2026 California Premium Subsidy Options
Plan Management Advisory Committee

July 14, 2025

LOSS OF ENHANCED PREMIUM TAX CREDIT AT THE END OF 2025 COULD RESULT IN SUBSTANTIAL REDUCTION IN COVERAGE

- The Inflation Reduction Act (IRA):
  - Increased the amount of premium assistance for all consumers eligible to receive advanced premium tax credits (APTC),
  - Offered high-value plans with $0 net premiums for the marketplace's lowest income consumers, and
  - Eliminated the "subsidy cliff" for middle-income consumers above 400 percent of the federal poverty level (FPL), who were previously ineligible for premium assistance.
- Since the implementation of the enhanced premium tax credit, marketplace enrollment has grown substantially, with the 2025 Open Enrollment Period ending with nearly 2 million consumers enrolled in coverage. As of plan year 2025, the IRA enhanced premium tax credit is worth approximately $2.1 billion for Covered California members.
- If the IRA enhanced premium tax credit is not extended, ***California can use the $190 million appropriated from the Health Care Affordability Reserve Fund (HCARF) for plan year 2026*** to reimplement a state premium subsidy program to offset coverage losses.

KEY DYNAMICS FOR CONSIDERATION IN DESIGNING A PREMIUM SUBSIDY PROGRAM

The program must be designed to fit a fixed appropriation of $190 million.

Trade-offs between consumer segments

- Providing state premium subsidy to more enrollee segments spreads limited funding available, lowering the value of assistance for each consumer.
- Investing in specific consumers segments (i.e., maintaining $0 for low-income enrollees versus offering limited assistance to the cliff population) can increase the value for a subset of enrollees.

Cost and fiscal sustainability

- The enhanced premium tax credit has resulted in significant enrollment gains, which makes reinstituting the 2021 state premium subsidy program design unaffordable under the $190 million appropriation.
- State expenditures are more predictable when premium assistance is provided on top of existing ACA subsidies (for consumers under 400% FPL) because state costs are insulated from annual premium increases. However, state premium assistance for the cliff population must absorb those increased costs year-over-year, or the program must become less generous to fit a fixed budget.

ADDITIONAL CONSIDERATIONS GIVEN PROPOSED FEDERAL CHANGES TO MEDICAID AND MARKETPLACE COVERAGE

- Proposed Medicaid eligibility changes in the federal budget reconciliation bill would implement more frequent eligibility checks and impose work requirements. Changes to Marketplace eligibility restrict financial assistance for many immigrant groups. These provisions would be effective beginning in 2027 so are not included in our 2026 enrollment assumptions.
- However, our enrollment modeling does account for the fact that churn from Medi-Cal continues to be a significant source of enrollment. Covered California's automatic enrollment program for individuals losing Medi-Cal, as implemented under Senate Bill 260, has been successful in keeping people covered following a change in eligibility for Medi-Cal.
    - In the early months of 2025, under SB 260, nearly 20,000 consumers have enrolled monthly following loss of Medi-Cal. Most are low-income consumers, with half having incomes below 200% FPL.

Source: Covered California March 2025 Medi-Cal Transitioner Profile.
https://hbex.coveredca.com/data-research/library/mct-profiles/CC_MediCal_Transitioner_Profile_2025_03_R20250513.xlsx

INCREASE IN ENROLLMENT SINCE INTRODUCTION OF THE ENHANCED PREMIUM TAX CREDIT

	2019: ACA Tax Credit Only		2020: Introduction of State Premium Subsidy Program		2025: Enhanced Premium Tax Credit under the IRA	
	Count	Share of Total	Count	Share of Total	Count	Share of Total
Under 150% FPL	240,970	17%	242,940	16%	294,190	15%
150% FPL to 200% FPL	394,250	29%	401,470	27%	548,570	28%
200% FPL to 250% FPL	230,030	17%	249,060	17%	286,930	14%
250% FPL to 400% FPL	378,720	27%	405,480	27%	524,080	26%
Over 400% FPL	60,550	4%	97,190	7%	241,670	12%
Unsubsidized	78,730	6%	80,130	5%	84,060	4%
Grand Total	**1,383,250**	**100%**	**1,476,270**	**100%**	**1,979,500**	**100%**

COVERED CALIFORNIA

2019 and 2020 enrollment totals are drawn from Covered California's March Active Member. 2025 enrollment reflect net plan selection counts following Open Enrollment. https://hbex.coveredca.com/data-research/

EQUITY CONSIDERATIONS FOR PROGRAM DESIGN

While Covered California serves a diverse set of consumers, there can be significant demographic variation among the income groups.

Low-income consumers are more likely to be Latino or Asian/Pacific Islander, especially when compared to middle-income consumers.

	Under 150% FPL	150-200% FPL	200-250% FPL	250-400% FPL	Over 400% FPL	Total
Asian/Pacific Islander	37%	25%	22%	22%	21%	25%
Black or African American	3%	3%	3%	2%	2%	3%
Latino	27%	36%	37%	29%	18%	30%
Other	10%	10%	9%	11%	12%	10%
White	24%	24%	29%	36%	47%	32%
Total	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**
(nonrespondent)	*17%*	*16%*	*16%*	*20%*	*20%*	*18%*

Distributions reflect a snapshot of Covered California's March 2025 effectuated enrollment.

