uninsured in the SIPP to take into account the policy changes in the ACA, including the individual mandate and availability of subsidies. This data base now allows us to follow income and coverage changes for the subsidized Exchange population over the course of a year.

Using the modified SIPP data we predict the share of people receiving advanced premium tax credits through the Exchange that can be expected to have income changes that could result in significant repayments, and the size of those repayments. Finally, we analyze how the timing of reporting income changes and adjusting subsidy amounts would affect the required repayments. (All results are reported by individual; people in the same tax filing unit are counted separately).

Findings

Significant Income Volatility and Churning are Expected in the Subsidized Exchange

- The annual family income of more than half the individuals (51%) in the subsidized Exchange varies from the income at time of enrollment by more than 20 percent; for two out of ten individuals (22%) income declines more than 20 percent, while for three out of ten (29%) income increases by more than that amount. For two out of ten individuals (19%) in the subsidized Exchange, annual family income is more than 40 percent greater than the income at the time of enrollment, while for one out of ten (10%) it is more than 40

percent less.

- An estimated 9 percent of those who start the year eligible for subsidies in the Exchange end the year with an annual income greater than 400 percent of the Federal Poverty Level. They would be required to pay back any subsidy received. Nearly two-thirds (62%) of those whose income surpasses the subsidy cutoff have family incomes between 251 and 400 percent FPL at the time of enrollment.

Repayments Will be Appreciable if Subsidies are not Adjusted as Income Changes

- If income changes are not reported to the Exchange and subsidy amounts are not adjusted to reflect those changes in income during the course of the year:
 - An estimated 39 percent of individuals receiving subsidies through the Exchange would receive refunds on their health premiums when they file their taxes, while 44 percent would be required to pay back part or all of the subsidy received.
 - Slightly more than one in four (26%) Exchange subsidy recipients would be in tax units that owe back an amount in excess of 1 percent of their income; one in ten (10%) would be in tax units owing in excess of 2.5 percent of their income; and one in twenty-five (4%) would be required to repay an amount greater than 5 percent of their income.

Reporting Income Changes and Adjusting Subsidies Could Significantly Reduce Repayments

- If all income changes over 10 percent are reported immediately and the change in subsidy level is made by the Exchange in the following month:
 - 48 percent of those receiving subsidies would be eligible for refunds, while 36 percent would owe funds back on the subsidies when they file their taxes.
 - 11 percent would owe more than 1 percent of their income, less than half the share who would owe the same level if changes in subsidy amounts are not made (26%); 2 percent would owe back more than 5% of their income.
 - More frequent income updates and subsidy adjustments would have the greatest benefit to those who would be subject to the largest repayments. If income changes are not reported and subsidy amounts adjusted, 2 percent, one out of every 50 individuals receiving subsidies in the Exchange, would be in tax units with repayments in excess of 10 percent of their

annual family income; if subsidies are adjusted, this falls to 0.5 percent, one out of every 200 subsidy recipients.

- These calculations assume that subsidies are adjusted to the new level of income. Repayments could be reduced even further if subsidy levels were recalculated to take into account projected annual income and subsidy amounts received prior to the change.

Policy Recommendations

- Exchanges are required to allow individuals to accept only partial subsidy payments to account for potential changes in income. The California Health Benefit Exchange should provide tools to families to assist in projecting annual income at the time of initial application and to re-determine amounts over the course of the year as circumstances change. The Exchange should directly assist individuals in making calculations that take into account changes in income, family size or tax filing status over the previous year. A calculator could allow individuals to enter their earnings from the period prior to the income change and what they expect to make for the remainder of the year. Taking into account subsidies they have already received and what the family would be projected to receive for the rest of the year, the calculator would determine potential tax liabilities, and by how much, if any, they should reduce the advanced payment in order to avoid repayment.
- The Exchange Service Center, navigators, assistors and brokers should be trained to aid individuals in understanding their options and determining their correct subsidy amount.
- The Exchange should educate enrollees about the importance of promptly reporting changes in income, family size or tax filing status. The Exchange should explore additional methods of periodically reminding enrollees to report any changes that have occurred, beyond the electronic notification required in federal regulations.
- Under federal regulations, the Exchange must allow an enrollee to report changes via all of the same channels available for a submission of an application (web, phone, mail, in-person). When individuals report changes in circumstances and the Exchange verifies that updated information, federal regulations require the Exchange to redetermine eligibility “promptly and without undue delay” and send a “timely” redetermination notice to enrollees. In general, the Exchange must

implement changes on the first day of the month following the date of the redetermination notice, although the regulations allow the Exchange to set a reasonable cutoff date (no earlier than the 15th of the month) on which the change would become effective in the month following the month the notice was sent. If the enrollee is determined ineligible for subsidies, the enrollment must be maintained through the last day of the month following the month in which the notice was sent, unless the enrollee requests an earlier termination date. The Exchange should minimize the time between reporting and notice of redetermination to the greatest extent possible.

- Research should be done to investigate the cost-effectiveness of data matching by the Exchange to identify individuals who could face large overpayments.

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California Program on Access to Care

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