



LOWER TAXES, LOWER PREMIUMS

The New
Health Insurance
Tax Credit in
MONTANA

Families USA

Lower Taxes, Lower Premiums: The New Health Insurance Tax Credit in Montana

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Acknowledgments

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Introduction

The Patient Protection and Affordable Care Act (Affordable Care Act), enacted in March 2010, will extend health coverage to millions of Americans by expanding Medicaid to those with the lowest incomes and by creating a tax cut to help low- and middle-income individuals and families afford private coverage. These tax cuts will be provided in the form of new, refundable tax credits that will offset a portion of the cost of health insurance premiums.

This report takes a closer look at these premium tax credits in Montana, which will go into effect in 2014 and will help Montanans with incomes up to four times the federal poverty level (\$88,200 for a family of four in 2010) afford coverage. The unique structure of the tax credits means that individuals and families will have to spend no more than a specified portion of their income on health insurance premiums.

Families USA commissioned The Lewin Group to use its economic models to estimate how many individuals would benefit from the new premium tax credits in 2014 and the value of the dollars going to help pay for insurance (see the Methodology in the national companion report for more details¹). We found that an estimated 117,500 Montanans will be eligible for the tax credits in 2014, and that the total value of the tax credits that year will be \$453 million.

The new tax credits will provide much-needed assistance to *insured* individuals and families who struggle harder each year to pay rising premiums, as well as to *uninsured* individuals and families who need help purchasing coverage that otherwise would be completely out of reach financially. Most of the families who will be eligible for the tax credits will be employed, many for small businesses, and will have incomes between two and four times poverty (between \$44,100 and \$88,200 for a family of four based on 2010 poverty guidelines). However, because the size of the tax credits will be determined on a sliding scale based on income, those with the lowest incomes will receive the largest tax credit, which will ensure that the assistance is targeted to those who need it the most.

As this key provision of the Affordable Care Act takes effect, tens of thousands of hard-working Montanans will enjoy tax relief and the peace of mind that comes with knowing that they and their family members have affordable health insurance that they can depend on, even if they experience changes in income or become unemployed.

Key Findings

Beginning in 2014, new tax cuts will be available that will significantly reduce the cost of private health insurance for individuals and families. These tax cuts will be provided in the form of tax credits to offset a portion of the cost of health insurance premiums.

Numbers of People Eligible for the Tax Cut (Premium Tax Credit) in Montana

- In Montana, approximately 117,500 people will be eligible for these new premium tax credits in 2014 (see Table 1).
- People in working families—those with annual incomes at or above 200 percent of the federal poverty level (\$44,100 for a family of four in 2010)—will constitute approximately two-thirds (66 percent) of the people who will be eligible for a premium tax credit (see Table 1a).

Table 1. Montanans Eligible for the New Premium Tax Credit in 2014, by Income

Income As a Percentage of the Federal Poverty Level*			Total
0-199%	200-299%	300-399%	
39,800	48,200	29,500	117,500

Source: Data prepared by The Lewin Group for Families USA (see the Methodology in the national report for details).

Table 1a. Montanans Eligible for the New Premium Tax Credit with Income Above/Below 200% of Poverty

	Income as a Percentage of the Federal Poverty Level*		Total
	0-199%	200-399%	
Number	39,800	77,700	117,500
Percent	34%	66%	100%

Source: Data prepared by The Lewin Group for Families USA (see the Methodology in the national report for details).

* Since people's incomes fluctuate over the course of a year, there is some churning between income categories. Although there is no double-counting in this analysis, a small number of individuals' actual annual income may be higher or lower than the income category in which they appear. Moreover, some individuals with income less than 133 percent of the federal poverty level will be eligible for tax credits because they are ineligible for Medicaid.

Total Value of the Tax Cut to Help Montanans Pay Health Insurance Premiums

- The total annual value of the tax cut (tax credits) that Montanans will be eligible to receive to help pay premiums in 2014 will be approximately \$453 million (see Table 2).
- Although approximately two-thirds of the people who will be eligible for these premium tax credits will have incomes at or above twice the poverty level, because the size of the tax credit will be determined on a sliding scale based on income, more than half of the *dollars* from the tax cut (55 percent) will be targeted to lower-income families—families with incomes below 200 percent of poverty (see Table 2a).

Table 2. Total Dollars Available to Help Montanans Pay Health Insurance Premiums in 2014, by Income (Dollars in Millions)

Income As a Percentage of the Federal Poverty Level			Total Value of Premium Tax Credits Received In 2014
0-199%	200-299%	300-399%	
\$249	\$155	\$50	\$453

Source: Data prepared by The Lewin Group for Families USA (see the Methodology in the national report for details).

