

The Health Exchange Marriage Penalty

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by Devon M. Herrick

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Just as there are penalties in the tax code for couples who get married, financial penalties in the Patient Protection and Affordable Care Act (ACA) also discourage couples from “tying the knot.” The ACA establishes state health insurance exchanges where qualifying individuals can purchase subsidized, individual health insurance, starting in October 2013.



Dallas Headquarters:
12770 Coit Road, Suite 800
Dallas, TX 75251
972.386.6272

www.ncpa.org

Washington Office:
601 Pennsylvania Avenue NW,
Suite 900, South Building
Washington, DC 20004
202.220.3082



However, the exchange subsidies are more generous to unmarried couples than to couples who marry.

Who Qualifies for Health Insurance Exchange Subsidies?

All legal U.S. residents will be allowed to purchase health coverage in the exchange. However, subsidies will only be available to individuals and families with incomes from 100 percent to 400 percent of the federal poverty level — from about \$23,550 to more than \$94,200 for a family of four. Families with incomes below 133 percent must enroll in Medicaid if it is available, and if they qualify to participate in their state. In addition, individuals who have access to affordable employer coverage will not receive subsidies.

The exchange subsidies are rather generous to low-income individuals. Qualifying individuals and families earning 100 percent of the federal poverty level will pay no more than 2 percent of their income. The federal government will cover the rest of their premiums. As income rises, the subsidies phase out, but a family earning 400 percent of the poverty level will pay no more than 9.5 percent of its income in premiums.

The Federal Poverty Level (FPL) does not rise proportionally with

the number of individuals in the family. For example, the federal poverty level is \$11,490 for a single individual, but only \$15,510 for a family of two adults (that is, \$4,020 more for a married couple). Thus, because the federal poverty level is not a multiple of family size, two unmarried individuals qualify for larger combined exchange subsidies than they would if they were married.

Penalty for Getting Married. The blue bars in the figure represent the subsidy available to married couples in each income group, while the combined red and blue bars represent the combined subsidy available to unmarried couples (whether they live together or independently). The red bars show the amount of health insurance subsidy penalties couples will suffer by getting married. The penalties are especially high for moderate-income couples.

Consider the case of two unmarried college students each earning 200 percent of FPL (about \$23,000 annually), who move in together. If that same couple were to marry, their combined household income of nearly \$46,000 would rise as a percent of the poverty level from 200 percent (individually) to 296 percent for a married family of two. As a result, their premiums in the health insurance exchange would be capped at a higher percentage of their income, providing a smaller total subsidy. Instead of capping their individual premiums at 6.3 percent of

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income as two individuals earning twice the FPL, their premiums would be capped at 9.4 percent of income for a family of two earning 296 percent of poverty. For example [see the figure]:

- Individually they would each qualify for a subsidy of about \$1,570, or \$3,140 per household.
- If that same couple were to marry, their subsidy would fall to \$1,719.

Thus, their marriage penalty equals \$1,421. The exchange marriage penalty is especially pronounced for couples in moderate-income households with an income of \$30,000 to \$55,000 annually. [See the table.]

More than half of marriages are preceded by the couple living together — a living arrangement that is about 15 times more common than a half-century ago. Indeed, nearly two-thirds of couples who live together view it as a step toward

marriage, according to the Pew Research Center. National studies show that low-income couples are less likely to marry than higher-income couples. The difference may be partially be due to existing marriage penalties in the tax code.

The Tax Policy Center estimates a couple earning \$45,960 pays \$2,672

per year in additional taxes as a result of their decision to get married. It is a reasonable bet that \$4,093 (\$1,421 + \$2,672) is a sufficiently large penalty to make many young couples living together hesitant to marry.

Conclusion. The structure of the exchange subsidies creates perverse disincentives to family formation that

add to the existing marriage penalty in the tax law. As a result of these penalties, many moderate-income couples will decide marriage is a luxury they cannot afford.

Devon M. Herrick is a senior fellow with the National Center for Policy Analysis.



Exchange Subsidies and Penalties

Combined Household Income	Married Couple Subsidy	Unmarried Couple Subsidy	Exchange Marriage Penalty
\$22,980	\$5,576	\$5,141	\$435
\$29,874	\$5,438	\$4,256	\$1,182
\$34,470	\$4,658	\$3,596	\$1,062
\$39,066	\$4,114	\$2,870	\$1,244
\$45,960	\$3,140	\$1,719	\$1,421
\$50,556	\$2,498	\$1,233	\$1,265
\$55,152	\$1,790	\$797	\$993
\$59,748	\$1,054	\$360	\$694

Source: Author's calculations and estimates from the Kaiser Family Foundation Subsidy Calculator.