MEMORANDUM

To: Health Connector Board Members
Cc: Louis Gutierrez, Executive Director
From: Marissa Woltmann, Director of Policy and Applied Research
Date: February 3, 2017
Re: Affordability Schedule Recommendations for Calendar Year 2018

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 annually devise a schedule that describes the percentage of income an individual could be expected to contribute towards the purchase of health insurance.[1] The primary purpose of this affordability schedule is to determine if an individual is subject to a penalty for forgoing insurance, or if the individual is not subject to a penalty because the available insurance would be deemed too costly.

In practice, an individual compares the monthly contribution for available creditable coverage to the corresponding maximum monthly premium for his or her income. Tax filers are asked to determine whether coverage available to them from an employer, a subsidized program like ConnectorCare, or unsubsidized commercial insurance available through the Health Connector was considered affordable according to the standards approved by the Board. Failing to enroll in affordable coverage may result in a penalty assessment. Conversely, if no affordable plan was available, no penalty for being uninsured would be assessed.

Massachusetts continues to maintain an independent individual mandate and affordability schedule though we have sought to progressively align the state approach with the federal approach. The Board has supported retention of a state individual mandate to preserve state Minimum Creditable Coverage (MCC) standards as well as recognize progressivity by income cohort.

The federal Patient Protection and Affordable Care Act (ACA) also includes a health insurance coverage mandate, independent from our state individual 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 federal affordability standard for 2018 published in the 2018 Notice of Benefit and Payment Parameters is 8.05% of income, a small

[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 2018, the U.S. Secretary of Health and Human Services considered the rate of premium growth from 2013 to 2017, divided by the rate of income growth from 2013 to 2017, and multiplied by 8%, resulting in a proposed maximum expected contribution to health insurance of 8.05% of income.

decrease from the 2017 standard of 8.16%.[3] A decrease in the federal standard from one year to another is possible according to the federal indexing methodology and reflects a smaller difference between the growth rate of health insurance premiums and the growth rate of personal income.

The flat percentage approach used in the federal affordability standard contrasts with the progressive approach taken by the Health Connector Board. 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, Health Connector staff 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.[4] The goal of this work was to preserve high levels of enrollment in robust coverage while prioritizing simplicity for residents and state agencies administering the mandate.

Although both state and federal individual mandate policies are in effect, the vast majority of state residents are already covered by satisfactory insurance and thus do 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. Individuals who are uninsured altogether may face both state and federal penalties. Alternately, an individual may have health insurance that meets the federal Minimum Essential Coverage (MEC) requirements, but fails to meet the state's Minimum Creditable Coverage (MCC) requirements.[5] 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 beginning with their 2014 state income tax returns. If the federal penalty is less than the state

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[3] The Federal Department of Health and Human Services issued a final regulation entitled "HHS Notice of Benefit and Payment Parameters for 2018" on December 22, 2016.

[4] 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. Beginning with calendar year 2015, the Board shifted to an entirely percentage-based schedule. The schedule for 2016 then introduced the first increases to subsidized Health Connector premiums since 2012.

[5] 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.

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.

An additional important aspect of the affordability schedule is that it aligns with the subsidized ConnectorCare premiums for individuals with income at or below 300% of the Federal Poverty Level (FPL). The 2018 affordability schedule will inform the Health Connector's Seal of Approval plan certification process, which is set to launch later this winter. 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 its own subsidized premiums in accordance with what the Board has determined affordable. During the Seal of Approval process, carriers will submit plan proposals informed by the anticipated base enrollee premiums, and Health Connector staff will use the base premiums in analyzing the fiscal and operational administration of the ConnectorCare program. Alignment of the ConnectorCare base enrollee premiums with the affordability schedule also means that individuals who could have enroll in ConnectorCare but failed to would be subject to a penalty.

We have included below a proposal for the 2018 affordability schedule. 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 2018 STATE AFFORDABILITY SCHEDULE

The proposed schedule for 2018 generally maintains the affordability standards approved for 2017. The schedule was updated to reflect the FPL standards for 2017, which will be used to determine eligibility for Health Connector subsidies during the 2018 benefit year. These updates necessitated some minor adjustments to preserve affordability of ConnectorCare plans across family sizes as well as to maintain progressivity through the schedule.

For households up to 300% FPL, updates to the federal poverty standards translate to minor increases in the dollar amounts considered affordable. This change will, if approved, also increase base enrollee premiums for ConnectorCare members in Plan Types 2B, 3A, and 3B. The base premium for Plan Type 2B would increase from $43 to $44, the 3A premium would increase from $83 to $84, and the base premium for Plan Type 3B would increase from $124 to $126.

For households between 300% and 400% FPL, there were minor increases in the dollar amounts considered affordable, similar to those in the lower income brackets. We increased the standard for households 300.1 to 350% FPL from 7.4% to 7.45% to maintain progressivity with the couples schedule standard from 250.1 to 300%.