Table 2a. Total Dollars Available to Help Montanans Pay Health Insurance Premiums in 2014, by Income Above/Below 200% of Poverty (Dollars in Millions)

	Income As a Percentage of the Federal Poverty Level		Total Value of Premium Tax Credits Received In 2014
	0-199%	200-399%	
Number	\$249	\$204	\$453
Percent	55%	45%	100%

Source: Data prepared by The Lewin Group for Families USA (see the Methodology in the national report for details).

Help for Working Families

- The vast majority of Montanans who will be eligible for the premium tax credit—95 percent—will be in working families.
- Approximately 100,900 people—the majority of those who will be eligible for premium tax credits—will be in families with a worker who is employed full-time (see Table 3).
- Another 11,100 people will be in families with a worker who is employed part-time (see Table 3).

Table 3. Montanans Eligible for Premium Tax Credits in 2014, by Family Employment Status

Family Employment Status	Number	Percent
Total Working	112,000	95%
Employed Full-Time	100,900	86%
Employed Part-Time	11,100	9%
Unemployed	2,500	2%
Not in the Work Force	3,100	3%
Total*	117,500	100%

Source: Data prepared by The Lewin Group for Families USA (see the Methodology in the national report for details).

* Totals may not add due to rounding.

Help for Montanans with and without Health Coverage

- About 63,300 uninsured Montanans will be eligible for a premium tax credit that will help them purchase health insurance (see Table 4).
- Another 54,200 insured people will be eligible for a premium tax credit that will relieve some of the burden of health costs by making health care premiums more affordable (see Table 4).

Table 4. Montanans Eligible for Premium Tax Credits in 2014, by Prior Insurance Status

Prior Insurance Status	Number	Percent
Uninsured	63,300	54%
Insured	54,200	46%
Job-Based Coverage	36,900	31%
Private, Non-Group Coverage	17,000	14%
Public Coverage	300	<1%
Total*	117,500	100%

Source: Data prepared by The Lewin Group for Families USA (see the Methodology in the national report for details).

* Totals may not add due to rounding.

Discussion

With the passage of the Affordable Care Act comes the promise of affordable health coverage for millions of Americans. At the time of enactment, an estimated 151,800 Montanans were uninsured.² Another 229,000 non-elderly Montanans with insurance paid more than 10 percent of their pre-tax income on health care in 2009.³ The new premium tax credits, which are entirely financed by the federal government, will provide much-needed relief to tens of thousands of low- to moderate-income uninsured and underinsured Montanans. This will enable these individuals and families to purchase affordable private health insurance through the new health insurance exchanges when they become available in 2014 (see “What’s an Exchange?” on page 9). Some 117,500 Montanans will be eligible for premium tax credits that year. The size of the credit that an individual or family will be eligible to receive will depend on their income, and the lower a person’s income, the larger his or her tax credit will be. This will ensure that the assistance goes to those who need it the most.

Eligibility for Tax Credits

Generally, the tax credits will be available to individuals and families without health insurance who have incomes between 133 and 400 percent of poverty (between \$14,400 and \$43,300 for an individual, and between \$29,325 and \$88,200 for a family of four in 2010) to help with the cost of health insurance premiums for coverage that is purchased through an exchange. Some people with incomes below 133 percent of poverty who do not qualify for Medicaid (mainly immigrants who are legal residents but have been in the United States for fewer than five years) will be eligible for tax credits as well. Undocumented immigrants will not be eligible for premium tax credits under any circumstance.

People who have an offer of job-based coverage may also be eligible for tax credits, depending on how much they must contribute to the cost of premiums for this coverage.

- People whose contribution to their premiums amounts to less than 8 percent of their household income will not be eligible.
- People whose contribution to job-based coverage is greater than 8 percent of their household income will be eligible to purchase coverage in an exchange, and they may also be eligible for premium tax credits (assuming their income is at or below 400 percent of poverty). For employees in this group, there are two ways that they will be able to purchase coverage in an exchange, depending on how much of their income goes toward premiums:

1. Without tax credits: Employees who would have to pay between 8 and 9.8 percent of their household income to participate in their employer's plan can take their employer's premium contribution with them in the form of a "free choice voucher" that will help them purchase coverage in an exchange. Employers who provide free choice vouchers will have fulfilled their responsibility under the health reform law to cover employees and will not have to pay assessments.
2. With tax credits: Employees who would have to pay more than 9.5 percent of their household income to participate in their employer's plan, or whose employer's plan pays less than 60 percent of the cost of covered benefits, will be eligible for the tax credits to help purchase coverage in an exchange. Large employers of people who receive premium tax credits may have to pay an assessment.

What Will Happen When a Family Receives a Tax Credit?

When a person or family qualifies for a tax credit, the dollars from the credit will flow directly to the health plan in which the individual or family enrolls, offsetting the total cost of the family's health insurance premiums for that plan.

