CAPITOL STREET

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Sanity Likely Prevails: White House Floats 2-Year EPTC Extension

Details Forthcoming, What We Know & Surprises in The Mix?

Relevant Companies

Our Take & Next Up

A two-year extension of the ACA's enhanced premium tax subsidies (EPTCs) with income limits (700% FPL, no $0 premium plans) appears to be coming to fruition, in line with our call that sanity prevails. The President and his advisors (Treasury Secretary Bessent over the weekend) will announce this week – and as soon as today – a plan that limits ACA tax credits to those below 700% of the poverty line, which lines up with bipartisan proposals on the Hill (here and here). The plan would also require eligible enrollees to pay a small monthly premium. The House and Senate are out for Thanksgiving recess, but a Senate vote is expected by the mid-December to extend expiring Obamacare subsidies beyond Dec. 31. Democrats may oppose, but there is oxygen to this negotiation and ultimate deal. Also, we will look out for PBM, drug pricing, and potentially other reforms (MA, site-neutral) as pay-fors to what appears to be a pricey package.

Key Points

President Trump is set to announce his framework (as soon as today) for a 2-year EPTC extension with eligibility limits. For 12+ months we have said that a 1-2 year extension is likely and the Trump framework shares similarities to a potential Senate deal on EPTCs. See rough details below.

- 2 year eAPTC extension
- Subsidies would be capped at 700% FPL ($109,550 for an individual)
- All ACA enrollees would pay a premium - 2% of income or at least $5 in lower-tier plans
- Appropriates cost sharing reductions (CSRs)
- Codifies program integrity rule, catastrophic rule
- HSA option:
    - Encourages lower premium plan uptake.
    - Enrollees would have the option to buy down to a lower-tier plan & place the difference in costs into an HSA
- Ban on ACA coverage of transgender procedures or using 1332 waivers for illegal immigrants

The White House hopes to lower enrollee out of pocket costs, reduce fraud evident in the marketplace, while encouraging use of HSAs (GOP preferred alternative to APTCs). A piece of the proposal would let people shift part of their tax credit into a tax-advantaged savings account if they switch to a cheaper plan. The White House also wants Congress to put up money for cost-sharing reductions (CSRs, see more details below) to lower out-of-pocket costs.

With an EPTC vote set for December, we still expect a one- or two-year extension with income caps and a transition to an FSA-type platform (2027 at the soonest) (our take here). Prevailing wisdom on Capitol Hill is that there are enough votes between Democrats and vulnerable Republicans to pass an extension of the enhanced credits with reforms. Sen. Scott (R-FL) released an alternative last week (here) to the extension of subsidies, which converts the tax credits to direct payments to consumers that can be used for the purchase of health care coverage.

Since early 2025, the GOP has supported requiring the federal government to directly reimburse insurers for ACA cost-sharing reductions (CSRs), eliminating the need for "silver loading." The policy was initially included in the GOP reconciliation bill, but was removed under the Byrd Rule during OBBBA consideration. Currently, insurers must apply CSRs for silver-plan enrollees under 250% of the FPL. Now that Congress will appropriate funds for CSRs, consumers in silver plans may see lower out-of-pocket costs.

What are CSRs? The ACA requires insurers to apply cost-sharing reductions at the point of service for silver-plan enrollees that make < 250% of the federal poverty level. Although the ACA included no appropriations for the funding, the Obama administration paid insurers *monthly* using the funding available for the advanced premium tax credits. CSRs are estimated to save $30-50 B over ten years, with the Congressional Research Service projecting $30 B in savings and $2.8 B in revenue, and the Committee for a Responsible Federal Budget similarly estimating $50 B in potential savings.

- In 2017, the first Trump administration determined the payments could not be made without an appropriation and cut them off. Insurers quickly created a workaround -- increasing the silver-level premiums that are linked to the EPTCs.
- The higher premiums translated to larger tax credits for enrollees and allowed insurers to make up the loss of direct reimbursements. The decision to end the direct payment also increased the federal spending on the ACA by billions.
- Since then, Democrats who initially opposed ending direct subsidies for the CSRs have largely supported the new approach and only called for its demise as a trade for permanently extending the enhanced credits and expanding CSRs to more people, per Sen. Jeanne Shaheen's (D-NH) I*mproving Health Insurance Affordability Act* introduced in 2021.

If included in the EPTC package, the highly contested 2026 program integrity rule (our take here and here) strengthens oversight to reduce improper ACA enrollments, but it was partially invalidated by a court decision. The City of Columbus v. Kennedy ruling struck down several key provisions, including the $5 charge on $0-premium plans (our take here), the ability to deny coverage for past-due premiums, the reinstated failure-to-reconcile penalty, stricter special enrollment period and income-verification requirements, and revised AV de minimis ranges. The agency acknowledges that this "re-rating imposes operational burdens" but considers it essential for maintaining marketplace stability and plan availability. According to CBO, nullifying these provisions would increase federal deficits by roughly $40B/10.

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