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INSIGHT

Financing Cost-Sharing Reduction Reimbursements to Private Health Plans

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Cost-sharing reductions (CSRs) are subsidies that reduce out-of-pocket expenses (e.g., deductibles) for certain health benefits covered under plans offered through the health insurance *exchanges* (i.e., marketplaces) established under the Patient Protection and Affordable Care Act (ACA; P.L. 111-148, as amended). The ACA includes the following requirements: *health insurance issuers* must provide CSRs to eligible households enrolled in silver plans sold through exchanges, and the Department of Health and Human Services must fully reimburse issuers that provide such subsidies. Silver refers to a specific level of *actuarial value* (AV); AV provides a general measure of plan generosity.

Congress has not provided appropriations for CSR reimbursements since these subsidies went into effect in plan year (PY) 2014. The Administration at the time employed a workaround by using the same financing mechanism—in Title 31 of the *U.S. Code*—used to pay for a related ACA subsidy: the premium tax credit (PTC). However, the CSR reimbursements were terminated in October 2017 following an opinion issued by the U.S. Attorney General, who concluded that the Title 31 provision did not provide appropriations for CSR purposes.

Regardless of the administrative decision to terminate reimbursements, issuers are required under statute to provide CSRs to eligible households. In response to this decision, nearly all states allowed affected health plans to increase premiums to offset the loss of CSR reimbursements. This action is often referred to as *silver loading*, since most states allowed issuers to increase premiums on silver plans only. Accounting for the loss of CSR reimbursements by incorporating a loading factor is in keeping with standard actuarial practice that aims to develop insurance premium rates that are actuarially justified and comply with applicable state and federal law.

An indirect effect of silver loading is an increase in federal expenditures for the PTC. Under ACA statute, the premium for the second-lowest-cost silver plan (SLCSP) is used to calculate the PTC amount for a given eligible household; the SLCSP depends on the exchange plans offered in a household's *rating area*. Because the PTC formula incorporates the SLCSP premium, higher premiums due to silver loading lead to larger PTC amounts for eligible households. In consideration of these circumstances, the Congressional Budget Office (CBO) and the Joint Committee on Taxation (JCT) estimate that financing CSR reimbursements through "higher premiums and larger premium tax credit subsidies rather than through a direct appropriation" results in a net increase in federal spending. Such an estimate assumes that larger

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PTC amounts incentivize more individuals to enroll in exchange plans to receive the PTC than otherwise would have enrolled. In addition, the population of PTC-eligible households typically exceeds the population eligible for CSRs. Income eligibility for the PTC is set at or more than 100% of the federal poverty level (FPL) with no maximum limit this year, but income eligibility for CSRs applies only to incomes from 100% to 250% of FPL. CBO and JCT estimate that federal expenditures resulting from a larger PTC population and larger PTC amounts due to silver loading exceed the appropriation amount necessary to reimburse issuers for providing subsidies to a smaller CSR population.

The relationship between CSR funding and premiums was acknowledged in a May 2, 2025, bulletin issued by the Centers for Medicare & Medicaid Services (CMS). In the bulletin, CMS indicates that it would be "prudent that the federal government, states, and issuers take reasonable steps to prepare for potential Congressional action" and instructs issuers to include CSR information in their rate filings for PY2026. CMS indicates that including such information would "address the possibility of ... potential Congressional appropriation of funds to make federal CSR payments." CMS acknowledges that such congressional action "could have a substantial effect on PY 2026 individual market premium rates." The reasoning is that by providing appropriations to directly fund CSR reimbursements, the rationale for silver loading would no longer apply. In other words, premiums would not need to be increased because CSR reimbursements would be reinstated under enacted appropriation.

CBO and JCT, in a 2018 estimate of legislation that would have provided CSR appropriations, addressed this possible downstream effect. In that estimate, CBO and JCT stated that "appropriating funds for CSR payments ... would reduce the deficit, on net, because insurers would no longer increase gross premiums for silver plans offered through the marketplaces in those years to cover the costs of CSRs." Although any cost estimate for a provision that would appropriate CSR funding likely would be based on the current baseline and updated assumptions, the general reasoning articulated in the 2018 estimate may provide insight into how CBO and JCT could approach a new cost estimate, though they also could apply different reasoning depending on the circumstances.

H.R. 1, as passed by the House on May 22, 2025, included a provision (§44202) that would have provided indefinite appropriations for reimbursements to private health plans that provide CSRs. CBO published a cost estimate for the House-passed version of H.R. 1 that includes estimates for Section 44202; this estimate does not include further information on the assumptions or methods for developing those estimates. For the 10-year budget window (FY2025-FY2034), CBO estimated that Section 44202 would reduce outlays by approximately $30.8 billion and increase net revenue by nearly $2.8 billion. The Senate Committee on Health, Education, Labor, and Pensions publicly released language on June 10, 2025, that—similar to House-passed H.R. 1—included a provision (§87001) that would have provided indefinite CSR appropriations. However, the Senate amendment to which the House later voted to concur did not include a CSR appropriations provision. Therefore, the enacted legislation does not provide appropriations for CSR reimbursements.

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