



COVERED CALIFORNIA POLICY AND ACTION ITEMS

July 28, 2025 Board Meeting

2026 STATE PREMIUM SUBSIDY PROGRAM DESIGN

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LOSS OF ENHANCED PREMIUM TAX CREDIT AT THE END OF 2025 COULD RESULT IN SUBSTANTIAL REDUCTION IN COVERAGE

- ❑ The Inflation Reduction Act (IRA):
 - Increased the amount of premium assistance for all consumers eligible to receive advanced premium tax credits (APTC),
 - Offered high-value plans with \$0 net premiums for the marketplace's lowest income consumers, and
 - Eliminated the “subsidy cliff” for middle-income consumers above 400 percent of the federal poverty level (FPL), who were previously ineligible for premium assistance.
- ❑ Since the implementation of the enhanced premium tax credit, marketplace enrollment has grown substantially, with the 2025 Open Enrollment Period ending with nearly 2 million consumers enrolled in coverage. As of plan year 2025, the IRA enhanced premium tax credit is worth approximately \$2.1 billion for Covered California members.
- ❑ If the IRA enhanced premium tax credit is not extended, **California can use the \$190 million appropriated from the Health Care Affordability Reserve Fund (HCARF) for plan year 2026** to reimplement a state premium subsidy program to offset coverage losses.

KEY DYNAMICS FOR CONSIDERATION IN DESIGNING A PREMIUM SUBSIDY PROGRAM

The program must be designed to fit a fixed appropriation of \$190 million.

Trade-offs between consumer segments

- ❑ Providing state premium subsidy to more enrollee segments spreads limited funding available, lowering the value of assistance for each consumer.
- ❑ Investing in specific consumers segments (i.e., maintaining \$0 for low-income enrollees versus offering limited assistance to the cliff population) can increase the value for a subset of enrollees.

Cost and fiscal sustainability

- ❑ The enhanced premium tax credit has resulted in significant enrollment gains, which makes reinstituting the 2021 state premium subsidy program design unaffordable under the \$190 million appropriation.
- ❑ State expenditures are more predictable when premium assistance is provided on top of existing ACA subsidies (for consumers under 400% FPL) because state costs are insulated from annual premium increases. However, state premium assistance for the cliff population must absorb those increased costs year-over-year, or the program must become less generous to fit a fixed budget.

ADDITIONAL CONSIDERATIONS GIVEN PROPOSED FEDERAL CHANGES TO MEDICAID AND MARKETPLACE COVERAGE

- ❑ Proposed Medicaid eligibility changes in the federal budget reconciliation bill would implement more frequent eligibility checks and impose work requirements. Changes to Marketplace eligibility restrict financial assistance for many immigrant groups. These provisions would be effective beginning in 2027 so are not included in our 2026 enrollment assumptions.
- ❑ However, our enrollment modeling does account for the fact that churn from Medi-Cal continues to be a significant source of enrollment. Covered California's automatic enrollment program for individuals losing Medi-Cal, as implemented under Senate Bill 260, has been successful in keeping people covered following a change in eligibility for Medi-Cal.
 - In the early months of 2025, under SB 260, nearly 20,000 consumers have enrolled monthly following loss of Medi-Cal. Most are low-income consumers, with half having incomes below 200% FPL.

INCREASE IN ENROLLMENT SINCE INTRODUCTION OF THE ENHANCED PREMIUM TAX CREDIT

	2019: ACA Tax Credit Only		2020: Introduction of State Premium Subsidy Program		2025: Enhanced Premium Tax Credit under the IRA	
	Count	Share of Total	Count	Share of Total	Count	Share of Total
Under 150% FPL	240,970	17%	242,940	16%	294,190	15%
150% FPL to 200% FPL	394,250	29%	401,470	27%	548,570	28%
200% FPL to 250% FPL	230,030	17%	249,060	17%	286,930	14%
250% FPL to 400% FPL	378,720	27%	405,480	27%	524,080	26%
Over 400% FPL	60,550	4%	97,190	7%	241,670	12%
Unsubsidized	78,730	6%	80,130	5%	84,060	4%
Grand Total	1,383,250	100%	1,476,270	100%	1,979,500	100%

EQUITY CONSIDERATIONS FOR PROGRAM DESIGN

While Covered California serves a diverse set of consumers, there can be significant demographic variation among the income groups.

