Issue Brief:

The Importance of Extending the Enhanced Premium Tax Credits

The number of people in the United States with health coverage is currently higher than it's ever been. The Center for Medicare and Medicaid Services (CMS) recently reported that a record-breaking 24.2 million consumers have signed up for plan year 2025 coverage in the federal and state marketplaces, including 3.9 million new consumers.[i]

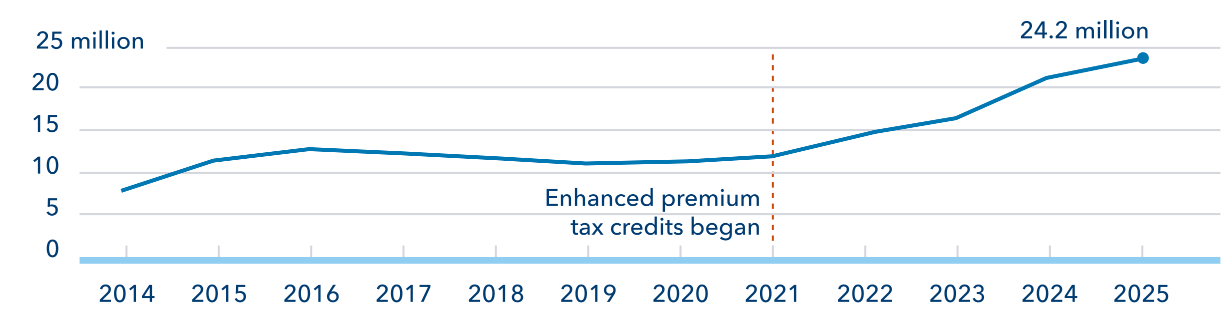
Thanks to Congress passing enhanced premium tax credits, millions (almost 20 million in 2024) of low- and middle-income individuals, small business owners, and self-insured workers were able to afford health coverage and care in the past few years. However, this progress is in jeopardy: without Congressional action, these enhanced premium tax credits are set to expire at the end of 2025, and nearly everyone with marketplace coverage will face increased premiums. **It is critical that Congress extend the enhanced premium tax credits this year.**

What are enhanced premium tax credits?

The federal and state marketplaces are online platforms where people can shop for and buy health coverage. They are open to U.S. residents who purchase coverage on their own (not through their employer or government programs like Medicare and Medicaid). Premium tax credits bring down monthly premium payments to more affordable levels for millions of people and families with low or moderate incomes. In 2021, Congress "enhanced" these tax credits by expanding eligibility and making them more generous to make coverage even more affordable for more people. In fact, thanks to enhanced premium tax credits, 4 out of 5 federal marketplace consumers can find a plan for $10 or less per month[ii] this year.

Five Consecutive Years of ACA Marketplace Enrollment Growth, Spurred by Affordability and Outreach Efforts

Affordable Care Act (ACA) marketplace open enrollment plan selections



Source: Health Insurance Marketplace Open Enrollment Reports, ASPE, HHS[iii]

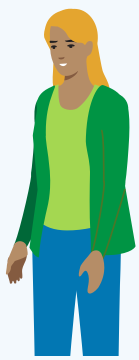
Before 2021, premium tax credits were available to people with incomes between 100 and 400% of the Federal Poverty Level (FPL) – which at the time was $12,760 - $51,040 for an individual and $26,200 - $104,800 for a family of 4. Premium tax credits ensured that enrollees in this income range would not pay more than a certain percentage of their total household income for a benchmark plan premium.[1]

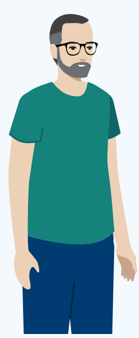
With passage of the American Rescue Plan Act in 2021, Congress enhanced these premium tax credits, allowing more Americans to afford coverage through the marketplaces in two ways:

- **Enhanced assistance for eligible enrollees:** For those already eligible for premium tax credits (people earning 100 – 400% FPL), financial assistance became more generous and based on a sliding income scale.

Examples of enhanced assistance for a marketplace benchmark silver plan in 2025

In Los Angeles, California, a 30-year-old making $35,000 a year is currently eligible for a $96 per month premium. Without enhanced premium tax credits, this person would be paying $197 – an extra $101 per month.





In Atlanta, Georgia, a 64-year-old making $25,000 a year is currently eligible for a $13 per month premium. Without enhanced premium tax credits, this person would pay an extra $76 per month.

*These are estimates based on the KFF calculator. You must go to the marketplace for official savings.[iv]

- **Extended to more middle-income Americans:** Enrollees earning over 400% FPL became newly eligible for premium tax credits if their benchmark premium exceeds 8.5% of their household income. This eliminated the so-called "subsidy cliff."

What was the subsidy cliff?

Before the premium tax credits were enhanced in 2021, a person who made 400% FPL or lower was eligible for a subsidy that made health coverage affordable on a sliding scale based on their income. However, if they made just over 400% FPL, all assistance was eliminated. For example, a 60-year-old making $50,000 (just below 400% FPL) would pay $410 per month for a benchmark silver plan. But if she made $52,000 (just over 400% FPL) she would become ineligible for assistance and her premium for the same plan would jump to $957 per month. This perverse incentive punishes hard work: under this example – with a subsidy cliff in place – she would be better off not taking a $2,000 raise.[v]

In 2022, Congress extended the enhanced premium tax credits through 2025. They are set to expire at the end of this year unless Congress takes action soon.

