

# The EMPLOYEE'S GUIDE TO HEALTH CARE REFORM'S TAX CREDITS

Calculate Your  
Health Insurance  
Tax Credit



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HUMAN CAPITAL LLC

## Introduction

Beginning in 2014, massive tax credits will become available to help individuals buy health insurance coverage through the new state Health Insurance Marketplaces. If an employee is eligible, these tax credits will cap the cost of his or her family's health insurance at 2 - 9.5% of income.

What's the catch? The catch is that these tax credits are only available via a state individual Health Insurance Marketplace. As a result, starting in 2014, many employees will be able to secure less expensive health insurance coverage on the individual market.

Employees should utilize this guide to determine whether they are eligible for a tax credit in 2014.

This guide includes the following contents:

- ✓ What are the Individual Health Insurance Marketplaces (pg 3)
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- ✓ Health Insurance Tax Credit Table (pg 10)
- ✓ How to Calculate Your Health Insurance Tax Credit (pg 11)
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## What are the Individual Health Insurance Marketplaces?

Starting in 2014, the Individual Health Insurance Marketplaces will make it simple and more affordable for employees to get health insurance that can't be canceled or denied because of a pre-existing medical condition.

When key parts of the health care law take effect in 2014, there will be a new way for employees to get health insurance. The Health Insurance Marketplace is designed to help individuals find health insurance. Starting October 1st, 2013, you will be able to shop online, in person, or by phone for health insurance in every state. A website will provide you with a variety of online tools so you can learn more about the range of health plans that will be offered through your state health insurance marketplace. *Your employer can also designate a health insurance broker (or navigator) to provide you with support services available in person or by phone.*



Your state Health Insurance Marketplace will provide access to coverage that will start in January 2014. Purchasing insurance through a Health Insurance Marketplace will have several advantages including:

1. The ability to make "apples-to-apples" comparisons of health insurance based on metal levels.
2. The ability to receive federal financial assistance that can help lower your health insurance costs.

## Frequently Asked Questions

### Why should I buy health insurance?

Everybody uses the health care system at some point in life. You never know when an accident might happen or your family member will get sick and need to see a doctor. When that day comes, the expenses could be financially devastating.

### Do I have to buy health insurance?

Starting in January 2014, most employees will be required to have health insurance or pay a tax penalty if they don't. Coverage can include employer-provided insurance, individual health insurance, Medicare or Medicaid.

The tax penalty phases in over three years and becomes increasingly severe. In 2014, the penalty will be 1 percent of annual income or \$95, whichever is greater. By 2016, the penalty will be 2.5 percent of income or \$695. This means that if you do not have coverage in 2014, you will be required to pay a tax penalty when you file your taxes at the end of the year.

<i>Health Insurance Penalty Phase-In Schedule (pay the greater of the two amounts)</i>		
<b>Year</b>	<b>Percentage of Income</b>	<b>Set Dollar Amount</b>
2014	1%	\$95
2015	2%	\$325
2016	2.5%	\$695

The total penalty for the taxable year cannot exceed the national average of the annual premiums of a bronze-level health insurance plan offered through the Health Insurance Marketplaces. Health insurance plans will provide proof of coverage for their customers.

Several groups are exempt from the requirement to obtain coverage or pay the penalty, including:

- People who would have to pay more than 8 percent of their income for health insurance
- People with incomes below the threshold required for filing taxes (in 2012, \$9,750 for a single person and \$27,100 for a married couple with two children)
- People who qualify for religious exemptions
- Undocumented immigrants
- People who are incarcerated
- Members of Native American tribes

If you do not have insurance and do not fit into one of these categories, then you will likely pay a tax penalty.

## **How will the Health Insurance Marketplaces help me find health insurance I can afford?**

Each state will have a Health Insurance Marketplace that will allow you to shop online, over the phone or in person to find the right insurance option for your health needs and budget. You will be able to compare different health insurance plans and learn if you qualify for federal financial assistance such as tax credits that will reduce how much you have to pay each month on a sliding scale based on your income.

