

Choosing to Pay: Mandate Penalty Affects 126,000 Coloradans

AN ANALYSIS OF AFFORDABLE CARE ACT TAX DATA

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More than 126,000 Colorado taxpayers chose to pay a tax penalty instead of getting health insurance in 2015, according to a new Colorado Health Institute analysis.

That equates to 4.8 percent of Coloradans who filed a tax return in 2015 — a percentage that is slightly above the national average of 4.4 percent.

The Affordable Care Act (ACA) requires most people to have health insurance. Those who don't must pay a fine when they file their annual income taxes. (The ACA allows a number of hardship exemptions

Coloradans who paid the ACA tax penalty

2015 126,350 4.8% of people who filed a tax return

2014 144,980 5.7% of people who filed a tax return to avoid the mandate.) The law also provides incentives to get insured — either free coverage through expanded Medicaid eligibility or subsidized private insurance for people making less than four times the federal poverty level, which was about \$47,000 for a single person in 2015.

The number of Coloradans who paid the penalty dropped in 2015

compared with the year before, when the major parts of the ACA took effect. The majority of the 126,350 who paid the penalty reported less than \$50,000 income, meaning they likely would have qualified for free or cut-price health coverage.

However, for most of those people the penalty cost less than annual premiums for the cheapest available insurance plan, even with the subsidy.

Counties in rural Colorado, where insurance prices on the individual market are especially high, had

Table 1. Percentage of Tax Returns by Income Group with ACA Penalty

Income group	2014	2015
Under \$1	0.9%	0.0%
\$1 to \$10,000	0.6%	0.1%
\$10,000 to \$25,000	11.2%	8.3%
\$25,000 to \$50,000	9.5%	8.6%
\$50,000 to \$75,000	4.9%	5.0%
\$75,000 to \$100,000	2.4%	2.7%
\$100,000 to \$200,000	1.1%	1.3%
\$200,000 or more	0.6%	0.6%

Source: Internal Revenue Service Statistics of Income

higher rates of residents choosing to pay the penalty than the state average.

Source and Methodology

This analysis uses the Internal Revenue Service's (IRS) Statistics of Income¹ to find the number of Coloradans who paid the ACA penalty, their incomes and their county of residence. The IRS compiles Statistics of Income based on a sampling of individual income tax returns. ACA data are available from 2015 and 2015.

Data and percentages in this paper are based on the number of tax returns filed. Not everyone files a tax return. In Colorado, there were 2.55 million tax returns filed in 2014 and 2.61 million in 2015.

The IRS data are available for download on the Colorado Health Institute website.

Fewer People Skip Insurance When Penalties are Higher

When the individual mandate went into effect in 2014, the tax penalty was \$95 per adult or one percent of family income, whichever was greater. The penalty increased in 2015 to \$325 per adult or two percent of

Individual Mandate Penalty

2014

\$95 per adult or 1% of family income

2015

\$325 per adult or 2% of family income

2016 \$695 per adult or 2.5% of family

income

family income, whichever was greater. The current penalty for 2016 is \$695 per adult or 2.5 percent of income, whichever is greater.

When the penalty increased in 2015, the number of Colorado taxpayers who paid it dropped by nearly 19,000 — from the nearly 145,000 who paid it in 2014 — despite slightly higher insurance prices in 2015. If this pattern holds, the 2016 data should show another drop in the number of people who paid the penalty, because the size of

the penalty increased again that year.

However, 2016 also was the beginning of dramatic price increases on individual market across the state. Premium prices in western Colorado were already among the highest in the country in 2014 and 2015.

Most Coloradans Who Pay the Penalty Make Less Than \$50,000

It was mostly people on the lower half of the income scale who paid the ACA mandate penalty in 2014 and 2015. (See Table 1.)

Some 8.3 percent of Coloradans with income from \$10,000 to \$25,000 paid the penalty, while 8.6 percent making between \$25,000 and \$50,000 paid it.