For households above 400% FPL, we propose a slight decrease from 8.16% to 8.05% of income, consistent with the application of the federal standard applied to this income cohort. The federal mandate considers all individuals able to afford coverage that costs 8.05% of income or less in 2018. In practice, this will combine with the updated federal poverty standards to require coverage at the same premium costs in dollar terms as in 2017.

The proposed approach for the 2018 affordability schedule, which, again, by and large maintains the standards adopted for 2017, provides stability for state residents and the insurance market more broadly. We believe that Massachusetts' national leadership in coverage rates is due in part to its carefully crafted state-based individual mandate policies, and we continue to seek an affordability schedule that supports further success.

PROPOSED CY 2018 AFFORDABILITY SCHEDULE

INDIVIDUALS					
Income Bracket			Monthly Affordability Standard	Dollar Amount	
% of FPL	Bottom	Top		Bottom	Top
0 - 100%	$0	$12,060	0%		
100.1 - 150%	$12,061	$18,090	0%		
150.1 - 200%	$18,091	$24,120	2.90%	$ 44	$ 58
200.1 - 250%	$24,121	$30,150	4.20%	$ 84	$ 106
250.1 - 300%	$30,151	$36,180	5.00%	$ 126	$ 151
300.1 - 350%	$36,181	$42,210	7.45%	$ 225	$ 262
350.1 - 400%	$42,211	$48,240	7.60%	$ 267	$ 306
Above 400%	$48,241		8.05%	$ 324	

COUPLES					
Income Bracket			Monthly Affordability Standard	Dollar Amount	
% of FPL	Bottom	Top		Bottom	Top
0 - 100%	$0	$16,240	0%		
100.1 - 150%	$16,241	$24,360	0%		
150.1 - 200%	$24,361	$32,480	4.35%	$ 88	$ 118
200.1 - 250%	$32,481	$40,600	6.25%	$ 169	$ 211
250.1 - 300%	$40,601	$48,720	7.45%	$ 252	$ 302
300.1 - 350%	$48,721	$56,840	7.45%	$ 302	$ 353
350.1 - 400%	$56,841	$64,960	7.60%	$ 360	$ 411
Above 400%	$64,961		8.05%	$ 436	

FAMILIES					
Income Bracket			Monthly Affordability Standard	Dollar Amount	
% of FPL	Bottom	Top		Bottom	Top
0 - 100%	$0	$20,420	0%		
100.1 - 150%	$20,421	$30,630	0%		
150.1 - 200%	$30,631	$40,840	3.45%	$ 88	$ 117
200.1 - 250%	$40,841	$51,050	4.95%	$ 168	$ 211
250.1 - 300%	$51,051	$61,260	5.95%	$ 253	$ 304
300.1 - 350%	$61,261	$71,470	7.45%	$ 380	$ 444
350.1 - 400%	$71,471	$81,680	7.60%	$ 453	$ 517
Above 400%	$81,681		8.05%	$ 548	

APPENDIX

Enclosed in this appendix are the CY 2017 Affordability Schedule tables for reference.

INDIVIDUALS					
Income Bracket			Monthly Affordability Standard	Dollar Amount	
% of FPL	Bottom	Top		Bottom	Top
0 - 100%	$0	$11,880	0%		
100.1 - 150%	$11,881	$17,820	0%		
150.1 - 200%	$17,821	$23,760	2.90%	$ 43	$ 57
200.1 - 250%	$23,761	$29,700	4.20%	$ 83	$ 104
250.1 - 300%	$29,701	$35,640	5.00%	$ 124	$ 149
300.1 - 350%	$35,641	$41,580	7.40%	$ 220	$ 256
350.1 - 400%	$41,581	$47,520	7.60%	$ 263	$ 301
Above 400%	$47,521		8.16%	$ 323	

COUPLES					
Income Bracket			Monthly Affordability Standard	Dollar Amount	
% of FPL	Bottom	Top		Bottom	Top
0 - 100%	$0	$16,020	0%		
100.1 - 150%	$16,021	$24,030	0%		
150.1 - 200%	$24,031	$32,040	4.30%	$ 86	$ 115
200.1 - 250%	$32,041	$40,050	6.20%	$ 166	$ 207
250.1 - 300%	$40,051	$48,060	7.40%	$ 247	$ 296
300.1 - 350%	$48,061	$56,070	7.40%	$ 296	$ 346
350.1 - 400%	$56,071	$64,080	7.60%	$ 355	$ 406
Above 400%	$64,081		8.16%	$ 436	

FAMILIES					
Income Bracket			Monthly Affordability Standard	Dollar Amount	
% of FPL	Bottom	Top		Bottom	Top
0 - 100%	$0	$20,160	0%		
100.1 - 150%	$20,161	$30,240	0%		
150.1 - 200%	$30,241	$40,320	3.45%	$ 87	$ 116
200.1 - 250%	$40,321	$50,400	4.90%	$ 165	$ 206
250.1 - 300%	$50,401	$60,480	5.90%	$ 248	$ 297
300.1 - 350%	$60,481	$70,560	7.40%	$ 373	$ 435
350.1 - 400%	$70,561	$80,640	7.60%	$ 447	$ 511
Above 400%	$80,641		8.16%	$ 548	