



Income Volatility Creates Uncertainty about the State Fiscal Impact of a Basic Health Program (BHP) in California

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Using Data from a SIPP Analysis by John A. Graves, Ph.D.

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Introduction

Previous estimates of Basic Health Program (BHP) eligibility/enrollment and funding are based on survey data that report (only) actual full-year income for a year that has already ended.¹ But, in actual practice, eligibility for BHP will likely be determined on the same basis slated to be used for advance payment of premium tax credits—projected income for a calendar (taxable) year.² Federal BHP funding, however, is tied to the final (as opposed to advance) premium tax-credit amounts, and those amounts are to be based on actual calendar-year income on the recipient's federal income tax return for the coverage year, which in many cases will vary from projected income at the time of application.

A related consideration is that BHP enrollment would not remain static for a calendar year, as estimates based on the CPS essentially must (implicitly) assume. People's economic circumstances and family sizes change throughout the year. Some people who had good jobs and employer coverage will apply for assistance and be found eligible for the BHP when they become unemployed and lose their employer coverage. Some people who initially qualified for BHP will find jobs that raise their earnings and/or offer employment-based coverage, making them ineligible for BHP.³

¹ Most models use the U.S. Census Bureau's Current Population Survey (CPS), which each March asks respondents to report their actual income for the previous calendar year.

² The reason for this assumption is that federal BHP funding is to be based on the amount the federal government would otherwise have spent on tax credits and cost-sharing reductions for everyone entitled to enroll in the BHP.

³ Proposed federal regulations at 45 CFR 155.330(b)(1) would require Exchange enrollees to report changes that could affect their eligibility within 30 days of such change.

Income Volatility Creates Uncertainty about the State Fiscal Impact of a Basic Health Program in California: Using Data from a SIPP Analysis by John A. Graves, Ph.D.

And, for many of these people, their final actual income for the calendar (taxable) year will differ from their projected income used to determine their eligibility, leaving considerable uncertainty about the amount of federal funding the state would receive for each person who enrolls in BHP.

The Survey of Income and Program Participation (SIPP) is a longitudinal survey that interviews families multiple times over at least 3 years.⁴ As such, it allows researchers to look at how family size and income change over time. John A. Graves, Ph.D., had previously used the SIPP to analyze the potential impact of alternative ways of projecting annual income for purposes of determining eligibility for tax credits under federal health care reform (PPACA).⁵ Because of the relevance of that paper and Dr. Graves' familiarity with the SIPP, IHPS asked Dr. Graves, working in connection with Jonathan Gruber, Ph.D., of MIT, to prepare some basic data pertinent to understanding the implications of income dynamics in California. The California HealthCare Foundation graciously supported Dr. Graves' analysis.

This Issue Brief brings the results of Dr. Graves' analysis to bear on such income changes.

About the Basic Health Program (BHP) Option

PPACA gives states the option of establishing a Basic Health Program (BHP) in lieu of Exchange coverage for low-income adults (i.e., with incomes up to 200% of poverty) who are not eligible for Medicaid or for affordable employer coverage.⁶ To qualify, states must assure that BHP enrollees receive at least the "essential health benefits" required under the federal Patient Protection and Affordable Care Act (PPACA) and do not have to contribute more toward premiums than if they had enrolled in the "benchmark" plan in the Exchange. Further, cost-sharing requirements cannot exceed those of a "platinum" Exchange plan (90% actuarial value) for BHP enrollees under 150% of poverty and those of a "gold" plan (80% AV) for other BHP enrollees.⁷

⁴ Estimates presented here are from the 2001 panel of the Survey of Income and Program Participation (SIPP), a longitudinal survey of U.S. households conducted by the Census Bureau. Participating households were interviewed in person at baseline and then again every four months for up to four years. During each interview round the respondents are asked about a number of topics including employment and income, participation in social programs, and monthly enrollment in public and private sources of health insurance. Because of this structure, SIPP is the primary source for data on income fluctuation over time. One newer 3-year SIPP panel is available—2004. It was not used here because it experienced very large attrition from the sample in year 3, making it extremely difficult to get reliable 3-year income estimates.

⁵ John A. Graves, Ph.D., is Assistant Professor at the Vanderbilt University School of Medicine. While at Harvard, he completed a paper entitled, "The Optimal Design of Prospective Subsidies for Health Insurance Under the Patient Protection and Affordable Care Act" <http://people.fas.harvard.edu/~jagraves/optimal_design_111910.pdf>, which also relied on analysis of the 2001 SIPP panel.

⁶ Having income in the BHP range does not automatically imply eligibility for BHP. The person also must not be eligible for "affordable" employer coverage (as defined in the ACA) and not eligible for Medicare, Medicaid or CHIP (Healthy Families). But the eligible population does include recent legal immigrants who have not been in the U.S. long enough to qualify for Medicaid.

⁷ Note that, under PPACA, the BHP thus could have somewhat greater participant cost sharing than would occur via Exchange coverage, where federally funded cost-sharing "fill-in" subsidies are to bring the actuarial values for these groups to 94% and 87%, respectively.

How Is Income Measured in Determining Eligibility for BHP?