The tax credits will be fully advanceable. This means that families will not need to wait until their taxes have been filed and processed in order to receive the credit and enroll in coverage, nor will they need to pay the full premium cost at the time of enrollment and then wait to be reimbursed. Instead, the tax credit will be available to pay the premium at the time the person enrolls in a plan (which will be during open enrollment periods that will be determined by the Secretary of Health and Human Services).

Finally, the tax credit will be refundable, which means that families with very low incomes who do not owe taxes will be eligible for these tax credits to assist with the cost of premiums. However, the majority of these very low-income families will be eligible for Medicaid, and hence, ineligible for premium tax credits.

How Much Will the Tax Credits Be Worth?

As described earlier, the size of the tax credit that an individual or family will be eligible for will depend on the individual's or family's income. And how much coverage that credit will help buy will depend on the plan that the individual or family chooses. Below, we describe how income and plan choice come together to determine what an individual or family will have to pay out of pocket.

- To determine the size of an individual's or family's tax credit, start with the family's income. The family's household income will be used to determine the maximum premium contribution the family must pay. This maximum amount—a maximum percentage of family income—will be based on a sliding scale, with those with the lowest incomes paying the smallest proportion of their income on premiums.
- Next, identify the premiums for the second lowest-cost “silver” exchange plan that is available to the individual or family in the area in which they live.⁴ This plan is the “silver reference plan,” and the tax credit amount will be set so that the individual or family will not have to spend more than a specific percentage of their income on premiums for the silver reference plan. For example, a family of four with an income of \$44,100 a year would not have to pay more than \$232 a month for the silver reference plan that covers their entire family (see Tables 5 and 6).
- An individual or family will be free to pick any plan that is available to them through an exchange. However, the individual's or family's tax credit amount will be based on the premium for the silver reference plan. If a consumer selects a more expensive plan, he or she will pay the difference in price between this more expensive plan and the silver reference plan out of pocket. If a consumer selects a cheaper plan, he or she will still receive the tax credit amount based on the silver reference plan and thus will spend less out of pocket on the premiums for this cheaper plan.


Table 5. Maximum Premium Contribution for Individual Coverage

Income		Maximum Premium Contribution	
Percent of Poverty	Dollars	Annual	Monthly
100%	\$10,830	\$217	\$18
150%	\$16,245	\$650	\$54
200%	\$21,660	\$1,365	\$114
250%	\$27,075	\$2,180	\$182
300%	\$32,490	\$3,087	\$257
350%	\$37,905	\$3,601	\$300
400%	\$43,320	\$4,115	\$343


Table 6. Maximum Premium Contribution for Coverage for a Family of Four

Income		Maximum Premium Contribution	
Percent of Poverty	Dollars	Annual	Monthly
100%	\$22,050	\$441	\$37
150%	\$33,075	\$1,323	\$110
200%	\$44,100	\$2,778	\$232
250%	\$55,125	\$4,438	\$370
300%	\$66,150	\$6,284	\$524
350%	\$77,175	\$7,332	\$611
400%	\$88,200	\$8,379	\$698

The following examples illustrate the amount of assistance that different kinds of individuals and families will receive.

 **Jane Smith, age 45, no children, annual income of \$22,000 (just over 200 percent of poverty):**

If the annual premium for the silver reference plan in the exchange in Jane's zip code is \$6,000, the most Jane would have to spend out of her own pocket on annual premiums would be about \$1,386 (or about \$115 a month). The remainder of her premium for the silver reference plan would be covered in the form of a tax credit for \$4,614 (or that amount could be credited toward the premiums for a more or less expensive plan of her choice).

 **The Johnsons, a family of four (two adults, two children under age 18), annual income of \$33,075 (150 percent of poverty):**

If the annual premium for the silver reference plan for family coverage in the exchange in the Johnson's zip code is \$15,000, the most the Johnson family would have to spend out of their own pockets on annual premiums to cover their family would be about \$1,323 (or about \$110 a month). The remainder of their premium for the silver reference plan would be covered in the form of a tax credit for \$13,677 (or that amount could be credited toward the premiums for a more or less expensive plan of their choice).⁵

Consumers will be able to select any health insurance plan that is available through the exchange in their area, and the law guarantees that there will be a range of plans with different coverage terms and different prices. Each family can pick the plan that meets their needs and still receive the same substantial premium tax credit. How much a family will have to spend out of pocket will vary depending on whether they choose a plan that is more or less expensive than the silver level reference plan.

