Insight on the Issues

Adequate Premium Tax Credits Are Vital to Maintain Access to Affordable Health Coverage for Older Adults

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Over 3 million older adults ages 50–64 currently rely on tax credits under the Affordable Care Act (ACA) to purchase health insurance coverage in the nongroup (individual) health insurance market. These tax credits provide critical financial assistance for older adults with low- to moderate- incomes who do not have access to affordable health insurance through an employer or a public program. Replacing current-law tax credits with proposed "flat" tax credits adjusted for age would substantially reduce their value for lower-income older adults by as much as $5,900 for an individual and would put health insurance and care out of reach for many.

CURRENT LAW PROVIDES CRITICAL PREMIUM TAX CREDIT AND COST-SHARING ASSISTANCE

Current law provides a tax credit for individuals with incomes between 100 percent[1] and 400 percent of the federal poverty level (FPL; between $11,880 and $47,550 for 2017) who do not have access to affordable employer or government health coverage. This tax credit offsets some or all of the cost of health insurance premiums for coverage purchased through Health Insurance Marketplaces.

To ensure that premiums are affordable, the size of the tax credit is determined based on the individual's income and the cost of a benchmark health insurance plan[2] offered in each state Marketplace. Thus, the value of the tax credit reflects the actual cost of the coverage.[3] People can choose to receive some or all of their premium tax credit in advance to lower their up-front, out-of-pocket monthly premium payment. The tax credit is also refundable so that lower-income people with tax liability below the amount of the credit can benefit.

Current law also provides additional financial assistance in the form of cost-sharing reductions for people with lower incomes (up to 250 percent of FPL, or $29,700 for 2017). These individuals have lower out-of-pocket maximums and reduced out-of-pocket expenses such as deductibles, coinsurance, and copayments.[4]

PROPOSALS TO CHANGE CURRENT-LAW TAX CREDITS

Although many tax credit replacement proposals lack key details (such as the size of the credit), all share common themes. Specifically, they would

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repeal the current-law premium tax credit and cost-sharing subsidies and provide a new "flat" tax credit that, in some proposals, would be adjusted by age. This paper focuses on the impact of two recent tax credit proposals: the Empower Patients First Act of 2015 (H.R. 2300) and the American Health Care Act (AHCA) of 2017,[5] as introduced on March 6.

Both the AHCA and H.R. 2300 would repeal the ACA premium tax credits and create a new refundable flat tax credit that would adjust by age. The tax credit in the AHCA is proposed at $2,000 for under age 30, $2,500 for ages 30–39, $3,000 for ages 40–49, $3,500 for ages 50–59, and $4,000 for ages 60 and older.[6] The tax credits begin to phase out for single individuals with income above $75,000 and for joint filers with income above $150,000. The tax credits are phased down by $100 for every $1,000 increase in income.

The tax credit in H.R. 2300 was proposed at $900 for children under age 18, $1,200 for ages 18–34, $2,100 for ages 35–49, and $3,000 for ages 50 and older. H.R. 2300 does not limit eligibility for the tax credit by income.

IMPACT OF REPLACING ACA TAX CREDITS AND REPEALING COST-SHARING ASSISTANCE ON LOW- AND MODERATE-INCOME OLDER ADULTS

Less Premium Assistance for Low- to Moderate-Income Older Adults

To illustrate the impact of the proposals, we calculated the difference in tax credits that older adults would receive under both the AHCA and H.R. 2300 (table 1). We compared the average tax credit an individual would receive in 2017 for a silver plan to the tax credit they would receive under the proposal, if the new credits were implemented in 2017. Below, we discuss the impact of tax credit changes in AHCA, which would provide larger tax credits than H.R. 2300, but would still yield less premium assistance for most low- and moderate-income older adults (table 1) than under current law. Under the AHCA proposal, the following would occur:

