Method for Estimation of Impact of New Jersey State Subsidy Policy on Section 1332 Reinsurance Waiver 2021 Premium Tax Credit Pass-through Amount
Office of Tax Analysis, Department of Treasury
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Background and Estimation Strategy

Section 1332 of the Affordable Care Act (ACA) permits states to apply to waive certain provisions of the ACA. As part of the 1332 waiver process, New Jersey implemented a reinsurance program starting in plan year 2019. In 2021, New Jersey will separately implement a state subsidy policy that has the potential to increase subsidized exchange enrollment in the state's individual market. This document describes the methodology used by the Department of the Treasury's Office of Tax Analysis (OTA) to account for the state subsidy program in calculating New Jersey's 2021 pass-through funding and is an addendum to OTA's general description of the pass-through methodology for state reinsurance programs.[1]

Starting in 2021 plan year, New Jersey will offer a state subsidy to individual exchange enrollees who are otherwise eligible for the Advanced Premium Tax Credit (APTC) with Modified Adjusted Gross Income (MAGI) between 138% and 400% of the Federal Poverty Line (FPL). The state subsidy will supplement APTC for those individuals and varies in generosity by income bracket:

- From 138% through 150% of FPL: $20 per member per month (PMPM)
- From 150% through 200% of FPL: $30 PMPM
- From 200% through 250% of FPL: $40 PMPM
- From 250% through 400% of FPL: $95 PMPM

The state subsidy will effectively decrease the expected monthly premium contribution for eligible individuals by the amount of the state subsidy. As a result, the state subsidy will lower the monthly premium payments for exchange coverage for subsidy-eligible individuals and would thereby incentivize currently uninsured, subsidy-eligible individuals to purchase health insurance, with APTC, through GetCoveredNJ.

Because the model that OTA uses to calculate pass-through funding for reinsurance programs takes into account prior year data projected forward to reflect national trends, the standard methodology would not account for any impact of the state subsidy program that New Jersey is implementing. New Jersey's state subsidy policy is expected to increase subsidized GetCoveredNJ enrollment in the individual market. As a result, the per-enrollee PTC savings that result from the reinsurance program would apply to a larger number of enrollees, and New Jersey's pass-through funding with the state subsidy policy is expected to be greater than it would have been absent the new policy.

To estimate by how *much* OTA would expect New Jersey's pass-through payments to increase, there are several elements that need to be taken into account:

1. The amount of PTC received by New Jerseyans when there is no state subsidy policy in place

[1] See Pass-through Funding Tools and Resources on the CCIIO website, https://www.cms.gov/cciio/programs-and-initiatives/state-innovation-waivers/section_1332_state_innovation_waivers-.

2. The population that could be affected by the change in policy—in this case, the number of uninsured, by income bracket, who are eligible for PTC, and who are not already eligible for zero-cost coverage—and the potential PTC amount for which they are eligible[2]
3. The rate at which the uninsured will take up coverage through GetCoveredNJ in response to the state subsidy policy
4. The expected increase in the number of uninsured due to national trends, such as the COVID-19 pandemic

OTA will estimate the additional PTC—as a percent of actual 2018 PTC—that would have been expected to be observed in 2018 had the policy been in place that year.[3] OTA will then apply that same percentage change, with an adjustment to account for the change in uninsured, in PTC due to the policy to the estimated of PTC savings for 2021.

Data Used

In order to estimate the amount of PTC that the uninsured forego in a given year (element #2 above), OTA used federal tax information from tax year 2018. Specifically, OTA extracted 5.5 million federal tax returns filed by New Jersey residents for tax year 2018.[4] These returns represented 9.5 million people.[5]

OTA then matched individuals on the tax returns with information from forms 1095-A, 1095-B, and 1095-C.[6] The zip code from the return was also matched with 2018 premium information from New Jersey about the Second-Lowest Cost Silver Plans (SLCSP) and the Lowest Cost Bronze Plans (LCBP).[7] The distribution of the uninsurance and exchange coverage status of these individuals by MAGI as a share of FPL can be seen in Appendix Tables A1 and A2.