OPTIONS MODELED AND PATH TO A FINAL DESIGN

In planning for potential state subsidy designs, we explore options to fit a program budget of $190 million focusing on four approaches:

- Apply the funding to maintain Inflation Reduction Act (IRA) enhanced premium tax credit levels, starting with the lowest-income enrollees.
- Apply funding to a greater segment of low-income enrollees, but at less generous subsidies than the Inflation Reduction Act.
- Apply the funding to support middle-income enrollees starting at 400% FPL, who will lose subsidies entirely if the enhanced premium tax credits expire.
- Split the funding between low-income enrollees and middle-income enrollees starting at 400% FPL.

Using evidence from health economics literature, we find that options that support lower-income individuals shows higher coverage retention.

Consistent with our historical approach for developing state financial assistance programs and in order to avoid overspending the program's budget, we use a higher enrollment estimate than is used to develop the Covered California operational budget.

SUMMARY OF PROGRAM DESIGN OPTIONS

		Projected Enrollment (A)	Difference in Enrollment Relative to IRA Extension (B)	Average State Subsidy Amount (C)	Count of Enrollees Receiving State Subsidies (D)	Share of enrollees receiving state subsidies among eligible (E)
	No State Subsidies – ACA baseline	1,643,000	(308,000)	-	-	-
(1)	0% required contribution up to 150% FPL + additional subsidies to 165% FPL	1,719,000	(236,000)	$38	372,000	81%
(2)	Lower ACA required contribution by 1pp for consumers under 200% FPL	1,689,000	(263,000)	$22	641,000	85%
(3)	2021 design for cliff population up to 460% FPL	1,667,000	(285,000)	$401	38,000	79%

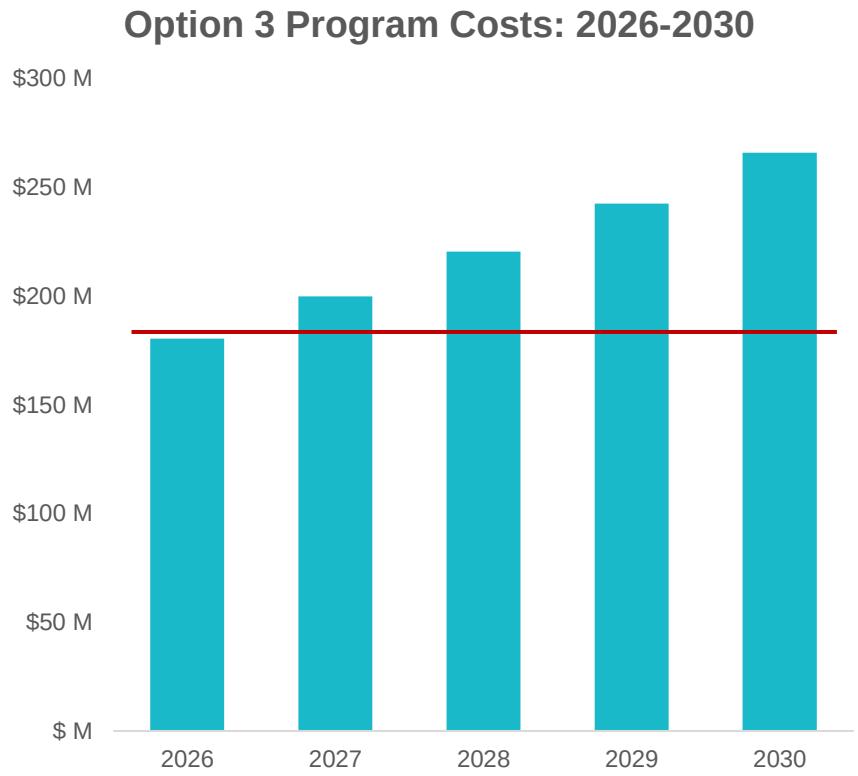
MONTHLY NET PREMIUM AMOUNTS BY FPL GROUP

	ACA	IRA	Option 1 Up to 165% FPL	Option 2 Up to 200% FPL	Option 3 Over 400% FPL
Under 150% FPL	$86	$44	$44	$66	$86
150-200% FPL	$117	$49	$111	$98	$117
200-250% FPL	$185	$91	$185	$185	$185
250-300% FPL	$236	$147	$236	$236	$236
300-400% FPL	$300	$239	$300	$300	$300
400-600% FPL	$787	$390	$787	$787	$673
Over 600% FPL	$860	$615	$860	$860	$860

Net premiums reflect average amount among all enrollees in FPL group, including enrollees who may not receive state subsidies >$0.
IRA subsidy levels assume a 6% rate increase, whereas all other options assume an 8% rate increase in 2026.