- 50- to 64-year-olds earning **$15,000** annually would be eligible for tax credits that are on average **40 to 60 percent less** than the amount they would receive under current law. In dollars, their tax credit would be between **$2,200 and $5,900 less** under the AHCA.
- 50- to 64-year-olds earning **$25,000** annually would be eligible for tax credits that are on average **50 to 80 percent less** than the amount they would receive under current law. In dollars, their tax credits would be between **$850 and $4,500 less** under the legislation.
- 50- to 64-year-olds earning **$45,000** annually would see **mixed impact**. For example, 50-year-olds and 55-year-olds would be eligible for a larger tax credit. Sixty- and 64-year-olds would be eligible for a smaller tax credit. In dollars, their tax credits would range from **$1,800 more to $1,800 less** under the legislation.

Older Persons Face Larger Reductions in Premium Tax Credits

Under a flat tax credit proposal such as the AHCA, people would face a much larger reduction in tax credits compared with current law as they grew older, even with the adjustment for age called for in the legislation (table 1). This raises significant affordability concerns, particularly because premiums already increase with age in the nongroup market and would increase even more under current proposals.[7] Under the AHCA, the following would occur:

- A 64-year-old earning **$15,000** annually would see a **two-and-a-half-fold** larger reduction in tax credits than a 50-year-old would.
- A 64-year-old earning **$25,000** annually would see a **five-fold** larger reduction in tax credits than a 50-year-old would.
- A 64-year-old earning **$45,000** annually would see **twice** the reduction in tax credits than a 60-year-old would.

Coverage for 3.2 Million Older Adults in Jeopardy

The lower tax credit amounts and the loss of ACA cost-sharing subsidies under both the AHCA and H.R. 2300 compared with current law mean older adults with low- and moderate- incomes would be less likely to be able to afford current levels of

TABLE 1

Comparison of Average Annual Tax Credits under Current Law and Proposed Tax Credits under H.R. 2300 and the AHCA

Income and Age	Current Law	Empowering Patients First Act of 2015 (H.R. 2300)		American Health Care Act of 2017 (AHCA)	
	Average Tax Credit*	Proposed Tax Credit	Difference from Current Law	Proposed Tax Credit	Difference from Current Law
$15,000 annual income					
Age 50	$5,742	$3,000	– $2,742	$3,500	– $2,242
Age 55	$7,246	$3,000	– $4,246	$3,500	– $3,746
Age 60	$8,885	$3,000	– $5,885	$4,000	– $4,885
Age 64	$9,854	$3,000	– $6,854	$4.000	– $5,854
$25,000 annual income					
Age 50	$4,348	$3,000	– $1,348	$3,500	– $848
Age 55	$5,852	$3,000	– $2,852	$3,500	– $2,352
Age 60	$7,491	$3,000	– $4,491	$4,000	– $3,491
Age 64	$8,459	$3,000	– $5,459	$4,000	– $4,459
$45,000 annual income					
Age 50	$1,688	$3,000	$1,312	$3,500	$1,812
Age 55	$3,192	$3,000	– $192	$3,500	$308
Age 60	$4,831	$3,000	– $1,831	$4,000	– $831
Age 64	$5,799	$3,000	– $2,799	$4,000	– $1,799

** Based on Silver Plan*

Source: Current-law tax credit estimates are from the Kaiser Family Foundation Health Insurance Marketplace Calculator (http://kff.org/interactive/subsidy-calculator/) and are calculated for an individual for 2017.

coverage. They would have to either forgo insurance coverage or purchase less expensive plans that provide less coverage, leading to increases in the numbers of uninsured[8] and underinsured older adults, and a potential reversal of the coverage gains achieved by this age group since implementation of the ACA.[9]

