

MEMORANDUM

To: Health Connector Board Members
Cc: Jean Yang, Executive Director
From: Audrey Morse Gasteier, Deputy Director of Policy and Research and Director of Employer Policy
Date: February 7, 2014
Re: Affordability Schedule Recommendation for Calendar Year 2014

BACKGROUND

The Commonwealth's affordability schedule determines the application of the state individual health insurance mandate. The Health Connector Board is required annually to devise a schedule that describes the percentage of income an individual should be expected to contribute towards the purchase of health insurance.¹ An adult is considered able to purchase affordable health insurance if his or her monthly contribution to Employer Sponsored Insurance (ESI), subsidized insurance or the lowest cost insurance plan available through the Health Connector does not exceed the corresponding maximum monthly premium for his or her income bracket.

The structure of the affordability schedule defines an affordability standard for specified income brackets. Since the outset of Massachusetts health reform, the affordability schedule has been designed so that those within a given income bracket have been required to contribute the same maximum monthly premium contribution in dollar terms. This results in the affordability standard representing a declining percentage of income as income increases within the bracket. At and above about median income, health insurance of any cost has been defined as affordable. The income brackets used in the schedule are adjusted annually based on the Federal Poverty Level (FPL) guidelines released in January, and then modestly revised in March based on Massachusetts Cost of Living Adjustments (COLA).

The Patient Protection and Affordable Care Act (ACA) also includes a health insurance coverage mandate effective in 2014, and an affordability standard to identify those subject to the mandate. Under the ACA, a taxpayer is exempt from the mandate if the required contribution for coverage exceeds 8% of household income. This flat percentage-of-income based approach contrasts with the progressive approach inherent to the Massachusetts affordability schedule (which has historically meant that higher-income individuals in Massachusetts were subject to affordability standards in excess of 8%, while lower-income individuals were subject to standards well below 8%). Over the past several years, the Health Connector has worked with the Board, other state agencies and key stakeholders to determine how to best align the state and the federal individual mandates, including components related to the respective affordability schedules.

It is important to note that all Massachusetts residents will be subject to the federal affordability standard in 2014, in addition to the state standard. There are a small number of instances in which the state affordability schedule will be required to determine application of the state individual mandate requirement and the potential for a state penalty. For example, an individual

¹ M.G.L. 176Q § 3.

may have health insurance that meets Minimum Essential Coverage (MEC) requirements, the federal coverage standard, but fails to meet the state's Minimum Creditable Coverage (MCC) requirements. In this scenario, the state affordability schedule would be employed to determine if that individual would be subject to the state mandate and penalty.

Massachusetts has, however, opted to adopt a "no penalty stacking" approach to the two side-by-side mandates – meaning, if applicable, no resident would be required to pay two penalties. In any instance in which a resident owed a federal penalty and a state penalty, the state would waive any state penalty amount equal to or less than the federal amount.

RECOMMENDED APPROACH FOR STATE AFFORDABILITY SCHEDULE

In 2013, Health Connector staff proposed to the Board a three-year, phase-in approach to transitioning the Massachusetts affordability schedule to adoption of an 8% of income affordability standard (the federal standard) with a progressive schedule being maintained for lower income categories, rather than our current fixed-dollar-value by income cohort approach for all income levels. Our ultimate goal is to implement this type of schedule for calendar year (CY) 2015 which allows for a more gradual transition for the market. CY 2013 marked the first year of the transition, and this year's proposed affordability schedule marks the second year.

(1) Step 1 (CY2013): Implemented Last Year

To initiate the above-described approach, which was adopted by the Board during spring of 2013, the CY 2013 affordability schedule still largely relied on the original Massachusetts structure (*i.e.*, defining an affordability standard in dollar values by income cohorts), but began making downward adjustments for income cohorts that previously had a maximum allowable premium contribution representing more than 8% of income. This, coupled with the introduction of a 10% cap where the original Massachusetts schedule had defined insurance of any cost as affordable, served as the first step in the three-year transition effort.

(2) Step 2 (CY2014): Proposed for This Year

CY 2014 represents the second planned step of the transition effort. In line with previous proposals to the Board, we propose that the affordability schedule for CY 2014 continue to rely on its current structure of defining an affordability standard in dollar terms for lower income cohorts (those below 300% FPL), but continue to move toward adoption of an 8% standard at higher income ranges. Specifically, we recommend adopting the federal 8% of income standard for those at and above 400% of FPL, and providing those between 300 and 400% FPL an additional year to adopt the federal 8% of income standard. The recommendation instead provides that category (300-400% FPL) with a dollar amount that provides them a slower transition towards the 8% of income standard (which would eventually be adopted in CY 2015).