Proposed federal regulations governing the BHP option have not yet been published. But, because BHP funding is inextricably bound to what the federal government “would otherwise have spent” on the same people if they had been enrolled in the Exchange (with premium tax credits and cost-sharing subsidies), it seems reasonable to presume that BHP eligibility determinations will be required to follow the same principles used for tax-credit eligibility determinations.

The recently proposed federal regulations indicate that eligibility for cost-sharing subsidies and for advance payment of tax credits will be based on projected income for the benefit (calendar or taxable) year.⁸ Different data sources may be used to estimate projected income—usually the applicant’s most recent prior federal income-tax return, unless their circumstances have changed since that return was filed⁹—but the key point is that eligibility for subsidies in the Exchange is always based on an estimate of annual income.

What Is the Estimated Size of the BHP Population?

Several analysts have estimated potential enrollment in a BHP in California.

- Mercer estimates California BHP enrollment at 723,418.¹⁰ Since Mercer assumes 70% enrollment among BHP eligibles, this enrollment estimate implies just over 1 million eligibles (nonelderly adults who meet the eligibility criteria for BHP).
 - Mercer’s estimated BHP enrollment represents about 29% of its total estimated enrollment for BHP and the non-group Exchange combined, and about 33% of total enrollees in the tax-credit income range.
- The Urban Institute recently estimated California BHP enrollment at about 800,000.¹¹ No estimate of eligibles was presented. Earlier, the Urban Institute had estimated that enrollment of Californians under 200% of poverty in the non-group Exchange (presumably the same population that would enroll in BHP) would total about one-and-a-quarter million (36.6% of their total estimated non-group Exchange enrollment of 3,435,000 and more than half—54.4%—of estimated Exchange enrollment in the tax-credit income range).¹²

⁸ Proposed 45 CFR 155.320(c)(3)(ii)(A).

⁹ The income projection will be based on the applicant’s most recent federal income tax return, if the applicant attests that “it represents an accurate projection of the family’s household income for the benefit year for which coverage is requested.” If an applicant’s circumstances have changed since their most recent federal income tax return was filed, then the applicant will be asked to give and attest to his or her best estimate of expected income for the benefit year, and alternative sources for verifying this information may be used.

¹⁰ Mercer, “State of California: Financial Feasibility of a Basic Health Program,” report prepared for the California HealthCare Foundation, June 27, 2011. <<http://www.mercer-government.mercer.com/basic-health-program/feasibility>>

¹¹ The Urban Institute, “Basic Health Program: Issues for California,” PowerPoint presentation by Stan Dorn, August 9, 2011.

¹² M. Buettgens, J. Holahan and C. Carroll, “Health Reform Across the States: Increased Insurance Coverage and Federal Spending on the Exchanges and Medicaid,” The Urban Institute, March 2011, Table 3. <<http://www.urban.org/url.cfm?ID=412310>>.

Income Volatility Creates Uncertainty about the State Fiscal Impact of a Basic Health Program in California: Using Data from a SIPP Analysis by John A. Graves, Ph.D.

- The UCLA Center for Health Policy Research estimates that 1,089,000 Californians with incomes under 200% of poverty would be eligible to participate in California's Health Benefit Exchange.¹³

Using the California subsample within SIPP, John Graves estimates the population eligible for BHP at a point in time to be about 1.1 million. (Due to time and resource limitations, he did not attempt to estimate how many would actually enroll.) Dr. Graves estimate is consistent with the "eligible population" estimates from Mercer and UCLA noted above.

However, because SIPP provides data on a monthly basis over a period of several years, Dr. Graves was also able to provide the following estimates:

- Over the course of a single year, the number of California adults who would meet the BHP eligibility criteria at some time during the year would be approximately 4 times the number who qualified at the start of the year—about 4.4 or 4.5 million. (See Table 3.)
- Another 0.8 million or more would have incomes that fell into the BHP eligibility range (from above 200% of poverty) for at least some period during the year, and could qualify for BHP if they no longer had access to affordable employer coverage at that time.¹⁴

How many of these people would apply for and enroll in BHP is highly uncertain. Many will have previously been enrolled in Medi-Cal and may be able to remain there until their next formal redetermination. Others will have reduced incomes only for relatively short periods of time, and may or may not choose to report their changed circumstances. (Under PPACA, no penalty is assessed if people are uninsured less than 3 months.)

The key point here is that actual total enrollment in a BHP over the course of a year, and the final annual income distribution of the population that does enroll (the basis on which federal BHP funding will be calculated) is very uncertain and is likely to differ considerably from the "static" estimates previously produced.

In this Issue Brief, we present data from Dr. Graves' analyses that illustrate the high degree of uncertainty associated with BHP enrollment and potential federal funding per enrollee.

¹³ Nadereh Pourat, Christina M. Kinane, Gerald F. Kominski, "Who Can Participate in the California Health Benefit Exchange?" UCLA Center for Health Policy Research, May 2011. *Policy Brief*, <<http://www.healthpolicy.ucla.edu/pubs/files/benefitexchange-may2011.pdf>> and associated *Health Policy Fact Sheet*, <<http://www.healthpolicy.ucla.edu/pubs/files/Exchange%20Fact%20Sheet%205-4-11.pdf>>.