- **Over 3.2 million 50- to 64-year-olds currently receive the ACA premium tax credit** and could be at risk of losing coverage if tax credits were substantially reduced.[10] This age group represents an estimated 38 percent of all adults currently enrolled in marketplaces with tax credits.
  - In individual states, 50- to 64-year-olds receiving the premium tax credit under current law are estimated to comprise between 26 percent (Utah) and 49 percent (Iowa) of all adults receiving tax credits (appendix 1).
- Of this group, approximately **1.4 million were previously uninsured** and gained insurance coverage with the assistance of the premium tax credit.[11] They are most at risk of being unable to afford insurance with the lower flat credit.
- **Nearly 2.2 million 50- to 64-year-olds receive cost-sharing reductions** and would lose such assistance if these subsidies were eliminated.[12] This age group represents an estimated 35

percent of all adults enrolled in marketplaces with cost-sharing reductions.

Weaker Purchasing Power

Flat tax credit proposals would weaken purchasing power of tax credits for lower- and moderate-income older adults compared with current law. The Urban Institute modeled the level of insurance coverage that consumers would be able to purchase with tax credits proposed in H.R. 2300.[13] The study found that, because tax credits under H.R. 2300 were more limited than those available under current law, older adults would be able to afford health insurance plans that provide only very limited coverage and that many would have to pay a significantly larger share of their health care costs.[14]

As a comparison, under the ACA, plans sold in the nongroup and small group markets[15] must cover at least 60 percent of average health care costs (actuarial value)[16] for a Bronze Plan, 70 percent of average health care costs for a Silver Plan, 80 percent of average health care costs for a Gold Plan, and 90 percent of average health care costs for a Platinum Plan. For example, a person enrolled in a Silver Plan would expect to pay about 30 percent of covered health care costs on average and the insurer would pay 70 percent on average. The ACA also requires that plans cover all categories of essential health benefits defined in the law and include a maximum cap on out-of-pocket costs for enrollees.[17]

The Urban Institute estimated the type of health plan that people of different ages would be able to purchase with the tax credit proposed under H.R. 2300. The study found that older adults would be able to afford a plan that covers only

- **25 percent of average health care costs** for **61- to 64-year-olds**,
- **34 percent of average health care costs** for **56- to 60-year-olds**,
- **41 percent of average health care costs** for **53- to 55-year-olds**, and
- **47 percent of average health care costs** for **50- to 52-year-olds**.

For illustrative purposes, a plan that covers 25 percent of average costs would have a $25,000 deductible for individual coverage, a $25,000 out-of-pocket maximum, and significant coverage limitations, such as no coverage for outpatient mental health services, physical therapy, or rehabilitation services. A plan covering 47 percent of average costs would have a $6,850 deductible, $6,850 out-of-pocket maximum, and the same coverage limitations as above.

The report also found that only 18- to 20-year-olds and 35- to 39-year-olds would be able to purchase coverage with all of the ACA's essential health benefits and an individual deductible under $7,000 with the proposed tax credits.[18]

Eroding Value of Tax Credits

Unlike the ACA tax credits, a flat tax credit adjusted by age, such as those proposed in the AHCA and H.R. 2300, is not designed to keep up with actual costs of health insurance coverage. This increases the likelihood that the value of the proposed tax credits, which already provide less value for older adults than ACA tax credits, would erode further over time.

The proposed tax credits are fixed with an annual adjustment tied to an external index, such as inflation (Consumer Price Index, or CPI), which does not reflect actual health care cost increases and may not keep up with premium growth. For instance, tax credits in H.R. 2300 are proposed to be indexed to the CPI and tax credits in the AHCA are proposed to be indexed to the CPI plus 1 percentage point. This is a significant change from the ACA tax credits, which are tied to the actual costs of premiums in each market.