## **Who can buy health insurance through the state Health Insurance Marketplaces?**

Generally, legal residents of your state who do not have access to affordable health insurance through their employer or another government program will be eligible to purchase health coverage from the state Health Insurance Marketplace.

## What kind of health insurance can I buy through the Health Insurance Marketplaces?

The Health Insurance Marketplaces will offer Qualified Health Plans (QHPs) that are the same high-quality health plans available on the private market today. These QHPs will provide the essential levels of coverage and comply with consumer protections set forth in the Affordable Care Act.


Health insurance companies must offer the same products at an identified price whether they are offered through the Health Insurance Marketplace or in the open market.

In addition to these traditional health plans, the Health Insurance Marketplaces may also offer what is called "catastrophic coverage," which helps protect a person from financial disaster in the event of a serious and expensive medical emergency. Catastrophic coverage is not designed for day-to-day medical expenses such as doctor visits, prescription medicines or even emergency room visits. It is designed to cover excessive medical bills that occur above the limit that you would be able to manage financially. Generally, the catastrophic coverage will be available for those up to age 30.

There will be four basic levels of coverage: platinum, gold, silver and bronze. This ranking system will make it easy to compare plans in the same category or across categories. As the metal category increases in value, so does the percent of medical expenses that a health plan will cover. These expenses happen at the time of health care services – when you visit the doctor or the emergency room, for example. The health plans that cover more of your medical expenses usually have a higher monthly payment but you will pay less whenever you receive medical care.

You can choose to pay a higher monthly cost so that when you need medical care, you pay less. Or you can choose to pay a lower monthly cost so that when you need medical care, you pay more. You can choose the level of coverage that best meets your health needs and budget.

Category	Percentage of expenses paid by health plan	Percentage of expenses paid by individual
Platinum	90%	10%
Gold	80%	20%
Silver	70%	30%
Bronze	60%	40%



## What if I already have health insurance?

If you already have health insurance provided by your employer that is affordable, you do not need to do anything.

If you are paying more than 9.5 percent of your household income toward insurance premiums, then you may be eligible for financial assistance available through the Health Insurance Marketplaces. If you have insurance from your employer and apply for a tax credit, the Health Insurance Marketplace will determine if that health plan is affordable and provides adequate coverage. If that coverage is determined to be affordable and adequate, then you cannot receive a government tax credit for new insurance.

If you have health insurance that you pay for yourself, you may be eligible for financial assistance such as tax credits that can lower your costs. You can purchase the same kinds of health plans from the Health Insurance Marketplaces as you can in the private market, but you can only use tax credits if you buy insurance through the Health Insurance Marketplace.

## **When can I purchase coverage through the Health Insurance Marketplaces?**

The Health Insurance Marketplaces will open October 1st, 2013 and continue enrollment until March 31, 2014. You must purchase health insurance during this open-enrollment period to obtain coverage in 2014. If you have a life-changing event such as the loss of a job, death of a spouse or birth of a child, you would be eligible for special enrollment within 60 days of the event. If you do not enroll during this period, you will not be assured a health plan will cover you – either through the Health Insurance Marketplace or in the private market.

The next open-enrollment period begins in October 2014 for coverage in 2015.

## **How much will it cost to purchase health insurance through the Health Insurance Marketplaces?**

Generally, the cost of health insurance depends on:

1. your age,
2. how much coverage you choose to purchase, and
3. whether you qualify for financial assistance such as tax credits.

The Health Insurance Marketplaces are the only place where you can use these tax credits to make insurance more affordable.

A cost-estimate calculator will help you estimate about how much you will pay per year for insurance coverage.



## **Am I eligible for cost-sharing subsidies?**

In addition to the tax credits that reduce your monthly premium payments, you may be eligible for cost-sharing subsidies that reduce the amount you pay when you get care. Eligibility for subsidies is based on income level and family size. You may be eligible for cost-sharing subsidies if your income is less than about \$27,936 for a single person and less than about \$57,636 for a family of four in 2012, which represents ~250% of the federal poverty level.

Cost-sharing subsidies are offered by the federal government to reduce the amount of money you have to pay for health care expenses such as copayments or coinsurance.

