

Characteristics of Those Eligible for Cost-Sharing Reductions and Premium Tax Credits Under the Affordable Care Act

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Timely Analysis of Immediate Health Policy Issues

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In-Brief

In addition to premium tax credits that reduce the cost of premiums for modest-income individuals and families purchasing insurance in the nongroup marketplaces established under the Affordable Care Act (ACA), purchasers with income below 250 percent of the federal poverty level (FPL) are eligible for cost-sharing reductions (CSRs) that reduce their direct out-of-pocket costs when receiving care. This additional form of financial assistance increases the actuarial value (AV) of eligibles' insurance plans. From a baseline of 70 percent AV (typical for a silver plan), CSRs can increase AV to 94 percent for those with income above Medicaid eligibility levels but below 150 percent of FPL, to 87 percent for those with income between 150 percent and 200 percent of FPL, and to 73 percent for those with income between 200 percent and 250 percent of FPL. These CSRs can play an important role in increasing effective access to medical care for low-income individuals, significantly reducing deductibles, co-payments, co-insurance and out-of-pocket maximums.

Approximately 13.8 million people will be eligible for both CSRs and premium tax credits in 2016, and another 9.4 million will be eligible for premium tax credits alone (table 1). Those eligible for both forms of assistance are most likely to live in the South, be single adults without children, and be White, non-Hispanic. They have lower incomes than their counterparts eligible for premium tax credits alone (by policy design) and are more likely both to be young adults and to report being in fair or poor health. The annual value of the CSRs per eligible person is estimated to be \$479 in 2016, ranging from an average of \$693 for those with income below 150 percent of FPL to \$217 for those with income between 200 percent and 250 percent of FPL.

Cost-Sharing Reductions: The ACA Benefit Few People Talk About

In addition to premium tax credits, the ACA created cost-sharing reductions (CSRs) to further assist low-income people afford the out-of-pocket costs of obtaining care. CSRs help offset the cost of co-pays, deductibles and co-insurance.



*By 2016, if the **13.8 million people** eligible for CSRs enroll in marketplace plans, they would save an average of **\$479 per year**.*

Who Qualifies?

Of those eligible for CSRs:

47.9%

live in the South



48.9%
single adults
without children



60.0%
White,
non-Hispanic

Table 1. Characteristics of Individuals Eligible for Cost-Sharing Reductions and Premium Tax Credits

	Eligible for premium tax credits and cost-sharing reductions		Eligible for premium tax credits only	
Total Number of People Eligible	13,787,000		9,441,000	
Income Relative to the Federal Poverty Level				
< 100 percent of FPL	3.6%		NA	
100 percent to 150 percent of FPL	28.9%		NA	
150 percent to 200 percent of FPL	35.6%		NA	
200 percent to 250 percent of FPL	31.9%		NA	
250 percent to 300 percent of FPL	NA		40.5%	
300 percent to 350 percent of FPL	NA		32.8%	
350 percent to 400 percent of FPL	NA		26.7%	
Region of residence				
Northeast	12.0%		14.7%	
Midwest	18.4%		20.3%	
South	47.9%		39.0%	
West	21.6%		26.0%	
Family status				
Married couple with children	22.8%		33.8%	
Married couple without children	16.0%		20.3%	
Single adult with children	12.4%		10.0%	
Single adult without children	48.9%		35.9%	
Race and ethnicity				
White, non-Hispanic	60.0%		69.8%	
Black, non-Hispanic	13.6%		10.4%	
Hispanic	18.1%		12.5%	
Other	8.2%		7.4%	
Sex				
Male	51.0%		51.9%	
Female	49.0%		48.1%	
Age				
Children (under age 18)	3.0%		18.2%	
Adults (ages 18 to 64)	97.0%		81.8%	
Ages 18 to 30		35.3%		24.1%
Ages 31 to 40		20.3%		19.8%
Ages 41 to 50		19.7%		22.4%
Ages 51 to 64		24.7%		33.8%
Self-reported health status				
Excellent, very good or good	85.1%		90.2%	
Fair or poor	14.9%		9.8%	
Average total health expenditures (\$)	4,693		4,382	
Average value of CSR per person if taken (\$)	479		NA	
Income < 150 percent of FPL	693		NA	
Income 150 percent to 200 percent of FPL	518		NA	
Income 200 percent to 250 percent of FPL	217		NA	

Source: Urban Institute Health Insurance Policy Simulation Model, 2015. Reform simulated in 2016.

Note: NA = not applicable. FPL = federal poverty level. CSR = cost sharing reduction.

