Method for Estimation of Impact of Maryland Easy Enrollment Policy on Section 1332 Reinsurance Waiver 2020 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, Maryland implemented a reinsurance program starting in plan year 2019. In 2020, Maryland will separately implement an "auto-enrollment" policy that has the potential to increase 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 auto-enrollment program in calculating Maryland's 2020 pass-through funding and is an addendum to OTA's general description of the pass-through methodology for state reinsurance programs.[1]

Starting in the 2020 tax filing season (for tax year 2019), Maryland's state tax forms will ask taxpayers separately whether they are insured and whether their spouses are insured. All uninsured taxpayers can check a box on their state tax forms if they are interested in information about the cost of insurance through the Maryland Health Benefit Exchange (MHBE).[2] Those who have Modified Adjusted Gross Income (MAGI) up to 138% of the Federal Poverty Line (FPL) will be automatically enrolled in Medicaid, while all other uninsured taxpayers will receive information about their eligibility for PTC. Each taxpayer that requests information will have the opportunity to enroll on the exchange during a 35-day special enrollment period, starting on that taxpayer's tax return filing date.

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 unique auto-enrollment program Maryland is implementing. Maryland's auto-enrollment policy is expected to increase MHBE 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 Maryland's pass-through funding with the auto-enrollment policy is expected to be greater than it would have been absent the new policy.

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

1. The amount of APTC distributed to Marylanders when there is no auto-enrollment policy in place
2. The population that could be affected by the change in policy—in this case, the number of uninsured who are eligible for PTC—and the potential PTC for which they are eligible
3. The rate at which the uninsured will take up coverage through the MHBE in response to the auto-enrollment policy

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[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] Taxpayers may also request information from the MHBE on behalf of an uninsured spouse or dependent. See Figure A1 in the Appendix for Maryland's individual income tax form. The Maryland Health Benefit Exchange is Maryland's exchange.

4. The timing of coverage take-up (to know when new MHBE enrollees will begin coverage and—by extension—how many months of PTC they would receive)

Because the most recent tax data available is from tax year 2018, OTA will estimate the additional APTC—as a percent of actual 2018 APTC—that would have been expected to be observed in 2018 had the policy been in place that year. OTA will then apply that same percentage adjustment in APTC due to the policy to the with- and without-waiver estimates of APTC for 2020.

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 the 2019 tax filing season. Specifically, OTA extracted 2.6 million federal tax returns filed by Maryland residents for tax year 2018.[3] These returns represented 5.0 million people.[4]

OTA then matched individuals on the tax returns with information from forms 1095-A, 1095-B, and 1095-C.[5] The zip code from the form 1040 was also matched with 2018 premium information from Maryland about the Second-Lowest Cost Silver Plans (SLCSP). 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 Maryland's pass-through funding for its reinsurance program, OTA needs to first estimate the extent to which the auto-enrollment program would induce uninsured individuals to take up on-exchange coverage. OTA narrowed the tax filing population to the uninsured by including 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. Because Maryland's tax form requires taxpayers both to identify themselves as uninsured in order to receive outreach about exchange coverage and to affirmatively request such outreach, individuals who had no insurance (as determined by 1095 information) and who appeared on a 2018 federal tax return that did not report having coverage best represent the taxpayers who will request and receive outreach from Maryland in 2020.

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[3] These returns were extracted in September 2019 and include most returns filed for tax year 2018.

[4] In the extraction, OTA included the filing date and assumed that taxpayers file their state and federal tax returns on the same day. OTA also included in the extraction: the number of exemptions, Modified Adjusted Gross Income (MAGI), filing status (Single, Joint, etc.), zip code, whether taxpayers checked the box for full-year health insurance coverage on the form 1040, and the Social Security Numbers of the taxpayers and any dependents. To clean the data, OTA excluded returns where the zip code on the 1040 did not match the Maryland zip codes that the State provided, which reduced the number of people by about 0.3%.

[5] 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.

<u>Baseline APTC Absent Auto-enrollment</u>

The auto-enrollment policy was not in place in 2018, so the relevant baseline is the actual APTC paid out by Maryland in 2018. Maryland distributed about $744 million in APTC in 2018.[6]

<u>Calculating PTC Foregone By the Uninsured</u>

To calculate the amount of PTC foregone by the uninsured, OTA first aggregated individual SLCSP premiums to the return-level for the uninsured, to aggregate the cost of exchange coverage on a monthly basis for a family.[7] 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.[8] Subsidy-eligible, uninsured individuals in Maryland forewent approximately $165 million of potential PTC in tax year 2018 (see Column 1 of Table 1).[9]

<u>Enrollment Take-up and Timing</u>

To calculate the additional APTC expected to result from Maryland's auto-enrollment policy, OTA first needed to determine how many uninsured people would take-up coverage because the State "nudged" them to do so at the time of filing. Although the exact nudge that Maryland designed has not been implemented before, there is a growing literature regarding the effects of other behavioral nudges on take-up for various programs.

Because the Departments are specifically interested in the extent to which a nudge—like Maryland's auto-enrollment policy—will reduce the number of uninsured individuals, the most closely related study on nudges was conducted by the Internal Revenue Service (IRS) during the 2017 open enrollment season (see Goldin, Lurie, and McCubbin 2019 for more details).[10] In this pilot program, IRS sent letters to a subset of taxpayers who paid a tax penalty for not having maintained health insurance throughout tax year 2016. The study assessed the effect of the IRS mailing on health insurance take-up in 2017 relative to a control group that did not receive a mailing. As a result, the IRS outreach provides a closely related policy to determine the rate at which the uninsured take up coverage in response to a nudge. Among those between 138% and 400% FPL, receiving a nudge from the IRS reduced uninsurance by 2.7% in 2017.[11]

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[6] 2018 APTC was provided by Maryland. The relevant baseline in this case is the total subsidies paid out to Marylanders—both those who file tax returns and those who do not. Those impacted by the Easy Enrollment policy, however, will only be those who file.

