For Public Comment: State-Based Subsidy Design Options

Background

For the last several years, private plan enrollees on Maryland Health Connection have received enhanced financial assistance (in the form of enhanced federal premium tax credits or eAPTC), but this enhanced federal assistance is set to expire at the end of 2025 unless Congress acts. This expiration is projected to raise premiums, reduce enrollment, and threaten market stability– an impact Maryland's state legislature sought to mitigate with the passage of House Bill 1082. HB1082 directs MHBE to implement a state subsidy program using state funds from the existing provider assessment (also the state-based funding source of the State Reinsurance Program) to mitigate the loss of the enhanced federal subsidies. For more detail on eAPTC and the impact of their expiration, see the end of this document.

This document summarizes the subsidy design options that MHBE is releasing for public comment (please see the associated spreadsheet for the full details if desired).

Note that this modeling assumes current law and does not reflect impacts from the recently proposed CMS program integrity rule or federal House reconciliation bill (with one exception: MHBE has done limited modeling of the impact of funding cost sharing reductions - see the second tab of the associated workbook and explanation below). MHBE continues to monitor federal policy developments and will update modeling as needed if current law changes.

Request for Comment

Comments should be sent to mhbe.publiccomments@maryland.gov by **5pm on July 3, 2025.** We welcome feedback on which of these scenarios you think best achieves the subsidy program goals established by the legislature:

- Mitigate reduction in federal tax credits
- Maximize enrollment in the individual market
- Consider state funds necessary to ensure the State Reinsurance Program continues to provide market stability through CY2028
- Account for uncertainties in enrollment in Medicaid, the individual market, and small group market due to changes in state and federal regulation and funding

We also welcome feedback on any other program designs you think we should consider.

Given the short timeframe to develop this subsidy program prior to this year's open enrollment, we encourage commenters to submit comments sooner than the deadline if possible, particularly if you are recommending that MHBE model additional scenarios.

Options for State Subsidy Design

MHBE, in consultation with the Maryland Insurance Administration, worked with contracted actuaries Lewis & Ellis to develop several scenarios for a new state-based subsidy for plan years 2026 and 2027 pursuant to HB1082. Lewis & Ellis have developed several full and partial-replacement scenarios, shown in the first tab of the "MD SRP 10 Year Projections w

State Subsidies" spreadsheet. State funds are likely insufficient to fully replace lost enhanced premium tax credits (gross replacement cost is estimated at $197 million/year).

The modeling considers market impacts, including the impact on net premiums, enrollment, and silver loading; the subsidy program cost; and the impacts on the State Reinsurance Program and Fund, including cost, pass through funding amount, and the goal of maintaining sufficient state funds to support the reinsurance program through 2028 (the current approved waiver period).

	State Subsidy Description	Reinsurance Attachment Point (2026)	2026 Program Cost (M)	2026 Net Cost (M)	2026 Total Ind. Market Enrollment (000s)	Enrollment decline compared to fully replacing ARPA (scenario 2a)	Net Funding EOY 2027 (M)	Net Funding EOY 2028 (M)
1	No replacement	$22k	n/a	n/a	230	24%	$168	$32
2a	Full replacement	$22k	$197	$100	304	n/a	($35)	($196)
2b	Full replacement	$30k	$199	$68	301	1%	$30	($79)
2c	Full replacement	$40k	$191	$35	295	3%	$96	$35
2d	75% Replacement	$30k	$129	$9	282	7%	$151	$97
3	Full to 200, phase out to 250	$22k	$70	+$3	275	10%	$175	$75
4a	Full to 200, phase to 250, 50% 250-400	$22k	$129	$28	292	4%	$113	($34)
4b	Full to 200, phase to 250, 50% 250-400	$30k	$102	+$34	278	9%	$239	$148
4c	Full to 200, phase to 250, 50% >250	$22k	$136	$53	290	5%	$61	($91)
4d	Full to 200, phase to 250, 50% >250	$30k	$132	$10	285	6%	$150	$53

