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.
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.
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.
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
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.

<table>
<thead>
<tr>
<th>Household FPL</th>
<th>Single</th>
<th>All other filing statuses</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less than 200%</td>
<td>$300</td>
<td>$600</td>
</tr>
<tr>
<td>At least 200% but less than 300%</td>
<td>$775</td>
<td>$1550</td>
</tr>
<tr>
<td>At least 300% but less than 400%</td>
<td>$1300</td>
<td>$2600</td>
</tr>
<tr>
<td>More than 400%</td>
<td>No limit</td>
<td>No limit</td>
</tr>
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</table>
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.

Drawn from technical assistance provided to Covered California by Jason Levitis through State Health & Value Strategies.
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 ¼ 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.

<table>
<thead>
<tr>
<th>Credit Source</th>
<th>Advanced Credits</th>
<th>Final Credits</th>
<th>Potentially Subject to Reconciliation</th>
<th>Actual Reconciliation at Tax Filing*</th>
<th>FINAL CREDIT</th>
<th>Actual Reconciliation at Tax Filing*</th>
<th>FINAL CREDIT</th>
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</thead>
<tbody>
<tr>
<td>Federal</td>
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<td>$0</td>
<td>($7,152)</td>
<td>($7,152)</td>
<td>$0</td>
<td>($7,152)</td>
<td>$0</td>
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<tr>
<td>State</td>
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<td>$4,692</td>
<td>$4,596</td>
<td>$0</td>
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<td>$4,596</td>
<td>$4,692</td>
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<td></td>
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<td>Reconciliation Due at Tax Filing</td>
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<td>($7,152)</td>
<td>($2,556)</td>
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<td></td>
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<td>Final Total Tax Credits</td>
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<td>$96</td>
<td>$4,692</td>
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<tr>
<td></td>
<td></td>
<td></td>
<td>Final Net Premium</td>
<td></td>
<td></td>
<td>$11,688</td>
<td>$7,092</td>
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* Negative Reconciliation (red) means consumers owes money back to tax agency at filing.
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

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

Feedback on the draft program design document **requested by June 17, 2019** to policy@covered.ca.gov