

Options for further Adjusting the AHCA Tax Credit Structure by Income and Age

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On May 4, the House of Representatives passed the American Health Care Act (AHCA), a law that modifies existing law through the process of budget reconciliation. Among other provisions, the AHCA replaces the income-determined, cost-sensitive premium subsidy structure of the Affordable Care Act (ACA) with an age-adjusted tax credit. While the AHCA does account for income in part, there is little difference between the tax credit received for a large portion of the income spectrum. This report seeks to analyze outcomes for lower-income consumers under the AHCA, and various versions of AHCA tax credits that are adjusted for income.¹

AHCA Tax Credit

As it is currently, the ACA premium subsidy is calculated from a combination of plan premiums and household income. Only those households with incomes that fall in between 100 percent and 400 percent of the Federal Poverty Level (FPL) are eligible for a premium subsidy with larger subsidies available for households with FPLs closer to 100 percent. The tax credit created by the AHCA is adjusted for age, with consumers under 30 receiving \$2,000 annually on the low end and 64-year-olds receiving \$4,000 on the high end. For households filing taxes jointly those amounts are doubled and an extra \$2,000 is added for each dependent. Only three dependents are eligible to receive a tax credit. Table 1 below outlines tax credit eligibility for each age.

Table 1. Assumed Annual Premium Tax Credits Under the Bill

Age	Individual Credit	Filing Jointly Credit
29 and under	\$2,000	\$4,000
30 to 39	\$2,500	\$5,000
40 to 49	\$3,000	\$6,000
50 to 59	\$3,500	\$7,000
60 and over	\$4,000	\$8,000

The AHCA tax credit is dependent on income to a degree. Consumers with incomes that pass a certain threshold see their AHCA tax credit decrease by 10 percent of the amount that their incomes exceed the threshold. For individuals, the threshold is \$75,000 and it is \$150,000 for those filing jointly. For example, a 25-year-old with an income of \$76,000 would receive a \$1,900 tax credit as \$100 is 10 percent of the difference of \$76,000 and \$75,000.

Income adjustments aside, the largest difference between the AHCA tax credit and the ACA premium subsidy is that the tax credit of the AHCA is independent of premium prices. The tax

credit would be instituted at the levels outlined in Table 1 for 2020 and then indexed to the Consumer Price Index (CPI) plus one.

Analysis

This analysis utilizes a microsimulation model developed for use by H&E. The model employs micro-data available through the Medical Expenditure Panel Survey to analyze the effects of health policies on the health insurance plan choices of the under-65 population and interpret the resulting impact on national coverage, average insurance premiums, the federal budget, and the accessibility and efficiency of health care.

For this report, H&E considered modifications that could be made to the current AHCA tax credit without altering the budget or changing the nature of the credit—that is, age-adjusted and means-tested. This specifically involved modifying the threshold at which the tax credit phase-out begins and the amount that each age group would receive. The current AHCA income threshold of \$75,000/\$150,000 is roughly 600 percent of the FPL. This analysis considers three different phase-out thresholds: 500 percent FPL, 400 percent FPL, and 300 percent FPL. The speed of the phase out for each of these cases was not modified. Also, the size of the tax credit for each age-group was altered. The goal of this portion of the exercise was to allocate the amount of the tax credit for each age group so that the difference in tax credits varied more with age—as premiums are expected to under the AHCA. In H&E’s most recent estimates of the AHCA, premiums varied by a 5:1 ratio with respect to age. Table 2 below illustrates H&E’s current individual market projections by age.

Table 2. H&E Projected Enrollment for Current AHCA Tax Credit
(Millions)

Year	2020	2021	2022	2023	2024	2025	2026	2027
Under 30	10.84	10.54	10.31	10.04	9.83	9.60	9.42	9.06
30s	9.32	9.15	8.96	8.77	8.57	8.38	8.22	8.04
40s	9.21	9.08	8.98	8.92	8.85	8.81	8.77	8.74
50s	6.67	6.57	6.47	6.41	6.32	6.24	6.18	6.11
60-64	1.61	1.61	1.63	1.60	1.57	1.54	1.52	1.49
Total	37.65	36.94	36.35	35.74	35.14	34.57	34.11	33.44

Individual Market Enrollment by Scenario

Tables 4, 6, and 8 below show the effects (relative to Table 2) of altering the threshold at which the phase out begins and increasing the credit for lower income households. Tables 3, 5, and 7 detail the amount of the premium tax credit under each scenario.