Working Families Will Benefit Most from the Tax Credit

As this report points out, most of the Montanans who will be eligible for premium tax credits will be working or live in a working family (see Table 3). Although most Americans get health coverage through their employer, changes in the labor market have had a profound effect on the availability of affordable, job-based coverage for many workers. Job-based coverage is usually available for “white collar” workers (traditionally, those in professional or government jobs), but “blue collar” workers in the service, manufacturing, and agricultural sectors, as well as “nonstandard” workers who work on a part-time, temporary, seasonal, or contract basis, are far less likely to have job-based coverage.⁶

What's more, the recent recession has made it even harder for businesses to afford to offer their workers coverage. The rising costs of health insurance are a burden on businesses in the best of economic times, but the recession has forced many businesses to shift workers into nonstandard positions that do not offer coverage. The number of Americans who are involuntarily working part-time grew by 85 percent between December 2007 and June 2010.⁷ This makes it even more important that the tax credit be available for these working individuals and families so that they can purchase coverage despite the changing labor market.

What's an Exchange?

Health reform requires the establishment of exchanges that will provide a regulated marketplace where eligible consumers and small businesses can choose from a range of health insurance plans. In this new marketplace, insurance companies will have to clearly explain what care is covered and at what cost, and explain how they spend the premium dollars they collect from consumers. This will help people shop for the best plan for the price, *and* it will promote competition among plans. Insurers that sell plans in the exchanges will all have to play by the same rules and will not be allowed to deny coverage to people with pre-existing conditions or charge exorbitant premiums, which will keep costs down for the individuals and businesses that buy coverage in the exchanges.

The exchanges will, among other things, certify that plans meet certain minimum requirements; help connect consumers to available sources of coverage, including private plans, Medicaid, and the Children's Health Insurance Program (CHIP); and help consumers calculate the amount of tax credit they are eligible to receive to offset the cost of premiums.

To participate in an exchange, insurance companies must offer a range of plans. However, only plans that meet certain minimum benefit requirements can be sold in an exchange. The Secretary of Health and Human Services will determine exactly how plans must meet this requirement, including the scope of benefits, but the general categories of required services are ambulatory care, emergency care, hospitalization, prescription drugs, maternity and newborn care, mental health and substance abuse treatment, rehabilitative and habilitative care, laboratory services, preventive and wellness services, chronic disease management, and pediatric services. Plans can also cover benefits that are outside the essential benefits package.

Conclusion

Health reform will provide significant help to the 117,500 Montanans who will become eligible for the new premium tax credit in 2014. This assistance with the cost of premiums will allow individuals and families to purchase affordable health coverage even if they have a pre-existing condition, and even if they change jobs or experience a drop in income. This, in turn, means added economic security for Montana's working families. As our nation looks to 2014, it is critical that the states and the federal government work closely together to educate the public about how the new tax credits will work and to make it as simple as possible to connect people with this significant new source of help with the cost of health insurance.

For the complete Methodology, please see the national companion report, available online at <http://www.familiesusa.org/assets/pdfs/health-reform/Premium-Tax-Credits.pdf>.

¹ The national report is available online at <http://www.familiesusa.org/assets/pdfs/health-reform/Premium-Tax-Credits.pdf>.

² Kaiser Family Foundation, statehealthfacts.org, *Health Insurance Coverage of Nonelderly 0-64, States (2007-2008), U.S. (2008)* (Washington: Kaiser Family Foundation, 2009), available online at <http://www.statehealthfacts.org/comparatable.jsp?typ=1&ind=126&cat=3&sub=39>, accessed on August 10, 2010. These data are from the Urban Institute and Kaiser Commission on Medicaid and the Uninsured, based on the Census Bureau's March 2008 and 2009 Current Population Survey.

³ Kim Bailey and Laura Parisi, *Too Great a Burden: Americans Face Rising Health Care Costs* (Washington: Families USA, April 2009).

⁴ Plans that offer essential benefits can offer varying levels of coverage, labeled "bronze," "silver," "gold," and "platinum." These levels refer to the percentage of costs that will be paid for by the plan: A bronze plan will pay for 60 percent of the cost of covered benefits, a silver plan will pay for 70 percent, a gold plan will pay for 80 percent, and a platinum plan will pay for 90 percent.

⁵ Depending on the state, the children might be eligible for the Children's Health Insurance Program (CHIP). Premiums for exchange coverage will likely be much higher than CHIP premiums.

⁶ Elaine Ditsler, Peter Fisher, and Colin Gordon, *On the Fringe: The Substandard Benefits of Workers in Part-Time, Temporary, and Contract Jobs* (New York: The Commonwealth Fund, December 2005).

⁷ Calculation by Families USA based on data in U.S. Department of Labor, Bureau of Labor Statistics, *The Employment Situation: June 2010* (Washington: Bureau of Labor Statistics, August 6, 2010), available online at <http://www.bls.gov/news.release/pdf/empisit.pdf>, accessed on July 29, 2010.



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