

In the Spotlight: Health Care Reform and Health Insurance Subsidies

A signature achievement of the Affordable Care Act (ACA) is its expansion of health care coverage; when fully enacted, it is projected that another 32 million Americans will be insured. To get there, states have the option to expand the [Medicaid](#) program for those with low-incomes and require that most Americans carry insurance or face a penalty – commonly referred to as the law’s “[individual mandate](#)”. While the ACA has been a political firestorm for three years, there has been little debate about the importance of ACA’s subsidies. Health care costs continue to rise at an alarming rate and both parties seem to agree that if Americans are *required* to buy health insurance, the government has an obligation to provide financial assistance for those who can’t afford it on their own.

To that end, the ACA outlines two categories of health insurance subsidies which will be available to people who meet eligibility criteria:

- **Premium subsidies** will be provided to lower the amount of premium the individual or family must pay for their coverage on a month-to-month basis.
- **Cost-sharing assistance** will limit out-of-pocket costs (i.e., deductibles, coinsurance or copayments) that would otherwise be charged at the point of service.

Essentials of Eligibility

Generally speaking, in order to obtain ACA health insurance subsidies an individual must:

- Be a citizen or national of the United States, or a lawfully present immigrant who files a tax return
- Be enrolled in a plan offered through a [Health Benefits Exchange](#) (‘Exchange’)
- Have a household income below 400% of the federal poverty line (FPL) – roughly \$43,500 for an individual and \$89,000 for a family in 2011
- *Not be eligible* for “other acceptable coverage”, which includes both public programs (ex. Medicaid, Medicare, etc.) and ‘affordable’ employer-sponsored group health insurance. *(An individual eligible for, but not enrolled in, an employer-sponsored plan may be eligible for subsidies only if their premium contribution exceeds 9.5 percent of household income OR if the plan’s payments cover less than 60 percent of total allowed costs.)*

Premium Subsidy Specifics

Beginning 2014, premium assistance tax credits (“premium subsidies”) will be available to eligible individuals and families purchasing insurance through the Exchange. The amounts, tied directly to the cost of premiums, will be determined using a sliding scale with subsidies decreasing as income increases.

Income Level	Premium as a Percent of Income
Up to 133% FPL	2% of income
133-150% FPL	3 – 4% of income
150-200% FPL	4 – 6.3% of income
200-250% FPL	6.3 – 8.05% of income
250-300% FPL	8.05 – 9.5% of income
300-400% FPL	9.5% of income

The calculation is complex but income is the biggest factor that will determine the federal government's defined contribution (subsidy), which may then be "used to shop" for any insurance plan on the Exchange. Unlike most tax credits, which are made available once per year when a person files their taxes, ACA premium subsidies can be paid monthly by the federal government – directly to the insurer – the insured individual will then be responsible for paying the balance that remains. These subsidies will also be available as a tax refund; however, most individuals eligible for subsidies are likely to opt for the assistance upfront.

Cost-Sharing Reductions

Additional financial assistance, called cost-sharing reductions, is available to individuals at or below 250% FPL. These people will receive richer benefits and fewer out-of-pocket costs when they enroll in silver plans. The cost-sharing reductions apply on a sliding scale, as well.

Income Level	Actuarial Value
100-150% FPL	94%
150-200% FPL	87%
200-250% FPL	73%

BCBSNC Views

Blue Cross and Blue Shield of North Carolina (BCBSNC) believes subsidies are critical to the successful implementation of the individual mandate and the ACA as a whole. With about two-thirds of North Carolina residents falling below 400% FPL, subsidies are a powerful means for increasing access to insurance. Yet already, subsidy supports have fallen victim to tight budgets and a tense political atmosphere. Rising health care costs are the number one threat to our health care system and the reason why insurance premiums have skyrocketed; if significant, systematic progress to curb health care costs is not made by 2014, the federal government (and hence taxpayers) will pay a much steeper price than anticipated since as premiums rise, so too will subsidies.

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