

Welcome to the:

# AB 1810 Affordability Workgroup Meeting

June 3, 2019 • 9:00 – 10:30



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Webinar Participants: Click “Audio” on your webinar dashboard for the call-in number & your personal pin number.  
Your personal pin number was also provided in your registration confirmation email.

# AGENDA

- I. Welcome and Agenda Review
- II. Program Design Document Review
- III. Required Contribution Considerations
- IV. Reconciliation Considerations
- V. Key Milestones and Next Steps

# CURRENT AFFORDABILITY PROPOSALS

- Governor Newsom's fiscal year 2019-20 budget proposes to reinstate the individual mandate and penalty and offer premium subsidies for individuals between 200 and 600 percent of the Federal Poverty Level (FPL).
- Several bills have been introduced in the legislature that propose to reinstate the individual mandate and penalty; and, improve affordability through premium subsidies, or a combination of premium and cost-sharing subsidies.

# KEY ELEMENTS OF MAY REVISION PROPOSAL

- The proposal would reinstate the individual mandate and penalty to closely mirror the federal structure prior to the penalty being “zeroed out”.
- Penalty revenue would be used to provide additional premium subsidies for individuals from 200 to 400% FPL and new subsidies for qualified individuals from 400 to 600% FPL who do not qualify for federal premium subsidies.
- Consumers would have to purchase coverage through Covered California and would have to otherwise meet eligibility requirements for federal premium subsidies, with the exception of income, to receive the state subsidies.
- Subsidies would be advanceable and would be reconciled at year-end through the Franchise Tax Board.
- California penalty would be permanent but the amount would be offset if federal penalty was reinstated.
- State financial assistance program would sunset December 31, 2022.

# ANNUAL SUBSIDY PROGRAM DESIGN CYCLE

- Franchise Tax Board to estimate individual mandate penalty revenue through the state budget process.
- Department of Finance to provide to Covered California: (1) required use(s) of funding, (2) subsidy spending target for budget year and out-years, (3) allocation of funding above and below 400 percent FPL through the state budget process.
- Covered California Board to adopt annual program design in accordance with budget targets.
- Director of the Department of Finance to provide approval of the program design following notification to the Joint Legislative Budget Committee.

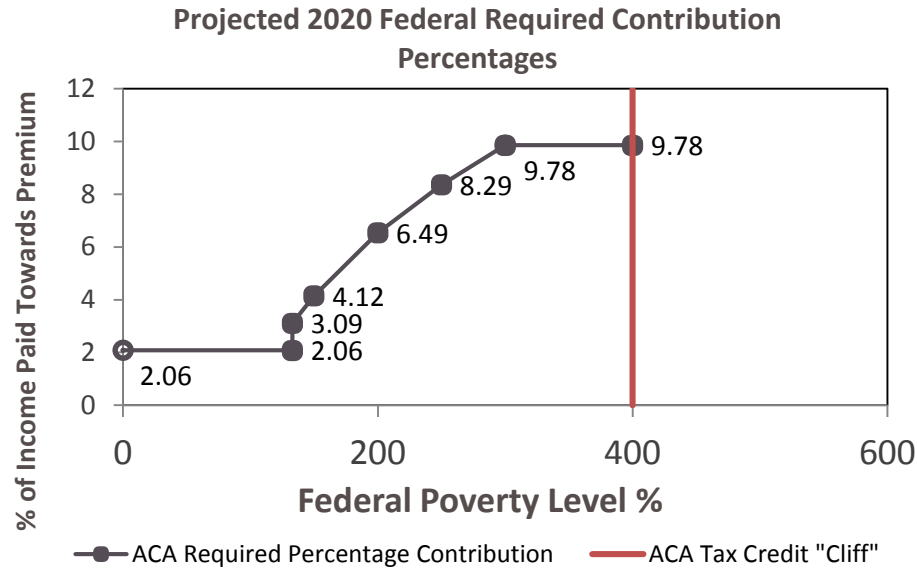
# COVERED CALIFORNIA'S ROLE IN ESTABLISHING THE PREMIUM SUBSIDIES: PROGRAM DESIGN DOCUMENT

- Administration's proposal requires Covered California's Board to adopt an annual program design document.
- For the 2020 benefit year, the program design document must establish eligibility levels and reconciliation caps designed to meet budget targets and required funding allocation to direct 75 percent of the funding to individuals above 400 percent FPL.
- Draft program design will be presented for adoption at the June Board meeting.