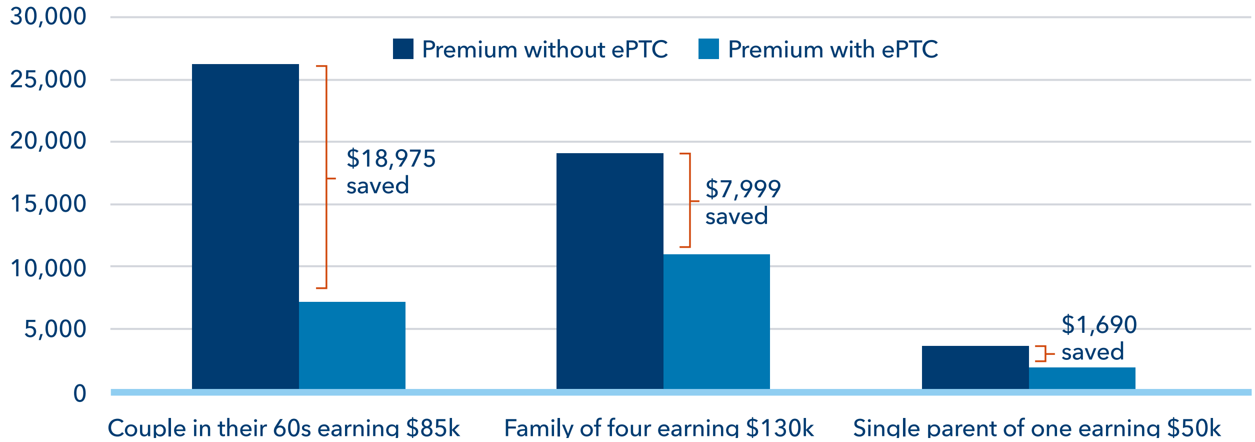
What happens if enhanced premium tax credits are not extended?

Premiums will go up

If the enhanced premium tax credits aren't extended, nearly everyone who buys coverage via the state and federal marketplaces – whether they qualify for premium tax credits or not – will face significantly higher monthly payments.

[1] A benchmark plan is the second lowest-cost silver plan in a region. There are four different levels – or metal tiers – offered in a marketplace.

Premiums will increase sharply if Congress takes away savings
Annual premium for silver plan



Source: KFF, CEA calculations[vi]

Consumers eligible for a premium tax credit in 2024 experienced an average yearly premium savings of about $700 due to enhanced premium tax credits,[vii] and these savings will evaporate if the premium tax credits are not extended.

According to the Congressional Budget Office (CBO), premiums are estimated to rise by an average of 7.9% between 2026 and 2034 in the marketplace if premium tax credits are not extended.[viii] Why? Health insurance is most functional when many healthy people enroll to help offset higher costs of enrollees who are not as healthy, a concept called risk pooling. Due to enhanced premium tax credits, a record number of people have enrolled in coverage, and strong enrollment means a strong marketplace with lower costs for everyone.

However, if the enhanced premium tax credits expire, healthier people may leave the market at a higher rate than those with more significant health care needs. With fewer healthy people remaining in the risk pool, premiums go up for the entire individual market.

People will lose coverage

Without an extension this year, CBO estimates the number of uninsured people will rise by 2.2 million in 2026, rising to 3.7 million in 2027.[ix]

A snapshot of select populations impacted:

- **Youth:** Approximately 2.8 million young adults ages 18-34 are expected to leave the individual market – a drop of over 47% – if enhanced premium tax credits are not extended.[x]
- **People with chronic conditions:** Of the 8.3 million enrollees with at least one of 6 major chronic conditions,[2] 1.7 million are projected to become uninsured if enhanced premium tax credits are not extended.[xi]
- **Older adults:** After significant improvements in the rate of uninsured older adults over the last decade,[xii] 1.6 million older adults (ages 55-64) are projected to leave the individual market if enhanced premium tax credits are not extended.[xiii]

[2] Arthritis, Asthma, Cancer, Cardiovascular Disease, COPD, and Diabetes

Small businesses will face hardship

Losing enhanced premium tax credits will also have an impact on our economy and workforce, especially small businesses. Marketplace coverage is an important source of coverage for small businesses and entrepreneurs. About 3.3 million small business owners and self-employed workers were covered by marketplace plans in 2022, and 82% of them received a premium tax credit.[xiv]

Enhanced premium tax credits have helped to reduce "job lock" (a concept that explains why employees often stay in jobs they would otherwise leave – for example, to start their own business – because they do not want to lose their benefits) by providing entrepreneurs the financial stability and flexibility needed to grow new businesses.

Uncompensated care will rise

Expiration of the enhanced premium tax credits would result in a $6.3 billion increase in uncompensated care due to the increased number of uninsured.[xv]

Spotlight: California Workforce

- More than 1 in 4 Covered California enrollees are self-employed. (Covered California is California's state marketplace).
- More than 90% of self-employed enrollees will see premiums go up if enhanced premium tax credits expire.[xvi]

What can be done?

We urge Congress to act soon to extend the enhanced premium tax credits so that families and small businesses can afford health coverage and get the care they need, regardless of their zip code or income.

If Congress extends the enhanced tax credits from 2026 through 2034, CBO estimates that an average of 3.8 million more people will be insured.[xvii]

If Congress doesn't act, premiums will be higher and millions of Americans will enter 2026 open enrollment with great uncertainty about whether they can rely on the enhanced tax credits to make coverage — and access to care — affordable.

All people deserve access to high-quality, affordable health coverage and care. Working together, the private sector and our public leaders can get us there.

References

Full citations for this document can be found at: kpihp.org/references-ics.