Excel Workbook - First Tab

1. **Baseline.** The first scenario was modeled as a baseline to show the enrollment impact if the state were to take no action to replace the eAPTC after they expire at the end of 2025 and the SRP attachment point rises to $22k in 2026 as currently planned. In this scenario, enrollment would decline by 24% compared to a full-eAPTC-replacement scenario (230,000 versus 304,000).[1] There is no cost associated with this option, as no action would be taken. Net funding left in the reinsurance fund at the end of 2027 would be $168 million, and $32 million at the end of 2028.
2. **Full replacement.** The next set of options explore the cost and enrollment impact of fully or mostly replacing eAPTC for 2026 and 2027, considering varying changes to the reinsurance attachment point.
    a. With **no change to the attachment point** (currently set at a proposed $22,000 for 2026), fully replacing the subsidy in 2026 would cost $197 million (a projected $100M in net cost).[2] Total individual market enrollment would remain at 304,000, but the reinsurance fund would come up short in

[1] Because of the way reinsurance modeling is done, the enrollment estimates represent total enrollment for the entire individual market, including on-Exchange and off-Exchange enrollment. The numbers are not comparable to, for example, the enrollment figures in MHBE's monthly executive reports, because that reporting represents on-Exchange enrollment only.

[2] Net costs account for both the amount of "pass-through" funding the state expects to receive from the Federal government, which represents the amount of APTC the Federal government does not have to pay out due to the lower rates in Maryland attributable to the reinsurance program; and increased costs to the reinsurance program due to more enrollees remaining in the market relative to the baseline scenario. The amount of passthrough is determined on an annual basis and cannot be guaranteed.

2027 and 2028: negative $35 million at the end of 2027 and negative $196 million by the end of 2028.

b. **Raising the attachment point to $30,000** and fully replacing eAPTC would preserve the most enrollment of all the options: only 1% (about 3,000 individuals) are projected to drop coverage due to the slight increase in rates resulting from the higher attachment point in this scenario. This option would cost $199 million in 2026– a slightly higher initial program cost than the option with no change to the attachment point– but the net cost of this option is projected to be lower ($68 million), assuming the state continues to receive Federal pass-through funding. However, this option still results in a negative fund balance by the end of the reinsurance waiver period, with a balance of $30 million at the end of 2027, but negative $79 million by the end of 2028.

c. **Raising the attachment point to $40,000** would also preserve much enrollment with a projected 3% loss (about 9,000 individuals). For 2026, the cost would be $191 million with a net cost of $35 million, again assuming no change to Federal passthrough funds. The reinsurance fund would retain $96 million at the end of 2027 and $35 million at the end of 2028.

d. 75% Replacement with $30,000 attachment point would cost $129 million with a net cost of $9 million. Enrollment would be 7% lower (~22,000 individuals) than in scenario 2a (full replacement, $22k attachment point). The reinsurance fund would retain $151 million by the end of 2027 and $97 million by the end of 2028.

3. **Partial replacement, no change in AP.** The next scenario considers a partial replacement of eAPTC: full eAPTC for the population with incomes up to 200% FPL, a phasing out of eAPTC for the population between 200 and 250% of FPL, and no replacement for those over 250% FPL. With no change in attachment point, we expect a 10% reduction in enrollment (about 29,000 individuals) with this option. This is projected to cost $70 million in 2026 but net of passthrough funding, is projected to earn the state $3 million. The reinsurance fund at the end of 2027 would have a balance of $175 million, and $75 million at the end of 2028.
4. **Partial replacement, varying AP options.** The last set of scenarios consider other options for partial replacement of eAPTC, with and without changes to the reinsurance attachment point.
    a. Fully replacing eAPTC for those with incomes up to 200%FPL, gradually reducing the replacement between 200-250%FPL, and replacing eAPTC at 50% between 250-400%FPL, but **not replacing eAPTC for those with incomes above 400%FPL**, with no change in the attachment point would result in a 4% drop in enrollment (about 12,000 individuals) and cost $129 million in 2026 ($28 million net), leaving a deficit in the reinsurance fund in the last year of the waiver period: $113 million at the end of 2027 and negative $34 million at the end of 2028. This scenario also includes a full replacement of the existing Young Adult Subsidy, which softens the impact of the loss of assistance to younger individuals. On the “Enrollee Impacts” tab of the associated spreadsheet, the tables show the cost impact of Scenarios 4a and 4d broken down by age and income. The tables on the left show that the population most impacted by Scenario 4a would be individuals over age 55 with incomes 400-600% FPL, both by dollar amount and by share of these individuals’ income.
    b. A program with the same parameters as **4(a) above, but with an attachment point of $30,000**, would see an 9% drop in enrollment (about 26,000 people) and cost about $102 million in 2026. In this option, passthrough funding is projected to result in the state receiving about $34

million more than it would spend (net cost turns into a net revenue). This option would retain $239 million in the reinsurance fund at the end of 2027 and $148 million at the end of 2028.