¹⁴ As noted earlier (see note 4), Dr. Graves' analysis uses the 2001 panel of the SIPP, because the 2004 panel was severely cut back in its 3rd and 4th years due to budget restrictions, and the subsequent 2008 panel is not yet complete. Although he adjusted his population weights to produce estimates for 2014, the erosion in employer coverage from 2001 to the present suggests that his data may overestimate the availability of employer coverage in 2014.

In a related observation, Dr. Graves notes that there additional people may come into BHP from the employment-based insurance system, either because their employer decides to no longer offer coverage (as a response to ACA), or because they don't have an affordable ESI plan). This movement would probably result in slightly more people being eligible than the present version of his model predicts.

Insights from Dr. Graves' SIPP Analysis

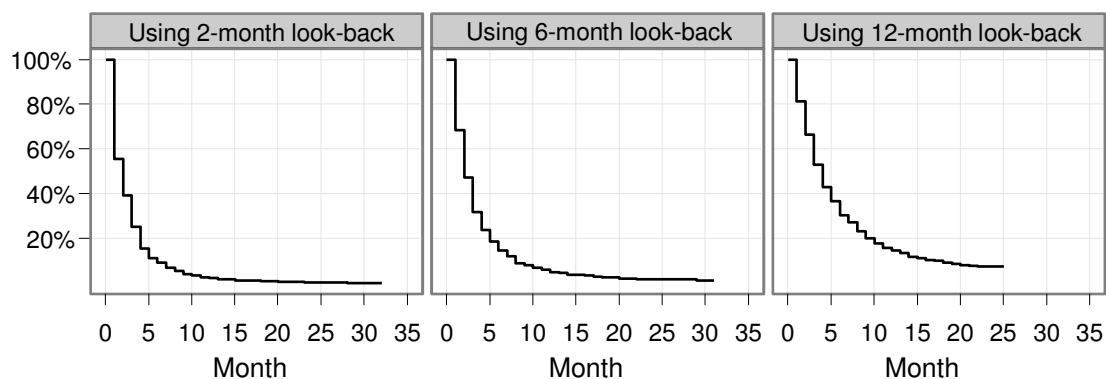
Very Few Adults Stay in the BHP Income Range for Very Long

Among low-income people, income relative to the poverty level tends to fluctuate considerably over time. And the BHP income range—essentially from 139% of poverty to only 200% of poverty—is very narrow. As a result, as illustrated in Figure 1, the SIPP data indicates that virtually no individual would remain eligible for a BHP for longer than the first year or two.

- This “duration” analysis strongly suggests that a BHP program would experience very high turnover and short average enrollment periods.

Figure 1: Few California Adults Remain Eligible for BHP for Very Long

Percent Remaining Eligible



Notes: The curve in each panel plots the share of eligible adults remaining continuously eligible for BHP over a 2.5 year period. Eligibility is determined based (only) on income and uninsured/non-group status. Each panel illustrates use of a different “look-back” period (2, 6 or 12 months) for measuring current income.

Curves shifted upwards and to the right indicate more “stable” eligibility for a given category (e.g., Basic Health Plan). By contrast, curves shifted downwards and to the left indicate that eligible adults lose eligibility at a faster rate, and therefore would experience fewer months of continuous enrollment.

These figures assume that eligibility is re-determined each month, which will not be the case.

Nevertheless, these figures accurately illustrate attrition out of each applicable income range over the long run. (Redetermination every year would show bigger, more precipitous steps, but the ending level would be the same.)

Source: Tabulations of the Survey of Income and Program Participation by John A. Graves, Ph.D., Vanderbilt University School of Medicine, with support from the California HealthCare Foundation.

Another way of looking at this 3-year longitudinal SIPP data supports the observation that California adults who would be eligible for a BHP program are very likely to have differing incomes and coverage sources during other periods.

Income Volatility Creates Uncertainty about the State Fiscal Impact of a Basic Health Program in California: Using Data from a SIPP Analysis by John A. Graves, Ph.D.

Table 2 displays data reflecting income fluctuations for such adults over a three-year period.¹⁵ These persons would generally be BHP eligible by virtue of being nonelderly adults who had incomes between 139% and 200% FPL while being either uninsured or having individual (non-group) coverage for a defined eligibility determination “look-back” period. While the patterns are similar, the results vary somewhat depending on the length of the look-back period.

Table 2: Income Fluctuation among Californians Age 19-64 Who Would Ever Qualify for BHP over a 3-Year Period, by Different Income-Measurement Periods

(Adults 19-64 in millions)	“Look-back” Period Used to Measure Income		
	2- month	3- month	6- month
Income always below 200% FPL, sometimes below 139% FPL (I.e., sometimes BHP, sometimes Medi-Cal, never Exchange)	1.1	0.9	1.6
Income always above 138% FPL, sometimes above 200% FPL (I.e., sometimes BHP, never Medi-Cal, sometimes Exchange)	2.1	1.9	1.7
Income varies across all 3 income ranges (I.e., sometimes BHP, sometimes Medi-Cal, sometimes Exchange)	5.5	5.5	4.0
Total number of adults 19-64 who would <u>ever</u> qualify for BHP over the entire 3-year period	8.7	8.3	7.3

Notes: FPL = federal poverty level. BHP = Basic Health Program (under §1331 of the Affordable Care Act).