To calculate New Jersey's pass-through funding for its reinsurance program, OTA needs to first estimate the extent to which the state subsidy program would induce uninsured individuals to take up on-exchange coverage due to price sensitivity. OTA narrowed the tax filing population to the uninsured by including

[2] New Jersey's state subsidy will induce individuals to take up subsidized exchange coverage due to price-sensitivity, and, in general, OTA assumes that individuals who are already eligible for zero-cost coverage are remaining uninsured for reasons other than price-sensitivity.
[3] Because of the COVID-19 public health emergency, the individual tax filing deadline for tax year 2019 was delayed until July 2020.
[4] These returns were extracted in December 2020 and include virtually all returns filed for tax year 2018. To capture non-filers, OTA also included individuals with Social Security Numbers who had at least one information return filed on their behalf.
[5] In the extraction, OTA included the number of exemptions, Modified Adjusted Gross Income (MAGI), state, zip code (on the 1040, or most frequent on an information return), whether taxpayers checked the box for full-year health insurance coverage on the form 1040, and the Social Security Numbers and ages of the taxpayer, spouse, and any dependents. To limit to New Jersey residents, OTA excluded returns where the zip code did not match a New Jersey zip code.
[6] Forms 1095-A, -B, and -C include information on taxpayers' monthly on-exchange or employer-sponsored health insurance coverage. These forms help to identify whether a given taxpayer had health insurance coverage in each month of 2018 as well as the type of coverage.
[7] Premium information on the 2018 Second Lowest Cost Silver Plans by geography was taken from New Jersey's pass-through reporting for plan year 2019. Premium information on the 2018 Lowest Cost Bronze Plans by geography was taken from HIX Compare.

filers without any 1095 information who also did not check the box for having had full-year coverage in 2018. Appendix Tables A2 shows months of uninsurance by MAGI as a share of FPL.

Baseline PTC Absent State Subsidy

The state subsidy policy was not in place in 2018, so the relevant baseline is the actual PTC paid out to New Jersey residents in 2018. New Jersey residents received about $901.2 million in PTC in 2018.[8]

Calculating PTC Foregone by the Uninsured

To calculate the amount of PTC foregone by the uninsured by income bracket, OTA first aggregated individual SLCSP premiums at the return-level for the uninsured, to aggregate the cost of exchange coverage on a monthly basis for each family.[9] Next, using the return-level MAGI (and MAGI as a percentage of FPL), OTA calculated the maximum family contribution towards premium payments. Finally, to estimate return-level foregone PTC, OTA applied the subsidy schedule by subtracting the family contribution from the return-level SLCSP premiums.[10] Subsidy-eligible, uninsured individuals in New Jersey forewent approximately $581.5 million of potential PTC in tax year 2018 (see Column 2 of Table 1).[11] However, some uninsured individuals would have been eligible for zero-cost coverage with PTC, depending on the relationship between the SLCSP premium and LCBP premium. OTA excludes individuals who are eligible for zero-cost coverage but remain uninsured from the target population because these individuals have remained uninsured for reasons other than price. Excluding those eligible for zero-cost coverage, uninsured individuals in New Jersey forewent approximately $270.6 million of potential PTC in tax year 2018 (see Column 3 of Table 1).

To account for the impact of national-level trends—such as the COVID-19 public health emergency—since 2018 that are expected to have increased the number of uninsured individuals, OTA adjusted the amount of foregone PTC upwards by 10.7%.[12] After this adjustment, OTA estimates that subsidy-eligible, uninsured individuals in New Jersey would be expected to have foregone $299.5 million of potential PTC in tax year 2018 (see Column 4 of Table 1).