Low-income consumers are more likely to be Latino or Asian/Pacific Islander, especially when compared to middle-income consumers.

	Under 150% FPL	150-200% FPL	200-250% FPL	250-400% FPL	Over 400% FPL	Total
Asian/Pacific Islander	37%	25%	22%	22%	21%	25%
Black or African American	3%	3%	3%	2%	2%	3%
Latino	27%	36%	37%	29%	18%	30%
Other	10%	10%	9%	11%	12%	10%
White	24%	24%	29%	36%	47%	32%
Total	100%	100%	100%	100%	100%	100%
<i>(nonrespondent)</i>	<i>17%</i>	<i>16%</i>	<i>16%</i>	<i>20%</i>	<i>20%</i>	<i>18%</i>

OPTIONS MODELED AND PATH TO A FINAL DESIGN

In planning for potential state subsidy designs, we explore options to fit a program budget of \$190 million focusing on four approaches:

1. Apply the funding to maintain Inflation Reduction Act (IRA) enhanced premium tax credit levels, starting with the lowest-income enrollees. In this option, subsidies are available to enrollees up to 165% FPL.
2. Apply funding to a greater segment of low-income enrollees, but at less generous subsidies than the Inflation Reduction Act. In this option, subsidies are available to enrollees up to 200% FPL.
3. Apply the funding to support middle-income enrollees starting at 400% FPL, who will lose subsidies entirely if the enhanced premium tax credits expire. In this option, subsidies are available to individuals between 400 and 460% FPL.

We also tested the feasibility of splitting the funding between low-income enrollees and middle-income enrollees starting at 400% FPL.

Using evidence from health economics literature, we find that options that support lower-income individuals shows higher coverage retention.

SUMMARY OF PROGRAM DESIGN OPTIONS

		Projected Enrollment (A)	Difference in Enrollment Relative to IRA Extension (B)	Average State Subsidy Amount (C)	Count of Enrollees Receiving State Subsidies (D)	Share of enrollees receiving state subsidies among eligible (E)
	No State Subsidies – ACA baseline	1,616,000	(336,000)	-	-	-
(1)	0% required contribution up to 150% FPL + additional subsidies to 165% FPL	1,694,088	(258,000)	\$39	374,000	82%
(2)	Lower required contribution for consumers under 200% FPL	1,661,000	(291,000)	\$24	642,000	86%
(3)	2021 design for cliff population up to 460% FPL	1,640,000	(312,000)	\$392	38,000	79%

ENROLLEE REQUIRED CONTRIBUTION TOWARD A BENCHMARK PLAN BY FPL GROUP

	ACA	IRA	Option 1 Up to 165% FPL	Option 2 Up to 200% FPL	Option 3 Over 400% FPL
Under 138% FPL	2.10%	0%	0%*	0.85%*	2.10%
138-150% FPL	3.14% - 4.19%	0%	0%*	1.89% - 2.94%*	3.14% - 4.19%
150-165% FPL	4.19% - 4.91%	0% - 0.6%	3.19% - 3.91%*	2.94% - 3.74%*	4.19% - 4.91%
165-200% FPL	4.91% - 6.60%	0.6% - 2.0%	4.91% - 6.60%	3.74% - 5.60%*	4.91% - 6.60%
200-250% FPL	6.60% - 8.44%	2.0% - 4.0%	6.60% - 8.44%	6.60% - 8.44%	6.60% - 8.44%
250-300% FPL	8.44% - 9.96%	4.0% - 6.0%	8.44% - 9.96%	8.44% - 9.96%	8.44% - 9.96%
300-400% FPL	9.96%	6.0% - 8.5%	9.96%	9.96%	9.96%
400-460% FPL	100%	8.5%	100%	100%	9.96% - 14.4%*
Over 460% FPL	100%	8.5%	100%	100%	100%

