The ACA Family Glitch and Affordability of Employer Coverage

Cynthia Cox (https://www.kff.org/person/cynthia-cox/) (https://twitter.com/cynthiaccox) **,**

Krutika Amin (https://www.kff.org/person/krutika-amin/) (https://twitter.com/KrutikaAmin) **,**

Gary Claxton (https://www.kff.org/person/gary-claxton/) , and Daniel McDermott

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Issue Brief

Financial assistance to buy health insurance on the Affordable Care Act (ACA) Marketplaces is primarily available for people who cannot get coverage through a public program or their employer. Some exceptions are made, however, including for people whose employer coverage offer is deemed unaffordable or of insufficient value. For example, people can qualify for ACA Marketplace subsidies if their employer requires them to spend more than 9.83% of his household income on the company's health plan premium.

Currently, this affordability threshold of household income is based on the cost of the employee's self-only coverage, not the premium required to cover any dependents. In other words, an employee whose contribution for self-only coverage is less than 9.83% of household income is deemed to have an affordable offer, which means that the employee and his or her family members are ineligible for financial assistance on the Marketplace, even if the cost of adding dependents to the employer-sponsored plan would far exceed 9.83% of the family's income. This definition of "affordable" employer coverage has come to be known as the "family (http://kff.org/health-costs/perspective/measuring-the-affordability-of-employer-health-coverage/) glitch (https://www.kff.org/faqs/faqs-health-insurance-marketplace-and-the-aca/my-employer-offers-health-benefits-to-me-and-my-family-the-company-pays-the-entire-cost-of-my-coverage-but-contributes-nothing-toward-the-cost-of-covering-my-family-we-cant-afford-to-enroll/)."

While the Obama administration interpreted the ACA as excluding these dependents from subsidy eligibility, some (https://www.healthaffairs.org/do/10.1377/hpb20141110.62257/full/) have (https://www.healthaffairs.org/do/10.1377/hblog20151217.052352/full/) suggested that the IRS interpretation was narrow and that the family glitch can be addressed through administrative action. President Biden's (https://www.whitehouse.gov/briefing-room/presidential-actions/2021/01/28/executive-order-on-strengthening-medicaid-and-the-affordable-care-act/) health care executive order called for federal agencies to review whether administrative policies could improve the affordability of dependent coverage, hinting at a potential administrative fix to the family glitch.

In this brief, we estimate that 5.1 million people fall into the family glitch. A majority of them are children, and among adults, women are more likely to fall into the glitch than men. We explore demographic characteristics of people who fall into the family glitch, present state-level estimates, and discuss how many people may benefit from policies aimed at addressing the family glitch. While estimates of the cost of eliminating the family glitch are beyond the scope of this analysis, the Congressional Budget Office (CBO) has previously projected it would cost the federal government $45 billion over 10 years. Our estimate includes people with incomes above 400% of poverty, who are temporarily eligible for Marketplace financial assistance under the American Rescue Plan Act (https://www.kff.org/health-reform/issue-brief/impact-of-key-provisions-of-the-american-rescue-plan-act-of-2021-covid-19-relief-on-marketplace-premiums/) of 2021 (ARPA) passed in March 2021.

Who falls into the family glitch?

Using 2019 data from the Current Population Survey (CPS), we estimate how many people are affected by the family glitch across three groups: dependents with employer coverage, those with individual market coverage, and those without health insurance. In all three groups, we exclude people who are eligible for a public program (Medicare, Medicaid, the Children's Health Insurance Program, or Basic Health Program). Dependents were considered as falling in the family glitch if a worker in the family had an employer offer of affordable self-only coverage but unaffordable family coverage. More details are available in the Methods section.

One limitation of this analysis is the use of 2019 survey data, which – although it is the most recent year of data available – may not accurately represent current household circumstances during the pandemic and resulting economic downturn. In an earlier analysis, we estimated that, on net, about 2-3 million people lost employer-sponsored coverage (https://www.kff.org/policy-watch/how-has-the-pandemic-affected-health-coverage-in-the-u-s/) between March and September of 2020. Others may have lost their own employer coverage but transitioned onto a family member's employer plan. It is therefore difficult to know whether or how pandemic-related coverage changes have affected the current number of people falling into the family glitch as more recent data are not yet available.

In total, we find more than 5.1 million people fall in the ACA family glitch. The vast majority of those who fall in the glitch, 4.4 million people (85%), are currently enrolled through employer-sponsored health insurance. These families are likely spending far more for health insurance coverage than individuals with similar incomes eligible for financial assistance on the ACA Marketplaces and could spend less on premiums if they could enroll in Marketplace plans and qualify for subsidies. One study estimated that those who fall into the family glitch are spending on average 15.8% of their incomes (https://www.healthaffairs.org/doi/10.1377/hlthaff.2015.1491) on employer-based coverage.

