MEMORANDUM

To: Health Connector Board Members
Cc: Louis Gutierrez, Executive Director
From: Marissa Woltmann, Senior Policy Analyst and ACA Implementation Specialist
Date: February 12, 2015
Re: Affordability Schedule Recommendations for Calendar Years 2015 and 2016

BACKGROUND

The Health Connector serves as the primary policymaker with regard to the Commonwealth's requirement that individuals carry health insurance, also called the individual mandate. The Health Connector Board is required 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), publicly subsidized insurance, or the lowest cost commercial insurance plan available through the Health Connector does not exceed the corresponding maximum monthly premium for his or her income bracket.

The Patient Protection and Affordable Care Act (ACA) also includes a health insurance coverage mandate that first took effect in 2014, and it also defines 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, indexed annually for inflation.[2]

The flat percentage approach used in the federal affordability standard contrasts with the progressive approach taken by the Board with respect to the Massachusetts affordability schedule. Historically, 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 approaches to defining affordability for state residents. The goal of this work has been to preserve high levels of enrollment in robust coverage while prioritizing simplicity for residents and state agencies administering the mandate.

With implementation of the federal mandate for tax year 2014, Massachusetts residents are now subject to both state and federal affordability standards. Because the vast majority of state residents are already covered by insurance, most taxpayers will not need to apply either state or federal affordability standards to determine whether they are subject to a penalty under either law. 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 may have health insurance that meets

[1] M.G.L. 176Q § 3.

[2] The ACA outlines an indexing methodology that accounts for the rate of growth in premiums divided by the rate of growth in income. Growth is considered for national figures for the preceding calendar year compared to 2013. This new rate is applied to the 8% standard. For 2015, the U.S. Secretary of Health and Human Services considered the rate of premium growth from 2013 to 2014, divided by the rate of income growth from 2013 to 2014, and multiplied by 8%, resulting in a new maximum expected contribution to health insurance of 8.05% of income.

Minimum Essential Coverage (MEC) requirements, the federal coverage standard, but fails to meet the state's Minimum Creditable Coverage (MCC) requirements.[3] In this scenario, the state affordability schedule would be employed to determine if that individual would be subject to the state mandate and penalty.

For uninsured individuals who may face penalties under both the state and federal mandates, Massachusetts has modified its rules to avoid "stacking" of state and federal penalties. Individuals may subtract the amount paid in federal mandate penalty from the amount of their state penalty on their 2014 state income tax returns. If the federal penalty is less than the state penalty, taxpayers will only pay the difference to the state, capping their liability at the original state amount. If the federal penalty is more than the state penalty, the state penalty will be reduced to $0.

Historically, the affordability schedule for a given calendar year was issued as soon as possible after the publication in January of the year's Federal Poverty Level (FPL) guidelines by the U.S. Department of Health and Human Services. These guidelines were used to make determinations of eligibility for the Commonwealth Care insurance program, the premiums for which were considered affordable for individuals with income at or below 300% FPL. Furthermore, the publication of the affordability schedule preceded the procurement process for Commonwealth Care that resulted in updates for the programmatic year running from July 1 of a given calendar year to June 30 of the following year.

With the closure of the Commonwealth Care program and the advent of the ACA, proposing the affordability schedule for a given calendar year within the same year is no longer necessary, nor advisable. First, state residents are not able to make informed choices about their coverage for a calendar year in advance because affordability standards are not defined until several months into the year, well past the beginning of the annual non-group open enrollment period and out of sync with popular employer open enrollment periods. Second, under the ACA, the Health Connector certifies all plans on a calendar year basis through the Seal of Approval process, including those for ConnectorCare, the successor to the Commonwealth Care program. The Seal of Approval process will span most of 2015 to ensure plans for 2016 are available to purchase at the beginning of open enrollment this October, making February 2016 too late to influence the premiums available on the Health Connector's shelf, as the affordability schedule once did for the Commonwealth Care program.