FISCAL SUSTAINABILITY & PROJECTED PROGRAM COSTS BEYOND 2026

- While all four program designs were drafted to maximize subsidies for consumers given the fixed budget, the options that provide state subsidies to consumers over the ACA subsidy cliff will be unsustainable in future years.
- To illustrate this, we projected program cost of option 3 assuming an annual 5% rate growth at projected 2026 enrollment levels. Beginning in 2027, the program design would exceed the $190 million budget.
- Program designs targeted towards low-income consumers are more sustainable, as the federal tax credits will absorb most costs associated with annual premium increases.
- Providing state subsidies to low-income consumers offers potential for greater retention, which contributes to a healthy risk mix and managing annual premium increases for all enrollees.



COVERED CALIFORNIA

We used a 5% annual rate increase based on Covered California's 5-year compounded average rate increase leading into the 2025 plan year: https://www.coveredca.com/newsroom/news-releases/2024/07/24/2025-rates-and-plans// Projections do not account for changes to enrollment or the ACA curve in future plan years.

MODELED BUT NOT RECOMMENDED: PROVIDING SUBSIDIES TO LOW-INCOME AND CLIFF CONSUMERS

In addition to the options presented, we explored an option to provide subsidies to both low-income consumers and middle-income consumers with incomes over the ACA subsidy cliff. With a budget of $190 million, state subsidies could be used to:

1. Lower the required contribution to 0% for individuals with incomes up to 150% FPL.
2. Provide a 15% premium cap for consumers with incomes between 400% and 420% FPL.

However, relatively few middle-income consumers (~12,000) would benefit from the subsidies, and the program budget would exceed $190 million in 2027 and beyond.

NEXT STEPS

OVERVIEW OF THE PLACEHOLDER PROGRAM DESIGN DOCUMENT

The placeholder 2026 premium subsidy program design document is based on the previously adopted 2021 program design document and specifies the following elements for the proposed program:

1. The enrollee required contribution amounts for the program – ***to be defined***.
2. The method for calculating 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.
3. The eligibility requirements for state premium assistance that mirror the requirements for the federal premium tax credit.
4. The formula for state subsidy reconciliation mirroring the 2020 state premium assistance program.
5. Definitions of key terms related to the calculation of the state premium assistance.

NEXT STEPS AND TIMELINE

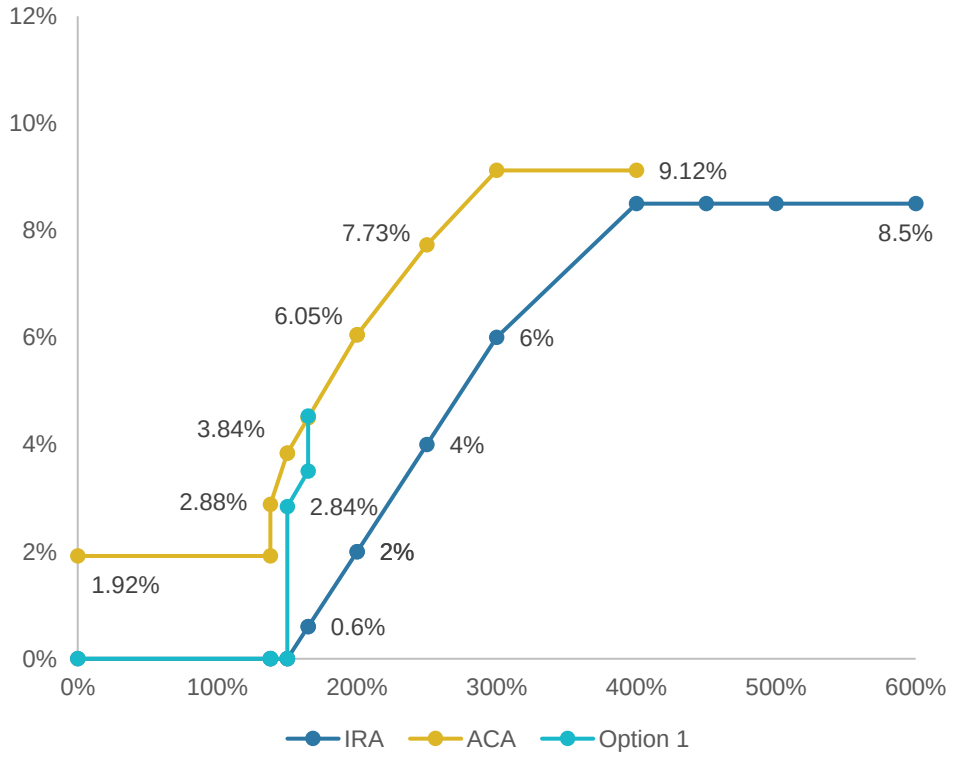
- The Board will adopt a 2026 California Premium Subsidy Program design at the July 28th meeting.
- Covered California staff will provide notification of the program design to the Joint Legislative Budget Committee (JLBC) as required by state statute if Congress fails to extend the enhanced premium tax credit by September 30, 2025.
- If Congress extends the enhanced premium tax credit by September 30, 2025, the $190 million HCARF appropriation will be used to fund the California Enhanced Cost-Sharing Reduction Program as adopted by the Board on April 17, 2025.

