New Jersey Hospital Association
ISSUE BRIEF

Minimum Coverage Requirements for Individuals

Issue Brief

(Updated 11/6/14)

One of the fundamental tenets of the Patient Protection and Affordable Care Act (ACA) is that affordable health coverage can only be achieved if risk is spread widely. Therefore, beginning in 2014, the law requires everyone to purchase and maintain health insurance coverage (known as minimum essential coverage). There are certain exceptions to the individual shared responsibility requirement, (commonly referred to as the “Individual Mandate”) and failure to purchase coverage can result in a penalty. This Issue Brief provides information on minimum essential coverage, hardship exemptions and the penalty for noncompliance.

Minimum Essential Coverage

The ACA not only requires that an individual maintain health insurance, but also requires that the insurance have certain benchmark coverage. This is called the minimum essential coverage requirement and took effect Jan. 1, 2014. Individuals can satisfy this requirement by purchasing through certain government-sponsored plans; employer-sponsored plans; plans in the individual market; grandfathered health plans; and health benefits coverage such as a state health benefits risk pool, as recognized by the U.S. Department of Health and Human Services (HHS).

This requirement will apply to adults, children up to the age of 26 (who are the responsibility of whomever claims them as tax dependents), seniors (most of whom have minimum essential coverage through Medicare) and legal resident aliens.

Essential Health Benefits

The ACA requires that health plans offered in the individual and small group markets, both inside and outside of the Health Insurance Marketplace, offer a comprehensive package of items and services, known as essential health benefits. Essential health benefits must include items and services within at least the following 10 categories: ambulatory patient services; emergency services; hospitalization; maternity and newborn care; mental health and substance use disorder services, including behavioral health treatment; prescription drugs; rehabilitative and habilitative services and devices; laboratory services; preventive and wellness services; chronic disease management; and pediatric services, including oral and vision care.

Insurance policies must cover these benefits to be certified and offered in the Health Insurance Marketplace. States expanding their Medicaid programs must provide these benefits to people newly eligible for Medicaid.

Essential health benefits are different than minimum essential coverage, which refers to the coverage needed to avoid the individual mandate penalty. Coverage does not have to include essential benefits to be minimum essential coverage, but plans must include these essential benefits in order to be offered in certain marketplaces.

Deadline to Purchase Minimum Essential Coverage

The deadline to purchase health insurance and not be subject to a penalty was March 31, 2014.

Originally, individuals were required to sign up for insurance by the middle of February 2014 to avoid paying a penalty. However, HHS extended the deadline stating that it would be unfair to require individuals to make a penalty payment. As a result, HHS created a special one-time automatic hardship exemption for people who got coverage by March 31.

Individuals who did not sign up for coverage by the March 2014 deadline will have to wait until the next open enrollment which will begin Nov. 15, 2014, and end Jan. 15, 2015. Open enrollment was originally scheduled for Oct. 15, 2014 through Dec. 7, 2014, but was altered because HHS wanted to allow insurers more time to evaluate their experiences during the 2014 plan year and allow them to take into account those who may enroll late, including young adults, before setting 2015 rates.

Shared Responsibility Payment for Not Maintaining Essential Coverage

Individuals who have failed to purchase insurance for themselves and their nonexempt dependents will be required to pay a penalty when filing their income taxes. The individual penalty amount in 2014 will be 1 percent of an individual's annual income or $95 per year, whichever is higher, which will be capped at $2,448. The penalty for uninsured children will be $47.50 per child, and the maximum a family will pay in 2014 will be $285. That family penalty will be capped at $12,240 for a five-member family in 2014. In 2014, for individuals earning more than $19,650, the penalty will be one percent of their annual income. For those making between $10,150 and $19,650, the penalty will be $95. For those earning less than $10,150, there will be no penalty. The penalty payment will be due when individuals file their 2014 taxes, which will typically occur by April 15, 2015.

This penalty will gradually increase each year as follows:

Year	Individual Income	Tax
2014	1 percent of taxable income or	$95 per adult & $47.50 per child up to $285 per family

2015	2 percent of taxable income or	$325 per adult & $162.50 per child up to $975 per family
2016	2.5 percent of taxable income or	$695 per adult & $347.50 per child up to $2,085 per family
After 2016	The penalty will be increased annually by the increase to the cost of living.	