The first scenario considered is the case where the tax credit phase out begins at 500 percent FPL or roughly \$60,000/\$120,000. Households with income below 500 percent FPL received increased subsidies: ranging from 20 percent increases for older consumers to 10 percent

decreases for the youngest consumers. Roughly 1.2 million more people are expected to be insured in 2020, increasing to 1.64 million more insured in 2027.

Table 3. Assumed Annual Premium
Tax Credits Under 500 FPL Phase Out

Age	Individual Credit	Filing Jointly Credit
29 and under	\$1,800	\$3,600
30 to 39	\$2,500	\$5,000
40 to 49	\$3,240	\$6,480
50 to 59	\$3,920	\$7,840
60 and over	\$4,800	\$9,600

Table 4. Enrollment for 500 Percent FPL Phase-Out (Millions)

	2020	2021	2022	2023	2024	2025	2026	2027
Under 30	-0.77	-0.73	-0.68	-0.60	-0.55	-0.50	-0.47	-0.40
30s	-0.27	-0.39	-0.46	-0.51	-0.56	-0.60	-0.64	-0.68
40s	-0.40	-0.40	-0.44	-0.49	-0.51	-0.53	-0.53	-0.54
50s	1.66	1.81	2.03	2.25	2.55	2.56	2.60	2.67
60-64	1.01	0.96	0.88	0.84	0.79	0.73	0.66	0.58
Total	1.21	1.26	1.33	1.49	1.73	1.65	1.62	1.64

Two other age-adjustment scenarios were considered. The second scenario considered was a case where the tax credit begins to phase out at 400 percent FPL or roughly \$48,000/\$95,000. H&E expects this scenario to lead to a net increase in individual market enrollment of 1.21 million in 2020 with that number decreasing to 0.93 million by 2027. The third scenario considered was a case where the tax credit begins to phase out at 300 percent FPL or roughly \$36,000/\$71,000. H&E expects this scenario to lead to a decrease in individual market enrollment of 240,000 by 2027. Both of these projections were relative to H&E’s score of the AHCA.

Table 5. Assumed Annual Premium
Tax Credits Under 400 FPL Phase Out

Age	Individual Credit	Filing Jointly Credit
29 and under	\$2,040	\$4,080
30 to 39	\$2,625	\$5,250
40 to 49	\$3,360	\$6,720
50 to 59	\$4,130	\$8,260
60 and over	\$5,200	\$10,400

Table 6. Change in Enrollment for 400 FPL Phase Out (Millions)

	2020	2021	2022	2023	2024	2025	2026	2027
Under 30	-0.13	-0.13	-0.14	-0.19	-0.24	-0.30	-0.36	-0.43
30s	-0.37	-0.45	-0.54	-0.61	-0.64	-0.69	-0.76	-0.85
40s	-0.87	-0.91	-0.99	-1.10	-1.18	-1.25	-1.30	-1.34
50s	1.47	1.62	1.84	2.08	2.39	2.41	2.47	2.55
60 and Over	1.12	1.09	1.04	1.04	1.04	1.03	1.02	1.00
Total	1.21	1.22	1.20	1.22	1.37	1.20	1.07	0.93

In every age-adjustment scenario considered, the age cohort that saw the most significant increases in enrollment was the 50s cohort, even though those in their sixties received more in every scenario. This is chiefly because there is a larger potential population to enroll in the 50s cohort as individuals become eligible for Medicare at 65. In the long term, the age cohorts hurt the worst are the 30s and 40s age cohorts. Every year for each case considered saw a decrease in enrollment for each of these cohorts despite increases in the credit below each mean-testing threshold. This seems to indicate that there is a significant portion of households in these cohorts dependent on tax-credits between 300 and 600 percent FPL.