Introduction

The ACA provides two forms of financial assistance for modest-income individuals who purchase health insurance coverage through the nongroup marketplaces and who do not have access to adequate and affordable coverage through an employer (as determined by the ACA). The first type is premium tax credits, which limit the share of family income that eligible people must contribute to a benchmark insurance plan. That benchmark plan is designated as the second-lowest-cost silver plan (70 percent AV) available to that individual or family through their state marketplace. The second form of assistance is CSRs, which increase the AV of a silver plan from 70 percent to 94 percent, 87 percent, or 73 percent, depending upon family income (lower-income families are offered higher-AV plans). In other words, CSRs lower the direct out-of-pocket payments that insured individuals must contribute at the time they receive care. CSRs are only available to those eligible for premium tax credits with income at or below 250 percent of FPL; eligibility for tax credits extends up to 400 percent of FPL.

CSRs can play an important role in creating effective access to medical care for those with low income, given the significant deductibles, co-payments and co-insurance requirements associated with the silver plans to which tax credits are pegged. Research clearly shows that out-of-pocket requirements can dissuade individuals from obtaining medical services, and reduced use is associated with both necessary and unnecessary types of care.¹ In this brief, we describe the characteristics of individuals eligible for both CSRs and premium tax credits and we compare them to the characteristics of those eligible for premium tax credits alone.

Methods

We use the Urban Institute's Health Insurance Policy Simulation Model to simulate eligibility for financial assistance under the ACA.² These estimates are for those eligible for financial assistance and are not restricted to those individuals expected to enroll in market-

place-based coverage. The estimates shown are for 2016. Region of residence is based upon geographic regions as defined by the United States Census Bureau.³ Average total health expenditures among those eligible for premium tax credits and CSRs are determined based on simulated spending for covered services given enrollment in the appropriate level of coverage for each individual or family's income (i.e., a plan with an AV of 94 percent for those below 150 percent of FPL; an AV of 87 percent for those between 150 percent and 200 percent of FPL; an AV of 73 percent for those between 200 percent and 250 percent of FPL; and an AV of 70 percent (the standard silver plan) for those between 250 percent and 400 percent of FPL). The value of the CSR for each eligible person or family is computed as the difference between health care expenditures for services reimbursed by the relevant plan with an AV above 70 percent (94 percent, 87 percent, or 73 percent, depending upon income) and reimbursed expenditures under a standard silver plan.

Results

As of 2016, approximately 13.8 million people will be eligible for both premium tax credits and CSRs; an additional 9.4 million people will be eligible for premium tax credits alone. Table 1 provides descriptive statistics on the two populations.

Income Relative to Poverty

Those eligible for CSRs are almost evenly split between those with income at or below 150 percent of FPL, those with income between 150 percent and 200 percent of FPL and those with income between 200 percent and 250 percent of FPL. In general, the ACA provides CSR and premium tax credit eligibility for individuals and families without access to affordable, adequate employer based coverage or public insurance and whose income falls between 138 and 400 percent of FPL. Individuals living in states choosing not to expand Medicaid under the ACA and whose income falls between 100 percent and 138 percent of FPL are also eligible for CSRs and premium tax credits if they do not have

affordable access to employer coverage. In addition, a very small percentage of those eligible for CSRs have income below 100 percent of FPL and are documented immigrants who would otherwise be eligible for Medicaid, but they have been in the country for less than five years and are not yet eligible for public insurance.

Those eligible for premium tax credits alone have income between 250 percent and 400 percent of FPL, but most of those eligible are concentrated in the lower part of that range.

Region of Residence

Almost half (47.9 percent) of individuals who are eligible for CSRs reside in the South. The next-largest share of eligibles (21.6 percent) reside in the West, and the smallest concentration are in the Northeast (12.0 percent). The South is also the region with the highest share of premium tax credit-only eligibles (39.0 percent). The West holds the second-largest share for premium tax credit-only eligibles as well (26.0 percent).

Family Status

Almost half (48.9 percent) of CSR eligibles are single adults with no children. The next-largest group is individuals in married families with children (22.8 percent), followed by married couples without children (16.0 percent), and single adults with children (12.4 percent). Medicaid and CHIP eligibility for adults above 100 percent of FPL has historically favored children and their parents, which is why the lowest-income individuals eligible for assistance are substantially more likely to be single adults without children: their eligibility for Medicaid or CHIP is significantly below that for adults with children. Those eligible for premium tax credits alone are more evenly split between married couples with children and single adults without children (33.8 percent and 35.9 percent, respectively).

Race and Ethnicity

The individuals eligible for CSRs are primarily White, non-Hispanic, and compose an estimated 60.0 percent of the eligible

population. An even larger share (69.8 percent) of those eligible for premium tax credits alone are White, non-Hispanic. Hispanics are the next-largest share of those eligible in both categories: 18.1 percent of those eligible for CSRs and 12.5 percent of those only eligible for premium tax credits.

