Method for Calculation of Section 1332 Waiver Premium Tax Credit Pass-through Amounts
Office of Tax Analysis
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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 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."

This paper describes Treasury's methodology for modeling health insurance coverage and PTC at the state level, for evaluating Section 1332 waiver applications and calculating pass-through payments for 2019, for states with reinsurance program waivers. This methodology was developed by Treasury's Office of Tax Analysis (OTA) in collaboration with the Office of the Actuary, Centers for Medicare and Medicaid Services (OACT/CMS).

OTA maintains a tax microsimulation model that represents the U.S. population and simulates income and payroll taxes, including the PTC, over a ten-year budget period.[1] Projections for the Budget period are generally made using the Administration's macroeconomic assumptions prepared for the annual Budget or midsession review. However, for purposes of 2019 pass-through calculations we used an alternative FY 2019 midsession review baseline that assumes that cost-sharing reduction payments are not made after 2017.

OTA also maintains state-specific versions of the model. For 1332 pass-through estimates each state model and PTC savings calculation is produced in four steps.

Step 1. The first step is to reweight the national-level model to match 2016 Exchange enrollment for each state. The number of person-months of enrollment, by federal poverty level (FPL) groups is targeted, using income and enrollment data from the population of tax forms (Form 1095-A and Form 1040 data) for 2016.[2] The result is a model that represents Exchange enrollment by FPL in each state for any year through the end of the Budget window (currently 2028).

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[1]See https://www.treasury.gov/resource-center/tax-policy/tax-analysis/Documents/Treasury%27s-Baseline-Estimates-of-Health-Coverage-FY-2019.pdf for details.

[2]The base model includes an estimate of projected 2016 income as reported to the Exchange as a function of final 2016 income for each tax unit. We exclude individuals with projected income below 133% of FPL in states that have expanded Medicaid eligibility under the ACA and below 100% of FPL in states that have not expanded Medicaid eligibility from the potential Exchange individual market population and reweight the remaining model observations to match 2016 enrollment, by final income as a share of FPL. We use the same federal poverty levels as used for enrollment (e.g., 2014 levels announced early in 2015 and used for 2016 enrollment).

Step 2. In the second step we further calibrate the model to match the known amount of advance payments of PTC (APTC) and second-lowest cost silver plan (SLCSP) premiums for the state in 2018.[3]

We do the premium and APTC calibration in three sub-steps. First, we replace the national-level premiums with state SLCSP premiums, and recalculate APTC based on the state premiums. We do this for each rating area in the state; i.e., for a state with N rating areas we perform N sets of APTC calculations. Second, we calculate a weighted average APTC across the N rating areas for each observation in our model. In this calculation, the weights are the share of APTC accounted for by each rating area, according to actual experience for 2018. Third, we calculate a state-level APTC adjustment factor that increases or decreases our model estimate so that the estimated total APTC equals the actual APTC for the state. At this point we have a model that reflects enrollment, premiums, and APTC at the state level through 2028.

Step 3. The third step in calculating the pass-through payment is to estimate the APTC for 2019, with and without the waiver. This is done by replacing the baseline SLCSP premiums with those provided by the state and reviewed by OACT, for 2019, for with and without the waiver. We then recalculate the APTC and savings attributable to the waiver for each rating area. Finally, as in step 2, we compute a weighted average of APTC and savings across rating areas for the state.

Step 4. Lastly we calculate the change in total PTC subsidy, which is equal to the APTC plus net PTC claimed on the tax return less excess APTC repaid with the tax return, due to the waiver. To do that we calculate the ratio of total PTC subsidy after reconciliation to APTC using tax data for 2016, and we multiply that ratio by the APTC savings. The resulting calculation is the final PTC savings.

As noted above, by statute a state waiver may not increase the federal deficit. Therefore if a waiver is expected to result in reductions in federal revenue or increases in federal costs aside from the PTC changes, we subtract the net deficit increase attributable to these other factors from the PTC savings. This ensures that the waiver is projected to be deficit neutral overall. For 2019, the only adjustment needed was to reflect federal Exchange fee reductions resulting from the waiver. These are calculated by CMS.

Note that while we decrease the PTC savings to ensure that the waiver does not increase the deficit taking all revenues and costs into account, we do not increase the PTC savings for any net saving attributable to a waiver other than PTC. Section 1332 provides for payment of PTC and small business credits, but not payment of other savings attributable to the waiver.

[3] We calibrate our model using the most recent known APTC and SLCSP premiums observed at the time the estimate is made. For example, when estimating pass-through amounts for 2019 late in 2018, we used state data for the first six months of 2018 to calibrate the model. We then created an annual estimate of APTC by rating area by grossing up the 2018 part-year amounts using state-level ratios of full-year APTC to part-year APTC for 2017. CMS provided 2018 APTC through June for states using a federally-facilitated marketplace. Maryland and Minnesota provided state-based Marketplace APTC information for 2018. We obtained the ratio of full-year APTC to part-year APTC using tax data (Forms 1095-A filed for 2017).