Method for Calculation of Section 1332 Reinsurance Waiver 2022 Premium Tax Credit
Pass-through Amounts
Office of Tax Analysis, Department of Treasury
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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 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 2022, 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 purposes of 2022 pass-through calculations we used an alternative FY 2022 baseline that accounts for more recent projections of 2022 exchange enrollment.[1]

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 2018 Health Insurance Marketplace (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 2018.[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 2031).

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[1] For 2022 pass-through, OTA's updated model incorporates more recent exchange enrollment projections.
[2] The base model includes an estimate of projected 2018 income as reported to the Exchange as a function of final 2018 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 population. We reweight the remaining model observations to match 2018 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 2017 and used for 2018 enrollment).

<u>Step 2</u>. In the second step, we further calibrate the model to match the known amount of PTC and second-lowest cost silver plan (SLCSP) premiums for the state in 2020.[3]

We do the premium and PTC calibration in three sub-steps. First, we replace the national-level premiums with state SLCSP premiums and recalculate PTC 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 PTC calculations. Second, we calculate a weighted average PTC across the N rating areas for each observation in our model. In this calculation, the weights are the share of exchange enrollment accounted for by each rating area, according to actual experience for 2020. Third, we calculate a state-level PTC adjustment factor that increases or decreases our model estimate so that the estimated total PTC equals the actual PTC for the state. At this point we have a model that reflects enrollment, premiums, and PTC at the state level through 2031.

<u>Step 3</u>. The third step in calculating the pass-through payment is to estimate the PTC for 2022, with and without the waiver. For reinsurance waivers, this is done by replacing the baseline SLCSP premiums with those provided by the state and reviewed by OACT, for 2022, for scenarios with and without the waiver. We then calculate the PTC and savings attributable to the waiver for each rating area. Finally, as in step 2, we compute a weighted average of PTC and savings across rating areas for the state. The resulting calculation is the final PTC savings.

See Pass-through Funding Tools and Resources on the CCIIO website[4] for specific estimates by state for 2022.

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 2022, 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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[3] We calibrate our model using actual PTC for the full 2020 plan year and the SLCSP premiums reported by the states or CMS. Because individuals were not required to repay excess advance payments of PTC (APTC) at filing, PTC for the 2020 plan year is the sum of APTC for the 2020 plan year and any net PTC for 2020 claimed at filing. CMS provided full-year 2020 APTC for states using a federally-facilitated marketplace. Colorado, Maryland, Minnesota, New Jersey, Pennsylvania, and Rhode Island provided state-based Marketplace APTC information for 2020. Net PTC for each state was derived from form 1095 information returns from tax year 2020.
[4] https://www.cms.gov/CCIIO/Programs-and-Initiatives/State-Innovation-Waivers/Section_1332_State_Innovation_Waivers-