The logic behind the recommended approach:

- We recommend holding the affordability standard steady (in dollar amounts) for the <300% FPL population in the interest of consumer consistency during a transitional year. Although we are moving towards alignment with the federal percentage-based

approach at higher income brackets, the under 300% FPL population is a group of residents for whom the Commonwealth has chosen to provide subsidies. It follows that we would continue to provide this group with a unique, more progressive structure. This also reflects the continuity of premiums as we transition from Commonwealth Care to ConnectorCare during 2014.

- We recommend introducing the 8% of income standard for those above 400% FPL, which mirrors the federal affordability standard.
- Finally, we recommend providing those between 300 and 400% FPL an additional year to formally adopt the 8% of income standard so as to ensure the transition is more gradual for this category. The logic behind using 400% FPL as the upper bound of the group given an extra year to adopt the 8% of income standard is that it is the threshold at which the ACA no longer provides subsidies (advance premium tax credits).

Calculations underlying the recommended approach:

- No calculations needed for holding under 300% FPL category to same dollar amounts as in prior year (CY 2013).
- No calculations needed for adopting straight-forward 8% of income standard for populations above 400% FPL.
- For 300-400% FPL category: Our proposal recommends splitting this cohort into two even sub-categories (300-350% FPL and 350-400% FPL) and finding the income mid-point of each of those sub-categories for each population (*i.e.*, individuals, couples, and families). We then recommend a dollar amount-based affordability standard for each sub-category that equals the average between (a) the CY 2013 affordability dollar amount for that mid-point income and (b) 8% of that sub-category's mid-point income. This creates a mid-way bridge between the standards these individuals, couples and families were held to last year and where we anticipate the schedule being next year, while not allowing anyone to be held to a standard that exceeds 8% of their income in order to be in alignment with the federal standard.

Example 1: For an individual between 300% and 350% FPL, we found the mid-point of their income bracket (\$37,928 annually). We then looked at the maximum monthly premium contribution for that income in CY 2013 (\$178 monthly), and what 8% of that income amount is (\$253 monthly), and found the mean of those two figures in order to establish an approximated mid-point dollar amount for this individual's category (\$215 monthly).

Example 2: For a couple between 350% and 400% FPL, we found the mid-point of their income bracket (\$58,988 annually). We then looked at the maximum monthly premium contribution for that income amount in CY 2013 (\$403 monthly), and what 8% of that income amount is (\$393 monthly), and found the mean of those two figures in order to establish an approximated mid-point dollar amount for this couple's category (\$398 monthly). However, since \$398 results in the lower end of the 350-400% FPL category for couples paying over 8% of income (thereby requiring more than the federal standard), we lowered the dollar amount to the highest amount that would not require any couples within this category to expend more than 8% of income. In other words, we calculated 8% of income for couples at the lower bound of the sub-category, or 350%. That resulted in a dollar amount of \$367 monthly.

Inherent to this proposal are also some adjustments to the FPL brackets, in order to simplify and reduce the number of cohorts. For example, since we propose using an 8% of income standard for populations over 400% FPL, the sub-divisions of brackets that had previously been used over 400% FPL inherently phase out. And for those between 300 and 400% FPL, as explained above, we recommend adopting simple 50% brackets between 300% and 400%. The dollar amounts associated with each FPL range have also been updated to reflect 2014 FPL tables, which were released in January.

(3) Step 3 (CY2015): Will Be Resolved Next Year

Finally, as mentioned above, we would recommend that for CY 2015 and beyond, the Health Connector Board develop its preferred progressive affordability schedule capped at 8% of income. For the purposes of devising the CY 2014 schedule as a bridge between CY 2013 and CY 2015, Health Connector staff assumed that an 8% of income schedule would be adopted for those above 300% FPL in CY 2015, but the CY 2015 schedule will be determined by the Health Connector Board of Directors in CY 2015.

Based on the transition strategy that was initiated in CY 2013 and is further developed in the above memorandum, the affordability schedules we are recommending for individuals, couples and families for CY 2014 are highlighted below:

RECOMMENDED CY 2014 AFFORDABILITY SCHEDULE

CY 2014 Proposed Affordability Schedule INDIVIDUALS					
Annual Adjusted Gross Income			Affordability Standard (Maximum Monthly Premium)	Percentage of Income	
% of FPL	Bottom	Top		Bottom	Top
0 - 100%	\$0	\$11,670	\$0		
100.1 - 150%	\$11,671	\$17,505	\$0		
150.1 - 200%	\$17,506	\$23,340	\$40	2.7%	2.0%
200.1 - 250%	\$23,341	\$29,175	\$78	4.0%	3.2%
250.1 - 300%	\$29,176	\$35,010	\$118	4.8%	4.0%
300.1 - 350%	\$35,011	\$40,845	\$215	7.4%	6.3%
350.1 - 400%	\$40,846	\$46,680	\$266	7.8%	6.8%
Above 400%	\$46,681		8% of income/12		

