New IRS rule kills the much-maligned ACA “family glitch”

OCT 28, 2022

Kevin B. O'Reilly
News Editor

What’s the news: The Biden administration has issued a final rule which closes the so-called family glitch under the Affordable Care Act (ACA).

The prior IRS rule kept families from qualifying for ACA-subsidized health insurance when one member received coverage from their employer that was considered affordable—even if the cost of covering the entire family was unaffordable. The employee-only definition did not take into consideration the fact that the cost of family-based coverage is usually much more expensive than employee-only coverage.

Consequently, family members of workers—primarily lower-income workers—were ineligible to receive premium and cost-sharing subsidies to buy ACA marketplace coverage.

The AMA has long sought the change and touted it as part of its broader plan to cover the uninsured (PDF) and its vision on health care reform.

Why it’s important: The final regulation would close the loophole by extending eligibility for ACA financial assistance to the family members of workers who are not offered affordable job-based family coverage.

“In April, I announced that we were proposing to fix this regulatory flaw,” President Joe Biden said in a statement. “Now, the Treasury Department is finalizing that fix so that the law works the way Congress intended and the cost of coverage comes down for families all over the country. Starting next month, Americans can sign up to take advantage of this change. About 1 million Americans will either gain coverage or see their insurance become more affordable as a result of the new rule.”

In 2020, the estimated average employee contribution for self-only coverage was $1,243, AMA Executive Vice President and CEO James L. Madara, MD, noted in a 2021 letter to Centers for Medicare & Medicaid Services Administrator Chiquita Brooks-LaSure (PDF).

By contrast, the estimated average contribution for family coverage was $5,588. More than half of the 5.1 million people affected by the family glitch are children who don't quality for the Children's Health Insurance Program, Dr. Madara's letter says.

Learn more: The Inflation Reduction Act passed earlier this year took important measures to extend ACA premium tax credits. The law extends by three years the enhanced and expanded ACA premium tax credit, which the AMA supports. It is an advanceable and refundable credit that 13 million Americans have used to help them purchase health insurance through state and federal exchanges.

The law also extends the enhanced subsidies for plans purchased on ACA marketplaces through 2025.

They had been set to expire at the end of this year. Ending the subsidies would mean that insurance costs would have gone up 50% for some 13 million people, according to a Kaiser Family Foundation analysis.

Enrollment in the ACA marketplace starts Nov. 1. Explore with HealthCare.gov the three ways your patients can start preparing for open enrollment now.