## **What if I have a pre-existing health condition?**

You can still purchase health insurance regardless of any current or past health conditions. Starting in 2014, insurance companies will be required to sell policies to everyone regardless of current or past health issues, and they will be prohibited from using your health status to determine how much your health insurance will cost. You can purchase health insurance regardless of any current or past health conditions, and insurance companies cannot charge you a different premium.

This requirement means whether you buy insurance through a Health Insurance Marketplace or somewhere else, you cannot be denied coverage or even screened based on a pre-existing medical condition. It is important to remember that this requirement only applies during the open-enrollment periods.

## **Do I have to wait until January 1, 2014 to get health insurance?**

If you do not have health insurance, you do not have to wait until the Health Insurance Marketplaces open to get covered. You may be able to purchase private insurance for yourself by contacting an insurance company directly or working with an agent.



## What Is My Individual Health Insurance Tax Credit?

Starting in 2014, massive tax credits will be available to help you buy individual health insurance coverage through new state-based Health Insurance Marketplaces. The tax credits will only be available to you if you enroll in health insurance through your state's Health Insurance Marketplace. If you are eligible for these health insurance tax credits, they will cap your cost of health insurance at 2% - 9.5% of your household income.

### How do I know if I am eligible for tax credits?

Health insurance tax credits are available for individuals and families who meet certain income requirements and do not have access to affordable health insurance through their employer or another government program.

Eligibility for tax credits is based on a standard, called the "federal poverty level," that looks at your household income and the number of people in the household. The size of the tax credit is based on a sliding scale with those who make less money getting a larger financial support to lower the cost of their insurance coverage. Individuals and families who make between 138 percent and 400 percent of the federal poverty level may be eligible for a tax credit. This means that an individual making up to \$45,960 and a family of four earning up to \$94,200 may be eligible for a tax credit.

The amount of the tax credit depends on household income and family size of eligible individuals. Here are some examples of potential costs. Starting in October 2013, the Health Insurance Marketplaces will make available the exact premium and plan choices so you can know exactly what your insurance will cost.

### Here are some quick facts about the Health Insurance Tax Credits:

1. Tax credits lower the cost of your premium.
2. Tax credits reduce the amount of the premium you will pay for insurance.
3. Tax credits help low-income and middle-income individuals and families.
4. Tax credits are available to individuals and families who meet certain income requirements.
5. Tax credits can be applied to the cost of your health plan when you enroll – you do not need to wait until you file a tax return at the end of the year.
6. Tax credits are only available through the Health Insurance Marketplaces. You must enroll in a health plan through the Health Insurance Marketplaces if you want to use your tax credits.
7. Tax credits are paid directly to your health plan. These tax credits are paid by the Health Insurance Marketplace to your health plan to keep your out-of-pocket costs low.
8. Tax credits will be adjusted at the end of the year based on your actual income. At the end of the year, the tax credits may be adjusted if your income is different than you anticipated. This means you will want to notify the Health Insurance Marketplace if your income changes.



## How much will the Health Insurance Tax Credit help me?

The amount of the tax credit depends on your household income and family size. Starting in October 2013, the Health Insurance Marketplaces will make available the exact premium and plan choices so you can know exactly what your insurance will cost.

The tax credits are available when you buy insurance so you do not have to pay all of the premium costs up front and wait for reimbursement.

## What if my income changes?

Any eligible employee without insurance can shop through Health Insurance Marketplaces for coverage, regardless of income. Your income level determines your eligibility for the tax credit to help pay your premium. If your income changes over the year, your tax credit will be adjusted accordingly. If your income increases, you will have to pay the difference at tax filing time. It will be important that you stay on top of any income changes so you have an idea of how much you will owe at tax time.



## Individual Health Insurance Tax Credit Table

The amount of your health insurance tax credit is based on the premium for the second lowest cost "silver plan" in your state's individual Health Insurance Marketplace.

