

Marketplace (Exchange) Subsidies for Adult Children



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According to Affordable Care Act (ACA) regulations, if employer-sponsored group health coverage is 'affordable' (based on the employee cost for employee-only coverage), then employees, and any of their dependents who are eligible for the plan, are not eligible for subsidies when purchasing individual coverage through a public Marketplace (Exchange). In other words, if the employee contribution for employee-only coverage is less than 9.5% of the employee's household income, any dependents eligible for the coverage are ineligible for subsidies even if the required contribution for family coverage exceeds 9.5% of the employee's household income.

However, there is an exception (contained in 26 CFR §1.36B-2) for related individuals who are eligible for the employer's plan, but are not claimed by the employee as a personal exemption deduction under §151 on the employee's tax return.

Individuals, such as adult children through age 26, who do not also qualify as the employee's dependent, may be eligible for ACA subsidies when purchasing individual coverage, even if they are eligible to participate in an affordable employer-sponsored plan. To be subsidy eligible, these related individuals must not be enrolled in the employer plan and must meet other eligibility requirements. Therefore, if parents do not claim the adult children as dependents on their tax return, the dependent children may qualify for tax subsidies if they are not eligible for any other disqualifying coverage and have a household income of 100-400% of FPL.

Employers may see this rule impact the enrollment of adult children in the employer's plan. In cases where an employee is required to pay a significant contribution to enroll an adult child in the employer plan, it may be financially advantageous for the child to purchase individual health insurance coverage through an Exchange, especially if the child's income is relatively low.

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