Table 7. Assumed Annual Premium
Tax Credits Under 300 FPL Phase Out

Age	Individual Credit	Filing Jointly Credit
29 and under	\$2,200	\$4,400
30 to 39	\$2,875	\$5,750
40 to 49	\$3,600	\$7,200
50 to 59	\$4,815	\$9,630
60 and over	\$5,800	\$11,600

Table 8. Change in Enrollment for 300 FPL Phase Out (Millions)

	2020	2021	2022	2023	2024	2025	2026	2027
Under 30	0.23	0.24	0.22	0.11	-0.03	-0.25	-0.47	-0.80
30s	-0.56	-0.63	-0.69	-0.77	-0.84	-0.93	-1.08	-1.32
40s	-1.54	-1.59	-1.70	-1.83	-1.95	-2.08	-2.16	-2.23
50s	1.80	1.97	2.19	2.41	2.74	2.80	2.90	3.04
60-64	1.14	1.11	1.07	1.08	1.09	1.10	1.09	1.08
Total	1.07	1.10	1.09	1.01	1.01	0.63	0.28	-0.24

In summary, the case where the phase out for the tax credit begins at 500 FPL is the scenario where enrollment is highest. Table 9 below compares each tested case and the AHCA baseline. One thing that should be noted is that for each of these test cases enrollment for consumers 49 and under decreases while enrollment for those 50 and older increases. Therefore, these slight shifts in enrollment would likely create a higher proportion of individuals with higher health risks into the market which would have implications for how insurers price the marketplace.

Table 9. Enrollment Summary for each Case

	2020	2021	2022	2023	2024	2025	2026	2027
AHCA Baseline	37.65	36.94	36.35	35.74	35.14	34.57	34.11	33.44
500 FPL Phase-out	38.86	38.20	37.68	37.23	36.87	36.22	35.73	35.08
400 FPL Phase-out	38.86	38.16	37.55	36.96	36.51	35.77	35.18	34.37
300 FPL Phase-out	38.72	38.04	37.44	36.75	36.15	35.20	34.39	33.20

Other Adjustments Considered

As mentioned above, various other adjustments were considered. Two basic considerations were the same for these adjustments as for the age-adjustment above: the FPL level for the phase-out of the credit was lowered and the tax credit was adjusted in some way. The adjustments considered were the following: an income adjustment and a geographical adjustment. Brief descriptions of the adjustments considered are below.

The income adjustment considered maintained the basic shell of the AHCA’s current tax credit structure however for each FPL level within an age group, the tax credit increased as a direct relation to a household’s poverty level under the various FPL thresholds considered. No variation of this approach yielded net increases in enrollment while remaining budget neutral.

The other adjustment considered was a geographic variation adjustment in which the credit offered is adjust so that households in states with higher average premiums receive more than those states with relatively lower average premiums, with the goal being that the average tax credit distributed is roughly the same as average tax credit without the adjustment. In every case that this was tried, enrollment increased, but spending increased significantly also.

Each of the adjustments above were implemented with the stipulation that they must be budget neutral relative to the AHCA baseline, just like the analysis above. In short, both of these modifications lead to less enrollment relative to age-adjustments in the analysis above. In other words, the tax credit spending was less efficient in both cases.

Uncertainty in H&E Projections

As with all policy projections, H&E estimates are associated with substantial uncertainty. While our estimates provide good indication on the nation’s health care outlook, it is not likely that the policy environment will remain unchanged throughout our ten-year analysis period. And even if no major legislative action occurs, there still exists a wide range of possible future scenarios. H&E attempts to depict an unbiased, middle -ground representation of the future should the

policy and economic environment remain constant. While the goal is to quantitatively describe the most likely scenario, actual events may differ significantly from published predictions. In this analysis, there are a few pieces related to individual states' reactions that merit particular attention.

There are various assumptions that affect these results. One assumption is H&E's assumptions on the implementation of the AHCA's Patient and State Stability Fund (PSSF). While most of the PSSF is funneled into an invisible high-risk pool, in the baseline used for this report, H&E assumed some cost sharing assistance for many households below 150 percent FPL. This likely lead to more substantial increases in enrollment in the "Under 150" FPL category than there would be in the absence of cost-sharing subsidies for those households because less households in that range were deterred from buying higher-deductible plans. In fact, in 2027, when the PSSF is set to expire, there is a significant drop in enrollment in this category.

¹H&E's score of the AHCA can be found at: <http://healthandeconomy.org/the-american-health-care-act/>