c. Fully replacing eAPTC for those with incomes up to 200%FPL, gradually reducing the replacement between 200-250%FPL, **and replacing eAPTC at 50% for all individuals with incomes above 250%FPL (no cutoff at 400%FPL)** with no change in the attachment point would reduce enrollment by an estimated 5% (14,000 individuals). This would cost $136 million in 2026 ($53 million net). The reinsurance fund would retain $61 million at the end of 2027 but have a negative balance by the end of 2028 (-$91 million).
d. A program with the same parameters as **4(c) above, but with an attachment point of $30,000** would see an estimated 6% reduction in enrollment (19,000 individuals). The cost for 2026 would be about $132 million ($10 million in net cost). The reinsurance fund would end the waiver period with a positive fund balance: $150 million at the end of 2027 and $53 million at the end of 2028. In the "Enrollee Impacts" tab, the Scenario 4d tables on the right show a larger impact to young adults 18-34 in the 150-400% income bracket than in Scenario 4a due to the lack of Young Adult Subsidy replacement and also a larger impact to older individuals over 400% FPL. As a share of these groups' incomes, the cost impact is greatest to young adults in this scenario.

Excel Workbook - Second Tab

The second tab of the associated spreadsheet, "CSRs Funded," shows the impact of the reconciliation bill provision that would fund Cost-Sharing Reductions, effectively ending silver loading and ultimately reducing purchasing power for consumers and federal passthrough funding for the state reinsurance program. This tab shows the baseline projections for the reinsurance program with no state subsidy.

Excel Workbook - Third Tab

The "Enrollee Impacts" tab of the associated spreadsheet show the per member per year impact of Scenarios 4a and 4d broken down by age and income.

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Additional Background: Premium Tax Credit Explained and Expected Impact of Enhancement Expiration

When the Affordable Care Act was originally passed, it established a tax credit intended to reduce the cost of private plans for lower income individuals: the "Premium Tax Credit," which is available on an advance basis paid directly to insurers monthly to reduce consumer premiums; often referred to as "advance premium tax credit" or "APTC." The amount of the tax credit is equal to the difference between the contribution percentage (the federally-determined percentage of a consumer's household income that they must pay towards their health insurance premium) and the premium of their area's second-lowest cost silver plan (SLCSP). Eligibility was originally limited to those with incomes below 400% of the federal poverty line, but the 2021 American Rescue Plan Act (ARPA) removed the income cap for tax credit eligibility. ARPA also increased the amount of tax credit each enrollees would be eligible for by reducing the contribution percentage for each income bracket. These combined changes are referred to as "enhanced federal tax credits" or "eAPTC". The 2022 Inflation Reduction Act extended the changes to APTC through the end of 2025. Unless Congress acts to extend the eAPTC again, tax credit eligibility will revert to pre-ARPA parameters starting in Plan Year (PY) 2026.

Maryland Health Connection enrollment has risen to historic highs in recent years due to the affordability facilitated by the enhanced federal tax credits, and so we predict that enrollment will decline without the eAPTC in 2026. Specifically, approximately 190,000 MHC consumers will lose some or all financial support, and premiums are estimated to increase by an average of 68% for tax credit-eligible consumers. The consumers most likely to drop coverage due to affordability challenges are those who are relatively healthier, which means the remaining risk pool will be sicker and premiums will rise, causing even more enrollees to drop coverage. Loss of eAPTC and subsequent enrollment losses would also drive decreases in federal pass-through funding to support the reinsurance program.

House Bill 1082, which passed during the most recent Maryland Legislative Session, anticipated this threat to affordability and market stability. The bill requires MHBE to establish a state-based subsidy program to mitigate enrollment losses and stabilize the individual market in PYs 2026 and 2027, as long as Congress does not extend the enhanced federal subsidies. Funds for this new subsidy are to come from the state provider assessment. MHBE's Young Adult Subsidy has the same funding source and so the State-Based Subsidy is intended to temporarily replace the Young Adult Subsidy. These state funds are insufficient to fully replace lost eAPTC (would cost $197 million/year gross), so MHBE and the Maryland Insurance Administration worked with actuarial consultants Lewis & Ellis, who modeled several program parameter options.