Source: Tabulations of the Survey of Income and Program Participation by John A. Graves, Ph.D., Vanderbilt University School of Medicine, in consultation with Jonathan Gruber, Ph.D., Professor of Economics at MIT, with support from the California HealthCare Foundation. Presentation by Institute for Health Policy Solutions.

The second column in Table 2 shows income data on Californians who would have qualified for BHP based on having at least one 3-month qualifying period during the 3 years.

- 900,000 of these adults had incomes that were always under 200% FPL, including some periods that were under 139% FPL. Many of these persons would be enrolled in Medi-Cal for some period, with the number dependent on respective enrollment periods for BHP and Medi-Cal and other factors.
- About twice as many, 1,900,000, always had incomes above 139% FPL, including periods when their incomes were above 200% FPL. Many of these would be enrolled in Exchange or employer coverage for some period of time.

¹⁵ Recall that the underlying data here—the 2001 SIPP panel—reflects a pre-recession period.

Income Volatility Creates Uncertainty about the State Fiscal Impact of a Basic Health Program in California: Using Data from a SIPP Analysis by John A. Graves, Ph.D.

- About eight times as many, 5.5 million, had one or more periods in all three income ranges. Some portion of those persons would have been sequentially eligible for commercial Exchange or employer coverage, BHP coverage and Medi-Cal coverage for various periods.

(As indicated by Figure 1, the number of Californians who were always in the BHP income range of 139%-200% FPL over the entire 3-year period was too small to be statistically significant, so this analysis was constrained to the above groupings.)

Key observations:

- Turnover rates in BHP program enrollment will be very high, and average enrollment periods will be relatively short.
- Most BHP enrollees will previously and subsequently have Exchange, employer or Medi-Cal coverage.

Many Adults Could Qualify for BHP As Their Income Changes Over the Year

In addition to looking at income patterns over the entire 3-year duration of the 2001 SIPP panel, Dr. Graves also produced analyses that “mimic” the initial implementation of health care reform. There will be an initial application/enrollment period in late 2013, during which all applicants will be evaluated to determine what subsidies they qualify for for the following year (2014).

Using this approach, Table 3 compares the number of California adults who would meet the BHP criteria during the initial enrollment period (i.e., at the start of the “coverage year”) with the number who would meet the BHP criteria at some time during the coverage year.

Key observations:

- The number of Californians who are uninsured and income-eligible for a BHP over the course of a year is *much larger* than—about 4 times as large as—the number who qualify at the beginning of the year (although these results do not try to estimate how many would actually seek to enroll in BHP).
- About the same number of Californians move down into the BHP income range (and do not have employer or public coverage) from income levels above 200% FPL as move up from below 139% FPL.
- (Not shown in Table 3.) Another 0.8 million California adults would have incomes that fell into the BHP eligibility range (from above 200% of poverty) for at least some period during the year, and could qualify for BHP if they no longer had access to affordable employer coverage at the same time.

Income Volatility Creates Uncertainty about the State Fiscal Impact of a Basic Health Program in California: Using Data from a SIPP Analysis by John A. Graves, Ph.D.

Table 3: Californians Age 19-64 Who Meet BHP Eligibility Criteria[†] at the Beginning of a Year or for Some Period During That Year, by Initial Income Level

	Number (millions)
Adults who meet BHP eligibility criteria at the beginning of the year. (I.e., they are uninsured or have non-group coverage and were not offered employer coverage, [*] and their income is between 139% and 200% FPL.)	1.1
Adults whose <u>income was initially above 200% FPL</u> but who, during the following year, experience at least one period in which their income falls into the BHP range while they are uninsured or have non-group coverage.	1.6
Adults whose <u>income was initially below 139% FPL</u> (so they qualify for Medi-Cal) but who, during the following year, experience at least one period in which their income rises into the BHP range while they are uninsured or have non-group coverage.	1.7
TOTAL eligible for BHP at some time during the year. (<i>Does not add due to rounding.</i>)	4.5

Notes: FPL = federal poverty level. BHP = Basic Health Program (under §1331 of the Affordable Care Act).

A previously published preliminary version of this table presented somewhat different estimates, although the total was similar. The earlier, preliminary version (1) included children, who in the BHP income range would qualify for Healthy Families and would not be on BHP, and (2) did not include adults who had non-group coverage at the time their income was in the BHP range.

[†] Individuals were categorized as “eligible for BHP” if they had incomes between 139% and 200% FPL, had non-group coverage or were uninsured, and were not eligible for employer-sponsored coverage.^{*} The initial income determination was based on the prior year’s tax return for people whose circumstances had not changed and on income for several alternative “look-back” periods (1, 2, 3, or 6 months) prior to application for people who met the statutory definition for “changed circumstances” and for people who were evaluated during the “benefit year.” Because exactly how eligibility will be determined is still unclear, and for simplicity of presentation, the figures presented here represent averages calculated across the several “look-back” periods analyzed. (Variation across look-back periods was modest.)