Sex and Age

Eligibles of both types are about evenly split between males and females. The CSR-eligible population is more highly concentrated in young adults ages 18–30 (they make up 34.2 percent of eligibles and 35.3 percent of eligible adults), reflecting the strong correlation between age and income. Those eligible for premium tax credits alone are more likely to be children because their higher incomes make them much less likely to be eligible for Medicaid or CHIP. Within eligible adults, those eligible for premium tax credits alone are considerably more likely to be older adults (ages 51 to 64). Older adults constitute 33.8 percent of adults eligible for tax credits only, but they constitute only 24.7 percent of adults eligible for both CSRs and tax credits.

Self-Reported Health Status, Average Total Health Expenditures, and Average Value of CSRs

Almost 15 percent of those eligible for CSRs report their health status as being fair or poor, compared with only 9.8 percent

of those eligible only for premium tax credits. This is consistent with the correlation between income and health status.

Consistent with their having somewhat worse health status, we estimate that average total health expenditures for those eligible for CSRs would be modestly higher than for those only eligible for tax credits if each group enrolled in the CSR plan for which they are eligible and those only eligible for premium tax credits enrolled in silver plans. Average health expenditures (those paid for by insurance plus those paid directly out of pocket) for CSR-eligibles would be approximately \$4,700 and about \$4,400 for tax credit only-eligibles.

The average value of the CSR per person eligible would be about \$480 if all eligibles were to take advantage of them. The value differs significantly by income group because those with income below 150 percent of FPL are eligible for 94 percent AV plans, those between 150 percent and 200 percent of FPL are eligible for 87 percent AV plans, and those between 200 percent and 250 percent of FPL are eligible for 73 percent AV plans. The average value of the CSR for those eligible is \$693 for those with income below 150 percent of FPL, \$518 for those with income between 150 percent and 200 percent of FPL and \$217 for those with income between 200 percent and 250 percent of FPL.

Conclusions

Under the ACA, approximately 23.2 million people will be eligible for financial assistance through the nongroup marketplaces in 2016. Of those 23.2 million, almost 60 percent are eligible for both tax credits to lower the cost of their health insurance premiums and CSRs to lower their direct out-of-pocket payments for medical services. Those eligible for both types of assistance are heavily concentrated in the South, almost half are single adults without children, and the majority are White. They differ from those eligible for premium tax credits alone in that they have lower income, tend to be younger, and more frequently report being in fair or poor health. In addition, if enrolled in the most comprehensive coverage for which they are eligible for assistance, they tend to incur somewhat higher health expenditures, consistent with their worse health status and their lower cost-sharing responsibilities. CSRs can play an important role in ensuring affordable access to care when needed, and comparing the characteristics of those eligible to receive them with those actually enrolling will allow us to identify individuals not being effectively reached through state, federal, and private outreach and enrollment efforts.

Notes

- 1 Swartz K. *Cost-Sharing: Effects on Spending and Outcomes*. Princeton, NJ: Robert Wood Johnson Foundation, 2010. <http://www.rwjf.org/en/research-publications/find-rwjf-research/2011/12/cost-sharing--effects-on-spending-and-outcomes.html> (accessed January 2015).
- 2 For an overview and a detailed description of the Urban Institute's Health Insurance Policy Simulation Model, see Urban Institute. *The Urban Institute's Health Microsimulation Capabilities*. Washington: Urban Institute, 2010, <http://www.urban.org/publications/412154.html>; and Buettgens M. *Health Insurance Policy Simulation Model (HIPSIM) Methodology Documentation*. Washington: Urban Institute, 2011, <http://www.urban.org/publications/412471.html> (accessed January 2015).
- 3 The Northeast is defined to include Connecticut, Maine, Massachusetts, New Hampshire, New Jersey, New York, Pennsylvania, Rhode Island, and Vermont. The South is defined to include Alabama, Arkansas, Delaware, the District of Columbia, Florida, Georgia, Kentucky, Louisiana, Maryland, Mississippi, North Carolina, Oklahoma, South Carolina, Tennessee, Texas, Virginia, and West Virginia. The Midwest is defined to include Illinois, Indiana, Iowa, Kansas, Michigan, Minnesota, Missouri, Nebraska, North Dakota, Ohio, South Dakota, and Wisconsin. The West is defined to include Alaska, Arizona, California, Colorado, Hawaii, Idaho, Montana, Nevada, New Mexico, Oregon, Utah, Washington, and Wyoming.

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