Section 1332 of the Affordable Care Act (ACA) permits a state to apply to waive certain provisions of the ACA. A waiver must satisfy four requirements to be approved: it must not reduce (1) the number of residents of the state with health coverage; (2) the affordability of that coverage; or (3) the comprehensiveness of that coverage; and (4) it must not increase the federal deficit. If a state plan under a Section 1332 waiver reduces the amount of premium tax credit (PTC) or small business health care tax credit that individuals and employers in the state would otherwise receive, the savings are paid to the state, in “pass-through funding.”

In April 2021, the Department of Treasury made the final determination of 2021 pass-through amounts for states with section 1332 reinsurance waivers. These pass-through amounts were calculated using the Treasury’s Office of Tax Analysis’s general pass-through methodology for state reinsurance programs. These determinations reflected federal law as of March 10, 2021, prior to the passage of the American Rescue Plan (ARP).

As noted in the FAQ posted on the 1332 website in conjunction with the final 2021 pass-through determinations, the ARP expanded the generosity of and eligibility for the PTC, so the ARP affects the calculation of the PTC savings attributable to reinsurance. The Departments informed states that an additional pass-through calculation would be performed and that additional pass-through would be provided to states with approved reinsurance waivers to account for ARP. This paper describes Treasury’s methodology for estimating the impact of the ARP on the federal PTC savings yielded by 1332 reinsurance waivers.

Simply increasing the generosity of the PTC for existing subsidized Exchange enrollees does not yield new federal savings due to a state-based reinsurance program. However, when individuals in states with 1332 reinsurance waivers newly receive PTC—either because they were eligible prior to ARP and enrolled due to ARP’s increased PTC generosity, or because they became newly eligible for PTC—the federal government realizes additional PTC savings due to reinsurance, as the federal PTC spending on new PTC recipients in those states is lower than it would have been absent reinsurance. See Figure 1, below, for an illustration of how the ARP impacts federal savings, due to state-based reinsurance programs, for existing Exchange enrollees.

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1 Along with the ARP, the Exchanges have opened a COVID-19 Special Enrollment Period (SEP) in 2021. The SEP has made it possible for individuals to newly enroll in Exchange coverage in response to the availability of more generous federal financial assistance. This methodology, therefore, includes the effects of the SEP.
Figure 1 demonstrates that, for existing Exchange enrollees, the ARP only yields new federal PTC savings for those enrollees that were not previously subsidized (the individual at 500% of the Federal Poverty Level, or FPL, in this example) but that become eligible for PTC with the ARP. As shown, for individuals that received PTC prior to the ARP (in this example, the individual at 250% of FPL), the federal savings due to reinsurance were realized prior to the ARP, so the ARP does not yield any additional federal savings for these individuals.

Note, also, that not all higher-income individuals will end up receiving APTC or PTC due to the ARP. Because an individual’s expected contribution towards premiums increases with household income, whether a given higher-income individual will receive a subsidy depends on their Second-Lowest Cost Silver Plan (SLCSP) premium. As a result, federal subsidies will be available higher up the income scale in geographies with relatively higher SLCSP premiums and will phase out at lower incomes in geographies with relatively lower SLCSP premiums.

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3 This simplified example assumes no changes in income or circumstances over the course of the year, so PTC will be equal to APTC.
To estimate the impact of the ARP on 2021 pass-through funding, OTA used its microsimulation model to estimate (1) the extent to which the ARP makes existing, higher-income Exchange enrollees in each state newly eligible for the Advance Premium Tax Credit (APTC) and (2) the extent to which the ARP is expected to induce APTC-eligible individuals—both those previously eligible and those newly eligible—to newly enroll in Exchange coverage. The former generally depends on the share and income distribution of the Exchange enrollees in each state who were unsubsidized prior to the passage of the ARP, as well as on SLCSP premiums in that state. The latter generally depends on the income distribution of the state’s overall population (particularly among those who were previously uninsured), the share of the state’s population at each income level enrolled in Exchange coverage prior to passage of the ARP, and on the SLCSP premiums in that state.

OTA used the results of this modeling to estimate the ARP’s impact on the APTC savings yielded by reinsurance in each state, which are then used to determine the net federal savings to be passed through.

In addition, the ARP affects 1332 pass-through funding by altering the expected ratio of PTC to APTC in each state. This ratio is referred to in the 1332 pass-through materials as the “reconciliation factor.” The ARP is expected to increase the reconciliation factor for 2021, which will increase pass-through funding for each state, all else equal. The increased reconciliation factor is, in part, because the ARP removes the subsidy cliff at 400% of FPL, which will reduce the share of APTC that is repaid at tax filing; small increases in an individual’s income will no longer trigger large repayment liabilities. Additionally, because very low-income individuals are expected to contribute 0% of their incomes to their premiums, small increases in income for very low-income individuals will not result in any repayment liability. To estimate the post-ARP PTC savings for each state based on the estimated post-ARP APTC savings, OTA has calculated an adjusted reconciliation factor for each state that accounts for its Medicaid expansion status (or, in the case of Minnesota, its status as a Basic Health Program state). The ARP’s impact on reconciliation factors varies by Medicaid expansion (or Basic Health Program) status, as it is a key determinant of the proportion of individuals near and above 400% of FPL on the Exchange. Applying the adjusted reconciliation factor to the estimated total, post-ARP APTC savings results in total, post-ARP PTC savings for each state, which are then passed through to each state, net of any deductions necessary to ensure deficit neutrality.