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// Autosize iframe
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var origin = document.createElement( 'a' );
origin.href = e.origin;

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if ( 'embeds.kff.org' !== origin.host )
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document.querySelectorAll('iframe.wpcom-protected-iframe').forEach( item => {
item.scrolling = 'no';
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Of the remaining people who fall into the family glitch, 315,000 people (6% of those falling in the family glitch) are currently buying unsubsidized individual market coverage and 451,000 people (9%) do not have any health insurance.

More than half of those who fall in the ACA family glitch (about 2.8 million people) are children under the age of 18. These are children who do not qualify for the Children's Health Insurance Program (CHIP). About 0.5 million people in the family glitch are ages 18-26. The ACA requires employers to offer coverage to dependents up to age 26, but that coverage does not need to meet affordability standards set elsewhere in the ACA.

People who fall in the family glitch are more likely to be female (54%) than male (46%). Among adults falling in the family glitch (those over the age of 18), 59% are women and 41% are men.

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The states with the largest number of people falling into the family glitch are Texas (671,000), California (593,000), Florida (269,000), and Georgia (206,000).

How many might benefit from a fix to the family glitch?

The American Rescue Plan Act (ARPA) recently (https://www.kff.org/health-reform/issue-brief/impact-of-key-provisions-of-the-american-rescue-plan-act-of-2021-covid-19-relief-on-marketplace-premiums/) passed (https://www.kff.org/health-reform/issue-brief/how-the-american-rescue-plan-act-affects-subsidies-for-marketplace-shoppers-and-people-who-are-uninsured/) by Congress and signed into law by President Biden in March 2021 does not address the family glitch, but it does include provisions temporarily extending the ACA subsidy eligibility beyond 400% of poverty in 2021 and 2022. The bill also increases the affordability of Marketplace coverage by reducing premium contribution requirements for people already eligible for subsidies. ARPA limits Marketplace premium contributions for eligible people to 8.5% of income, which is well below the contributions people in the family glitch are expected to pay toward employer-based coverage (above 9.83% of income). These provisions only last through the 2022 plan year, but at least for that period, a policy fix to the family glitch would extend subsidy eligibility to virtually all the 5.1 million people who fall in the glitch.

However, even if the family glitch is addressed, unless Congress extends the ARPA subsidies beyond 2022, the roughly 1.1 million people who fall into the family glitch and have incomes above 400% of poverty would no longer be eligible for subsidies starting in 2023.

Additionally, the availability of Marketplace tax credits may not be enough to substantially improve affordability for some families, particularly if the worker is not made eligible to join the family members on a subsidized Marketplace plan. Even if the family glitch is addressed, many families may have to contribute toward two health plan premiums – an employer plan for the worker and a subsidized Marketplace plan for the dependents – and these two plans would also have separate deductibles and out-of-pocket maximums.

How might a fix to the family glitch affect insurance markets?

The vast majority (94%) of those who fall into the family glitch are in better health (self-reported as being in good, very good, or excellent health). A similar share of people currently purchasing health coverage directly in the individual market (94%) are in better health. Therefore, the individual market risk pool may remain unchanged or even benefit if these individuals who are currently in employer-sponsored coverage or uninsured were to shift to enrolling through the Marketplaces. The ACA requires that individual market premiums be based on the average cost of insuring consumers in the market and region. If a number of healthy people who currently fall into the family glitch instead were to get insurance through the Marketplaces, the average cost of insuring individual market consumers could decrease, having a downward effect on premiums, all else being equal.

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Discussion

The ACA made insurance coverage more affordable and accessible for millions of people. However, 30 million Americans remain uninsured and millions more underinsured people (https://www.healthsystemtracker.org/indicator/access-affordability/percent-insured/) struggle with the cost of premiums and out-of-pocket expenses. President Biden campaigned on building on the ACA and addressing affordability of coverage more broadly. Although not as ambitious as his campaign pledge to remove the firewall (https://www.kff.org/health-reform/issue-brief/affordability-in-the-aca-marketplace-under-a-proposal-like-joe-bidens-health-plan/) between employer coverage and the Marketplaces altogether, a fix to the family glitch could improve the affordability of health coverage for millions of people.

Our analysis finds 5.1 million people fall into the ACA's family glitch. Most Americans who fall in the family glitch are currently enrolled in employer-based coverage, but some could pay lower premiums if they are allowed to buy subsidized Marketplace coverage. A smaller number of uninsured people may also gain coverage with a fix to the family glitch. The vast majority of those who fall in the family glitch and have individual market coverage would also pay lower premiums with a fix to the family glitch.

The exact number of people who would benefit from a fix to the family glitch will depend in part on how such a policy change is made and other potential changes to the ACA. Since Congress has temporarily expanded ACA subsidies for people with incomes above 400% of poverty and increased the amount of assistance available to nearly all Marketplace shoppers, virtually all of people currently in the family glitch could become eligible for Marketplace subsidies with a fix to the family glitch. However, even if the family glitch is addressed, when the ARPA's temporary subsidies expire, people who fall into the family glitch and have incomes over 400% of poverty would no longer be eligible for financial assistance on the exchange due to their incomes.

