**What premium tax credits and cost-sharing subsidies are available to individuals in 2014 and who is eligible for them?**

To assist individuals and families who do not qualify for Medicare or Medicaid and are not offered affordable health coverage by their employers, a refundable tax credit (the "premium tax credit") and a cost sharing subsidy will be available beginning in 2014 to help pay for insurance purchased through an Exchange. Generally, taxpayers with income between 100% and 400% of the federal poverty line (FPL) who purchase insurance through an Exchange will qualify them, as provided in Code Section 36B. and Section 1402 of the Patient Protection and Affordable Care Act ("PPACA").

A premium assistance tax credit will be provided monthly to lower the amount of premium the individual or family must pay for their coverage. Cost sharing subsidies will limit the plan's maximum out-of-pocket costs, and for some individuals will also reduce other cost sharing amounts (i.e., deductibles, coinsurance or copayments) that would otherwise be charged to them by their coverage.

Both types of assistance will be tied in some way to the value of the coverage available in the Exchanges. Four levels of plans will be offered by insurers in the exchanges. All the plans must offer a set of essential health benefits. The four plan levels vary in the total value of coverage they must provide. This amount is sometimes called "actuarial value" and represents the proportion of health insurance expenditures for covered benefits that, for an average population, would be paid by the plan. Section 1302(d)(1) of PPACA requires that the actuarial value be 60% for "bronze" plans, 70% for "silver" plans, 80% for "gold" plans and 90% for "platinum" plans. In addition, the out-of-pocket maximum for any of these plans may not exceed a limit that is determined annually. For 2013, the limit is $6,250 for individual coverage and $12,500 for family coverage. It will be adjusted higher for 2014.

**Who is eligible for premium tax credits and cost sharing subsidies?**

Citizens and legal residents in families with incomes between 100% and 400% of poverty who purchase coverage through a health insurance exchange are eligible for a premium tax credit cost sharing subsidy to reduce the cost of coverage. Individuals eligible for public coverage are not eligible for premium assistance in Exchanges. In states without expanded Medicaid coverage, individuals with incomes less than 100% of poverty will not be eligible for Exchange subsidies, while those with incomes at or above poverty will be.

**Would an individual be eligible for premium tax credits and cost-sharing subsidies in the Exchange if he or she is offered "minimum essential coverage" by his or her employer in that it is both affordable and provides minimum value, but declines it and obtains coverage in the Exchange?**

No. As a general rule, if an eligible employer-sponsored plan constitutes "minimum essential coverage" in that it is both affordable and provides minimum value merely being eligible for the plan will make an individual ineligible for the tax credit. In Treasury Regulation Section 1.36B-2(c)(3)(iii)(A), the IRS indicates that an eligible employee who declines enrollment in such a plan remains ineligible for the tax credit for each month in the coverage period related to the enrollment period (e.g., for the full plan year in the case of an annual enrollment period).

**Would an individual be eligible for premium tax credits and cost sharing subsidies in the Exchange if he or she is enrolled coverage offered by his or employer that is either unaffordable and does not provides minimum value?**

If an employee actually enrolls in an eligible employer-sponsored plan, the tax credit is not available—even if the plan does not meet the affordability and minimum value conditions, as provided in Code Section 36B(c)(2)(C)(iii). Employees who are automatically enrolled in an eligible employer-sponsored plan have a grace period to unwind the enrollment to maintain their eligibility for the tax credit, as provided in Treasury Regulation Section 1.36B-2(c)(3)(vii)(B). An employee is not considered eligible for minimum essential coverage (i.e., may qualify for the tax credit) during any required waiting period before coverage becomes effective under an eligible employer-sponsored plan. The IRS is expected to provide a safe harbor under which an employer would not have to pay the shared responsibility tax penalty under Code § 4980H for failing to offer coverage for at least the first three months after an employee's hire date, as provided in Department of Labor Technical Release 2012-01, Q/A-3.

Individuals who meet these thresholds for unaffordable employer-sponsored insurance are eligible to enroll in a health insurance exchange and may receive tax credits to reduce the cost of coverage purchased through the exchange.

**What are the amounts of the premium tax credit and cost- sharing subsidies to be provided?**

Under Code Section 36B(b), the amount of the tax credit that a person can receive is based on the premium for the second lowest cost silver plan in the Exchange . A silver plan is a plan that provides the essential benefits and has an actuarial value of 70%. (A 70% actuarial value means that on average the plan pays 70% of the cost of covered benefits for a standard population of enrollees.)

