



2021 Individual Shared Responsibility Penalty Calculation

October 22, 2020

Summary:

In support of the California statute requiring individuals to obtain health coverage, Covered California calculated the average bronze plan premium for the calendar year 2021 by applying an IRS methodology established with the initial implementation of the Affordable Care Act. In performing this calculation, Covered California used 2021 rate data from all qualified health plan (QHP) issuers. Following the procedure yielded the average bronze plan premium for the calendar year 2021, of \$291 per month for an individual. Consistent with the IRS procedure, the maximum monthly penalty for a taxpayer with a household of five or more non-exempt individuals who did not maintain minimum essential coverage would be equal to \$291 times five, or \$1,455.

Background:

Covered California is providing the preceding calculation to support the California Franchise Tax Board's implementation of the Individual Shared Responsibility Penalty according to Part 32 of the Revenue and Taxation Code.

Section 61015 of California's Revenue and Taxation Code establishes that the Individual Shared Responsibility Penalty imposed on a responsible individual for a taxable year shall be equal to the lesser of either (1) the sum of the monthly penalty amounts determined under subdivision (b) of Section 61015 or (2) "an amount equal to one-twelfth of the state average premium for qualified health plans that have a bronze level of coverage for the applicable household size involved, and are offered through the Exchange for plan years beginning the calendar year with or within which the taxable year ends, multiplied by the number of months in which a failure described in Section 61010 occurred."¹

The penalty amount language in the California statute closely mirrors the federal penalty that was enacted in 2010 in the Affordable Care Act (ACA), the dollar value of which was set to zero for calendar years beginning with 2019.

In 2014, following the implementation of the ACA, the Internal Revenue Service (IRS) released Revenue Procedure 2014-46, which describes the methodology the IRS used for tax years 2014 through 2018, when the federal penalty was in effect, to calculate average premiums for the bronze level of coverage. It is as follows:

"the monthly national average bronze plan premium is determined using a population-weighted average of the premium in each county or county equivalent that would be charged to a 21-year old individual who does not use tobacco." (Internal Revenue Service, Revenue Procedure 2014-46, pp. 4-5.)²

Further, the procedure caps the penalty a taxpayer will pay at a maximum of five individuals as follows:

"in determining a taxpayer's monthly national average bronze plan premium, the age-21 non-tobacco user premium described above is multiplied by the number of the individuals in the shared responsibility family, up to a maximum of five." (Internal Revenue Service, Revenue Procedure 2014-46, p. 5.)²

Methodology:

The following method was used by Covered California to calculate the 2021 monthly state average premium for qualified bronze level health plans by approximating the IRS revenue procedure.

The calculation utilizes 2021 rate data of all QHP issuers from Covered California's website (<https://hbex.coveredca.com/data-research>). The first table lists all 2021 Products by Zip Code by county and by rating region.³ The second table contains the 2021 Individual Product Prices for all Health Insurance Companies by rating region and by age.⁴ Combining the two tables produces a list of unique Bronze and Bronze HDHP (HDHP) plans with pricing for a 21-year-old in each county, which is used to ascertain the median bronze-level premium in each of California's 58 counties. As stated in the IRS protocol, the use of the median premium (as opposed to the county average premium) minimizes the impact of outliers.

Table 1. Median Bronze-Level Premium by County, 2021

County	County Median Rate	County	County Median Rate	County	County Median Rate	County	County Median Rate
Alameda	\$340.03	Kings	\$257.72	Placer	\$345.06	Sierra	\$373.90
Alpine	\$373.90	Lake	\$373.90	Plumas	\$373.90	Siskiyou	\$373.90
Amador	\$362.36	Lassen	\$373.90	Riverside	\$254.41	Solano	\$322.73
Butte	\$373.90	Los Angeles	\$235.67	Sacramento	\$345.06	Sonoma	\$322.73
Calaveras	\$373.90	Madera	\$257.72	San Benito	\$474.30	Stanislaus	\$308.97
Colusa	\$373.90	Marin	\$322.73	San Bernardino	\$254.41	Sutter	\$362.36
Contra Costa	\$365.12	Mariposa	\$298.05	San Diego	\$281.68	Tehama	\$373.90
Del Norte	\$373.90	Mendocino	\$373.90	San Francisco	\$354.67	Trinity	\$373.90
El Dorado	\$305.16	Merced	\$363.40	San Joaquin	\$308.97	Tulare	\$308.97
Fresno	\$257.72	Modoc	\$373.90	San Luis Obispo	\$338.75	Tuolumne	\$373.90
Glenn	\$373.90	Mono	\$399.48	San Mateo	\$378.40	Ventura	\$320.11
Humboldt	\$373.90	Monterey	\$474.30	Santa Barbara	\$338.75	Yolo	\$345.06
Imperial	\$354.63	Napa	\$322.73	Santa Clara	\$340.75	Yuba	\$362.36
Inyo	\$399.48	Nevada	\$373.90	Santa Cruz	\$460.90		
Kern	\$274.02	Orange	\$261.26	Shasta	\$373.90		

