Method for Calculation of Section 1332 Basic Health Program "Lookalike" Waiver 2024
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 2024, for states with Basic Health Program (BHP) "lookalike" 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). Given the novel nature of BHP lookalike waivers under section 1332, this methodology is subject to change in future years based on experience and changes in data availability.

See Pass-through Funding Tools and Resources on the CCIIO website[1] for the specific estimate for New York State for 2024.

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.

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 savings 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.

Part I: Estimate of PTC Savings Associated with Individuals Enrolled in Exchange Coverage in the Without-Waiver Baseline

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 2024 pass-through calculations, we used an alternative 2024 midsession review baseline 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.

[1] Section 1332: State Innovation Waivers | CMS

Step 1. The first step is to reweight the national-level model to match 2019 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 2019.[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 2033).

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 2023.[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 (or other applicable 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 2023. 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 2033.

Step 3. The third step in calculating the pass-through payment is to estimate the APTC for 2024, with and without the waiver. This is done using the with- and without-waiver SLCSP premiums provided by the state and reviewed by OACT for 2024. For individual market waivers that reduce PTC by waiving PTC for certain enrollees (such as BHP lookalike waivers), the with-waiver APTC is estimated by excluding from the Exchange population individuals for whom PTC has been waived. We then calculate the APTC savings attributable to the waiver, as in step 2, using a weighted average of APTC and savings across rating areas (or other applicable geographies) 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 2024 for the subset of the Exchange population for which PTC has been waived using our modeling of reconciliation under the Inflation Reduction Act PTC schedule and based on national historic tax and Exchange income data. We then multiply that ratio by the APTC savings. The resulting calculation is the final PTC savings.

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[2] The base model includes an estimate of projected 2019 income as reported to the Exchange as a function of final 2019 income for each tax unit. We exclude from the potential Exchange population individuals with projected income below 200% of FPL in states that have adopted a BHP and below 138% of FPL in states that have expanded Medicaid. We reweight the remaining model observations to match 2019 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 2018 and used for 2019 enrollment).

[3] 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 2023 APTC by state based on data provided by CMS and the state-based Exchanges.

Part 2: Estimate of PTC Savings Associated with Individuals Enrolled in BHP Coverage in the Without-Waiver Baseline

For 1332 pass-through estimates of the BHP savings that correspond to PTC that the Departments project would otherwise have been paid on behalf of individuals enrolled in QHPs, the savings estimates are developed in four steps.

Step 1. The first step is to estimate the with- and without-waiver prospective BHP payments for 2024 consistent with OACT's 2024 BHP payment methodology,[4] which takes as an input premium data and estimated enrollment data submitted by the state. Because OACT maintains the model that calculates BHP payment amounts, for 2024, OACT has provided the prospective BHP payment amount that was paid to New York for Q1 2024. This amount represents the with-waiver prospective BHP payment amount for the 2024 calendar year. OACT has also provided the average quarterly prospective BHP payment amount for the year based on estimated without-waiver BHP enrollment. We then multiply this average quarterly amount by four to determine the without-waiver prospective BHP payment amount for the 2024 calendar year.

Step 2. In the second step, we calculate the savings of prospective BHP payments due to the waiver as the difference, by income bracket, between the with-waiver and without-waiver prospective BHP payments calculated in Step 1.

Step 3. The third step in calculating the pass-through payment is to estimate the impact of retrospectively reconciling the BHP payment based on actual BHP enrollment. To do that, we calculate, by income bracket, the ratio of actual monthly BHP enrollment to estimated monthly BHP enrollment using data submitted by the state for plan year 2022. We then multiply those income bracket-specific ratios by the 2024 prospective BHP payment savings calculated in Step 2 for each income bracket. The resulting amounts are the estimates, by income bracket, of the reconciled BHP payment savings.

Step 4: Lastly, we estimate the share of the reconciled BHP payment savings calculated in Step 3 that correspond to PTC that the Departments project would otherwise have been paid on behalf of individuals enrolled in QHPs. This is done in two sub-steps. First, we calculate the share of BHP enrollees by income bracket that would have been otherwise expected to take up QHP coverage with PTC. We estimate these take-up rates using the Simulation of the Health Insurance Market (SHIM) microsimulation model maintained by OTA, which simulates individuals' choices of health insurance coverage based on demographics and coverage characteristics.[5] We then calculate the share, not to exceed 100%, of BHP payments that correspond to PTC by dividing the market-wide (weighted average) take-up rate by 95%. We multiply this factor by the reconciled BHP payment savings calculated in Step 3, and the resulting calculation is the final BHP payment savings that correspond to PTC and that are to be passed through to the state.

[4] See https://www.medicaid.gov/federal-policy-guidance/downloads/cib091523.pdf.
[5] The SHIM is uses nationwide tax data with updates to reflect the coverage and income distribution of more recent tax data from New York in 2022.