For a variety of reasons, some families may prefer to stay on the same employer plan rather than move dependents onto the Marketplace, even if premium subsidies are made available to them. Families will need to consider their total costs of care, including their premium and out-of-pocket costs, and some may benefit from sharing a single employer-sponsored family plan with a shared out-of-pocket limit. This may be the case particularly for families with relatively high health costs and those with higher incomes that would not qualify them for substantial ACA premium subsidies or cost sharing reductions. Provider networks will be another consideration for some families, as they tend to be broader in employer plans relative to the ACA Marketplace plans.

The bulk of people in the family glitch, however, are healthy and relatively low-income. If these low-income family members are allowed to purchase subsidized Marketplace coverage, some would also qualify for financial assistance to bring down their out-of-pocket costs. In contrast to means-tested Marketplace plans, employer plans typically do not reduce premium contributions or cost sharing based on the employee's income, so lower-income families with employer coverage end up paying much more (https://www.healthsystemtracker.org/brief/how-affordability-of-health-care-varies-by-income-among-people-with-employer-coverage/) of their income toward health costs than their higher-income counterparts, on average.

A fix to the family glitch would increase government spending, with the amount depending how many of those who fall in the glitch choose to enroll through the Marketplaces. A Congressional Budget Office (CBO) score of a bill that passed in the U.S. House of Representatives (https://www.congress.gov/bill/116th-congress/house-bill/1425/text) estimates a fix to the family glitch would increase federal spending (https://www.cbo.gov/publication/56434) by $45 billion over 10 years. This estimate does not include the temporarily expanded subsidies under ARPA.

Methods

We used data from the 2019 Current Population Survey (CPS) Annual Social and Economic Supplement (ASEC) to estimate the number of people who might fall in the ACA "family glitch." Premium tax credit eligibility is based on the affordability of self-only coverage offer rather than affordability for the family. To estimate the number of people who would fall in the family glitch, income data were aggregated at the tax unit level.

First, we look at households with employer-sponsored health insurance and the contributions toward family coverage. If the family's contribution toward health insurance as a share of the family's income exceeds the affordability threshold, then family members are considered to fall in the family glitch. Second, we include dependents who have individual market insurance. In this group, we look at whether the dependent has a family member with self-only employer coverage or an offer of employer coverage. Family members with individual market insurance are included as falling in the family glitch if the potential contribution toward employer-based family coverage exceeds the affordability threshold. In the third group, we include uninsured people who have a family member with affordable self-only employer coverage or an offer of affordable self-only coverage through their employer.

In tax units with one employer-sponsored insurance (ESI) family policy and total ESI contributions as a share of total tax income exceeding the affordability threshold, dependents without independent coverage (including through eligibility in Medicare, Medicaid, or Basic Health Program (BHP)) or independent ESI offers were counted as falling into the family glitch.

In tax units without any ESI policies but at least one worker with an ESI offer or only one person with ESI self-only coverage and no other ESI policy holder, we imputed a family coverage contribution. Family contribution and ESI offer were imputed based on groups with family employer coverage by their poverty category (under 250, 250 to 400, 400 to 600, or 600+ percent FPL) and tax unit size. These tax units were limited to those with at least one other person who is uninsured or has individual market coverage but does not have other coverage or eligibility through Medicare, Medicaid, or a BHP. Then, if the imputed contribution as a share of tax income exceeded the affordability threshold, the persons with non-group coverage or who are uninsured but not eligible for Medicare, Medicaid, or a BHP were counted as falling into the family glitch. Households where a family member had self-only employer coverage or offer and that self-only coverage or offer was unaffordable were excluded since those people would not fall in the family glitch.

People with social security income and their premium contributions were excluded from the tax units. For tax units where a person without a tax id (unauthorized people) is the source of an employer offer, the whole tax unit was excluded because there is no eligible person in the tax unit identified as having an offer of ESI. Tax units with multiple ESI family policies were also excluded. Tax units with zero or less tax income and premium contribution of $500 or less were excluded.

To reflect 2021 values, we adjusted tax unit income for inflation and adjusted tax unit premium payments using the average growth in employer sponsored premiums. We used this adjusted premium value to calculate the share of the unit's income that was going toward premiums and compared that percentage to the affordability threshold for 2021. The affordability threshold for 2021 (9.83% (https://www.kff.org/health-reform/issue-brief/explaining-health-care-reform-questions-about-health-insurance-subsidies/)) was used for this analysis.

There are limitations to this analysis. The CPS data imputes employer-based premium contributions for the entire family. We also are unable to estimate how many families would pay less in total premiums with a fix to the family glitch after accounting for contributions toward employer-based coverage (for the worker) and Marketplace coverage (for dependent family members).

Endnotes

Feeds

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