Since the proposed tax credits are not tied to actual health insurance premiums, they may also be inadequate for people who live in geographic areas with higher health care costs.[19]

Redistribution of Federal Resources from Lower- to Higher-Income Individuals

The ACA premium tax credits are adjusted by income, targeting federal resources to people who need it the most: those with annual incomes of up to 400 percent of FPL, which is $47,520 for an individual in 2017. The tax credits proposed in the

AHCA are not tied directly to income level but, as noted previously, they would be phased out for single individuals starting at annual incomes of $75,000, up to incomes of $90,000 for younger adults (under age 30) and $115,000 for older adults (ages 60 and older); and for joint filers starting at $150,000. H.R. 2300 and other proposals do not include any limit on incomes for people who would receive the proposed tax credits, meaning that wealthy individuals would receive the same assistance as low-income individuals.

Along with other changes, proposals that do not target tax credit assistance to those who need it the most, or phase out the tax credits at high levels of income, raise concerns that federal funds would be redistributed away from high-need, lower-income individuals to higher-income individuals, exacerbating the wealth gap and potentially worsening health disparities.[20]

For Older Adults, Confluence of Other Changes Threaten the Affordability of Health Insurance Coverage

The flat tax credits are being proposed in combination with other significant proposed changes in law that would negatively affect the ability of older adults, especially low- and moderate-income older adults, to purchase coverage in the nongroup market. One such change would be to weaken or eliminate limits on age-rating for health insurance premiums, which would allow insurers to charge older adults higher premiums than is allowed under current law.[21]

To illustrate the impact of the combined age-rating increase and tax credit changes on older adults, we computed the premiums they would pay (net of tax credits) under current law at four ages (50-, 55-, 60-, and 64-year-olds) and three income levels ($15,000, $25,000, and $45,000) for a silver plan. We compared those premiums to the premiums they would pay if they were to maintain the same coverage with 5:1 age rating and received the tax credits proposed under the AHCA, if the credits were implemented in 2017.[22]

As table 2 shows, these changes would have the effect of increasing premium costs for 50- to-64-year-olds by as much as $8,400 a year. The combined impact of both the tax credit reductions and the change in age-rating limits for the ages and income levels specified are detailed in table 2.

Not illustrated in the table are other changes included in H.R. 2300 and other proposals that could further increase costs for older adults. These changes include dropping protections that ensure tax credits are used to purchase comprehensive policies (such as essential health benefit and related actuarial value requirements) and discarding out-of-pocket limit requirements. In combination,

TABLE 2

Illustrative Combined Effect of Age-Rating and Tax Credit Changes on Premiums under the American Health Care Act of 2017 (AHCA)* for the Same Coverage Level

Age/Income	Premium Increase from Current Law**
50 years old	
$15,000	$2,726
$25,000	$1,332
$45,000	–$1,329
55 years old	
$15,000	$5,030
$25,000	$3,636
$45,000	$975
60 years old	
$15,000	$6,999
$25,000	$5,605
$45,000	$2,944
64 years old	
$15,000	$8,394
$25,000	$7,000
$45,000	$4,339

**As introduced on March 6, 2017.*

***Based on Silver Plan*

Source: AARP Public Policy Institute analysis. Estimates do not include projected changes in enrollment or other changes in the legislation

the changes in age rating and tax credits, as well as other potential provisions, would result in significantly higher costs and less financial protection for many older adults.[23]

DISCUSSION

ACA tax credits are critical to ensuring coverage for older adults and have contributed to a significant improvement in the uninsured rate among this age group. Proposals to replace the ACA's financial assistance with a new flat tax credit, even when adjusted by age, raise significant concerns for older adults.

Proposed replacement tax credits under H.R. 2300 and the AHCA would result in less financial security and premium assistance for lower- and moderate-income older adults over time. The redistribution of funds from lower- to higher-income older adults could worsen disparities in access to health care. Although the ACA's tax credits could be improved by proposals such as increasing generosity for individuals with moderate incomes, in their current form they have provided a critical source of financial assistance for those who need it most, and they should be maintained.

ENDNOTES

1 In states that expanded their Medicaid programs, tax credit eligibility begins at 138 percent of the federal poverty level.

