The individual mandate included in health care reform requires that beginning January 1, 2014, all U.S. residents have minimum essential health coverage each month or pay a penalty. Premium tax credits and cost-sharing subsidies to assist low-income individuals with the cost of health benefits are included in this mandate.

**Who is impacted?**
All U.S. residents, unless the individual falls into one of the following exceptions:

- Religious conscience exemption (applies only to certain faiths)
- Incarcerated individuals
- Undocumented aliens
- Individuals who cannot afford coverage (required contribution exceeds 8 percent of household income)
- Individuals with a coverage gap of less than three months
- Individuals in a hardship situation (as defined by the Secretary of the Department of Health & Human Services)
- Individuals with income below the tax filing threshold
- Members of Indian tribes

**Coverage requirements**
Individuals must ensure they and any dependents are covered under minimum essential health coverage, which includes:

- Government-sponsored programs, including Medicare, Medicaid, Children’s Health Insurance Program (CHIP), TRICARE, coverage through Veterans Affairs and health care for Peace Corps volunteers
- Employer-sponsored plans including governmental plans, grandfathered plans and other plans offered in the small or large group market
- Individual market plans, including grandfathered plans
- Individual market or small group market plans purchased in a new marketplace
- Other coverage designated by the Department of Health and Human Services or the Department of the Treasury

**Penalties**
If an individual does not have minimum essential coverage, the annual penalty is the greater of a flat fee per individual or a percentage of the individual’s taxable income.

- The annual flat dollar amount per individual is $95 for 2014; $325 for 2015; $695 for 2016; indexed for inflation after 2016
- The percentage amount is 1 percent for 2014, 2 percent for 2015, 2.5 percent for 2016
- The penalty for a dependent under 18 is equal to half the individual penalty
- Total family penalty is capped at three times the individual penalty
- Other household income-based caps may apply

The penalty is paid as a federal tax liability on income tax returns and is enforced by the Treasury. Individuals who fail to pay the penalty will not be subject to criminal penalties, liens or levies.

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New Marketplaces
As part of the health care reform law, states and/or the federal government will establish new online marketplaces for individuals and small employers to purchase health insurance coverage. The new marketplaces are expected to offer a variety of insurance carriers and coverages that individuals and small employers can select from, with information provided in a common format to simplify coverage comparisons.

Open enrollment in the new marketplaces began October 1, 2013, and runs through March 31, 2014. The first effective date of coverage available in the new marketplaces will be January 1, 2014.

Health insurance carriers will continue to offer coverage to individuals and small employers outside the new marketplaces.

Premium Tax Credits and Cost-Sharing Subsidies
Beginning in 2014, individuals who are enrolled in health coverage purchased through a new marketplace may be eligible for a premium tax credit and/or cost-sharing subsidy.

Premium Tax Credits
Available for people with household incomes, based on the previous year’s tax return, between 100 percent and 400 percent of the Federal Poverty Level (FPL), excluding:

- Individuals eligible for Medicaid, Medicare, CHIP, TRICARE or coverage through Veterans Affairs
- Illegal immigrants
- Individuals eligible for employer-sponsored coverage, unless employer-sponsored coverage is not “adequate” or “affordable”
  - Adequate means coverage meets minimum 60 percent actuarial value
  - Affordable means employee contribution toward the cost of employee-only coverage is not more than 9.5 percent of employee’s income

Amount of credit is based on household income compared to the cost of second lowest Silver plan available in the state marketplace

- Benefits offered, including state mandates, in addition to the required essential health benefits are excluded when determining cost of second lowest Silver plan coverage

The credit is an advanced tax credit that reduces the monthly amount the person is required to pay for coverage

- The Treasury pays the tax credit amount directly to the insurer
- The person pays only the net cost of the coverage after the tax credit is applied
- The amount of credit is reconciled when the person completes their tax return for the tax year for which the person received a premium tax credit
  - This can result in the person owing additional federal taxes if the person received too high of a credit as a result of annual income higher at tax filing than what was originally stated when enrolling in coverage

Cost-sharing Subsidy

- Available for people with household incomes, based on the previous year’s tax return, between 100 percent and 250 percent of the FPL. Exclusions are same as those listed under Premium Tax Credits
- Must purchase a Silver plan
- The subsidy reduces the out-of-pocket costs the person is responsible to pay and can improve the actuarial value of the plan from 70 percent to as high as 94 percent, depending on the person’s income

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