Required contribution is the percent of household income an enrollee must pay toward the cost of the benchmark plan, defined as the second-lowest cost Silver plan available to them. The enrollee's tax credit is the difference between the required contribution dollar amount and the gross premium of the benchmark plan. Table values are based on federal required contribution [percentages](#) as lowered by state funding where denoted by (*).

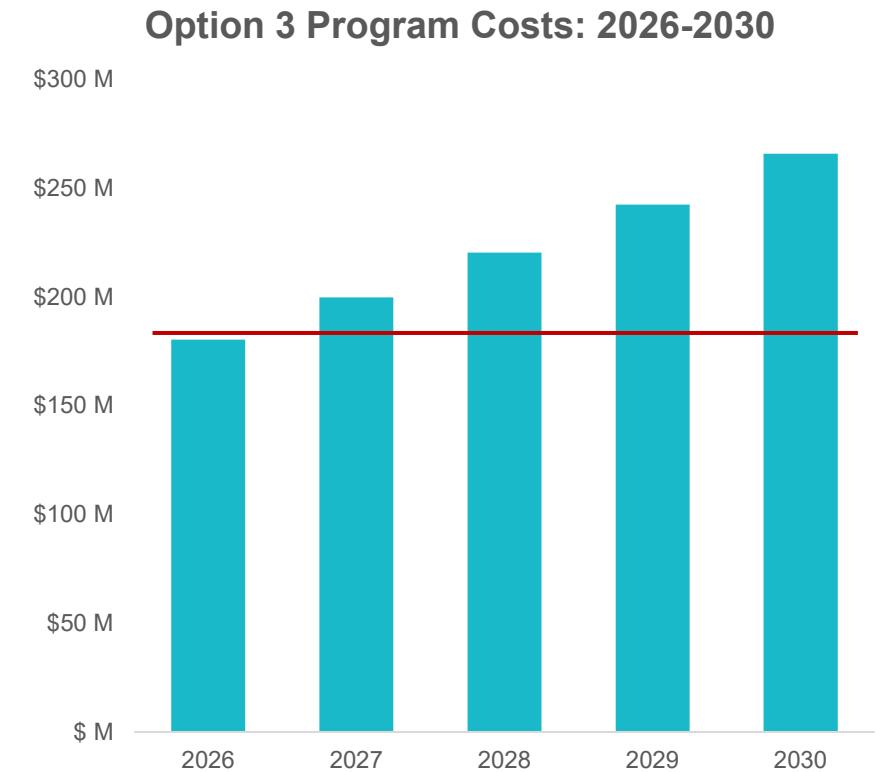
MONTHLY NET PREMIUM AMOUNTS BY FPL GROUP

	ACA	IRA	Option 1 Up to 165% FPL	Option 2 Up to 200% FPL	Option 3 Over 400% FPL
Under 150% FPL	\$85	\$44	\$44	\$69	\$85
150-200% FPL	\$126	\$49	\$120	\$104	\$126
200-250% FPL	\$201	\$91	\$201	\$201	\$201
250-300% FPL	\$256	\$147	\$256	\$256	\$256
300-400% FPL	\$325	\$239	\$325	\$325	\$325
400-600% FPL	\$787	\$390	\$787	\$787	\$673
Over 600% FPL	\$860	\$615	\$860	\$860	\$860

Net premiums reflect average amount among all enrollees in FPL group, including enrollees who may not receive state subsidies >\$0. IRA subsidy levels assume a 6% rate increase, whereas all other options assume an 8% rate increase in 2026.