# OVERVIEW OF THE DRAFT PROGRAM DESIGN DOCUMENT

- The program design document has five main components:
  1. Establishes the required contribution amounts for the state premium subsidy for 2020. The amounts are based on modeling performed by Covered California and designed to meet a \$295 M budget with 75 percent of funding allocated over 400 percent FPL.
  2. Establishes the calculation of the advanced payment of the state premium subsidy which mirrors the calculation of the federal premium tax credit with the exception that the advanced payment of the state premium subsidy amount is reduced by any federal advance payment of the premium tax credit. The consumer's total monthly credit will be the difference between the gross premium for the second lowest cost silver plan and the consumer's income-based required contribution.
  3. Establishes eligibility requirements for state premium assistance that mirror the requirements for the federal premium tax credit with the exception of the federal income limits.
  4. Defines key terms related to the calculation of the state premium assistance.
  5. Sets up a framework for reconciliation caps. Note that Covered California staff are currently developing a proposal for reconciliation caps based on the proposed premium subsidy structure.

# BUILDING ON THE FEDERAL METHODOLOGY FOR CALCULATING PREMIUM TAX CREDITS

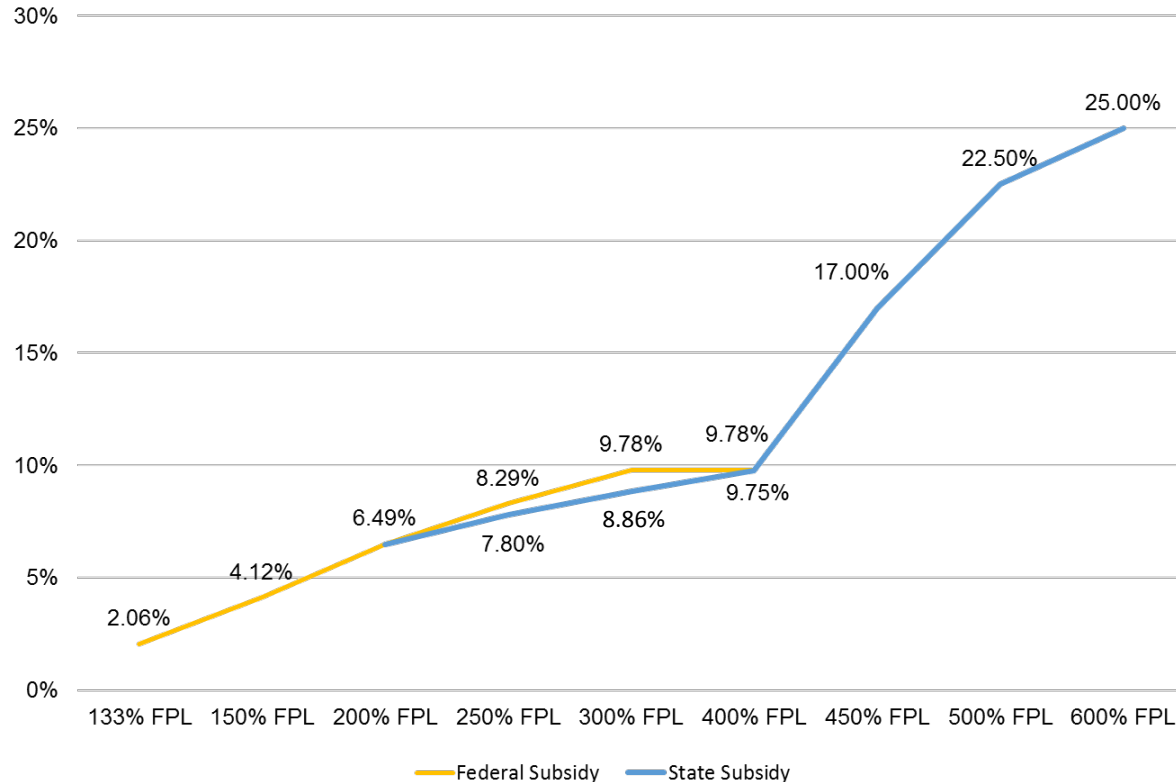


Projected 2020 Monthly Benchmark Premium Contributions for a Single Consumer		
Federal Poverty Level	Low	High
Less than 133%	\$21	\$29
At least 133% but less than 150%	\$43	\$64
At least 150% but less than 200%	\$64	\$135
At least 200% but less than 250%	\$135	\$216
At least 250% but less than 300%	\$216	\$305
At least 300% but not more than 400%	\$305	\$407

The required contribution is the maximum amount that a household must pay toward their monthly premium. The required contribution amount is calculated as a percentage of the taxpayer's household income, based on the federal poverty level. This percentage increases on a sliding scale as the taxpayer's household income increases and is indexed each year through federal regulations. The premium tax credit is determined by taking the difference between the second lowest cost silver plan available in the consumer's region and the required contribution.



