Client Opportunities for Health Insurance Coverage Under the American Rescue Plan

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by Carolyn McClanahan

On March 24, 2021, at approximately 10am ET this article was updated with the following: "On March 23, the Biden administration announced an extension of the open enrollment period for the Affordable Care Act to August 15. The tax credits apply only for the months a person is enrolled in a plan through the Affordable Care Act, so the sooner your client applies, the more they will save on health insurance."

The American Rescue Plan (ARP) has some welcome relief for clients who are responsible for obtaining their own health insurance coverage. Clients could benefit from the enhanced health insurance subsidies, maximal assistance for those who claim unemployment, a new round of COBRA premium assistance, and forgiveness of 2020 premium tax credit overcalculations.

Time is of the essence for some of these benefits and you should reach out to affected clients quickly.

Enhanced health insurance subsidies

This is the biggest news for your clients. Previous Affordable Care Act subsidies for health insurance coverage were limited to those with modified adjusted gross income (MAGI) less than 400% of the poverty level. This equates to $51,520 for a single person, $69,680 for a couple, and $106,000 for a family of four. This “cliff” for obtaining subsidies for health insurance is eliminated for 2021 and 2022.

For an example, let’s look at a couple who are both age 62 – a very expensive age for health insurance.

If this couple has MAGI of $70,000, they previously received no help paying for their health insurance coverage and were on the hook for all insurance premiums and out of pocket expenses. With the changes under ARP, premiums are limited to no more than 8.5% of MAGI. For this couple, premiums would be limited to $5,950 per year.

The credit is based on the cost of the second cheapest silver plan available in their area. In my zip code, the premium for the second cheapest silver plan for a 62-year-old couple is $23,838 per year. Since their payments are limited to $5,950 per year, this couple would receive a tax credit of $17,888 to assist with their health insurance purchase. Under previous ACA rules, they would receive nothing!

The credit is gradually phased out as income increases. Unlike the previous credit under the ACA, it isn’t suddenly “wiped out” because they jumped over the income limit.

To qualify for this credit, clients must purchase their health insurance at Healthcare.gov. The website will be updated on April 1 to reflect the new tax credit. Open enrollment lasts until May 15, so you must act fast. On March 23, the Biden administration announced an extension of the open enrollment period for the Affordable Care Act to August 15. The tax credits apply only for the months a person is enrolled in a plan through the Affordable Care Act, so the sooner your client applies, the more they will save on health insurance.

What do you need to do now?

- Identify your clients who are paying for their own health insurance because they do not have access to employer-based coverage, Medicare, Medicaid, or other public programs.
- Until the credits are reflected on Healthcare.gov on April 1, they can utilize this calculator at Kaiser Family Foundation to determine the amount of their tax credit.
- A client can enroll in March to begin coverage in April, but the tax credits won’t show up on the site until April 1, so this could cause some confusion. Even if they can’t “see” the credit on the site, they

will receive the credit. They can update their information on the site after April 1 to have the tax credit applied to premiums going forward. One caveat – states that do not utilize Healthcare.gov may have slightly different enrollment rules, so make sure you understand those differences.

- Ideally you have a health insurance agent in your area who will help your client with enrollment. This doesn't change their cost but it eases the pain of dealing with the Healthcare.gov site.

Because of budgetary procedures, these credits are not extended past 2022. However, what the government gives, it can not easily take away, so it is likely these credits will be extended past 2022.

Clients who already receive assistance through the Affordable Care Act will see slight increases in their premium tax credit for the 2021 tax year going back to January 1. However, they may want to reevaluate their plan selection after April 1 to see if they qualify for lower cost sharing with a new plan.

Maximal assistance for unemployment benefit recipients

Anyone who does not have access to affordable insurance through another family member and has received even one week of unemployment benefits in 2021 will be deemed as having earnings at no higher than 133% of poverty level for the entire year and will therefore qualify for a *no premium cost* Silver plan.

This sounds too good to be true, and it is even better than that – a person who claims and receives unemployment income in 2021 will also qualify for cost-sharing subsidies that will significantly lower their deductible.

For example, a typical deductible for a Silver plan for those making more than 250% poverty level is about $5,000. Currently with the ACA, once one's MAGI is below 250% of the poverty level, that deductible gradually declines. If income goes down to 100% of the poverty level, the deductible also can go down to zero. Since the unemployed person is considered to not have income any higher than 133% poverty level, their deductible will be very low.

One small glitch with the implementation of this provision is that Healthcare.gov will not be able to reflect the credits available for unemployment situations until the summer, which is after open enrollment has ended. However, the tax credit will be provided on the back end when they file their taxes.

A potential workaround for those who qualify for this benefit is to enroll now and enter their income for purposes of the tax credit at 133% of federal poverty level. This will provide a current tax credit and automatically show the reduced deductibles available for that income level. It will be important to re-enter that information once the site is adjusted for this credit. Have your client work with a health insurance agent in your state for assistance in applying.

COBRA premium assistance

For those who lose employer-based coverage due to job loss or a reduction in hours, ARP provides relief in the form of COBRA premium subsidies between April 1 and September 30 for 2021. After September 30, they can continue coverage at full cost – which can be very expensive.

If your client loses their job, should they accept this benefit or should they go on an exchange-based plan?

Once a client accepts COBRA, they cannot qualify for an ACA based plan until their COBRA eligibility ends or until the next open enrollment period in November for coverage starting January 1. Although they will receive COBRA subsidies for six months, they will end up paying for the last three months of the year if they have not regained employment.

But remember – If a person is terminated and claims unemployment, they will receive the maximal assistance for 2021 as an unemployment benefit recipient and they will have no premium costs and minimal deductibles for the rest of the year.

From a hassle factor, going on COBRA-based coverage is the easiest option as your client won't have to access the exchange for coverage. However, if they are not re-employed by October 1, this choice will be more expensive.

Forgiveness of excess premium tax credit repayment

People who receive premium tax credits and underestimate their income normally have to pay back the excess credit they received. Especially if income ended up higher than 400% of the poverty level, this tax can be a shocker!

The good news for 2020 – excess premium tax credits will not have to be repaid. Unfortunately, the IRS has not updated paperwork and guidelines reflecting the forgiveness provisions. If a client has not filed their tax return yet and will owe a credit, they need to wait until the IRS has reflected the change.

If a client has already filed taxes and paid an excess credit, the IRS is requesting that the client not file an amended return yet to receive a refund. Further guidance will be released on the IRS Coronavirus Tax Relief website.

What Is the future of the Affordable Care Act?

Our health insurance and health care system continue to be expensive and inefficient. Any major legislation requires periodic adjustments to mitigate unintended consequences. With the ACA, the subsidy cliff was one of a few issues that needed a fix.

There were a couple of issues that did not receive attention. This includes a patch for the "family glitch" – if a policy is deemed affordable through employment for the employee, the entire family is not eligible for tax credits under the ACA. However, employers often require employees to pay full price to cover their family. With family premiums running in the $18,000 range, this is not affordable for many.

The other policy change promised by the Biden administration was a public option for health insurance. This is a bear to tackle as there will be significant opposition from the insurance industry.

Health policy has been a soap opera in this country for over a century and it doesn't look like the show will end any time soon. Stay tuned!

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