2 Under the ACA, tax credits are tied to a benchmark of the second-lowest-cost Silver Plan offered in the state. A Silver-tier plan covers an actuarial value of 70 percent of covered expenses on average. People who qualify for tax credits can choose to enroll in higher-metal-level plans with higher levels of coverage but would pay the difference in costs.

3 The ACA includes provisions to increase the premium caps to reflect high rates of premium growth.

4 Cost-sharing reductions are available to consumers who enroll in Silver Plans through the Marketplace, and they effectively increase the value of the plan to be equivalent to more generous levels of coverage.

5 As introduced on March 6, 2017, by the US House of Representatives Committee on Ways and Means and Committee on Energy and Commerce.

6 The credits are capped at a combined $14,000 per family. Eligibility for credits is phased out by $100 for every $1,000 in income, beginning at incomes of $75,000 for individuals or $150,000 for joint filers.

7 Jane Sung and Olivia Dean, "Impact of Changing the Age Rating Limit for Health Insurance Premiums," Spotlight 23, AARP Public Policy Institute, Washington, DC, February 2017, http://www.aarp.org/ppi/info-2016/Impact-of-Changing-the-Age-Rating-Limit-for-Health-Insurance-Premiums.html.

8 Commonwealth Fund modeled a previous flat tax credit proposal and found uninsurance rates would significantly increase for adults ages 50-64. Evan Saltzman, Christine Eibner, "What Happens if the ACA's Tax Credits Are Replaced with Premium Support, Blog Post, *The Commonwealth Fund*, November, 2015, Washington DC, http://www.commonwealthfund.org/publications/blog/2015/nov/what-happens-if-the-acas-tax-credits-are-replaced-with-premium-support

9 The uninsured rate for adults ages 50-64 has decreased from 13 percent in 2012 to 8 percent in 2016. See, Commonwealth Fund, "Exhibit 3," in *Biennial Health Insurance Survey 2016, Chartpac*k (Washington, D.C.: 2017), http://www.commonwealthfund.org/interactives-and-data/surveys/biennial-health-insurance-surveys/2017/2016-biennial-health-insurance-survey

10 2017 Urban Institute Health Insurance Policy Simulation Model, data for 2016 enrollment.

11 Jane Sung, Lynda Flowers, Olivia Dean, and Matthew Buettgens, "Who's Gained Affordable Care Act Coverage with Financial Help?," Fact Sheet 337, AARP Public Policy Institute, Washington, DC, January 2017, http://www.aarp.org/content/dam/aarp/ppi/2017-01/FINAL%20ACA%20

TAX%20CREDIT%20FACT%20SHEET%20FOR%20POSTING.pdf.

12 2017 Urban Institute Health Insurance Policy Simulation Model, data for 2016 enrollment.

13 Linda Blumberg, "What Can Consumers Purchase with the Age-Related Tax Credits in the Empowering Patients First Bill?," Urban Institute, Washington, DC, March 2017, http://www.urban.org/research/publication/what-can-consumers-purchase-age-related-tax-credits-empowering-patients-first-bill.

14 The study also showed that purchasing power decreased with age within each of the legislation's tax credit age brackets: 18–24, 35–49, and 50 and older. See Blumberg, "What Can Consumers Purchase?"

15 These requirements do not apply to plans grandfathered in the ACA.

16 Actuarial value is the percentage of total average health care costs for covered benefits that the plan covers.

17 Under the ACA, the maximum out-of-pocket limit for a 2017 Marketplace plan is $7,150 for individual coverage.

18 Blumberg, "What Can Consumers Purchase?"

19 Cynthia Cox, Gary Claxton, and Larry Levitt, "How Affordable Care Act Repeal and Replace Plans Might Shift Health Insurance Tax Credits," Kaiser Family Foundation, Washington, DC, March 1, 2017, http://kff.org/health-reform/issue-brief/how-affordable-care-act-repeal-and-replace-plans-might-shift-health-insurance-tax-credits/.