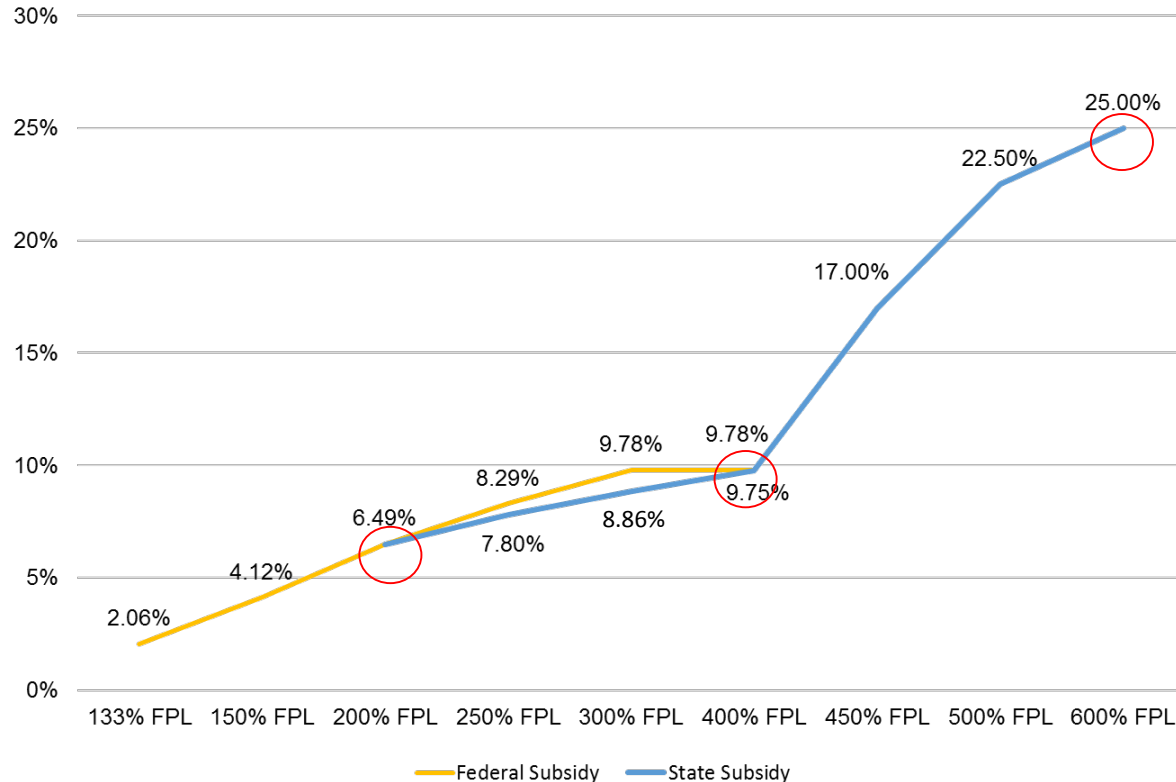
# POTENTIAL STATE REQUIRED CONTRIBUTION LEVELS FOR 2020 BASED ON MAY REVISION PROPOSAL