^{*} In this preliminary modeling, the “no employer offer” criterion could only be applied for the initial determination (at the beginning of the year), due to data limitations.

Source: Tabulations of the Survey of Income and Program Participation by John A. Graves, Ph.D., Vanderbilt University School of Medicine, in consultation with Jonathan Gruber, Ph.D., Professor of Economics at MIT, with support from the California HealthCare Foundation. Presentation by Institute for Health Policy Solutions.

Final Annual Income of People Who Meet BHP Eligibility Criteria at the Start of a Year

Another indication of the instability of the BHP population is the final annual income of people who were determined eligible for BHP before the start of the coverage year. Table 4 presents Dr. Graves estimates of the final annual income distribution of adults who were determined to be eligible for BHP at the outset.

Table 4: Full-Year Income for Californians Age 19-64 Who Meet the BHP Eligibility Criteria[†] at Initial Eligibility Determination (i.e., prior to start of year)

	Number (millions [‡])	California Percent [‡]
Less than 139% FPL	0.5	44%
139% – 200% FPL	0.3	30%
Over 200% FPL	0.3	26%
TOTAL	1.1	100%

Notes: FPL = federal poverty level. BHP = Basic Health Program (under §1331 of the Affordable Care Act).

[†] Individuals were categorized as “eligible for BHP” if they had incomes between 139% and 200% FPL, had non-group coverage or were uninsured, and were not eligible for employer-sponsored coverage. The initial income determination was based on the prior year’s tax return for people whose circumstances had not changed and on income for several alternative “look-back” periods (1, 2, 3, or 6 months) prior to application for people who met the statutory definition for “changed circumstances.” Because exactly how eligibility will be determined is still unclear, and for simplicity of presentation, the figures presented here represent averages calculated across the several “look-back” periods analyzed. (Variation across look-back periods was modest.)

[‡] Estimates are shown rounded to the nearest 0.1 million. Percentages were calculated prior to rounding and then rounded themselves to the nearest one percent.

Source: Tabulations of the Survey of Income and Program Participation by John A. Graves, Ph.D., Vanderbilt University School of Medicine, in consultation with Jonathan Gruber, Ph.D., Professor of Economics at MIT, with support from the California HealthCare Foundation. Presentation by Institute for Health Policy Solutions.

Key observations:

- Only about 30% of California adults who meet the eligibility criteria for BHP at the beginning of the year will have final annual incomes in the BHP range.

Year-End “Reconciliation” and its Fiscal Implications for the State

Both PPACA and recently released proposed federal regulations make clear that federal tax credits and cost-sharing subsidy levels are to be based upon actual annual income, not shorter-term current income.¹⁶ This is important, because federal BHP funding to States is to be based on 95% of what the federal government otherwise would have spent on tax credits and cost-sharing subsidies for people who qualify and enroll in BHP.

Federal cost-sharing subsidies will be based on projected annual income (for the coverage year) at the time of application. Advance payments of tax credits will also be based on projected annual income, but importantly, tax credits will be reconciled to actual calendar-year income

¹⁶ PPACA §1412(b)(2) and §1411 generally. Proposed regulation 45 CFR 155.320(c)(3).

Income Volatility Creates Uncertainty about the State Fiscal Impact of a Basic Health Program in California: Using Data from a SIPP Analysis by John A. Graves, Ph.D.

on the individual's tax return, resulting in year-end adjustments to the amount paid.¹⁷ Moreover, PPACA specifically directs the Secretary to take those year-end reconciliation amounts into account when determining the amount of federal BHP funding.¹⁸ (This is different than public programs like Medi-Cal and Healthy Families, which base eligibility and subsidy amounts on income determined at the time of application, with no year-end "reconciliation."¹⁹)

How "Reconciliation" Works

For tax-credit recipients, the end-of-year reconciliation process works both ways. If their actual income is less than was projected at application, they will receive an additional credit on their federal income tax return. If actual income is more than was projected, they will have to repay some or all of the advance tax-credit payments they received.²⁰ For taxpayers whose actual income remained below 400% of poverty, the amounts they would have to repay are capped, as shown in Table 5.

BHP enrollees would not themselves be subject to "reconciliation" on their federal income tax returns. (Theoretically, the state could implement a similar requirement at the state level, but this seems both contrary to the goals of a BHP and administratively impractical.) Thus, a BHP recipient with increasing income would not have a potential income tax liability at year end. But the changed income of BHP enrollees (from projected at application to actual at the end of the year) is to be taken into account by the federal government in calculating what federal tax-credit spending otherwise would have been for this population, and thus it would affect the federal funding available for BHP-income populations in California.

As explained in a separate note, difference between tax-credit amounts based on projected v. actual income could present substantial fiscal risks for a State Basic Health Program.²¹

¹⁷ Internal Revenue Code §36B(f)(2), as added by PPACA §1401 and amended by Pub.L. 111-309 and Pub.L. 112-9.