APPENDIX:
STATE SUBSIDY CURVE OPTIONS

(1) 0% REQUIRED CONTRIBUTION UP TO 150% FPL WITH ADDITIONAL SUBSIDIES UP TO 165% FPL

- Option 1 maintains the required contribution level of the enhanced premium tax credits to individuals with incomes under 150% FPL.
- State subsidies are provided to individuals with incomes between 150-165% by lowering the ACA curve by 1 percentage point.
- 372,000 enrollees are projected to receive state subsidies.

	State Subsidy Amount*	Average Net Premium
Under 150% FPL	$51	$44
150-165% FPL	$20	$82

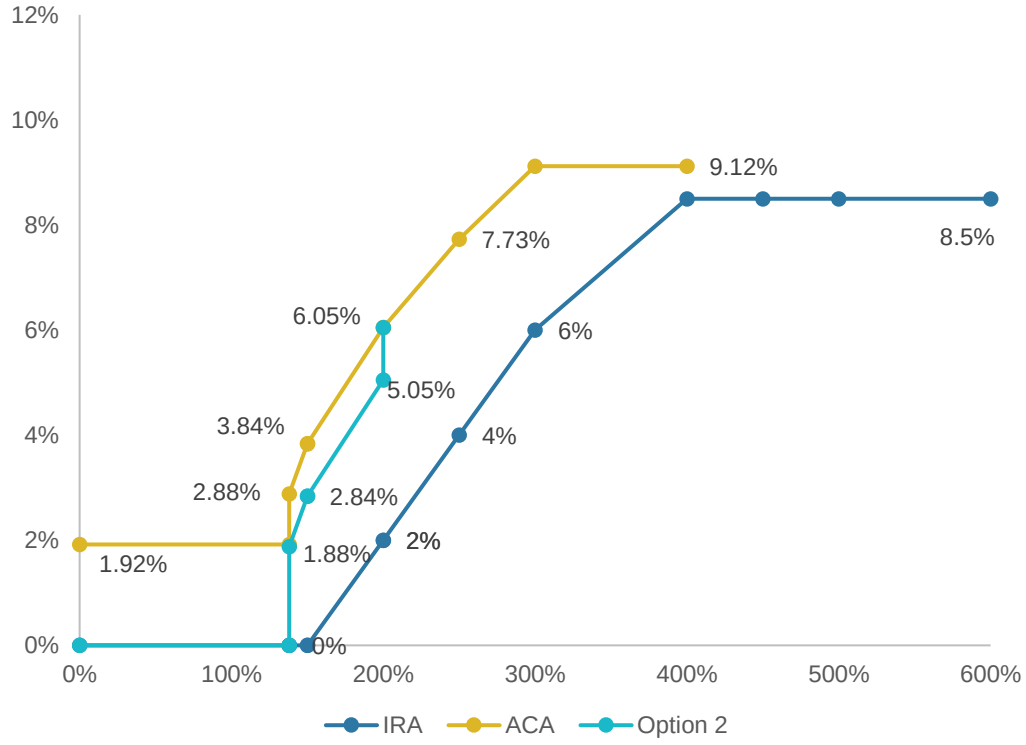


*State subsidy amounts are only for the enrollees projected to receive state subsidies >$0. Net premiums are for all eligible enrollees in FPL bracket, regardless of subsidy receipt.

(2) LOWER ACA CURVE FOR ALL ENROLLEES UNDER 200% OF FPL

- Option 2 lowers the ACA required contribution curve by 1 percentage point for all enrollees with incomes under 200% FPL.
- 641,000 enrollees are projected to receive state subsidies.

	State Subsidy Amount*	Average Net Premium
Under 150% FPL	$24	$66
150-200% FPL	$22	$98