[7] 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.

[8] The subsidy cannot, however, be less than zero.

[9] Subsidy-eligible individuals in Maryland are those with MAGI from 138–400% FPL. Because Maryland 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.

[10] Goldin, Jacob, Ithai Z. Lurie, and Janet McCubbin, "Health Insurance and Mortality: Experimental Evidence from Taxpayer Outreach," NBER, working paper, 2019, available at https://www.nber.org/papers/w26533.

[11] See Table 5 of Goldin, Lurie, and McCubbin (2019).

Assuming 2.7% of the subsidy-eligible uninsured population would take up exchange coverage in response to the Maryland auto-enrollment policy, OTA would expect Marylanders to have received an additional $4.6 million in APTC (see Column 2 of Table 1) if individuals were enrolled starting in their first month of uninsurance.

The amount must then be adjusted because the increased insurance coverage is taking place only for the months after which individuals filed their returns. The auto-enrollment program will give people 35 days from the date of filing to apply for coverage. The State will provide individuals information on their subsidy eligibility within 5 days of filing, after which an individual can submit an application and enroll in coverage more or less instantaneously. Taking into account (1) the time it will take people to receive their eligibility determinations and request enrollment and (2) that coverage begins on the first of the following month, OTA assumed that it will take most individuals 15 days from the filing date to enroll for coverage and that coverage would begin the following month. Column 3 of Table 1 shows that, when this assumption is included, in the total additional APTC resulting from the auto-enrollment program is $3.3 million.

Final Factor

Finally, OTA calculated the percentage by which Maryland's premium subsidies would be expected to increase as a result of the Easy Enrollment policy. As noted above, OTA expects that the auto-enrollment program would have resulted in an additional $3.3 million in APTC for 2018. Adding this to the $744 million that Maryland paid out in APTC in 2018, OTA would have expected Maryland to pay out approximately $747 million had the auto-enrollment program been in place that year. This is an increase in APTC of 0.44% due to the auto-enrollment program. Therefore, OTA would expect the auto-enrollment program to increase Maryland's 2020 APTC by 0.44%.

The without waiver APTC, with waiver APTC, and the APTC savings will be estimated as described in the general methodology, and the APTC savings will be increased by 0.44%. 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 Maryland for 2017, or 96.03%) to arrive at the final expected change in PTC subsidy attributable to the waiver.

Tables

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

Month	PTC Foregone by the Uninsured		
	(1) **All foregone PTC, 138–400% FPL**	**(2)** **Adjusting for 2.69% take-up**	**(3)** **Adjusting for lag in coverage start**
January	12,698,187	351,845	0
February	13,007,637	362,877	25,246
March	13,170,186	369,219	117,408
April	13,340,689	380,301	198,778
May	13,547,987	382,168	297,766
June	13,834,285	386,395	325,028
July	14,006,777	383,266	342,668
August	14,150,718	386,016	371,254
September	14,312,901	396,556	396,556
October	14,408,316	397,579	397,579
November	14,431,146	400,421	400,421
December	14,290,761	390,279	390,279
Total	165,199,590	4,586,922	3,262,983

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	864,800	93,329	373,939	329,951	304,813	287,099	271,642	253,582	2,097,825	4,876,980
1	1,746	277	1,435	1,131	963	713	580	511	2,027	9,383
2	1,478	257	1,124	954	662	559	415	321	1,041	6,811
3	1,176	174	1,010	848	612	493	387	252	1,042	5,994
4	1,289	187	975	889	588	448	367	214	864	5,821
5	1,180	199	946	773	585	376	328	200	733	5,320
6	1,093	186	913	867	547	442	323	213	722	5,306
7	1,083	188	873	804	603	403	320	166	672	5,112
8	940	176	823	639	486	375	283	151	547	4,420
9	798	175	765	673	467	401	271	146	489	4,185
10	941	200	869	699	542	392	294	136	532	4,605
11	1,140	182	832	638	469	323	269	135	507	4,495
12	19,121	2,983	14,405	12,304	9,398	6,859	5,547	2,126	8,462	81,205
Total	896,785	98,513	398,909	351,170	320,735	298,883	281,026	258,153	2,115,463	5,019,637

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)									Total
	< 138%	138–150%	150–200%	200–250%	250–300%	300–350%	350–400%	400–450%	> 450%	
0	844,834	93,703	379,404	335,414	308,809	290,034	274,674	253,320	2,098,297	4,878,489
1	1,791	260	1,062	880	680	478	380	305	1,359	7,195
2	1,517	197	916	714	628	440	316	271	1,071	6,070
3	1,558	234	883	801	601	511	338	317	1,066	6,309
4	1,417	184	891	755	611	444	336	252	838	5,728
5	1,388	175	721	648	520	423	322	224	885	5,306
6	1,435	166	745	625	506	378	281	209	775	5,120
7	1,389	184	785	663	443	394	258	192	689	4,997
8	1,358	157	661	582	446	301	247	165	572	4,489
9	1,361	165	611	499	365	304	232	179	614	4,330
10	1,412	120	601	494	377	284	200	126	469	4,083
11	1,275	130	549	444	365	219	237	178	616	4,013
12	36,050	2,838	11,080	8,651	6,384	4,673	3,205	2,415	8,212	83,508
Total	896,785	98,513	398,909	351,170	320,735	298,883	281,026	258,153	2,115,463	5,019,637

Appendix figure:

Figure A1. Screenshot of Maryland's 2019 Individual Income Tax Form