

Choosing to Pay: Mandate Penalty Affects 126,000 Coloradans

AN ANALYSIS OF AFFORDABLE CARE ACT TAX DATA

OCTOBER 2017

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 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.

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

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

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

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

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

Top 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



COLORADO HEALTH INSTITUTE

The Colorado Health Institute is a trusted source of independent and objective health information, data and analysis for the state's health care leaders. The Colorado Health Institute is funded by the Caring for Colorado Foundation, Rose Community Foundation, The Colorado Trust and the Colorado Health Foundation.

303 E. 17th Ave., Suite 930, Denver, CO 80203 • 303.831.4200
coloradohealthinstitute.org

OUR FUNDERS