To resolve the challenges noted above, we propose to shift the timeline going forward to set the affordability schedule in advance of the Seal of Approval process for a given calendar year. This would mean setting the 2016 affordability schedule in advance of finalizing the 2016 Seal of Approval.[4]

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[3] There is broad overlap in the types of coverage that meet both state MCC and federal MEC standards. The main difference is that all employer-sponsored and individual market coverage is deemed MEC *per se*, while state rules look for specific benefits, such as prescription coverage, and limitations on enrollee cost sharing in determining whether a plan obtained through an employer or carrier is MCC compliant. Neither MCC nor MEC requires that employers or carriers include those benefits, but an individual who chooses to enroll in a non-compliant plan may face a penalty under the individual mandate.

[4] As noted above, the timing of the affordability schedule was historically constrained by the publication date of relevant Federal Poverty Level standards. Under the ACA, program rules for subsidized Health Connector benefits rely on FPL standards published in the prior calendar year, eliminating this constraint going forward.

We have included below proposals for both the 2015 and 2016 affordability schedules. By setting the affordability schedule for 2016 now, the Board will provide essential guidance to consumers as they assess their coverage options for next year. Further, it will provide important guidance for developing the ConnectorCare program parameters in 2016. Although the affordability schedule does not create any requirement that the market offer plans that fall within the affordable ranges set by the Board, the Health Connector's policy has been to set subsidized premiums in accordance with what the Board has determined affordable.

Should the Board vote in favor of issuing this proposal, the Health Connector will open a public comment period during which we invite feedback from the public on the recommended approaches to affordability standards. Health Connector staff will review comments submitted during this period and bring a final recommendation before the Board in March for the Directors to vote on.

PROPOSED APPROACH FOR 2015 STATE AFFORDABILITY SCHEDULE

In 2013, Health Connector staff proposed to the Board a three-year approach to transitioning the Massachusetts affordability schedule closer to the ACA, shifting from a progressive fixed-dollar standard to a percentage of income standard capped at the federal 8% contribution. To this end, the 2013 and 2014 affordability schedules gradually adjusted the maximum allowable premium contributions in the schedule to 10% and 8%, respectively, where previous schedules had defined coverage as affordable in excess of those amounts for higher income brackets.

For calendar year 2015 (CY2015), we propose to shift to an entirely percentage-based schedule. For individuals up to 300% FPL, we will maintain the affordability schedule's parity with the ConnectorCare program premiums by adopting the percentage of income asked of individuals at the low end of each income bracket. For example, individuals 150.1 – 200% FPL can access ConnectorCare for $40 per month in 2015, which equals 2.75% of income for individuals at 150.1% FPL and 2.05% of income for individuals at 200% FPL. The proposed schedule applies a 2.75% of income affordability standard to individuals in this income bracket. In this way, the available ConnectorCare premiums will be considered affordable for all individuals within an income bracket.

For households between 300% and 400% FPL, we propose shifting from a fixed-dollar standard to a percent of income standard of 7.2% for individuals 300.1-350% FPL and 7.4% for individuals 350.1-400% FPL. These standards reflect the average contribution required by the affordability schedule for households at 300%, 350%, and 400% FPL for all family sizes from 2009 to 2014.

By shifting to a percentage-based standard for these groups, we allow for steady but reasonable increases in the dollar amount of an affordable monthly premium as income increases, eliminating the regressivity observed in the fixed dollar approach, whereby households with income at the lower end of an income bracket were expected to contribute a larger percentage of their income to health coverage than individuals at the higher end. Furthermore, by adopting the same standard for all family sizes above 300% FPL, we eliminate disparities in the schedule that historically required couples and families to contribute a larger percentage of income to insurance than individuals. For individuals up to 300% FPL, percentages will vary by family size to ensure that ConnectorCare premiums continue to align with the affordability schedule.

For households above 400% FPL, we propose a slight increase from 8% to 8.05% of income, consistent with the application of the federal standard applied to this income cohort beginning with the 2014 schedule. The federal mandate considers all individuals able to afford coverage that costs 8.05% of income or less in 2015.