20 Margot Sanger-Katz, "Republican Health Proposal Would Redirect Money from Poor to Rich," *New York Times*, February 16, 2017, https://www.nytimes.com/2017/02/16/upshot/republican-health-proposal-would-redirect-money-from-poor-to-rich.html?_r=0.

21 Sung and Dean, "Impact of Changing the Age Rating Limit."

22 2017 premiums and subsidies under current law are from the Kaiser Family Foundation Health Insurance Marketplace Calculator (http://kff.org/interactive/subsidy-calculator/). Premiums under 5:1 were calculated by scaling up 3:1 premiums based on analysis by Joanne Fontana, Thomas Murawski, Sean Hilton, Milliman Research Report, "Impact of Changing ACA Age Rating Structure: An Analysis of Premiums and Enrollment by Age Band", *Milliman Research Report*, January 2017, www.milliman.com/aarp

23 David Cutler, John Bertko, and Topher Spiro, "Study, ACA Enrollees' Costs Would Spike under Republican Plans," Vox, February 24, 2017, http://www.vox.com/the-big-idea/2017/2/24/14722152/obamacare-aca-health-care-costs-premiums-costs-increase. This study estimated that the combined effect of several proposed changes in H.R. 2300 would increase premiums and cost sharing for older adults ages 55–64 by $6,089 annually (from $4,078 to $10,167), and by $1,744 annually (from $3,101 to $4,846) for all ages. These changes include elimination of the ACA tax credits and cost-sharing reductions, adoption of a flat tax adjusted by age, and elimination of ACA essential health benefit requirements.

APPENDIX 1

State	Marketplace Enrollees with Premium Tax Credits in 2016 (Estimate)	
	Total 50- to 64-Year-Olds with Tax Credits	% of Nonelderly Adults with Tax Credits Who Are Ages 50–64
Alabama	61,000	42%
Alaska	7,000	43%
Arizona	44,000	45%
Arkansas	19,000	38%
California	399,000	33%
Colorado	28,000	40%
Connecticut	28,000	41%
Delaware	7,000	39%
District of Columbia	1,000	35%
Florida	454,000	37%
Georgia	144,000	36%
Hawaii	5,000	54%
Idaho	25,000	36%
Illinois	94,000	39%
Indiana	39,000	42%
Iowa	20,000	49%
Kansas	26,000	37%
Kentucky	23,000	47%
Louisiana	29,000	47%
Maine	28,000	46%
Maryland	43,000	37%
Massachusetts	42,000	37%
Michigan	95,000	45%
Minnesota	17,000	47%
Mississippi	29,000	44%
Missouri	81,000	37%
Montana	10,000	49%
Nebraska	23,000	36%
Nevada	21,000	41%
New Hampshire	12,000	43%
New Jersey	74,000	40%
New Mexico	13,000	40%
New York	126,000	41%
North Carolina	166,000	37%
North Dakota	5,000	37%

State	Marketplace Enrollees with Premium Tax Credits in 2016 (Estimate)	
	Total 50- to 64-Year-Olds with Tax Credits	% of Nonelderly Adults with Tax Credits Who Are Ages 50–64
Ohio	64,000	47%
Oklahoma	39,000	39%
Oregon	40,000	38%
Pennsylvania	97,000	43%
Rhode Island	10,000	37%
South Carolina	62,000	41%
South Dakota	8,000	48%
Tennessee	68,000	42%
Texas	313,000	38%
Utah	17,000	26%
Vermont	9,000	43%
Virginia	101,000	35%
Washington	54,000	40%
West Virginia	13,000	43%
Wisconsin	71,000	38%
Wyoming	7,000	44%
United States	**3,208,000**	38%

Source: 2017 Urban Institute Health Insurance Policy Simulation Model, data for 2016 enrollment.

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