FISCAL SUSTAINABILITY AND PROJECTED PROGRAM COSTS BEYOND 2026

- ❑ While all four program designs were drafted to maximize subsidies for consumers given the fixed budget, the options that provide state subsidies to consumers over the ACA subsidy cliff will be unsustainable in future years.
- ❑ To illustrate this, we projected program cost of option 3 assuming an annual 5% rate growth at projected 2026 enrollment levels. Beginning in 2027, the program design would exceed the \$190 million budget.
- ❑ Program designs targeted towards low-income consumers are more sustainable, as the federal tax credits will absorb most costs associated with annual premium increases.
- ❑ Providing state subsidies to low-income consumers offers potential for greater retention, which contributes to a healthy risk mix and managing annual premium increases for all enrollees.



FISCAL SUSTAINABILITY AND PROGRAM BUDGETING

- ❑ Consistent with our historical approach for developing state financial assistance programs and in order to avoid overspending the program's budget, we use conservative assumptions to develop the program design.
 - Modeling for 2020 premium subsidy program used aggressive assumptions about individuals taking up coverage and switching from off-exchange coverage. Actual enrollment – particularly over 400% FPL – was significantly lower than estimated.
 - The 2025 enhanced cost-sharing program was designed to be able to support 1.3 million enrollees in Silver coverage, significantly more than were projected to enroll under the adopted Covered California budget.
 - The estimated cost of all 2026 premium subsidy options fall below \$190 million to provide a buffer against overspending the budget given the significant uncertainty we face in projecting enrollment under an unprecedented loss of premium assistance. Option 1 is estimated to cost \$175 million; option 2 is estimated to cost \$181 million; and option 3 is estimated to cost \$176 million.

TESTING FEASIBILITY OF PROVIDING SUBSIDIES TO LOW-INCOME AND CLIFF CONSUMERS

In addition to the options presented, we explored an option to provide subsidies to both low-income consumers and middle-income consumers with incomes over the ACA subsidy cliff. With a budget of \$190 million, state subsidies could be used to:

1. Lower the required contribution to 0% for individuals with incomes up to 150% FPL.
2. Provide a 15% premium cap for consumers with incomes between 400% and 420% FPL.

However, relatively few middle-income consumers (~12,000) would benefit from the subsidies, and the program budget would exceed \$190 million in 2027 and beyond.

2026 PREMIUM SUBSIDY PROGRAM DESIGN DOCUMENT

The placeholder 2026 premium subsidy program design document is based on the previously adopted 2021 program design document and specifies the following elements for the proposed program:

1. The enrollee required contribution amounts for the program – **to be defined**.
2. The method for calculating the advanced payment of the state premium subsidy which mirrors the calculation of the federal premium tax credit with the exception that the advanced payment of the state premium subsidy amount is reduced by any federal advance payment of the premium tax credit.
3. The eligibility requirements for state premium assistance that mirror the requirements for the federal premium tax credit.
4. The formula for state subsidy reconciliation mirroring the 2020 state premium assistance program.
5. Definitions of key terms related to the calculation of the state premium assistance.