Enrollment Take-up

To calculate the additional PTC expected to result from New Jersey's state subsidy program, OTA first needed to determine how many uninsured people would take-up coverage because the State provided them an additional financial incentive to do so. California implemented a similar state subsidy on its

[8] 2018 APTC was provided by CMS; 2018 excess APTC repaid and net PTC is available from IRS at https://www.irs.gov/statistics/soi-tax-stats-historic-table-2. New Jersey has since moved off the FFE to establish a State-Based Exchange.
[9] For example, if there is a family of 3 people, all of whom are uninsured, then the SLCSP premiums corresponding to each of the 3 family members would be aggregated across the family.
[10] The subsidy cannot, however, be less than zero.
[11] Subsidy-eligible individuals in New Jersey are those with MAGI from 138–400% FPL. Because New Jersey has expanded Medicaid, individuals with MAGI up to 138% of FPL would be part of the Medicaid population and would not be eligible for APTC or PTC through the exchange.
[12] The estimated increase in the number of uninsured reflects CMS's Office of the Actuary's projections.

exchange, Covered California, starting in plan year 2020, but only preliminary data on the program and its impacts are available. As a result, OTA has instead relied on the existing literature regarding the price elasticity of demand for health insurance.

For the purposes of estimating pass-through, OTA is specifically interested in the extent to which the price reduction resulting from a subsidy—like New Jersey's state subsidy policy—will reduce the number of uninsured individuals. The most relevant research was conducted on the impact of the individual mandate penalty on insurance coverage using federal tax data (see Lurie, Sacks, and Heim 2019 for more details).[13] The study assessed the effect of the ACA's individual mandate penalty on health insurance take-up and provides an estimate of the semi-elasticity of demand for health insurance. Specifically, researchers found that every $1 increase in the individual mandate penalty yielded an increase of 0.002 to 0.024 months of exchange insurance coverage, depending on the income bracket.[14] Because increasing the penalty for not having insurance decreases the effective price of insurance, this finding also implies that every $1 decrease in the price of health insurance will increase insurance coverage on the exchange, and thereby decrease uninsurance, by the same amount found in the study.

Because the generosity of New Jersey's state subsidy program varies by income bracket (as shown in Column 1 of Table 1), OTA would expect take-up rates to differ by income bracket, and OTA's calculations in Table 1 reflect the varying subsidy amounts. Assuming that every $1 of additional state subsidy will reduce uninsurance among the subsidy-eligible population by about 0.002 to 0.024 months, OTA would expect New Jerseyans to have received an additional $44.0 million in PTC (see Column 5 of Table 1) in 2018.

Final Adjustment Factor

Finally, OTA calculated the percentage by which New Jersey's premium subsidies would be expected to increase as a result of the state subsidy policy. As noted above, OTA expects that the state subsidy program would have resulted in an additional $44.0 million in PTC for 2018. Adding this to the $901.2 million in PTC that New Jerseyans received in 2018, OTA would have expected CMS to pay out approximately $945.2 million had the state subsidy been in place that year. This is an increase in PTC of 4.88% due to the state subsidy program. Therefore, OTA would expect the state subsidy to increase New Jersey's 2021 PTC by 4.88%.

The without waiver APTC, with waiver APTC, and the APTC savings will be estimated as described in the general methodology. Then, according to the general pass-through methodology, the adjusted APTC difference will be multiplied by the reconciliation factor (that is, the final PTC subsidy as a share of APTC observed for New Jersey for 2018, or 94.17%). Finally, the PTC savings will be increased by 4.88% to arrive at the final expected change in PTC subsidy attributable to the waiver.

[13] Ithai Z. Lurie, Daniel W. Sacks, and Bradley Heim, "Does the individual mandate affect insurance coverage? Evidence from tax returns," September 2019, available at https://dansacks.files.wordpress.com/2019/09/hslmandate.pdf.
[14] Take-up varies by income bracket. *See* Lurie, Sacks, and Heim (2019).

