

**Method for Calculation of Section 1332 Reinsurance Waiver 2026 Premium Tax Credit  
Pass-through Amounts  
Office of Tax Analysis, Department of Treasury  
May 2026**

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.”

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 2026, 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).

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. Projections for the Budget period are generally made using the Administration’s macroeconomic assumptions prepared for the annual Budget or midsession review. However, for the purposes of 2026 pass-through calculations, we used an alternative Budget baseline for the 2026 plan year that assumes cost-sharing reduction payments are not made after 2017 and that reflects more recent Health Insurance Exchange enrollment data.

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 2023 Exchange enrollment for each state. We target the number of person-months of enrollment, by federal poverty level (FPL) groups, using income and enrollment data from the population of tax forms (Form 1095-A and Form 1040 data) for 2023.<sup>1</sup> 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 2036).

Step 2. In the second step, we further calibrate the model to match the known amount of APTC and second-lowest cost silver plan (SLCSP) premiums for the state in 2025.<sup>2</sup>

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<sup>1</sup>The base model includes an estimate of projected 2023 income as reported to the Exchange as a function of final 2023 income for each tax unit. We exclude individuals with projected income below 138% 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 population. We reweight the remaining model observations to match 2023 state enrollment, by final income as a share of FPL. We use the same federal poverty levels as used for enrollment (e.g., poverty guidelines announced early in 2022 and used for 2023 enrollment).

<sup>2</sup> We calibrate our model using the most recent known APTC and SLCSP premiums observed at the time the estimate is made. Specifically, we used full-year 2025 APTC by state, provided by CMS.



We do the premium and APTC calibration in three sub-steps. First, we replace the national-level premiums with state SLCSPP premiums and recalculate APTC based on the state premiums. We do this for each rating area (or geography) 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 enrollment accounted for by each rating area, according to actual experience for 2025. 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 2036.

Step 3. The third step in calculating the pass-through payment is to estimate the APTC for 2026, with and without the waiver. For individual market waivers that reduce PTC by reducing premiums (such as reinsurance waivers), this is done using the with and without waiver SLCSPP premiums provided by the state and reviewed by OACT for 2026. We then calculate 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 project the ratio of total PTC subsidy after reconciliation to APTC for 2026 for Medicaid expansion states, non-expansion states, partial expansion states, and Basic Health Program states using our modeling of reconciliation under the PTC schedule and based on historic tax and Exchange income data. We then multiply that ratio by the APTC savings. The resulting calculation is the final PTC savings.

See Pass-through Funding Tools and Resources on the CCIIO website<sup>3</sup> for specific estimates by state for 2026.

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 2026, the only adjustment needed was to reflect any reduction in the federally-facilitated Exchange user fee resulting from the waiver, net of any increased Patient-Centered Outcomes Research Institute (PCORI) fee revenue. The user fee revenue reduction was calculated by CMS, and the PCORI fee revenue was calculated by OTA.

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.

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<sup>3</sup> [Section 1332: State Innovation Waivers | CMS](#)