The amount of the tax credit varies with income such that the premium you would have to pay for the second lowest cost silver plan is capped as a percentage of income (adjusted for household size), as follows:

### Income Level Premium as a Percent of Income

<b>Min Income</b> (% of FPL)	<b>Max Income</b> (% of FPL)	<b>Min Premium Cap</b> (% of Income)	<b>Max Premium Cap</b> (% of Income)
0%	133%	0%	2%
133%	150%	3%	4%
150%	200%	4%	6.3%
200%	250%	6.3%	8.05%
250%	300%	8.05%	9.5%
300%	400%	9.5%	9.5%

# How to Calculate Your Health Insurance Tax Credit

## Step 1- Calculate Your Modified Adjusted Gross Income (MAGI)

## Step 2 - Use Your MAGI and Household Size to Determine if You are Eligible for a Tax Credit

## Step 1 - Calculate Your Modified Adjusted Gross Income (MAGI)

### Why Does MAGI Matter?

Modified Adjusted Gross Income is a measure used by the IRS to determine if a taxpayer is eligible to use certain deductions, credits, or retirement plans. "Modified Adjusted Gross Income" (not "Adjusted Gross Income") will be used in determining eligibility for your health insurance tax credits.

The IRS phases out the tax credit as your income increases. By adding MAGI factors back to your AGI, the IRS determines how much you *really* earned. Beginning in 2014, your MAGI determines whether you will be eligible for premium tax credits on the new Health Insurance Marketplaces

### What is Adjusted Gross Income?

Generally, your Adjusted Gross Income (AGI) is your household's income less various adjustments. Adjusted Gross Income is calculated before the itemized or standard deductions, exemptions and credits are taken into account.

### What is Modified Adjusted Gross Income?

Generally, your Modified Adjusted Gross Income (MAGI) is the total of your household's Adjusted Gross Income and any tax-exempt interest income you may have (these are the amounts on lines 37 and 8b of IRS form 1040).

### How to Calculate Your Gross Income (GI)

Your gross income is the money you earned through wages, interests, dividends, rental and royalty income, capital gains, business income, farm income, unemployment and alimony. This is the basis for your AGI calculation.

Gross income includes salary, interest earned, income from investments and basically any income you made through business, trade or investments.

### How to Calculate Your Adjusted Gross Income (AGI)

Once you have gross income, you "adjust" it to calculate your AGI. You make adjustments by subtracting qualified deductions from your gross income.

Adjustments can include items like some contributions to IRAs, moving expenses, alimony paid, self-employment taxes, and student loan interest.

There are many free AGI calculators available online.

### How to Calculate Your Modified Adjusted Gross Income (MAGI)

Once you have adjusted gross income, you "modify" it to calculate your MAGI.

Specifically, Modified Adjusted Gross Income (MAGI) is calculated by adding back certain items to your Adjusted Gross Income including:

- Deductions for IRA contributions.
- Deductions for student loan interest or tuition.
- Excluded foreign income.
- Interest from EE (employee) savings bonds used to pay higher education expenses.
- Employer-paid adoption expenses.
- For most people, MAGI is the same as AGI.

## Step 2 - Use Your MAGI and Household Size to Determine if You are Eligible for a Tax Credit

You can use the following table to figure out if you would be eligible for a tax credit based on your 2013 income.

### 2013 Federal Poverty Line (FPL) Guidelines\*

Household Size	100% of FPL**	400% of FPL
1	\$11,490	\$45,960
2	\$15,510	\$62,040
3	\$19,530	\$78,120
4	\$23,550	\$94,200
5	\$27,570	\$110,280
6	\$31,590	\$126,360
7	\$35,610	\$142,440
8	\$39,630	\$158,520

*\* Different FPL Guidelines apply to Alaska and Hawaii.*  
*\*\* For families/households with more than 8 persons, add \$4,020 for each additional person.*  
 Source: [HHS.gov](http://HHS.gov)

If you are eligible for a tax credit, an online calculator will help you estimate your actual tax credit. This estimate will give you an idea of how much health insurance will cost you and your family in 2014. Insurance rates for 2014 have not yet been finalized so keep in mind that, once you are ready to purchase a health plan, the actual cost will likely change from this estimate.



## Health Insurance Tax Credit Examples

For these calculations, we used the California Health Insurance Marketplace [Tax Credit Calculator](#). The premiums are illustrative examples in 2014 dollars based on estimates.