ACTION REQUESTED AND NEXT STEPS

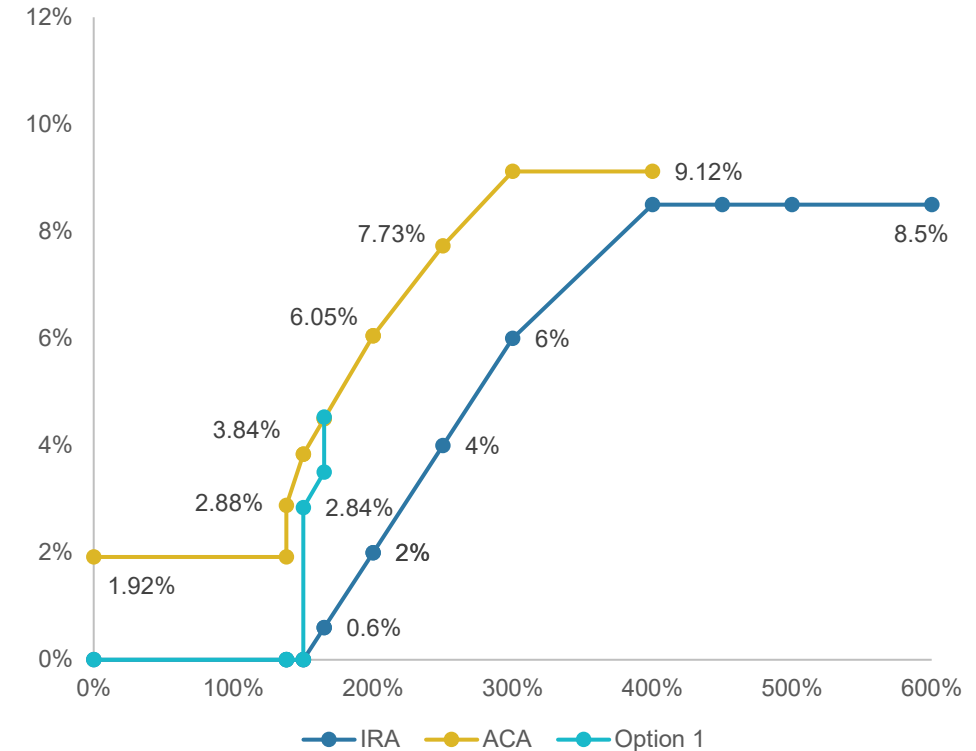
- ❑ **Action Requested:** Covered California is seeking Board approval of one of the proposed 2026 California Premium Subsidy Program Design options presented to the board today, and direction to finalize a program design document consistent with the approved design.
- ❑ Covered California staff will provide notification of the program design to the Joint Legislative Budget Committee (JLBC) as required by state statute if Congress fails to extend the enhanced premium tax credit by September 30, 2025.
- ❑ If Congress extends the enhanced premium tax credit by September 30, 2025, the \$190 million HCARF appropriation will be used to fund the California Enhanced Cost-Sharing Reduction Program as [adopted](#) by the Board on April 17, 2025.

APPENDIX: STATE SUBSIDY CURVE OPTIONS

(1) 0% REQUIRED CONTRIBUTION UP TO 150% FPL WITH ADDITIONAL SUBSIDIES UP TO 165% FPL

- ❑ Option 1 maintains the required contribution level of the enhanced premium tax credits to individuals with incomes under 150% FPL.
- ❑ State subsidies are provided to individuals with incomes between 150-165% by lowering the ACA curve by 1 percentage point.
- ❑ 372,000 enrollees are projected to receive state subsidies.