¹⁸ PPACA §1331(d)(3)(A)(ii) states: "The Secretary ... shall take into account all relevant factors necessary to determine the value of the premium tax credits and cost-sharing reductions that would have been provided to eligible individuals [enrolled in BHP], including ... whether any reconciliation of the credit or cost-sharing reductions would have occurred if the enrollee had been ... enrolled" in a qualified health plan offered through the Exchange.

¹⁹ PPACA specifically provides that the switch to using modified adjusted gross (household) income to determine Medicaid eligibility does *not* change the requirement under title XIX to "determine an individual's income as of the *point in time* at which an application for medical assistance ... is processed." (Emphasis supplied.) Section 1902(e)(H)(i) of the Social Security Act [42 U.S.C. 1396a(e)(H)(i)], as added by PPACA §2002 and amended by HCERA §§1004(b)(1)(A) & 1004(e).

²⁰ These amounts were received in the form of payments to the qualified health plans the taxpayer and his/her dependents (if applicable) were enrolled in.

²¹ IHPS, "Fiscal Risks from Differences in BHP vs. Federal Tax Credit Income-Test Timing," September 2, 2011.

Table 5: Limitation* on the Amount of Excess Advance Payment Tax Credits That Must Be Repaid on a Taxpayer’s Federal Income-Tax Return

Household Income Relative to Poverty	For Single Filers	For All Other Filers
Less than 200% FPL	\$300	\$600
At least 200% but less than 300% FPL	\$750	\$1,500
At least 300% but less than 400% FPL	\$1,250	\$2,500
400% FPL or more [†]	No limitation [†]	

Notes: FPL = federal poverty level.

* After 2014, these limitation amounts are indexed (subject to a “cost-of-living adjustment”) in the same manner as are the endpoints of the income brackets (for marginal tax rates) in the tax code.

† Note that taxpayers whose income for the taxable year exceeds 400% FPL do not qualify for any tax credit and would have to repay the full amount of any advance tax-credit payments they received based on projected income.

Source: Internal Revenue Code §36B(f)(2)(B), as enacted by PPACA §1401 and amended by §4 of P.L. 112-9 (enacted April 14, 2011).

Examples

The reconciliation process is perhaps best understood by examining the illustrative examples shown in Table 6. There are basically four possible types of shifts between *projected* and *final* or *actual* income that are relevant to our discussion of the potential impact of tax-credit reconciliation on BHP funding:

- A. A taxpayer’s income can drop from the (tax-credit equivalent of the) BHP income range (as projected) to final actual income in the Medi-Cal income range. (Examples A1, A2, A3 and A4 in Table 6.)
- B. A taxpayer’s income can move up or down while remaining within the BHP income range. (Examples B1 and B3 [“up”] and B2 and B4 [“down”].)
- C. A taxpayer’s income can increase from the (tax-credit equivalent of the) BHP income range (as projected) to final actual income above 200% FPL but still in the tax-credit eligibility range. (Examples C1, C2, C3 and C4.)
- D. A taxpayer’s income can increase from the (tax-credit equivalent of the) BHP income range (as projected) to final actual income above 400% FPL, so that the taxpayer does not qualify for a premium tax credit. (Examples D1 and D4.)

Taxpayers A1, A2, A3 and A4 received advance tax credits based on projected income in the BHP range, but their annual incomes turned out to be in the lower “Medi-Cal” range. Therefore, they will receive an additional credit when they file their annual federal income tax return.

Income Volatility Creates Uncertainty about the State Fiscal Impact of a Basic Health Program in California: Using Data from a SIPP Analysis by John A. Graves, Ph.D.

Table 6: Year-End “Reconciliation” Payments Associated with Various Illustrative Differences between Projected and Actual Annual Income, 2014

ID	Projected Annual Income (Contribution %*)	Final Annual Income (Contribution %*)	Dollar Difference in Annual Income	Change in Tax-Credit Amount (Monthly)	Limit on Tax-Credit Repayment (Annual)†	Number of Months to Reach Limit
Single Filers						
A. From BHP Income Range to Medicaid (Medi-Cal) Income Range						
A1	140% FPL (3.4%)	90% FPL (2.0%)	\$5,725	\$28.40	N/A	N/A
A2	195% FPL (6.1%)	90% FPL (2.0%)	\$8,000	\$89.06	N/A	N/A
B. Up or Down Within BHP Income Range						
B1	140% FPL (3.4%)	195% FPL (6.1%)	\$6,300	-\$67.40	-\$300	4.5
B2	195% FPL (6.1%)	140% FPL (3.4%)	\$6,300	\$67.39	N/A	N/A
C. From BHP Income Range to Subsidized Exchange Coverage (Tax Credits)						
C1	170% FPL (4.9%)	222% FPL (7.1%)	\$6,000	-\$70.52	-\$750	10.6
C2	195% FPL (6.1%)	321% FPL (9.5%)	\$14,400	-\$177.82	-\$1,250	7.0
D. From BHP Income Range to Unsubsidized Exchange Coverage (No Tax Credits)						
D1	195% FPL (6.1%)	405% FPL (N/A)	\$24,000	-\$279.06‡	None	None
Family of Four (two or more covered)						
A. From BHP Income Range to Medicaid (Medi-Cal) Income Range						
A3	140% FPL (3.4%)	88% FPL (2.0%)	\$12,000	\$58.38	N/A	N/A
A4	195% FPL (6.1%)	92% FPL (2.0%)	\$24,000	\$194.10	N/A	N/A
B. Up or Down Within BHP Income Range						
B3	140% FPL (3.4%)	195% FPL (6.1%)	\$12,800	-\$136.89	-\$600	4.4
B4	195% FPL (6.1%)	140% FPL (3.4%)	\$12,800	\$136.94	N/A	N/A
C. From BHP Income Range to Subsidized Exchange Coverage (Tax Credits)						
C3	170% FPL (4.9%)	222% FPL (7.1%)	\$12,000	-\$140.92	-\$1,500	10.6
C4	195% FPL (6.1%)	324% FPL (9.5%)	\$30,000	-\$367.37	-\$2,500	6.8
D. From BHP Income Range to Unsubsidized Exchange Coverage (No Tax Credits)						
D4	195% FPL (6.1%)	401% FPL (N/A)	\$48,000	-\$833.10‡	None	None