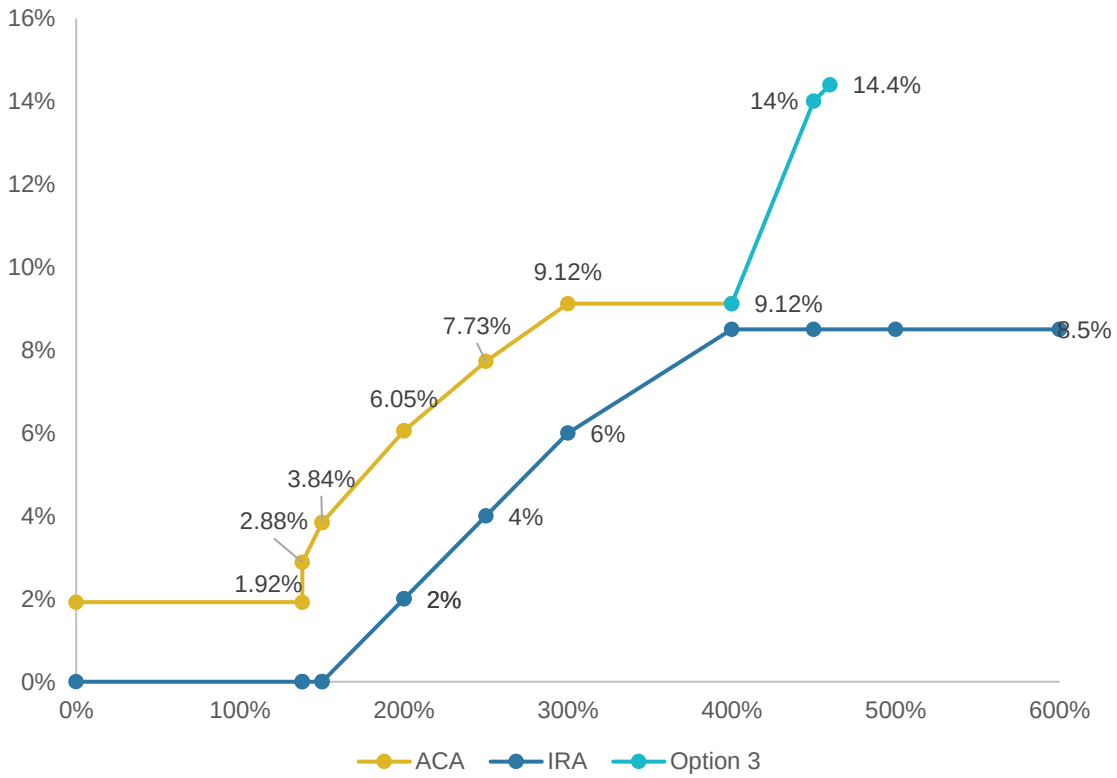


*State subsidy amounts are only for the enrollees projected to receive state subsidies >$0. Net premiums are for all eligible enrollees in FPL bracket, regardless of subsidy receipt.

(3) REINSTATING THE 2021 STATE PREMIUM SUBSIDY DESIGN UP TO 460% FPL

- Option 2 lowers extends the 2021 program design for enrollees earning between 400% and 460% FPL.
- 38,000 enrollees are projected to receive state subsidies.

	State Subsidy Amount*	Average Net Premium
400-460% FPL	$401	$451

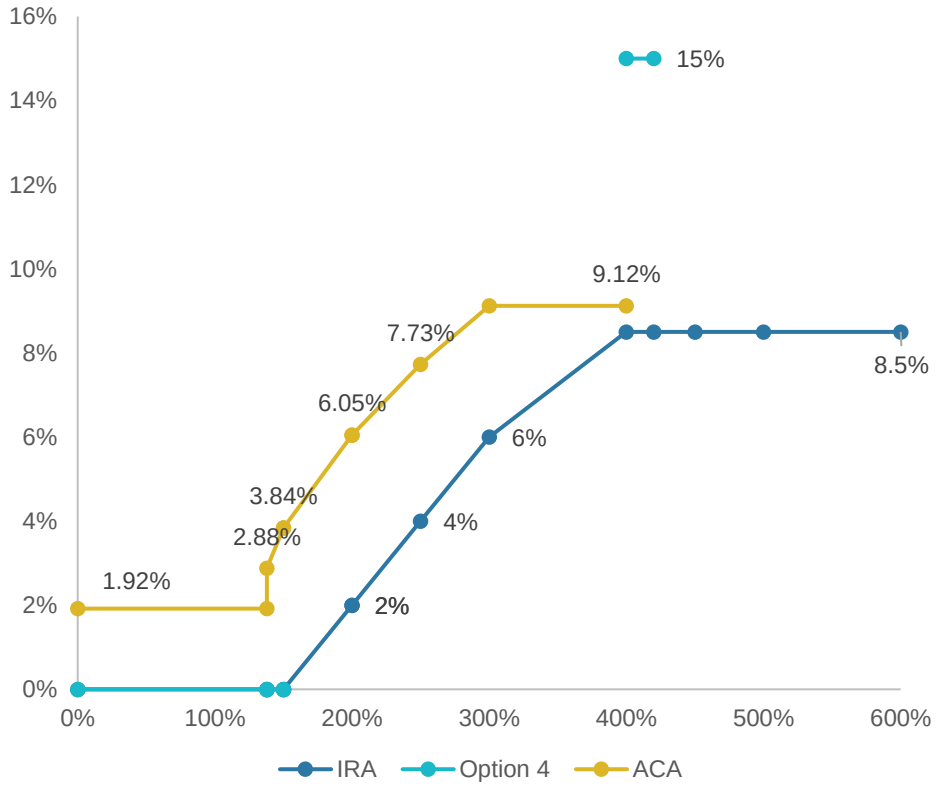


Required contribution is used to calculate the share of the monthly premium a Marketplace enrollee must pay. Federal and/or state subsidies pay the difference between the enrollee's share and the total monthly premium. IRS applicable percentage: https://www.irs.gov/pub/irs-drop/rp-22-34.pdf

(4) 0% REQUIRED CONTRIBUTION UP TO 150% FPL + 15% SUBSIDY CAP UP TO 420% FPL

- Option 4 maintains the required contribution level of the enhanced premium tax credits to individuals with incomes under 150% FPL.
- Remaining subsidies are used to provide a 15% premium cap for consumers with incomes between 400% and 420% FPL.
- Projected enrollment is 1,718,000, with 235,000 enrollees projected to receive state subsidies. Option 4 would lead to an estimated enrollment loss of 233,000.