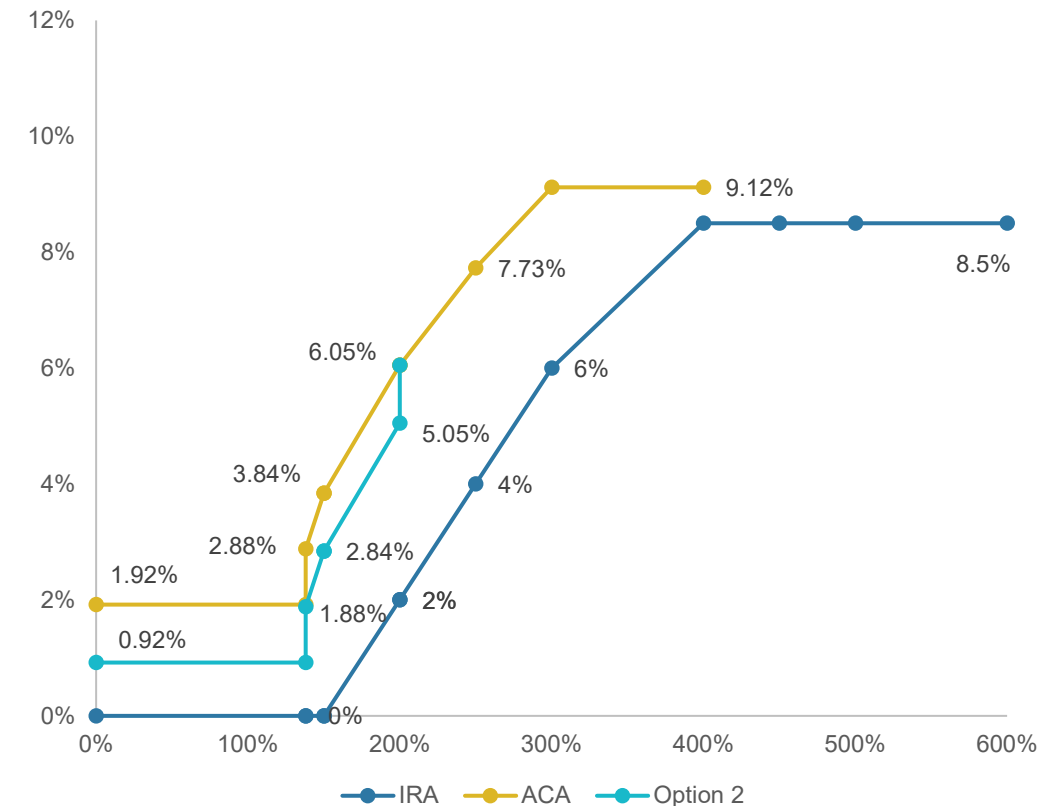
	State Subsidy Amount*	Average Net Premium
Under 150% FPL	\$51	\$44
150-165% FPL	\$20	\$82



(2) LOWER ACA CURVE FOR ALL ENROLLEES UNDER 200% OF FPL

- ❑ Option 2 lowers the ACA required contribution curve by 1 percentage point for all enrollees with incomes under 200% FPL.
- ❑ 641,000 enrollees are projected to receive state subsidies.

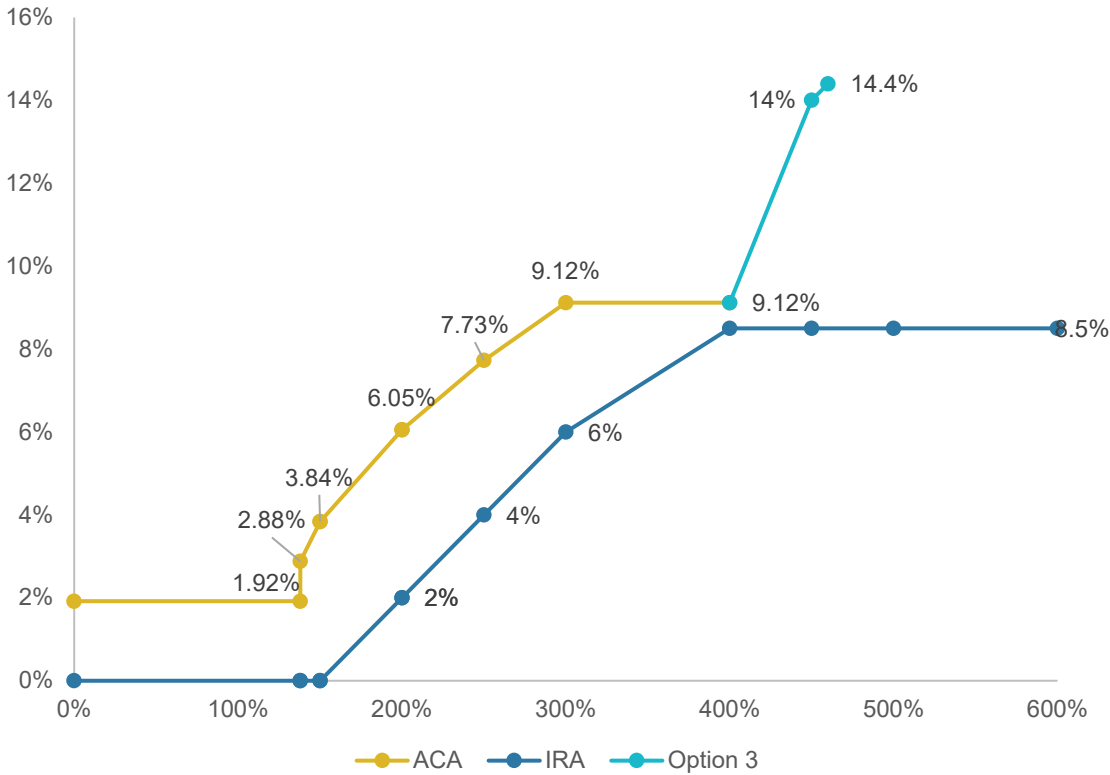
	State Subsidy Amount*	Average Net Premium
Under 150% FPL	\$24	\$66
150-200% FPL	\$22	\$98



