



## The Premium Tax Credit and Related Spending

### Premium Tax Credit

The premium tax credit was established under the Affordable Care Act (ACA) to lower the out-of-pocket cost of premiums for eligible people who obtain health insurance through the ACA marketplaces. The credit is calculated as the difference between the benchmark premium (that is, the premium for the second-lowest-cost silver plan available in a region) and a specified maximum contribution, which is a percentage of household income and is adjusted over time. Within a region, those premiums may vary based on family size and age (but by no more than a three-to-one ratio between older and younger adults). The credit is available in advance of filing one's income taxes, but individuals must reconcile that advanced credit with the credit they are entitled to when they file. Because the premium tax credit is refundable, the amount of the credit may exceed an individual's taxable liabilities. To claim the premium tax credit, enrollees must meet the following criteria:

- They must not be eligible for public coverage, such as Medicaid;
- They must not have an affordable offer of employment-based coverage;
- They must be lawfully present in the United States; and
- Their household income must generally fall between 100 percent and 400 percent of the federal poverty level (FPL).

The American Rescue Plan Act of 2021 (Public Law 117-2) and the 2022 reconciliation act (P.L. 117-169) decreased the maximum required contribution for previously eligible people and extended eligibility through 2025 to people whose income exceeds 400 percent of the FPL.

### Related Spending

The federal government provides assistance to state governments that is designed to offer flexibility both in providing coverage for people who are eligible for the premium tax credit and for regulating the nongroup market:

- ACA's section 1332 allows states to apply for federal waivers for some of the ACA's rules governing insurance markets and to receive federal assistance in paying for programs that offer health insurance. To obtain a waiver, a state's proposal must be budget-neutral and it must provide insurance coverage that is comparable to coverage required by the ACA.
- The Basic Health Program allows states to establish a coverage program primarily for people whose income is between 138 percent and 200 percent of the FPL. The funding provided to each state equals 95 percent of the amount in subsidies for which enrollees would otherwise have been eligible through a marketplace.

As a way to stabilize premiums in the nongroup and small-group markets, the ACA established a risk-adjustment program, which collects fees from insurers with enrollees who are relatively more healthy and makes roughly offsetting payments to insurers with enrollees who are relatively less healthy. The risk-adjustment program is designed to have no effect on the federal budget.

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	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2025- 2029	2025- 2034
<b>BUDGET INFORMATION</b>													
Billions of dollars, by fiscal year													
Premium Tax Credit and Related Spending													
Outlays for the premium tax credit	98	107	84	86	89	91	93	97	101	107	111	457	966
Revenue reductions from the premium tax credit	16	22	24	15	15	15	16	16	17	18	19	91	176
Outlays for section 1332 waivers and BHP	16	16	16	17	18	18	19	20	21	22	9	86	177
Collections for risk adjustment <sup>a</sup>	-11	-14	-16	-15	-15	-15	-16	-16	-17	-18	-19	-76	-162
Payments for risk adjustment <sup>a</sup>	<u>10</u>	<u>12</u>	<u>15</u>	<u>16</u>	<u>15</u>	<u>15</u>	<u>15</u>	<u>16</u>	<u>17</u>	<u>18</u>	<u>18</u>	<u>73</u>	<u>158</u>
Total	129	143	123	118	122	125	128	133	139	147	138	631	1,316
<b>PARTICIPATION INFORMATION</b>													
Millions of people, by calendar year													
Marketplace Enrollment													
Subsidized	20.1	21.3	15.7	14.1	13.8	13.7	13.4	13.4	13.4	13.8	13.9	n.a	n.a
Unsubsidized	<u>1.6</u>	<u>1.5</u>	<u>3.2</u>	<u>2.0</u>	<u>2.0</u>	<u>2.0</u>	<u>2.0</u>	<u>2.0</u>	<u>2.0</u>	<u>2.1</u>	<u>2.1</u>	n.a	n.a
Total, Marketplace Enrollment	21.6	22.8	18.9	16.0	15.8	15.7	15.4	15.4	15.4	15.9	16.0	n.a	n.a
BHP Enrollment <sup>b</sup>	1.3	1.4	1.4	1.4	1.4	1.4	1.4	1.5	1.5	1.5	1.5	n.a	n.a
<b>BENEFIT INFORMATION</b>													
Dollars, by calendar year													
Nationwide Average Annual Benchmark Premium for a 21-Year-Old Marketplace Enrollee	4,460	4,780	5,210	5,630	5,860	6,090	6,310	6,600	6,870	7,120	7,470	n.a	n.a
Average Premium Tax Credit per Subsidized Marketplace Enrollee	5,960	6,190	6,710	7,260	7,550	7,840	8,120	8,540	8,870	9,230	9,360	n.a	n.a

Sources: Congressional Budget Office; staff of the Joint Committee on Taxation.

Components may not sum to totals because of rounding; BHP = Basic Health Program; n.a. = not applicable.

The estimates in this table underlie CBO's June 2024 baseline projections of net federal subsidies for the premium tax credit and related spending. Estimates are for average monthly enrollment over the course of a year and include spouses and dependents covered under family policies.

- a. The risk-adjustment program is intended to stabilize premiums in the nongroup and small-group markets, without affecting the federal budget. The federal government collects fees from insurers with enrollees who are relatively more healthy and makes roughly offsetting payments to insurers with enrollees who are relatively less healthy.
- b. Only Minnesota and Oregon currently operate a BHP. Estimates include enrollment in New York's Essential Plan, which is funded through a section 1332 waiver and mirrors the BHP; enrollees with household income up to 250 percent of the federal poverty level are eligible.