### Example 1 – Family of 4 with \$90,000 annual income

 <b>YOUR INFORMATION</b>	
Number of people in the household	<input type="text" value="4"/>
<u>Annual household income</u>	<input type="text" value="90,000"/>
Age of the youngest adult in the family (ages 19–64 only)	<input type="text" value="45"/>
<hr/>	
 <b>BREAKING DOWN THE MONTHLY COST</b>	
Estimated monthly premium (without subsidy)	<b>\$1,436</b>
Estimated tax credit from the government	<b>\$723</b>
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Your estimated monthly premium	<b>\$713</b>
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<b>\$ MAXIMUM ANNUAL OUT-OF-POCKET</b>	
Your <u>Out-of-Pocket Limit</u> for Health Care Expenses	<b>\$12,800</b>

### Example 2 – Family of 4 with \$45,000 annual income

 <b>YOUR INFORMATION</b>	
Number of people in the household	<input type="text" value="4"/>
<u>Annual household income</u>	<input type="text" value="45,000"/>
Age of the youngest adult in the family (ages 19–64 only)	<input type="text" value="45"/>
<hr/>	
 <b>BREAKING DOWN THE MONTHLY COST</b>	
Estimated monthly premium (without subsidy)	<b>\$1,436</b>
Estimated tax credit from the government	<b>\$1,215</b>
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Your estimated monthly premium	<b>\$221</b>
<hr/>	
<b>\$ MAXIMUM ANNUAL OUT-OF-POCKET</b>	
Your <u>Out-of-Pocket Limit</u> for Health Care Expenses	<b>\$4,500</b>

### Example 3 – Single Person with \$40,000 annual income

 <b>YOUR INFORMATION</b>	
Number of people in the household	1
<u>Annual household income</u>	40,000
Age of the youngest adult in the family (ages 19–64 only)	35

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 <b>BREAKING DOWN THE MONTHLY COST</b>	
Estimated monthly premium (without subsidy)	\$424
Estimated tax credit from the government	\$107
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Your estimated monthly premium	\$317

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<b>\$ MAXIMUM ANNUAL OUT-OF-POCKET</b>	
Your <u>Out-of-Pocket Limit</u> for Health Care Expenses	\$6,400

### Example 4 – Single Person with \$25,000 annual income

 <b>YOUR INFORMATION</b>	
Number of people in the household	1
<u>Annual household income</u>	25,000
Age of the youngest adult in the family (ages 19–64 only)	35

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 <b>BREAKING DOWN THE MONTHLY COST</b>	
Estimated monthly premium (without subsidy)	\$424
Estimated tax credit from the government	\$280
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Your estimated monthly premium	\$144

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<b>\$ MAXIMUM ANNUAL OUT-OF-POCKET</b>	
Your <u>Out-of-Pocket Limit</u> for Health Care Expenses	\$5,200

**The HRA Software** provides a 100% paperless administration experience to employers and insurance professionals that want to offer better health benefits without a traditional group health insurance plan at lower costs.

**Employers** use HRA software to open and manage their own stand-alone HRA or defined contribution health plan completely online, electronically enroll participants and print welcome kits, and monitor expenses and reimbursements in real-time.

**Employees** obtain their own individual health policies from a designated health insurance broker (see below), submit premium and medical expenses online, via fax, or mail, and receive same-day reimbursement via check, payroll addition, or direct deposit.

**Who is Human Capital?** The management of Human Capital consists of highly educated, "certified professionals" in each area of service including payroll processing, tax compliance, human resources employee benefits, and workers compensation. This includes in-house legal counsel, a certified public accountant, licensed insurance agents, accredited employee benefit specialists, and a certified payroll manager. This level of professionalism is unique in the industry.

Most Professional Administration Companies are defined in the same way as "outsourcing companies". Human Capital is unique in its position as a "resource consultant" because of the fact that customized programs are developed for each client, serving their individual needs. Human Capital is positioned as a "Go To" company for information about proposed regulatory changes, news alerts, recently passed or proposed legislation that could impact an employer in a certain industry. HC's new human resources approach is known as "Pro Market HR".....taking HR into the marketplace being "proactive with clients".

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