Considering differences in county population sizes, our subsequent step was calculating the population weight for each county. The California Department of Finance' population estimate for January 2020 is used to determine the weight, which is derived by dividing the county's population by the State total.⁵

Table 2. Population Weight by County, 2020

County	Population Weight	County	Population Weight	County	Population Weight	County	Population Weight
Alameda	0.041999	Kings	0.003861	Placer	0.010148	Sierra	0.00008
Alpine	0.000029	Lake	0.00161	Plumas	0.000459	Siskiyou	0.001118
Amador	0.000947	Lassen	0.000725	Riverside	0.061391	Solano	0.011066
Butte	0.005286	Los Angeles	0.255712	Sacramento	0.039096	Sonoma	0.012392
Calaveras	0.001132	Madera	0.003975	San Benito	0.001567	Stanislaus	0.014019
Colusa	0.000551	Marin	0.006556	San Bernardino	0.054811	Sutter	0.002532
Contra Costa	0.028996	Mariposa	0.000454	San Diego	0.08404	Tehama	0.001637
Del Norte	0.000686	Mendocino	0.002211	San Francisco	0.022568	Trinity	0.000341
El Dorado	0.004857	Merced	0.007127	San Joaquin	0.019446	Tulare	0.012065
Fresno	0.025724	Modoc	0.000241	San Luis Obispo	0.006969	Tuolumne	0.00138
Glenn	0.000739	Mono	0.000338	San Mateo	0.019437	Ventura	0.021187
Humboldt	0.003351	Monterey	0.011089	Santa Barbara	0.011358	Yolo	0.005573
Imperial	0.004745	Napa	0.003496	Santa Clara	0.049317	Yuba	0.001983
Inyo	0.000467	Nevada	0.002466	Santa Cruz	0.006818		
Kern	0.023064	Orange	0.080294	Shasta	0.004475		

With the population weight and median rate determined for each county in the state, the weighted rate for each county is calculated by multiplying the two statistics together. Once complete, the summation of the outputs produces the average bronze plan premium for the calendar year 2021 of \$291 (rounded to the nearest dollar) per month for an individual. Consistent with the IRS procedure, the maximum monthly penalty for a taxpayer with a household of five or more non-exempt individuals who did not maintain minimum essential coverage would be equal to \$291 times five, or \$1,455.

¹ Rev. & Tax. Code, § 61015

<https://leginfo.ca.gov/faces/codes_displayText.xhtml?lawCode=RTC&division=2.&title=&part=32.&chapter=&article=> (as of September 30, 2020).

² Internal Revenue Service, Rev. Proc. 2014-46 (2014) <<https://www.irs.gov/pub/irs-drop/rp-14-46.pdf>> (as of September 30, 2020).

³ Covered California, 2021 Products by Zip Code <<https://hbex.coveredca.com/data-research/library/2021-products-by-zip-code.xlsx>> (as of September 30, 2020).

⁴ Covered California, 2021 Individual Product Prices for all Health Insurance Companies <https://hbex.coveredca.com/data-research/library/2021_QHP_Individual_Rates_File_for_Posting-09-30-2020.xlsx> (as of September 30, 2020)

⁵ State of California, Department of Finance, E-4 Population Estimates for Cities, Counties, and the State, 2011-2020, with 2010 Benchmark. (Released: May 1, 2020)

<http://www.dof.ca.gov/Forecasting/Demographics/Estimates/e-4/2010-20/documents/E-4_2020InternetVersion.xlsx> (as of September 30, 2020).