Tables

Table 1. PTC Foregone by the Uninsured in New Jersey in 2018, by Month (in Dollars)

Income Bracket, % of FPL	(1) Monthly State Subsidy	PTC Foregone by the Uninsured			
		(2) All foregone PTC	(3) PTC foregone by those ineligible for zero-cost coverage	(4) Adjusting for trends in uninsurance	(5) Adjusting for trends in uninsurance and take-up due to price elasticity
138–150%	$20	$60,742,106	$32,438	$35,909	$229
150–200%	$30	$210,281,950	$37,378,241	$41,377,713	$860,102
200–250%	$40	$139,743,368	$76,400,900	$84,575,796	$4,492,038
250–300%	$95	$85,782,314	$73,763,611	$81,656,317	$15,456,198
300–350%	$95	$52,286,939	$50,492,242	$55,894,912	$13,995,785
350–400%	$95	$32,705,513	$32,512,290	$35,991,105	$9,213,098
Total		$581,542,190	$270,579,722	$299,531,752	$44,017,449

Appendix tables:

Table A1. Number of Individuals in 2018 Represented in Tax Data, by MAGI Bracket and Number of Months of Exchange Coverage

Months of Exchange Coverage	Number of Exchange Enrollees by MAGI (as % of FPL)									
	< 138%	138–150%	150–200%	200–250%	250–300%	300–350%	350–400%	400–450%	> 450%	Total
0	2,277,963	169,577	638,382	546,669	496,856	467,044	442,841	417,681	3,741,114	9,198,127
1	2,339	247	1,067	910	749	680	570	550	2,404	9,516
2	3,216	387	1,592	1,421	1,286	944	718	575	2,640	12,779
3	2,587	316	1,435	1,199	1,130	859	684	520	2,299	11,029
4	2,975	372	1,592	1,377	1,191	922	742	525	2,351	12,047
5	2,397	374	1,434	1,197	1,047	815	660	447	1,955	10,326
6	2,051	295	1,191	1,096	943	715	675	402	1,753	9,121
7	1,888	269	1,227	985	931	653	661	359	1,632	8,605
8	1,946	298	1,234	1,093	953	720	597	367	1,620	8,828
9	1,814	282	1,233	1,082	918	658	576	374	1,500	8,437
10	1,431	215	951	883	746	596	526	340	1,343	7,031
11	1,270	184	917	862	683	521	435	244	1,058	6,174
12	37,618	6,152	27,128	23,518	18,842	13,929	12,349	5,515	28,139	173,190
Total	2,339,495	178,968	679,383	582,292	526,275	489,056	462,034	427,899	3,789,808	9,475,210

Table A2. Number of Individuals in 2018 Represented in Tax Data, by MAGI Bracket and Number of Months of Uninsurance

Months of Uninsurance	Number of Individuals by MAGI (as % of FPL)									
	< 138%	138–150%	150–200%	200–250%	250–300%	300–350%	350–400%	400–450%	> 450%	Total
0	1,885,976	163,399	621,165	537,741	492,526	463,915	443,592	414,420	3,741,021	8,763,755
1	21,580	831	2,913	2,098	1,605	1,166	991	746	3,542	35,472
2	18,276	732	2,756	2,009	1,508	1,173	934	736	3,252	31,376
3	17,201	735	2,922	2,034	1,723	1,268	983	786	3,112	30,764
4	17,579	750	2,588	2,010	1,527	1,191	920	646	2,688	29,899
5	15,201	632	2,366	1,813	1,383	1,132	850	663	2,316	26,356
6	15,028	603	2,250	1,810	1,417	1,039	832	649	2,315	25,943
7	16,474	513	2,115	1,647	1,266	954	704	507	1,857	26,037
8	14,284	491	2,043	1,564	1,227	886	702	506	1,747	23,450
9	14,466	578	1,930	1,522	1,118	890	572	460	1,557	23,093
10	14,957	489	1,836	1,441	1,016	723	594	390	1,383	22,829
11	15,500	383	1,596	1,131	859	607	421	372	1,236	22,105
12	272,973	8,832	32,903	25,472	19,100	14,112	9,939	7,018	23,782	414,131
Total	2,339,495	178,968	679,383	582,292	526,275	489,056	462,034	427,899	3,789,808	9,475,210