	State Subsidy Amount*	Average Net Premium
Under 150% FPL	$51	$44
400-420% FPL	$347	$516



*State subsidy amounts are only for the enrollees projected to receive state subsidies >$0. Net premiums are for all eligible enrollees in FPL bracket, regardless of subsidy receipt.

APPENDIX: RECONCILIATION OF THE CALIFORNIA PREMIUM SUBSIDY

YEAR-END CONSUMER RECONCILIATION OF STATE PREMIUM SUBSIDY

- State statute requires premium subsidies to be reconciled at year-end through the California Franchise Tax Board, similar to reconciliation of the federal advanced premium tax credit (APTC).
- Reconciliation adjusts consumers' final premium credit based on their year-end income compared to the income they projected when they applied for coverage.
- Covered California was charged with developing reconciliation repayment limits for the state premium subsidy program.
- Reconciliation repayment limits for the 2020 premium subsidy program mirrored federal APTC repayment limits. Those same limits will apply for the 2026 program.

2026 CALIFORNIA PREMIUM SUBSIDY RECONCILIATION REPAYMENT LIMITS

Household income as a percentage of the federal poverty level	Single Filers	All other filers
Less than 200%	$300	$600
At least 200% but less than 300%	$775	$1,550
At least 300% but less than 400%	$1,300	$2,600
At least 400% but less than 500%	$2,000	$4,000
At least 500% but less than 600%	$3,000	$6,000
At least 600% but less than 700%	$4,200	$8,400

California Alignment for Hospital Quality

AN EMERGING STATEWIDE COLLABORATIVE TO IMPROVE QUALITY

Background

We can do great things when we align for quality!

In recent years, 5 health plans in the LA region have come together to engage hospitals around a core set of quality measures

Aim to build on this work by creating a statewide framework for alignment to improve hospital quality for **ALL Californians,** and a mechanism to get there

For the past decade hospitals, state agencies, health plans, and more have been aligned on reducing unnecessary C-sections.

As a result, **an estimated 36,852+ low-risk C-sections were avoided over an 8-year period (2016 – 2023).**

Covered California Contract Requirements

Attachment 1, Article 4.02.4: Hospital Quality, Value, and Safety	Attachment 2, Performance Standard 3
• Collaborate with Covered California, hospitals, and Cal Healthcare Compare to improve hospital quality, safety, care coordination, and patient experience. • Contract with hospitals that demonstrate high-quality, affordable, and equitable care focused on enrollee safety. • Track, report, and enhance contracted hospitals' quality and cost performance, utilizing national/state benchmarks and stakeholder input. • Report on provided quality improvement support, technical assistance, and involvement in patient safety and performance improvement collaboratives (e.g., Cal Healthcare Compare). • Participate in at least one Covered California-approved learning session, working group, or community engagement activity per year, documenting attendance within 30 days. • Upon request, provide detailed analysis regarding hospital cost factors, pricing transparency data usage, and network selection strategies. • Share progress from collaborative initiatives addressing barriers to high-value care.	Contractor must host or attend QHP Issuer collaboration and community engagement activities approved by Covered California in the focus area of Hospital Quality, Value and Safety during the Plan Years: 2026, 2027 and 2028.

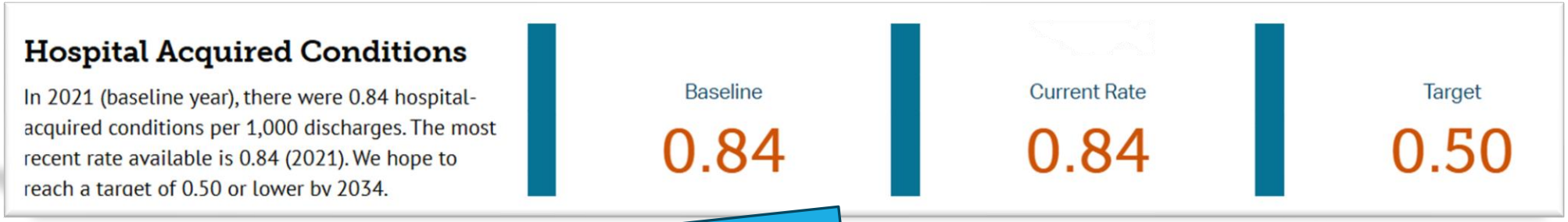
One lens:
Hospital Safety & Quality of Care*

"What will it take for California to be the healthiest state in the nation?"

Approximately **33 percent of all health care spending** in 2009 in California went to hospital care. **Between $38 and $45 billion** nationwide is spent on hospital-acquired infections.