(3) REINSTATING THE 2021 STATE PREMIUM SUBSIDY DESIGN UP TO 460% FPL

- ❑ Option 2 lowers extends the 2021 program design for enrollees earning between 400% and 460% FPL.
- ❑ 38,000 enrollees are projected to receive state subsidies.

	State Subsidy Amount*	Average Net Premium
400-460% FPL	\$401	\$451

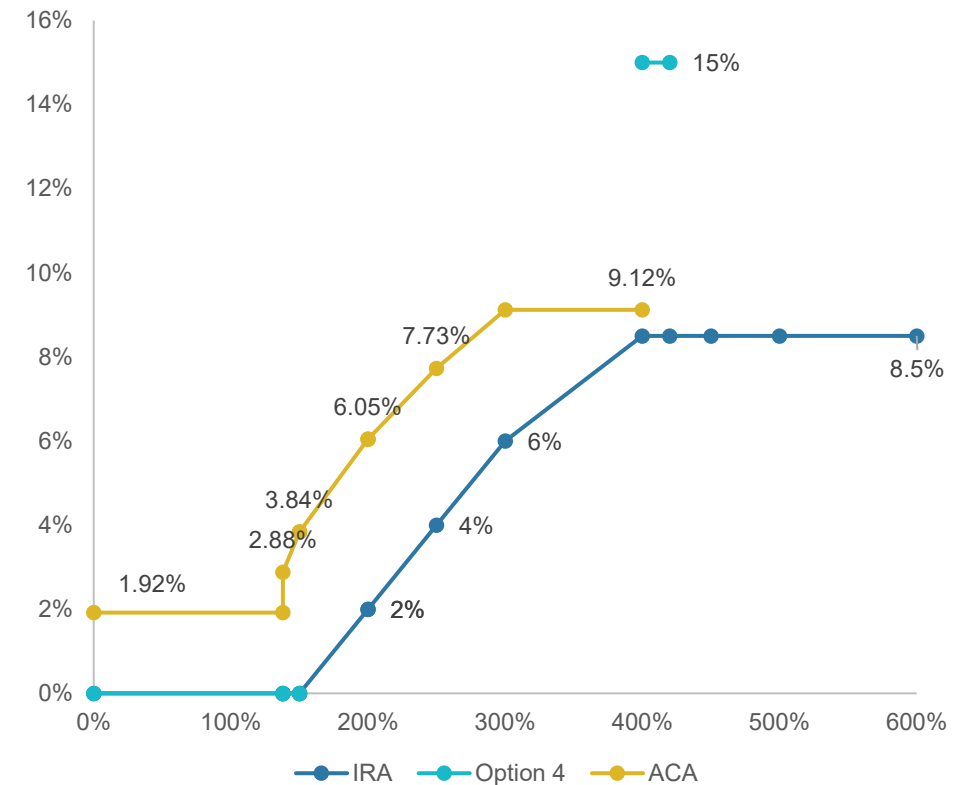


Required contribution is used to calculate the share of the monthly premium a Marketplace enrollee must pay. Federal and/or state subsidies pay the difference between the enrollee’s share and the total monthly premium. IRS applicable percentage: <https://www.irs.gov/pub/irs-drop/rp-22-34.pdf>