Notes: FPL = federal poverty level. Negative signs indicate amounts the taxpayer would owe the federal government (i.e., because advance tax-credit payments exceeded the final tax credit the taxpayer qualified for.)

* The “Contribution %” is the percent of income that taxpayers at the income level shown are required to pay toward enrollment in the second-lowest-cost “silver” plan available to them through the Exchange. Taxpayers who choose a more (or less) expensive Exchange plan pay (or save) the entire difference in premium.

† The taxpayer’s liability to the federal government is limited by the (annual) caps shown in Table 5.

‡ Assumes full premium is \$392/month for single coverage and \$1,063/month for family coverage.

Source: Illustrations by Institute for Health Policy Solutions based on U.S. Internal Revenue Code §36B, as enacted by PPACA §1401 and amended by §4 of P.L. 112-9 (enacted April 14, 2011).

Income Volatility Creates Uncertainty about the State Fiscal Impact of a Basic Health Program in California: Using Data from a SIPP Analysis by John A. Graves, Ph.D.

Taxpayers B1, B2, B3 and B4 received advance tax credits based on projected income in the BHP range. Their annual incomes may have differed from their projected income, but were still in the BHP range. If their income decreased (B2, B4), they will receive an additional credit when they file their annual federal income tax return. If their income increased (B1, B3), they will have to repay a portion of their advance tax credit when they file their annual federal income tax return. But the amount they will have to repay will be limited to at most \$300 for a single filer or \$600 for all other filers.

Taxpayers C1, C2, C3, C4, D1 and D4 received advance tax credits based on projected income in the BHP range. But their actual incomes were higher than their projected incomes, so they will have to repay a portion of their advance tax credit when they file their annual federal income tax return. Depending on the level of their final annual income, the amount single filers will have to repay may be limited to \$750 (at least 200% FPL but less than 300% FPL) or to \$1,250 (at least 300% FPL but less than 400% FPL), or may be unlimited (400% FPL or more). (The limits for other filers are double the limits for single filers.)

Of course, people enrolled through the Exchange whose projected incomes were over 200% of poverty will receive additional credits on their income tax returns if their final annual income turns out to be lower than the projected income on which their advance tax credit (if any) was based. But these folks would not have been enrolled in BHP (at least not initially), and therefore their reconciliation payments are not relevant to calculation of federal BHP funding levels.

Using national SIPP data (only), Dr. Graves was able to make a partial estimate of likely reconciliation effects. We characterize his estimate as “partial” for two main reasons:

- He had to categorize people according to their status at the initial eligibility determination, i.e., before the start of the coverage year. Thus, he could not include in his estimates the substantially greater number of people (see Table 3) who would meet BHP eligibility criteria at some time during the coverage year and might enroll when given the opportunity.
- Due to data limitations, he had to assume that people remain in only one coverage status for the entire year. This assumption is obviously unrealistic. To give but one example, people whose income falls below the poverty level during the coverage year are not likely to continue paying 3%-6% of their (originally projected higher) income, to continue coverage through the Exchange. Instead, in order to reduce their outlays, they are very likely to report their reduced income and be enrolled in Medi-Cal. As a result, while they will still receive an additional credit on their year-end income tax return, that credit will be based only on the months during which they had Exchange coverage and will not include the months during which they were on Medi-Cal. The additional credits will therefore total considerably less than Dr. Graves’ estimate.

Due to these limitations, we believe that Dr. Graves’ estimates will tend to overestimate reconciliation reimbursements from the government to individuals, while likely underestimating reconciliation payments from individuals to the government.²²

²² Many people whose income increases during the year will move out of Exchange coverage into employer coverage as a result of obtaining a new job. For these folks, the annual limit on tax-credit repayment will be less

Income Volatility Creates Uncertainty about the State Fiscal Impact of a Basic Health Program in California: Using Data from a SIPP Analysis by John A. Graves, Ph.D.

