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The American Rescue Plan

Increase in ACA Tax Subsidies

<https://www.cms.gov/newsroom/fact-sheets/american-rescue-plan-and-marketplace>

The American Rescue Plan (ARP) provides critical support for consumers and families who have lost their health insurance by making significant improvements in access to and affordability of health coverage through the Affordable Care Act (ACA) Marketplace for 2021 and 2022. The ARP accomplishes this by increasing eligibility for financial assistance to help pay for Marketplace coverage with lower premiums and expanding access to financial assistance for more consumers.

- Starting April 1, 2021, many people who buy their own health insurance directly through the Marketplace will become eligible to receive increased tax credits to reduce their premiums.
- These savings will lead to decreased premiums, on average, by \$50 per person per month or by \$85 per policy per month. Four out of five enrollees will be able to find a plan for \$10 or less per month after premium tax credits, and over 50% will be able to find a Silver plan for \$10 or less per month.

Background

The tax credit calculation uses a percentage of a consumer's or household's income that is needed to spend on monthly health insurance premiums, which is based on how much the household income compares to the federal poverty levels (FPL). For the consumers and households that are eligible for premium tax credits, an individual or a family's tax credit amount is calculated based on the following factors:

- Household's total expected income for the year.
- Total number of people in the household that file taxes together.
- The premium amount of the second-lowest cost Silver plan in the consumer's area in the Marketplace. This is the "benchmark" plan cost used to calculate premium tax credits. It's not related to which plan a consumer chooses to enroll in.

Consumers and households with incomes below 400% FPL had to spend up to 9.83% of their income to pay for health insurance premiums to be eligible for premium tax credits based on the cost of the benchmark plan. These consumers could then choose to enroll in plans that cost more or less than the benchmark plan, but the amount of their tax credit was based on the percentage of their income and the cost of the benchmark plan's monthly premium.

Consumers and households with incomes above 400% FPL were not eligible to receive premium tax credits, known as the "subsidy cliff."

Changes Under the ARP

This year, individuals and families will be eligible for a temporary increase in premium tax credits, with no one paying more than 8.5%, as opposed to 9.83%, of their household income towards the cost of the benchmark plan or a less expensive plan. This decrease will allow many consumers to be eligible for higher tax credit amounts to help cover their Marketplace health plan premiums.

The ARP also removes the "subsidy cliff," meaning that those individuals and families with household incomes above 400% FPL may still be able to receive tax credits to help cover Marketplace health plan premiums.

Access is further expanded under the ARP by ensuring that taxpaying consumers who receive unemployment compensation during 2021 may also be eligible to receive premium tax credits to help cover Marketplace health plan premiums. These individuals will be treated as if their income were well below 400% FPL, meaning they will be able to purchase an ACA silver plan without having to pay a premium.