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Family Glitch Fixed

The Family Glitch and Changes to Premium Tax Credit Eligibility

On April 5, 2022, the Biden Administration released a proposed rule that would revise the eligibility standards for premium subsidies for families.[1] The proposed rule would "fix" the family glitch and, therefore, dramatically increase the number of people eligible for premium tax credits. This brief memo describes what the regulation would do and the implications for the individual market.

What is the Family Glitch and What Changed

The Affordable Care Act provides premium subsidies to eligible individuals. One of the conditions for eligibility is not having an affordable offer from an employer-sponsored plan that meets minimum essential coverage requirements. If an employer offer is not affordable than individuals gain eligibility for premium subsidies. An Obama era regulation defined the affordability test to compare the cost of employee-only coverage to the family's income. Only if the cost of the employer coverage exceeded a certain percentage, in 2022 the percentage was 9.61% of income, did the individual qualify for premium tax credits (PTC). The issue is that the cost of coverage to the family was not included in the affordability calculations. Consequently, if the cost of the family coverage exceeded the affordability threshold, but the employee only coverage was below the affordability threshold, the entire family was denied eligibility for premium tax credits. This "glitch" is referred to as the family glitch since family members were not included in affordability calculations.

Changes to the family glitch could increase eligibility for APTCs by up to 5 million

The new proposed regulation would change the affordability calculations for individuals with employer sponsored insurance starting in 2023. Affordable offers would be judged two separate ways; determinations of affordability would be made for the employee and then separately for other family members (e.g., spouse and/or dependents). Consequently, the affordability determination will not change for employees, and family members will be more likely to gain eligibility for PTC for coverage in the individual market.

[1] https://www.federalregister.gov/documents/2022/04/07/2022-07158/affordability-of-employer-coverage-for-family-members-of-employees

Potential Impact

There are both immediate and long-term implications if the rule is finalized. Most directly, an estimated 125,000 individuals currently enrolled in the individual market would gain eligibility for PTC.[2] The White House released an estimate that an additional 200,000 currently uninsured would take-up coverage as a result of the change to the family glitch. Over the long term, there could be migration from those with Employer-sponsored insurance (ESI) to the individual market, given the lower net premiums. In fact, the vast majority of those currently impacted by the family glitch currently have ESI coverage (an estimated 4 million people).[3] Finally, given the potential for increased amount of outlayed PTCs, states that currently have 1332 waivers, could see additional Federal pass-through funds.

Please contact Michael Cohen at michael.cohen@wakely.com with any questions or to follow up on any of the concepts presented here.

[2] https://www.urban.org/sites/default/files/publication/104223/changing-the-family-glitch-would-make-health-coverage-more-affordable-for-many-families_1.pdf
[3] Ibid

OUR STORY

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