



Payments of Penalties for Being Uninsured Under the Affordable Care Act: 2014 Update

Under the Affordable Care Act, most legal residents of the United States are required to obtain health insurance or pay a penalty.¹ That penalty is the greater of two amounts: a flat dollar penalty for each uninsured adult, which will rise from \$95 in 2014 to \$695 in 2016 and be indexed to inflation thereafter (the penalty for a child is half the amount, and an overall cap applies to family payments); or a percentage of a household's adjusted gross income in excess of the threshold for mandatory tax-filing, which will rise from 1.0 percent in 2014 to 2.5 percent in 2016 and subsequent years (also subject to a cap). For fiscal years 2015 to 2024, the Congressional Budget Office (CBO) and the staff of the Joint Committee on Taxation (JCT) estimate that such payments will total \$46 billion.²

CBO and JCT have estimated that about 30 million nonelderly residents will be uninsured in 2016 but that the majority of them will be exempt from the penalty. Those who are exempt include:

- Unauthorized immigrants, who are prohibited from receiving almost all Medicaid benefits and all subsidies through the insurance exchanges;
- People with income low enough that they are not required to file an income tax return;

- People who have income below 138 percent of the federal poverty guidelines (commonly referred to as the federal poverty level) and are ineligible for Medicaid because the state in which they reside has not expanded eligibility by 2016 under the option provided in the ACA;
- People whose premium exceeds a specified share of their income (8 percent in 2014 and indexed over time); and
- People who are incarcerated or are members of Indian tribes.

CBO and JCT estimate that 23 million uninsured people in 2016 will qualify for one or more of those exemptions. Of the remaining 7 million uninsured people, CBO and JCT estimate that some will be granted exemptions from the penalty because of hardship or for other reasons. Among the uninsured people subject to the penalty, many are expected to voluntarily report on their tax returns that they are uninsured and to pay the amount owed. However, other people will try to avoid payments. CBO and JCT's estimates of the number of people who will pay penalties account for likely compliance rates as well as the ability of the Internal Revenue Service (IRS) to administer and collect the penalty payments.

All told, CBO and JCT estimate that about 4 million people will pay a penalty because they are uninsured in 2016 (a figure that includes uninsured dependents who have the penalty paid on their behalf). An estimated \$4 billion will be collected from those who are uninsured in 2016, and, on average, an estimated \$5 billion will be collected per year over the 2017–2024 period.

Those estimates differ from projections that CBO and JCT made in September 2012, when the agencies last

1. As referred to in this report, the Affordable Care Act comprises the Patient Protection and Affordable Care Act and the health care provisions of the Health Care and Education Reconciliation Act of 2010, as affected by subsequent judicial decisions, statutory changes, and administrative actions.

2. See Congressional Budget Office, *Updated Estimates of the Effects of the Insurance Coverage Provisions of the Affordable Care Act, April 2014* (April 2014), www.cbo.gov/publication/45231.

Table 1.**Estimated Distribution of Individual Mandate Penalties Under the Affordable Care Act, Calendar Year 2016**

Adjusted Gross Income Relative to Federal Poverty Guidelines	Individual Mandate Penalties			
	Total Payers (Millions)	Share of Payers (Percent)	Total Payments (Billions of dollars)	Share of Payments (Percent)
Less than 100 percent	0.2	5	0.1	3
100 percent to 199 percent	0.8	20	0.4	9
200 percent to 299 percent	1.0	25	0.6	14
300 percent to 399 percent	0.7	19	0.6	13
400 percent or more	1.2	31	2.5	61
Total	3.9	100	4.2	100

Sources: Congressional Budget Office; staff of the Joint Committee on Taxation.

Notes: As used here, the Affordable Care Act comprises the Patient Protection and Affordable Care Act and the health care provisions of the Health Care and Education Reconciliation Act of 2010, as affected by subsequent judicial decisions, statutory changes, and administrative actions.

Individual penalty payments are classified by the income of the tax-filing unit.

In 2016, the federal poverty guidelines (commonly referred to as the federal poverty level) are projected to equal about \$12,150 for a single person and about \$24,750 for a family of four.

Nearly all payments related to liabilities in 2016 will be collected in 2017.

Counts of payers include dependents who have payments made on their behalf.

published such estimates.³ About 2 million fewer people are now projected to pay the penalty for being uninsured in 2016, and collections are now expected to be about \$3 billion less for that year. The decrease in the number of people who are projected to pay the penalty largely stems from an increase in CBO and JCT's projection of the number of people who will be exempt from the penalty. That increase is attributable in part to regulations issued since September 2012 by the Departments of Health and Human Services and the Treasury and in part to technical updates and changes in the economic outlook.

CBO and JCT have also updated their estimates of the distribution of penalty payments by income category. Table 1 shows how much of the payments are projected to be made by, or on behalf of, people who are uninsured in 2016 in each of several income categories, measured as a percentage of the federal poverty guidelines. (The IRS will collect nearly all of those payments in 2017.) In general, households with lower income will pay the flat dollar penalty (with adjustments to account for the lower penalty for children and the overall cap on family payments), and households with higher income will pay a percentage of their income. In 2016, households with

income that exceeds 400 percent of the federal poverty guidelines are estimated to constitute about one-third of people paying penalties and to account for about three-fifths of total penalty payments.

This Congressional Budget Office (CBO) report was prepared in response to a request by the Ranking Member of the Senate Finance Committee. It provides updates to a previous publication, titled *Payments of Penalties for Being Uninsured Under the Affordable Care Act*, that was issued in September 2012. In keeping with CBO's mandate to provide objective, impartial analysis, this report makes no recommendations.

Alexandra Minicozzi of CBO's Health, Retirement, and Long-Term Analysis Division and Sarah Masi of CBO's Budget Analysis Division prepared the report with guidance from Jessica Banthin and Holly Harvey. The analysis described here was the work of a number of analysts at CBO and staff members at the Joint Committee on Taxation.

This report is available on the agency's website (www.cbo.gov/publication/45397).

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3. See Congressional Budget Office, *Payments of Penalties for Being Uninsured Under the Affordable Care Act* (September 2012), www.cbo.gov/publication/43628.