0% REQUIRED CONTRIBUTION UP TO 150% FPL + 15% SUBSIDY CAP UP TO 420% FPL

- ❑ Option 4 maintains the required contribution level of the enhanced premium tax credits to individuals with incomes under 150% FPL.
- ❑ Remaining subsidies are used to provide a 15% premium cap for consumers with incomes between 400% and 420% FPL.
- ❑ Projected enrollment is 1,718,000, with 235,000 enrollees projected to receive state subsidies. Option 4 would lead to an estimated enrollment loss of 233,000.

	State Subsidy Amount*	Average Net Premium
Under 150% FPL	\$51	\$44
400-420% FPL	\$347	\$516



APPENDIX: RECONCILIATION OF THE CALIFORNIA PREMIUM SUBSIDY

YEAR-END CONSUMER RECONCILIATION OF STATE PREMIUM SUBSIDY

- ❑ State statute requires premium subsidies to be reconciled at year-end through the California Franchise Tax Board, similar to reconciliation of the federal advanced premium tax credit (APTC).
- ❑ Reconciliation adjusts consumers' final premium credit based on their year-end income compared to the income they projected when they applied for coverage.
- ❑ Covered California was charged with developing reconciliation repayment limits for the state premium subsidy program.
- ❑ Reconciliation repayment limits for the 2020 premium subsidy program mirrored federal APTC repayment limits. Those same limits will apply for the 2026 program.

2026 CALIFORNIA PREMIUM SUBSIDY RECONCILIATION REPAYMENT LIMITS

Household income as a percentage of the federal poverty level	Single Filers	All other filers
Less than 200%	\$300	\$600
At least 200% but less than 300%	\$775	\$1,550
At least 300% but less than 400%	\$1,300	\$2,600
At least 400% but less than 500%	\$2,000	\$4,000
At least 500% but less than 600%	\$3,000	\$6,000
At least 600% but less than 700%	\$4,200	\$8,400

PUBLIC COMMENT

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EACH CALLER WILL BE LIMITED TO TWO MINUTES PER AGENDA ITEM

NOTE: Written comments may be submitted to BoardComments@covered.ca.gov.

REVISED 2026 STANDARD BENEFIT DESIGNS

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Plan Management Division

PY2026 CATASTROPHIC PLAN DESIGN UPDATE

The 2025 Marketplace Integrity and Affordability Final Rule finalized by the Centers for Medicare and Medicaid Services June 25, 2025 increased the Maximum Out of Pocket (MOOP) limit for PY2026, among other changes.

- ❑ Impacts to Covered California's PY2026 Patient Centered Benefit Designs:
 - The Catastrophic plan must be revised to reflect the new MOOP, with the deductible and MOOP being raised to \$10,600 for individuals, \$21,200 for groups
 - Though AV ranges were revised in the Rule, the remaining PY2026 designs still comply and no further revisions are needed
- ❑ We propose to retain the previously adopted 2026 catastrophic benefit design along with this newly revised version to allow for flexibility pending the outcome of any litigation challenging the Final Rule.

REQUESTED ACTION: 2026 PATIENT CENTERED BENEFIT DESIGNS

- ❑ There are no additional changes to the Patient Centered Benefit Designs
- ❑ Staff request the Board to formally adopt the revised Patient Centered Benefit Designs for Plan Year 2026

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