# KEY DYNAMICS FOR ESTABLISHING ELIGIBILITY LEVELS FOR THE ADMINISTRATION'S PROPOSAL

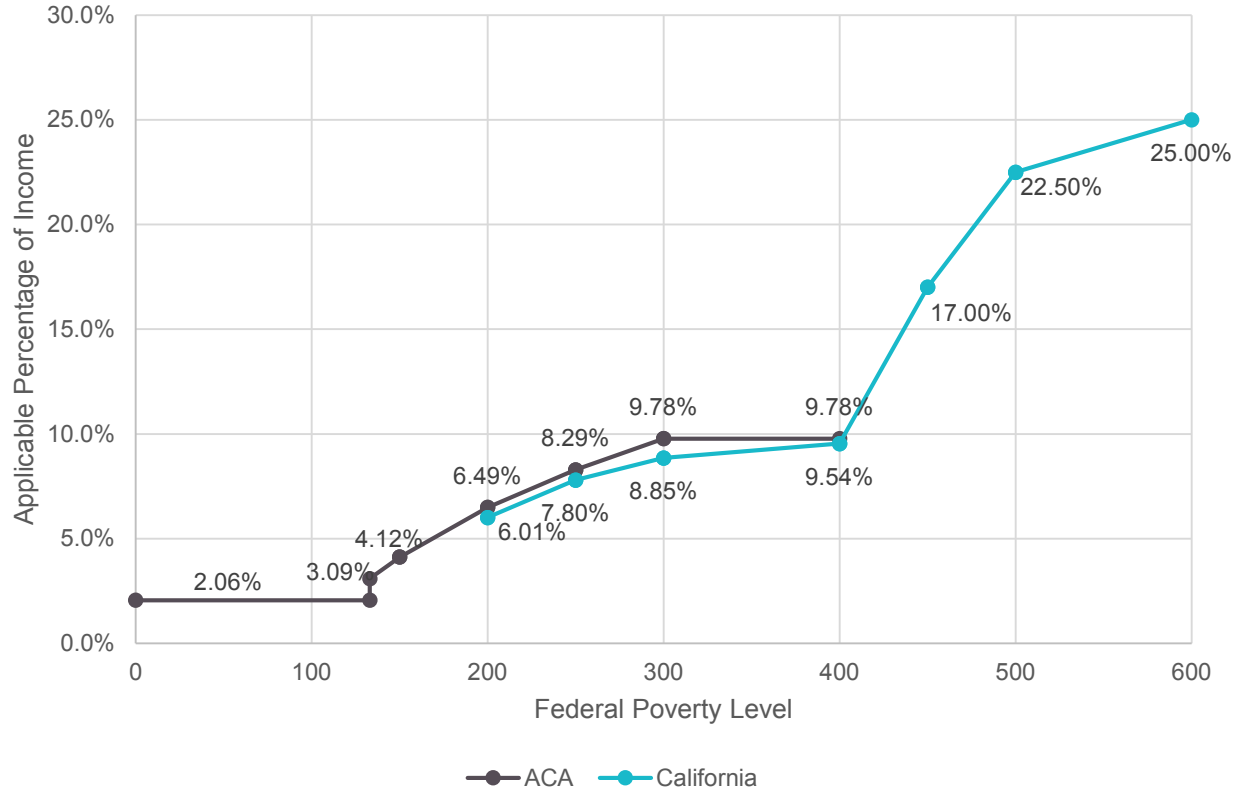
- Funding split above and below 400 percent FPL
- Budget “exposure” above and below 400% FPL
- Accounting for out-year cost growth
- Shape of the curve
  - Linear versus cliffs
  - Interaction of federal and state curves

# DISCUSSION OF POTENTIAL ADJUSTMENTS TO THE REQUIRED CONTRIBUTION PROPOSAL



# POTENTIAL ADJUSTMENT TO THE REQUIRED CONTRIBUTION PROPOSAL

Adjustment Designed to Provide a \$10 Minimum Monthly Subsidy to Consumers between 200 and 400 Percent FPL



# YEAR-END CONSUMER RECONCILIATION OF ADVANCED PREMIUM SUBSIDIES

- The Administration's proposal would require consumers to reconcile their advanced premium subsidies at year-end through the Franchise Tax Board.
- This requirement mirrors the requirement that consumers reconcile their federal advanced premium tax credit.
- Federal reconciliation adjusts the consumer's final premium tax credit based on their year-end income compared to the income they projected when they applied for coverage.
- Through federal reconciliation, consumers may receive additional premium tax credit if their year-end income is lower than they projected when they applied with Covered California or they may have to repay all or a portion of the credit they received in advance if their year-end income is higher than they projected.
- Reminder that the federal advanced premium tax credit lowers the consumer's monthly bill, but advanced payment is made by the federal government to the health plan. The consumer's monthly net premium is the gross premium charged by the health plan minus the tax credit. The year-end reconciliation adjusts the percentage of the total premium paid by the consumer and the federal government.

# FEDERAL RECONCILIATION CAPS

- Repayment of the federal premium tax credit is capped for individuals whose year-end income is at or below 400 percent FPL.
- Consumers whose year-end income exceeds 400 percent FPL must repay the entire amount of credit they received in advance.