The Healthcare Associated Infections Program of the California Department of Public Health estimates that **infections** at California's acute care hospitals **cost $3.1 billion a year.**

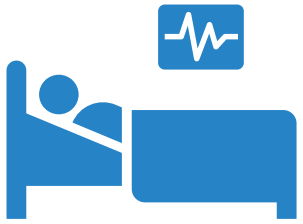
What's more important is the number of **lives** impacted by hospital acquired infections.



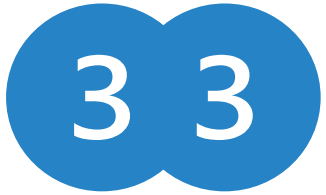
Hospital QI efforts and goals are payor agnostic and based on relative rate of improvement which makes it challenging for them to align their QI goals across contracts.

*Let's Get Healthy California Task Force Final Report, Dec 2012

California Behind the Pack: 33rd out of 50 States



Central line-associated blood stream infection (CLABSI)

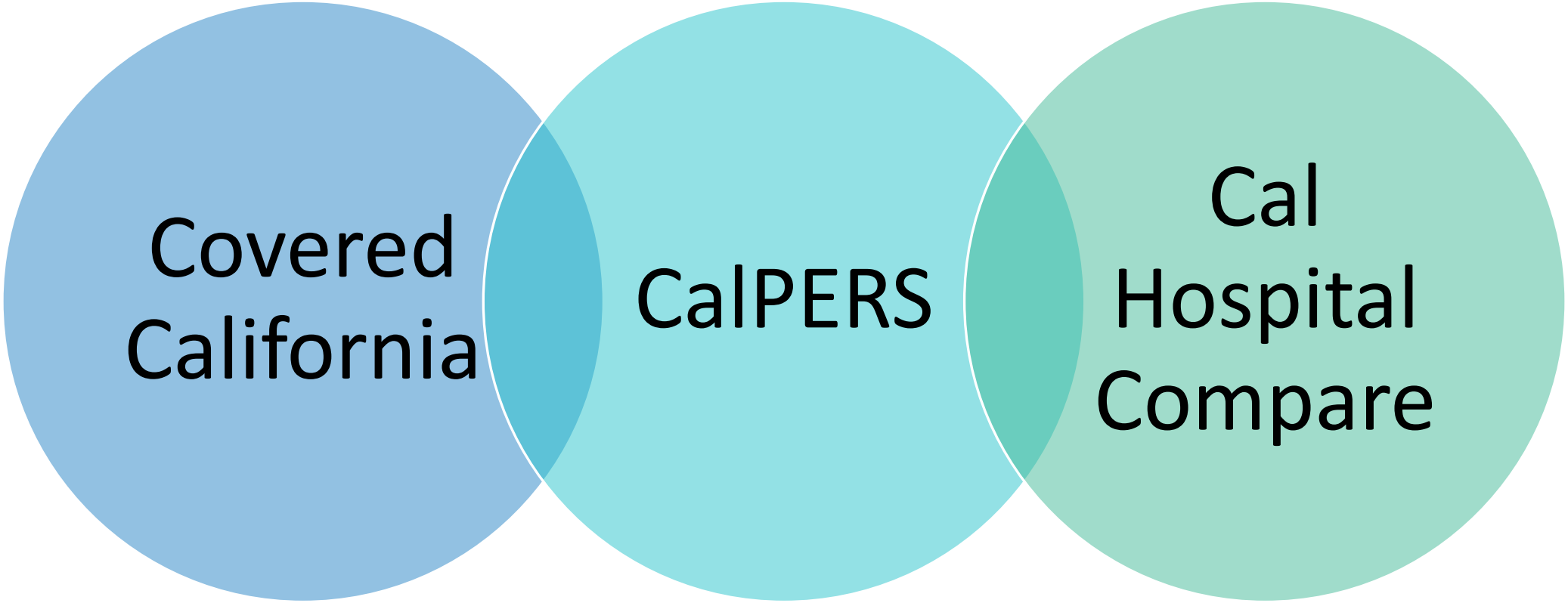


California's State Rank

Ranking Not Improved Since 2019

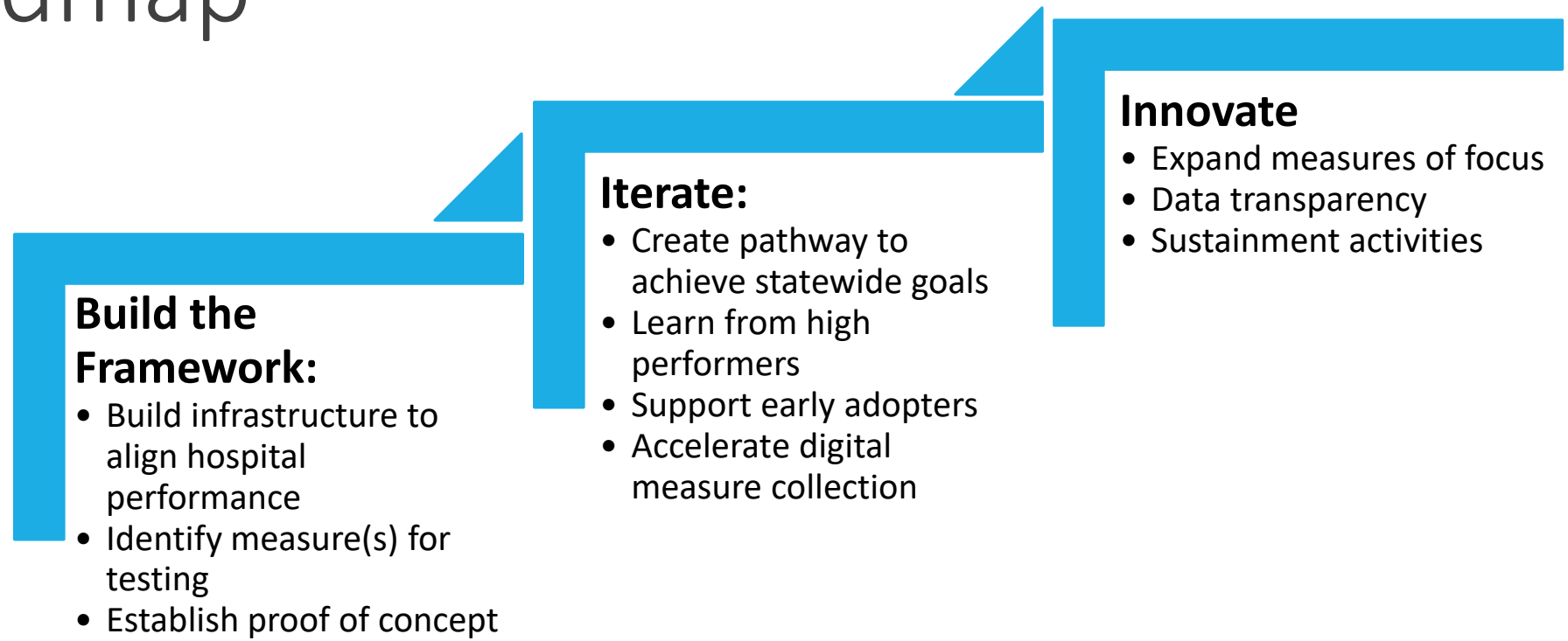
2025 Scorecard on State Health System Performance: https://doi.org/10.26099/w0ns-ae34

Initial Team



*Advisory Input from Dept. of Health Care Access & Information and Dept of Health Care Services

Roadmap



SCOPE

- Identify a focused set of measures
- Engage all hospitals across the state
- Tiered strategy by hospital performance
- Align with purchasers, state agencies, and other stakeholders
- Align with regional health plan efforts

Collaborative Roadmap

Next 12 Months

Q3 2025 — Measures

Finalize Measures for Improvement

Determine goals and targets:

- Overall
- Hospital
- Health Plan

Q3 2025 — Program Design

Define overall program goals:

- QI, Financial, engagement, etc

Partnerships, Roles and Responsibilities

Implementation Plan

- Education/Coaching
- Tools/Resources

Q3 2025 — Comms Plan

Stakeholder List

Marketing Strategy

Feedback Process

Ongoing engagement and support for hospitals and health plans

Q4 2025 — Socializing

Implement Marketing Strategy
(e.g. webinars, one-pagers, social, etc)