The IRS does not report income data at the same thresholds that are used to determine eligibility

Table 2. Top 10 and Bottom 10 Counties for Tax Returns with ACA Penalty, 2015

Тор 10		Bottom 10	
Garfield	8.9%	Hinsdale	0.0%
Lake	8.3%	Douglas	2.5%
Grand	8.0%	Broomfield	3.5%
Archuleta	7.8%	Elbert	3.7%
Montrose	7.7%	Lincoln	3.9%
Eagle	7.7%	Jefferson	4.0%
Saguache	7.5%	El Paso	4.2%
Cheyenne	7.5%	Boulder	4.2%
Ouray	7.4%	Pueblo	4.3%
Dolores	7.2%	Costilla	4.5%

Source: Internal Revenue Service Statistics of Income

for Medicaid and premium tax credits. However, in general the Coloradans on the lower side of the income scale would qualify for Medicaid, while many of the rest would qualify for tax credits to reduce the price of private coverage. The cutoff for Medicaid is 138 percent of federal poverty level (FPL), or about \$16,000 for an individual, and the cutoff for tax credits is 400 percent FPL, or about \$47,000 for an individual in 2015. Family thresholds are higher.

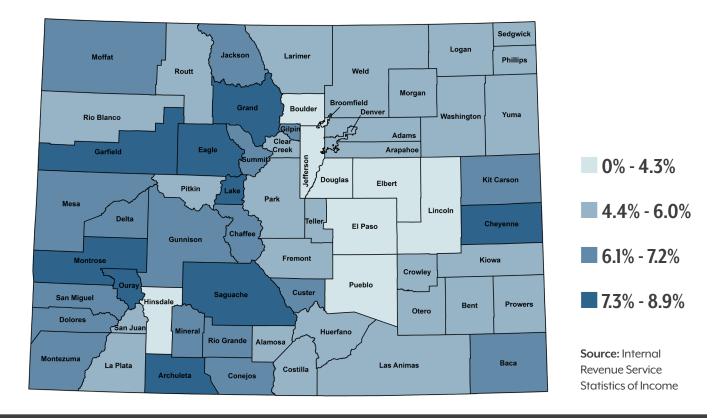
Even with subsidies to make insurance more affordable, many Coloradans chose to pay the penalty because it was cheaper than paying premiums. The average monthly cost of a subsidized bronze plan for an individual in 2015 was \$126, or \$1,512 annually, according to Connect for Health Colorado.² That would have been four times the 2015 mandate penalty of \$325.

Penalty Hits Western Slope Hardest

Eight of the 10 counties with the highest rate of penalty payers are on the Western Slope, which has the state's highest insurance prices on the individual market. Garfield, Lake and Grand counties top the list. (See Table 2 and Map 1.)

On the other hand, seven of the 10 counties with the lowest proportion of taxpayers paying the penalty

Map 1. Percentage of Tax Returns by County with an ACA Mandate Penalty, 2015



are on the Front Range. Douglas County had just 2.5 percent of returns with the penalty and Broomfield County had 3.5 percent. These are two of the wealthiest Colorado counties, and both have high rates of employer-sponsored insurance.

Tiny Hinsdale County led the state, with no taxpayers paying the ACA penalty in 2015.

National Trends Are Similar

Colorado had slightly higher rates of taxpayers who paid the penalty than the national average in both years.

Nationally in 2014, 8.1 million taxpayers of 148.6 million filers paid the penalty (5.4 percent). In 2015, 6.7 million of 150.5 million paid the penalty (4.4 percent). The decline in the national average between 2014 and 2015 mirrored Colorado's drop.

Colorado ranked 14th among states for the highest percentage of its population paying the penalty in 2015. Texas was first, at 7.1 percent. Hawaii had the least, at 2.0 percent. insurance or pay the penalty, the cost-benefit calculation comes down in favor of paying the penalty. (This calculation does not take into account the value and protection of having health coverage.) To change the calculation and entice more people to be covered, the ACA's subsidies would need to become more generous, the penalty would have to be more severe, or both.

When it is released, IRS data from 2016 will help paint a better picture of the effectiveness of mandates and tax credits, because that is the year prices started rising dramatically on Colorado's individual market.

Endnotes

¹Internal Revenue Service, Statistics of Income Individual Income Tax Returns: Selected Income and Tax Items by State, County, and Size of Adjusted Gross Income, 2014 and 2015. Accessed October 24, 2017: <u>https://www.irs.gov/statistics/soi-tax-stats-</u> <u>products-publications-and-papers</u>

²Connect for Health Colorado. "Marketplace Dashboard for December 2015." Accessed October 24, 2017: <u>https://</u> <u>connectforhealthco.com/wp-content/uploads/2016/04/</u> <u>Marketplace-Dashboard-2015-December-2015.pdf</u>

For many Coloradans weighing whether to buy

Joe Hanel is the principal author of this report.



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