The overall result is that Dr. Graves' necessarily constrained estimate is very conservative and could well greatly underestimate the net amount that tax-credit recipients as a whole would owe the government at the end of the coverage year.

Despite this apparent (though unavoidable) limitation, Dr. Graves' estimates still show a considerable net payment to the federal government from individual tax-credit recipients who start out in the BHP income range. Under the assumption that people do not know what their actual final income for the year will be, and therefore make enrollment decisions based on their projected income, the total net payment estimate ranges from \$0.7 billion to \$3.7 billion nationally. (The variation is associated with different assumptions about how projected income is calculated.)

Estimates for California could not be generated due to insufficient sample size, but we roughly estimate that California would represent about 15% of the national total, or between \$100 and \$550 million.²³

The significance of this figure is that it represents a rough estimate of the difference between the amount of BHP funding California would expect to receive from the federal government (based on projected income of enrollees at the time they applied) and the amount it would actually receive.

And, as already noted, IHPS believes that this is probably a significant underestimate of the actual net reconciliation liability the State might face under a BHP program.

Conclusions

The proposed Basic Health Program (BHP) is intended to reduce access costs for enrollees (relative to coverage through the Exchange) and to improve continuity of care for modest-income recipients who transfer from or to Medi-Cal. But the longitudinal survey data analysis presented here indicates that a BHP would experience an extraordinarily high degree of turnover in its enrolled population. This suggests that the BHP would be disproportionately expensive to administer. Because an equivalent number of persons with previously higher incomes as with previously lower incomes would become eligible for a BHP, it could also preclude continuity for enrollees moving from mainstream commercial coverage, and exacerbate administrative costs for the Exchange and other programs and health plans because their enrollment turnover would also be substantially increased. This could diminish their ability to achieve health reform goals for

binding, because they will not have received advance tax credits for the entire year. For the initially eligible population, this dynamic probably does not affect Dr. Graves' estimates significantly. But when one considers that there will be a flow of people in and out of the Exchange through the year, as jobs are lost and gained again, the net effect is to make the reconciliation payment limits much less binding. That is, while the reconciliation limit might be binding for one worker who is enrolled for a full 12 months, it will be far less binding for 3 workers who are each enrolled for 4 months.

²³ Estimates from the Urban Institute indicate that California will account for about 14%-15% of the national total of tax-credit subsidies. (Calculated by IHPS from M. Buettgens, J. Holahan and C. Carroll, "Health Reform Across the States: Increased Insurance Coverage and Federal Spending on the Exchanges and Medicaid," March 2011, Table 4.)

Income Volatility Creates Uncertainty about the State Fiscal Impact of a Basic Health Program in California: Using Data from a SIPP Analysis by John A. Graves, Ph.D.

continuity of care and related health plan incentives for investments in longer-term health improvements.

Further, as assessed herein, the level of federal funds available for a BHP may be considerably below estimates to date. The multiple and interactive factors and behaviors involved preclude a reliable estimate. There is significant risk that those funds may be substantially below estimates which are based on potentially erroneous assumptions about the income basis for tax credits vs. for a public-program-model BHP, about the Exchange benchmark-plan premium, and about future federal guidelines and practices regarding federal estimates of tax-credit spending in the absence of a BHP.

One potentially critical but difficult-to-grasp dimension is the possibility of major differences in applicants' own projections of income when applying for a subsidized public-program-model BHP as opposed to a federal tax credit which is ultimately based on actual year-end income. We have prepared a separate brief to better explain potential issues in this regard.²⁴

However, the overarching goals for a BHP are worthy pursuits—better continuity of care and more affordable access for low-income persons, particularly the many who will move between Medicaid and Exchange coverage. A previous IHPS report outlined an alternative approach that avoids the fiscal risks of a BHP, as well as administrative cost and continuity problems for other populations.²⁵ There may well be other alternatives or refinements that better achieve policy goals.

While a conditional authorization of a BHP could reduce the fiscal risk to the State, it would present uncertainties that could substantially exacerbate the already significant challenges to development of California's health reform programs, which will need to determine eligibility and enroll people in the fall of 2013 for their coverage periods beginning in 2014.

In addition to uncertainties and difficulties for successful and timely BHP implementation, the new California Health Benefits Exchange would be uncertain whether to expect its core tax-credit recipient population to constitute about one-half of the individual market (if there is no BHP) or only one-quarter (if a BHP is established). This would in turn create considerable uncertainty regarding which plans would be interested in participating, what administrative economies of scale might be expected for the Exchange and for participating health plans, the degree to which the Exchange could successfully pursue alternative program policies, and so on. This could substantially compromise the successful achievement of health reform goals in California.

²⁴ IHPS, "Fiscal Risks from Differences in BHP vs. Federal Tax Credit Income-Test Timing," September 2, 2011.

²⁵ Rick Curtis and Ed Neuschler, "Continuity for (Former) Medi-Cal Enrollees and Affordability for the Low-Income Exchange Population: Background and An Alternative Approach," Institute for Health Policy Solutions, with support from the California HealthCare Foundation, July 2011.
http://www.ihps.org/pubs/Continuity%20for%20Low-Income%20Exchange%20Eligibles%20FINAL_20110629.pdf