However, it is important to note that even if an individual pays the penalty, he or she is still responsible for 100 percent of healthcare costs.

An individual is treated as having coverage for a month so long as he or she has coverage for any one day of that month. For example, an individual who starts a new job on March 27 and is enrolled in employer-sponsored coverage on that day is treated as having coverage for the month of March.

Under the ACA, a gap in health coverage that lasts less than three months qualifies as a short coverage gap, which does not subject an individual to the penalty. An individual must sign up by the 15th of a given month for coverage to start the first day of the next month. However, if an individual enrolled in a health insurance plan through the Marketplace by March 31, 2014, he or she will not have to pay a penalty for any month before coverage begins.

Exemptions

The ACA specifies nine categories of individuals who are exempt from purchasing insurance:

- Individuals who cannot afford coverage;
- Individuals with household income below the filing threshold;
- Members of federally recognized Indian tribes;
- Individuals who experience a hardship;
- Individuals who experience a short coverage gap;
- Members of certain religious sects;
- Members of a healthcare sharing ministry;
- Incarcerated individuals; and
- Individuals who are not U.S. citizens or U.S. nationals or an alien lawfully present in the U.S.

The HHS regulations also provide that the hardship exemption is available on a case-by-case basis for people who face other unexpected personal or financial circumstances that prevent them from obtaining coverage. This would include circumstances such as the lowest-priced coverage available would cost more than eight percent of an individual's household income.

Individuals may qualify for the hardship exemption for the following circumstances:

- An individual was homeless;
- An individual was evicted in the past 6 months or was facing eviction or foreclosure;
- An individual received a shut-off notice from a utility company;
- An individual recently experienced domestic violence;
- An individual recently experienced the death of a close family member;
- An individual filed for bankruptcy in the last 6 months;
- An individual had medical expenses in the last 24 months;
- An individual experienced unexpected increases in necessary expenses due to caring for an ill, disabled or aging family member;
- An individual expects to claim a child as a tax dependent who's been denied coverage in Medicaid and CHIP, and another person is required by court order to give medical support to the child. In this case, an individual would not have to pay the penalty for the child;
- As a result of an eligibility appeals decision, an individual is eligible for enrollment in a qualified health plan (QHP) through the Marketplace, lower costs on their monthly premiums, or cost-sharing reductions for a time period when the individual wasn't enrolled in a QHP through the Marketplace; or
- An individual was determined ineligible for Medicaid because the state didn't expand eligibility for Medicaid under the ACA.

<u>Additional Hardship Exemption</u>

Recently, HHS announced a new hardship exemption. Individuals who obtained health plans from the Marketplace after March 31, 2014 will not automatically face a penalty under the individual mandate. HHS issued guidance indicating that individuals who enrolled in Qualified Health Plans (QHP) through the Marketplace prior to the close of the initial open enrollment period are eligible for a hardship exemption from the shared responsibility payment for the months prior to the effective date of the individual's coverage

<u>Claiming an Exemption</u>

There are various methods to obtain exemptions depending on the type of exemption being sought. Religious conscience exemptions are available by going to the Health Insurance Marketplace and applying for an exemption certificate. The exemptions for individuals who are not lawfully present, individuals with household income below the filing threshold, individuals who cannot afford coverage, and individuals who experience a short coverage gap can only be claimed as part of filing a federal income tax return. Exemptions for members of a healthcare sharing ministry, individuals who are incarcerated, and members of federally-recognized Indian tribes are available by either going to the Health Insurance Exchange and applying for an exemption certificate or by claiming the exemption as part of filing a federal income tax return. Finally, there are two options for applying for an exemption based on coverage being unaffordable; by claiming the exemption when filing a 2014 federal tax return or by applying for the exemption in the Health Insurance Marketplace.

If an individual's income is low enough that he or she will not be required to file taxes, that individual will not need to apply for an exemption. This is true even if an individual files a return to get a refund of money withheld from a paycheck.

If an individual has a gap in coverage of less than 3 months, or the individual is not lawfully present in the U.S., he or she will not need to apply for an exemption. This will be handled when filing taxes.

Conclusion

Under the ACA, individuals can secure an affordable health plan through the Health Insurance Marketplace. Individuals will have more choices and control over their health coverage whether an individual is uninsured, have been denied coverage in the past or wants to explore new health coverage options.