Under Code Section 36B(b)(3), the amount of the tax credit varies with income such that the premium that the premium a person would have to pay for the second lowest cost silver plan would not exceed a specified percentage of their income (adjusted for family size), as follows:

| Household Income (as percentage of Federal Poverty Line (FPL) | Premium as a Percent of Household Income |
|---|---|
| Up to 133% | 2% of income |
| 133-150% | 3 – 4% of income |
| 150-200% | 4 – 6.3% of income |
| 200-250% | 6.3 – 8.05% of income |
| 250-300% | 8.05 – 9.5% of income |
| 300-400% | 9.5% of income |

In addition, Section 1402(b) of PPACA limits the total amount that individuals must pay out-of-pocket for cost sharing for essential benefits. Generally, the limits are based on the maximum out-of-pocket limits for Health Savings Account-qualified health plans ($6,250 for single coverage and $12,500 for family coverage in 2013), which will be indexed to the change in the Consumer Price Index until 2014 when the provision takes effect.

After 2014, the limits will be indexed to the change in the cost of health Coverage. Individuals with incomes at or below 400% of the federal poverty line have their out-of-pocket liability capped at lower levels, as follows:

| Household Income (as percentage of Federal Poverty Line (FPL) | Reduction in Out-of-Pocket Liability |
|---|---|
| 100-200% | Two-thirds of the maximum |
| 200-300% | One-half of the maximum |
| 300-400% | One-third of the maximum |

The limits on out-of-pocket maximum amounts means that a person with income of 150% of poverty purchasing coverage in the exchange would have the limit on their out-of-pocket spending reduced to at least two-thirds of the generally applicable maximum value (for example, if the provision were in effect in 2013, the out-of-pocket maximum for single coverage for such a person would be about $2,083 for single coverage and $4,166 for family coverage).

In addition, Section 1402(c) of PPACA provides that federal payments will be made to health insurers to increase the actuarial value of the plan for individuals with household

incomes under 250% of the federal poverty line. For example, for individuals with household incomes between 100% and 150% of federal poverty line, the actuarial value of the plan will be increased to 94%. That means that in addition to keeping within the lower out of pocket maximums established above, insurers must make other changes to increase the actuarial value of the coverage. Most likely this will mean reducing plan deductibles, coinsurance or copayments in order to meet the higher actuarial value requirements.

For individuals with household incomes over 250% of federal poverty line, the actuarial value of their plan may not exceed 70%, which is the basic value of the silver plan even for those who receive no financial assistance. This means that, for some individuals, some cost sharing amounts could increase. That would happen if their out of pocket maximum was decreased to keep within the required lower maximum, because the deductibles, copayments or coinsurance that would otherwise apply would have to be increased to keep the actuarial value at 70%.

The last cost sharing subsidy is summarized below:

| Household Income (as percentage of Federal Poverty Line (FPL) | Net Value of the Subsidy (% of Actuarial Value) |
|---|---|
| 100-150% | 94% |
| 150-200% | 87% |
| 200-250% | 73% |
| 250-400% | 70% |

**Who determines an individual's eligibility for the premium tax credit and the cost-sharing subsidies?**

Under 45 CFR Section 155.300, HHS is requiring the Exchanges to establish a system of coordinated eligibility and enrollment so that an individual can simultaneously apply for enrollment in a Qualified Health Plan ("QHP"), as well as Insurance Affordability Programs (IAPs), including the premium tax credit and cost-sharing reductions. Under Treasury Proposed Regulation Section 301.6103(l)(21). The IRS is permitted to disclose income and other specified information about an individual taxpayer to HHS for purposes of making eligibility determinations for advance payments of the premium tax credit or the cost-sharing reductions.

**When an individual purchases a Qualified Health Plan how are any credits and subsidies applied?**

Under the Actuarial Value and Cost-Sharing Reductions Bulletin (released by HHS), when an individual receives covered essential health benefits, the provider would collect from the individual only the amount of cost-sharing specified in the silver plan variation

in which the individual is enrolled. The federal government would pay in advance to the insurer amounts estimated to cover the cost-sharing reductions associated with the specific silver plan variation. HHS intends to propose that this advance cost-sharing reduction payment to the insurer would occur monthly, and that after the end of the calendar year, the federal government would reconcile the advance payments to actual cost-sharing reduction amounts.

The Exchange must report to the IRS and to each taxpayer required information for the Qualified Health Plan in which the employee (or a member of the employee's family) is enrolled through the Exchange, as provided in Treasury Regulation Section 1.36B-4. In turn, individuals who receive advance payments of the premium tax credit must file an income tax return for that taxable year, as provided in Treasury Regulation Section 1.36B-5.