PROPOSED CY 2015 AFFORDABILITY SCHEDULE

INDIVIDUALS					
Income Bracket			Monthly Affordability Standard	Dollar Amount	
% 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	2.75%	$ 40	$ 53
200.1 - 250%	$23,341	$29,175	4.00%	$ 78	$ 97
250.1 - 300%	$29,176	$35,010	4.85%	$ 118	$ 141
300.1 - 350%	$35,011	$40,845	7.20%	$ 210	$ 245
350.1 - 400%	$40,846	$46,680	7.40%	$ 252	$ 288
Above 400%	$46,681		8.05%	$ 313	

COUPLES					
Income Bracket			Monthly Affordability Standard	Dollar Amount	
% of FPL	Bottom	Top		Bottom	Top
0 - 100%	$0	$15,730	0%		
100.1 - 150%	$15,731	$23,595	0%		
150.1 - 200%	$23,596	$31,460	4.05%	$ 80	$ 106
200.1 - 250%	$31,461	$39,325	5.95%	$ 156	$ 195
250.1 - 300%	$39,326	$47,190	7.20%	$ 236	$ 283
300.1 - 350%	$47,191	$55,055	7.20%	$ 283	$ 330
350.1 - 400%	$55,056	$62,920	7.40%	$ 340	$ 388
Above 400%	$62,921		8.05%	$ 422	

FAMILIES					
Income Bracket			Monthly Affordability Standard	Dollar Amount	
% of FPL	Bottom	Top		Bottom	Top
0 - 100%	$0	$19,790	$0		
100.1 - 150%	$19,791	$29,685	$0		
150.1 - 200%	$29,686	$39,580	3.25%	$ 80	$ 107
200.1 - 250%	$39,581	$49,475	4.75%	$ 157	$ 196
250.1 - 300%	$49,476	$59,370	5.75%	$ 237	$ 284
300.1 - 350%	$59,371	$69,265	7.20%	$ 356	$ 416
350.1 - 400%	$69,266	$79,160	7.40%	$ 427	$ 488
Above 400%	$79,161		8.05%	$ 531	

PROPOSED APPROACH FOR 2016 STATE AFFORDABILITY SCHEDULE

For 2016, we propose the first updates to affordability standards for households up to 300% FPL since 2012. Because the affordability standards for these individuals have not changed since 2012, but the Federal Poverty Level guidelines have continued to increase each year, the percentage of income households are considered able to afford has decreased over time. To correct this trend, we propose a schedule that sets an affordable monthly premium requiring the same percentage of income contribution as the 2012 schedule. For example, an individual at 200.1% FPL was considered able to afford a premium equaling 4.2% of his income in 2012. Because this percentage was based on a fixed dollar amount of $78 that has not changed, the 2015 schedule considers a premium equaling 4.0% of income affordable. The proposed 2016 schedule would return to a 4.2% contribution level, which increases the affordable fixed dollar amount from $78 to $82. For individuals 250.1 – 300% FPL, we propose increasing the percentage to 5.0% instead of 5.1%, the percentage applied to this population in 2012. This modified approach allows us to preserve the progressivity of the couples schedule. Specifically, 5.0% of income translates to $123 in premiums for individuals at the lower end of the band. Given that premiums charged to couples are double that of premiums charged to individuals in ConnectorCare, a 5.0% approach allows us to achieve premiums for couples in an amount equal to 7.4% of income, which is appropriate because it is less than the percentage required of incomes in the 300.1-350% bracket. Retaining the 5.1% amount would translate to a 7.5% requirement for this cohort, in excess of the requirement for couples in 300.1-350% FPL.

For households between 300% and 400% FPL, we recommend slight increases over the proposed CY2015 schedule to reflect the updates made to other income brackets in 2016, ensuring progressivity throughout the schedule. The proposal raises the standards for 300.1-350% from 7.2% to 7.4% of income and the standards for 350.1-400% from 7.4% to 7.6%. The .2% increase approximates the average .2% increase in contributions under 300% FPL and the .25% increase above 400% FPL.

For households over 400% FPL, we recommend increasing the 8.05% standard to 8.3%, consistent with the increase in the federal affordability standard for 2016.

