



Health Care Reform **Bulletin**

IRS Releases Figures for Determining Individual Mandate Penalty Cap in 2014

Provided by Clarke & Company Benefits, LLC

Quick Facts

- IRS Rev. Proc. 2014-46 provides the 2014 monthly national average bronze plan premium.
 - This amount serves as the cap for any penalty owed under the ACA's individual mandate.
- In 2014, the individual mandate penalty is capped at:
- **\$2,448** per year for each individual; and
 - **\$12,240** per year for a family with five or more members.

Based on the ACA's permitted rating factors, in 2014, the monthly national average premium for bronze-level QHPs is \$204 per individual and \$1,020 for a family with five or more members.

The Affordable Care Act (ACA) requires most individuals to obtain acceptable health insurance coverage for themselves and their family members or pay a penalty. This rule, which took effect in 2014, is often referred to as the individual mandate. The penalty amount that an individual will have to pay is capped at the annual national average bronze plan premium.

On July 25, 2014, the Internal Revenue Service (IRS) released [Revenue Procedure 2014-46](#) (Rev. Proc. 2014-46), which provides the 2014 monthly national average premium for bronze level plans. For 2014, the monthly national average premium for bronze-level qualified health plans (QHPs) is:

- **\$204** per individual (**\$2,448** annually); and
- **\$1,020** for a family with five or more members (**\$12,240** annually).

Rev. Proc. 2014-46 is effective for the 2014 taxable year.

Background

Beginning in 2014, individuals who do not obtain minimum essential coverage for one or more months will be liable for a penalty under the individual mandate (unless an exception

applies). The penalty will be calculated and paid when the individual files his or her federal income tax return for the year.

The penalty amount will be phased in over a three-year period, and is the greater of two amounts: a flat dollar amount or a percentage of the individual's income. However, the penalty amount that an individual will have to pay is **capped at the annual national average bronze plan premium** for the individual's family size.

This cap is based on the annual national average premium for QHPs that:

- Have a bronze level of coverage;
- Would provide coverage for the individual's family members who are liable for a penalty under the individual mandate; and
- Are offered through Exchanges for that plan year.

Methodology Used to Determine the National Average Premium Amount

Under the ACA, non-grandfathered health insurance coverage, including qualified health plans offered through Exchanges, can only



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consider the following four factors when setting individual premium rates:

1. The rating area;
2. Age;
3. Tobacco use; and
4. Family size.

Based on these factors, as described below, the monthly national average bronze plan premium for an individual who does not obtain minimum essential coverage is determined using a **population-weighted average of the premium in each county** (or county equivalent) that would be charged to a **21-year old individual** who **does not use tobacco**.

In determining a taxpayer's monthly national average bronze plan premium for a family, the age-21 non-tobacco user premium described above is multiplied by **the number of family members who are liable for a penalty**, up to a maximum of five.

Rating Area

A rating area is a geographic region that represents all or a portion of a state and is established by the state or HHS. Although rating areas are generally defined to include one or more counties, they are not necessarily drawn on the basis of county lines. However, in almost all cases, individual counties fall entirely within a single rating area.

Thus, the monthly national average bronze plan premium is based on **the bronze-level QHPs available to qualified residents of each county** (or county equivalent) in the United States.

To limit the effect of outlier premiums, the **median bronze-level premium** in each county is used. To account for variations in population between counties (or county equivalents), each county's (or county equivalent's) median premium is **weighted based on population**, as determined by the most recent population estimates available from the Census Bureau.

Age

Although the individual mandate does not specify any age to use in finding the national average bronze plan premium, HHS age rating regulations distinguish between coverage for individuals who are age 21 and older (adults) and coverage of individuals under age 21.

Premium rates for adults age 21 and older may vary by age, up to 3:1 for adults in the same rating area, and consistent with a uniform age curve established by the state or HHS. However, premiums for individuals under age 21 may vary only if supported by actuarial evidence.

According to the IRS, premiums for individuals aged 21 are generally:

- Somewhat higher than premiums for individuals under age 21; and
- Lower than premiums for most other adults.

To simplify the individual mandate penalty calculation, and to help ensure that the penalty cap generally does not materially exceed an individual's actual cost of coverage, the monthly national average bronze plan premium is based upon the **premium charged to individuals aged 21**.

Tobacco Use

Under the ACA, premiums may also vary for individuals who use tobacco, up to 1.5:1. However, according to the Centers for Disease Control and Prevention (CDC), most individuals in the United States are not tobacco users.

Thus, the monthly national average bronze plan premium does not take into account the tobacco-use rating factor. According to the IRS, this is to ensure that higher health care costs associated with tobacco use do not raise the individual mandate penalty amount for the majority of taxpayers who do not use tobacco.

Family Size

According to the IRS, premiums for family coverage (coverage of more than one family



member) are generally determined by adding the premiums for each family member together, based on the number of family members covered under the plan. However, under the ACA, the premiums for no more than the three oldest covered individuals under age 21 may be taken into account, and generally no more than five family members are counted when determining the total family premium.

National Average Premium Amount

Thus, the monthly national average bronze plan premium for an individual who does not obtain minimum essential coverage is determined using a **population-weighted average of the premium in each county** (or county equivalent) that would be charged to a **21-year-old individual who does not use tobacco**.

In determining a taxpayer's monthly national average bronze plan premium for a family, the age-21 non-tobacco user premium described above is multiplied by **the number of family members who are liable for a penalty**, up to a maximum of five.

Based on these factors, for 2014, the monthly national average premium for bronze-level QHPs is **\$204** per individual and **\$1,020** for a family with five or more members. This means that, annually, the individual mandate penalty amount is capped at **\$2,448 per year** for each individual, and **\$12,240** per year for a family with five or more members.

