



The American Rescue Plan Act of 2021 – Part 2

DCAPs and Exchange Health Insurance

1-Minute Read

On March 11, 2021, President Biden signed the [American Rescue Plan Act of 2021](#) (Act). The Act is a \$1.9 trillion legislative package, which contains several provisions intended to relieve employers and families from some of the economic burdens associated with COVID-19. The Act contains funding for the Centers for Disease Control and Prevention, stimulus checks, unemployment benefits, a child tax credit, tax credits for paid sick leave and family and medical leave, the paycheck protection program, grants to state educational agencies, and low-income family assistance. The Act also contains several provisions affecting group health plans. This series of Advisors will focus on the provisions affecting group health plans. Please also see our [Part 1 Advisor](#) on COBRA Premium Assistance.

Increase in the Maximum Exclusion Under DCAPs

The Act increases the maximum amount that can be excluded from an employee's income under a dependent care flexible spending arrangement (DCAP) from \$5,000 to \$10,500 if the employee is married and filing a joint return or if the employee is a single parent (\$2,500 to \$5,250 for individuals who are married but filing separately) for any taxable year beginning after December 31, 2020, and before January 1, 2022. An employer may amend a DCAP to apply this increased limit retroactively to January 1, 2021, if the amendment is adopted no later than the last day of the plan year in which the amendment is effective and the plan is operated consistent with the terms of the amendment during the period beginning on the effective date of the amendment and ending on the date the amendment is adopted.



Expanded Premium Tax Credit Eligibility and Lower Required Contribution Percentages on the Health Insurance Marketplace/Exchange

For the taxable years of 2021 and 2022, the Act has expanded eligibility for the premium tax credit for individuals who purchase health insurance on an Exchange. Under the Act, there is no upper income limit on individuals who are eligible for a premium tax credit for 2021 and 2022 (under the existing Patient Protection and Affordable Care Act (ACA) rules, the premium tax credit is limited to individuals with household income between 100% and 400% of the federal poverty level (FPL). See the second chart, below). The Act also lowers the percentage of household income that individuals must contribute for health insurance coverage purchased on an Exchange (See the first chart, below). The first chart provides the income levels and premium percentages required for 2021 and 2022 as set forth in the Act. The second chart provides the income levels and premium percentages required under the ACA.

Chart For 2021 and 2022

In the case of household income (expressed as a percent of poverty line) within the following income tier:	The initial premium percentage is	The final premium percentage is
Up to 150.0 percent	0.0	0.0
150.0 percent up to 200.0 percent	0.0	2.0
200.0 percent up to 250.0 percent	2.0	4.0
250.0 percent up to 300.0 percent	4.0	6.0
300.0 percent up to 400.0 percent	6.0	8.5
400.0 percent and higher	8.5	8.5

ACA Chart

In the case of household income (expressed as a percent of poverty line) within the following income tier:	The initial premium percentage is	The final premium percentage is
Up to 133%	2.0	2.0
133% up to 150%	3.0	4.0
150% up to 200%	4.0	6.3
200% up to 250%	6.3	8.05
250% up to 300%	8.05	9.5
300% up to 400%	9.5	9.5

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In the case of an individual who has received, or has been approved to receive, unemployment compensation for any week beginning during 2021, for that taxable year an Exchange must not take into account any household income of the individual in excess of 133 percent of the poverty limit for a family of the size involved.



Implication of Health Insurance Marketplace/Exchange Changes

The changes in income tiers and required premium percentages, noted above, expand eligibility for premium tax credits for individuals who purchase insurance on an Exchange. Employers that are applicable large employers (ALEs) and do not offer minimum essential coverage that is affordable and provides minimum value are at greater risk of incurring an employer shared responsibility penalty (ESRP) because ESRPs are based on employees receiving tax credits when purchasing health insurance on an Exchange.

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