CY 2014 Proposed Affordability Schedule COUPLES					
Annual Adjusted Gross Income			Affordability Standard (Maximum Monthly Premium)	Percentage of Income	
% of FPL	Bottom	Top		Bottom	Top
0 - 100%	\$0	\$15,730	\$0		
100.1 - 150%	\$15,731	\$23,595	\$0	0.0%	0.0%
150.1 - 200%	\$23,596	\$31,460	\$80	4.0%	3.0%
200.1 - 250%	\$31,461	\$39,325	\$156	5.9%	4.7%
250.1 - 300%	\$39,326	\$47,190	\$236	7.1%	5.9%
300.1 - 350%	\$47,191	\$55,055	\$315	8.0%	6.9%
350.1 - 400%	\$55,056	\$62,920	\$367	8.0%	7.0%
Above 400%	\$62,921		8% of income/12		

CY 2014 Proposed Affordability Schedule FAMILIES					
Annual Adjusted Gross Income			Affordability Standard (Maximum Monthly Premium)	Percentage of Income	
% of FPL	Bottom	Top		Bottom	Top
0 - 100%	\$0	\$19,790	\$0		
100.1 - 150%	\$19,791	\$29,685	\$0	0.0%	0.0%
150.1 - 200%	\$29,686	\$39,580	\$80	3.2%	2.4%
200.1 - 250%	\$39,581	\$49,475	\$156	4.7%	3.7%
250.1 - 300%	\$49,476	\$59,370	\$236	5.7%	4.7%
300.1 - 350%	\$59,371	\$69,265	\$396	8.0%	6.9%
350.1 - 400%	\$69,266	\$79,160	\$437	7.6%	6.6%
Above 400%	\$79,161		8% of income/12		

APPENDIX

Enclosed in this appendix are the CY 2013 Affordability Schedule tables for reference.

CY 2013 Affordability Schedule INDIVIDUALS					
Annual Adjusted Gross Income			Affordability Standard (Maximum Monthly Premium)	Percentage of Income	
% of FPL	Bottom	Top		Bottom	Top
0 - 100%	\$0	\$11,496	\$0	0.0%	0.0%
100.1 - 150%	\$11,497	\$17,244	\$0	0.0%	0.0%
150.1 - 200%	\$17,245	\$22,980	\$40	2.8%	2.1%
200.1 - 250%	\$22,981	\$28,728	\$78	4.1%	3.3%
250.1 - 300%	\$28,729	\$34,476	\$118	4.9%	4.1%
300.1 - 350%	\$34,477	\$40,195	\$178	6.2%	5.3%
350.1 - 397%	\$40,196	\$45,554	\$239	7.1%	6.3%
397.1 - 450%	\$45,555	\$51,639	\$331	8.7%	7.7%
450.1 - 490%	\$51,640	\$56,273	\$359	8.3%	7.7%
Above 490%	\$56,274		10% of income	10%	

CY 2013 Affordability Schedule COUPLES					
Income Bracket			Affordability Standard (Maximum Monthly Premium)	Percentage of Income	
% of FPL	Bottom	Top		Bottom	Top
0 - 100%	\$0	\$15,516	\$0	0.0%	0.0%
100.1 - 150%	\$15,517	\$23,268	\$0	0.0%	0.0%
150.1 - 200%	\$23,269	\$31,020	\$80	4.1%	3.1%
200.1 - 250%	\$31,021	\$38,784	\$156	6.0%	4.8%
250.1 - 300%	\$38,785	\$46,536	\$236	7.3%	6.1%
300.1 - 365%	\$46,537	\$56,656	\$319	8.2%	6.8%
365.1 - 435%	\$56,657	\$67,448	\$403	8.5%	7.2%
435.1 - 500%	\$67,449	\$77,604	\$524	9.3%	8.1%
500.1 - 574%	\$77,605	\$89,032	\$598	9.2%	8.1%
Above 574%	\$89,033		10% of income	10%	

CY 2013 Affordability Schedule FAMILIES					
Income Bracket			Affordability Standard (Maximum Monthly Premium)	Percentage of Income	
% of FPL	Bottom	Top		Bottom	Top
0 - 100%	\$0	\$19,536	\$0	0.0%	0.0%
100.1 - 150%	\$19,537	\$29,304	\$0	0.0%	0.0%
150.1 - 200%	\$29,305	\$39,060	\$80	3.3%	2.5%
200.1 - 250%	\$39,061	\$48,828	\$156	4.8%	3.8%
250.1 - 300%	\$48,829	\$58,596	\$236	5.8%	4.8%
300.1 - 398%	\$58,597	\$75,899	\$379	7.8%	6.0%
398.1 - 500%	\$75,900	\$97,584	\$550	8.7%	6.8%
500.1 - 581%	\$97,585	\$113,443	\$756	9.3%	8.0%
581.1 - 611%	\$113,444	\$119,270	\$862	9.1%	8.7%
Above 611%	\$119,271		10% of income	10%	