Distribute materials for public commenting

Collect Feedback and modify program accordingly

Q1 2026 — Program Kickoff

Kick-off Meeting (webinar or in-person)

Recruitment

Onboarding/Training

July 2026 — 6-month Debrief

Identify quick wins

Program feedback

- To hospitals
- From Hospitals

Start, stop, continue

Measure Selection Framework

Alignment

Aligns with hospital, health plan, & state agency strategy & payment models

Improvement will impact most patients receiving care

Measurable, with achievable goals

Early Wins

Quickly generates alignment

Low hanging fruits

QI Actionable

Near real time data

Improvement tools and infrastructure at the ready

Meaningful Target/Impact

Hospital, State, National Goals

Financial incentives; Recognition Programs

Next Steps

- Small group meetings with hospitals, QHP issuers and other stakeholders
- Recurring agenda item for upcoming Plan Management Advisory (PMAG) sessions.
  - Next update will be August

Email eqt@covered.ca.gov if interested in participating in working group (first focus: measure selection)

2026 CATASTROPHIC PLAN DESIGN UPDATE

JULY 14, 2026

PY2026 CATASTROPHIC PLAN DESIGN UPDATE

- The 2025 Marketplace Integrity and Affordability Final Rule finalized by the Centers for Medicare and Medicaid Services June 20, 2025 increased the Maximum Out of Pocket (MOOP) limit for PY2026, among other changes
  - Impacts to Covered California's PY2026 Patient Centered Benefit Designs:
    - The Catastrophic plan must be revised to reflect the new MOOP, with the deductible and MOOP being raised to $10,600 for individuals, $21,200 for groups
    - Though AV ranges were revised in the Rule, the remaining PY2026 designs still comply and no further revisions are needed
  - The revised PY2026 Patient Centered Benefit Designs will be presented to the Covered California Board of Directors for adoption at the July 28 Meeting