Household FPL	Single	All other filing statuses
Less than 200%	\$300	\$600
At least 200% but less than 300%	\$775	\$1550
At least 300% but less than 400%	\$1300	\$2600
More than 400%	No limit	No limit

# IMPORTANT DYNAMICS WHEN COMBINING FEDERAL AND STATE ADVANCEABLE PREMIUM SUBSIDIES

- Adding a state premium subsidy above 400 percent FPL will create large reconciliation flows when income shifts across 400% of FPL between enrollment and tax filing
  - Shift from 390% to 410%: consumer will owe back federal premium tax credit and be owed a California premium subsidy. Without reconciliation, the federal tax credit “cliff” would still exist for consumers who end the year above 400 percent FPL
  - Shift from 410% to 390%: consumer will owe back California premium subsidy and be owed federal premium tax credit. Without reconciliation, consumers could receive a refund of federal premium tax credit without repaying the state premium subsidy.

# A SCENARIO OF 380% TO 400-450% RANGE

**Scenario:** Lucy is

- 55 year old
- living in Alameda county (benchmark premium=\$982)
- earns \$47,462 per year (390% FPL)

**ACA:** Required contribution under ACA is 9.78% of income, or ~\$386 per month, resulting in a tax credit of ~\$596 per month, or \$7,152 annualized.

**State Subsidy:** Potential required contribution for Administration's proposal is 9.57% of income, or ~\$378 per month. Thus, the consumer is eligible for ~\$8 per month in state tax credits.

Based on income modeling from Jacobs et al, we should expect that perhaps  $\frac{1}{4}$  of these consumers will end up filing their federal taxes with an income in the range of 400-450% FPL.



# A SCENARIO OF MOVING FROM 380% TO 425% FPL

## NOTE: CHART UPDATED FOLLOWING 6/3/19 MEETING

Let's assume Lucy files with a final income of \$53,082, for an FPL of 425%. When she does so, she will have to repay all the federal tax credit. But if she reconciles, Lucy can recover the majority through the state subsidy of \$391 per month, or \$4,692 per year. She will still owe back \$2,556, but will end the year with a much lower total net premium than she otherwise would have.

Credit Source	Advanced Credits	Final Credits	Potentially Subject to Reconciliation	If Reconciliation Is Not Required		If Reconciliation Is Required	
				Actual Reconciliation at Tax Filing*	FINAL CREDIT	Actual Reconciliation at Tax Filing*	FINAL CREDIT
Federal	\$7,152	\$0	(\$7,152)	(\$7,152)	\$0	(\$7,152)	\$0
State	\$96	\$4,692	\$4,596	\$0	\$96	\$4,596	\$4,692
<b>Reconciliation Due at Tax Filing</b>				(\$7,152)		(\$2,556)	
<b>Final Total Tax Credits</b>					\$96		\$4,692
<b>Final Net Premium</b>					<b>\$11,688</b>		<b>\$7,092</b>

# CONSIDERATIONS FOR DEVELOPING STATE RECONCILIATION CAPS

- Covered California staff will present recommended reconciliation caps after the June Board meeting.
- In developing recommendations, staff will consider:
  - Key scenarios;
  - Federal caps and the relationship of federal caps to premium subsidies received by consumers; and
  - Extending caps beyond 600 percent FPL to mitigate the impact of the cliff.

# KEY MILESTONES AND NEXT STEPS

Key Milestones	Dates
Administration's May Budget Revision Released	May 9, 2019
May Board Meeting - informational presentation and discussion of draft program design	May 16, 2019
Reconvene AB 1810 Affordability Advisory Group	Week of May 27 or June 3, 2019
Qualified Health Plan Negotiations	June 2019
Deadline for Legislature to Pass the Budget Bill	June 15, 2019
Reconvene AB 1810 Affordability Workgroup	Week of June 17, 2019
June Board Meeting – presentation of budget outcome and action on program design if appropriate	June 26, 2019
Qualified Health Plan Preliminary Rates Announcement	July 2019
CalHEERS System Testing	July – September 2019
Start of Renewal for 2020 Benefit Year	October 2019

Meeting dates, times and agendas will be available online:

[https://hbex.coveredca.com/stakeholders/AB\\_1810\\_Affordability\\_Workgroup/](https://hbex.coveredca.com/stakeholders/AB_1810_Affordability_Workgroup/)

Questions and feedback can be sent to [policy@covered.ca.gov](mailto:policy@covered.ca.gov)

Feedback on the draft program design document **requested by June 17, 2019** to [policy@covered.ca.gov](mailto:policy@covered.ca.gov)