PROPOSED CY 2016 AFFORDABILITY SCHEDULE

INDIVIDUALS					
Income Bracket			Monthly Affordability Standard	Dollar Amount	
% of FPL	Bottom	Top		Bottom	Top
0 - 100%	$0	$11,770	0%		
100.1 - 150%	$11,771	$17,655	0%		
150.1 - 200%	$17,656	$23,540	2.90%	$ 43	$ 57
200.1 - 250%	$23,541	$29,425	4.20%	$ 82	$ 103
250.1 - 300%	$29,426	$35,310	5.00%	$ 123	$ 147
300.1 - 350%	$35,311	$41,195	7.40%	$ 218	$ 254
350.1 - 400%	$41,196	$47,080	7.60%	$ 261	$ 298
Above 400%	$47,081		8.30%	$ 326	

COUPLES					
Income Bracket			Monthly Affordability Standard	Dollar Amount	
% of FPL	Bottom	Top		Bottom	Top
0 - 100%	$0	$15,930	0%		
100.1 - 150%	$15,931	$23,895	0%		
150.1 - 200%	$23,896	$31,860	4.30%	$ 86	$ 114
200.1 - 250%	$31,861	$39,825	6.20%	$ 165	$ 206
250.1 - 300%	$39,826	$47,790	7.40%	$ 246	$ 295
300.1 - 350%	$47,791	$55,755	7.40%	$ 295	$ 344
350.1 - 400%	$55,756	$63,720	7.60%	$ 353	$ 404
Above 400%	$63,721		8.30%	$ 441	

FAMILIES					
Income Bracket			Monthly Affordability Standard	Dollar Amount	
% of FPL	Bottom	Top		Bottom	Top
0 - 100%	$0	$20,090	0%		
100.1 - 150%	$20,091	$30,135	0%		
150.1 - 200%	$30,136	$40,180	3.45%	$ 87	$ 116
200.1 - 250%	$40,181	$50,225	4.90%	$ 164	$ 205
250.1 - 300%	$50,226	$60,270	5.90%	$ 247	$ 296
300.1 - 350%	$60,271	$70,315	7.40%	$ 372	$ 434
350.1 - 400%	$70,316	$80,360	7.60%	$ 445	$ 509
Above 400%	$80,361		8.30%	$ 556	

APPENDIX

Enclosed in this appendix are the CY 2014 Affordability Schedule tables for reference.

INDIVIDUALS					
Income Bracket			Affordability Standard (Maximum Monthly Premium)	Percentage of Income	
% of FPL	Bottom	Top		Bottom	Top
0 - 100%	$0	$11,676	$0		
100.1 - 150%	$11,677	$17,508	$0		
150.1 - 200%	$17,509	$23,340	$40	2.7%	2.1%
200.1 - 250%	$23,341	$29,184	$78	4.0%	3.2%
250.1 - 300%	$29,185	$35,016	$118	4.9%	4.0%
300.1 - 350%	$35,017	$40,848	$215	7.4%	6.3%
350.1 - 400%	$40,849	$46,680	$266	7.8%	6.8%
Above 400%	$46,681		8%	$ 311	

COUPLES					
Income Bracket			Affordability Standard (Maximum Monthly Premium)	Percentage of Income	
% of FPL	Bottom	Top		Bottom	Top
0 - 100%	$0	$15,732	$0		
100.1 - 150%	$15,733	$23,604	$0	0.0%	0.0%
150.1 - 200%	$23,605	$31,464	$80	4.1%	3.1%
200.1 - 250%	$31,465	$39,336	$156	5.9%	4.8%
250.1 - 300%	$39,337	$47,196	$236	7.2%	6.0%
300.1 - 350%	$47,197	$55,056	$315	8.0%	6.9%
350.1 - 400%	$55,057	$62,928	$367	8.0%	7.0%
Above 400%	$62,929		8%	$ 420	

FAMILIES					
Income Bracket			Affordability Standard (Maximum Monthly Premium)	Percentage of Income	
% of FPL	Bottom	Top		Bottom	Top
0 - 100%	$0	$19,800	$0		
100.1 - 150%	$19,801	$29,688	$0	0.0%	0.0%
150.1 - 200%	$29,689	$39,588	$80	3.2%	2.4%
200.1 - 250%	$39,589	$49,476	$156	4.7%	3.8%
250.1 - 300%	$49,477	$59,376	$236	5.7%	4.8%
300.1 - 350%	$59,377	$69,276	$396	8.0%	6.9%
350.1 - 400%	$69,277	$79,164	$437	7.6%	6.6%
Above 400%	$79,165		8%	$ 528	