Health insurance subsidy standoff pits affordable care for millions against federal budget constraints

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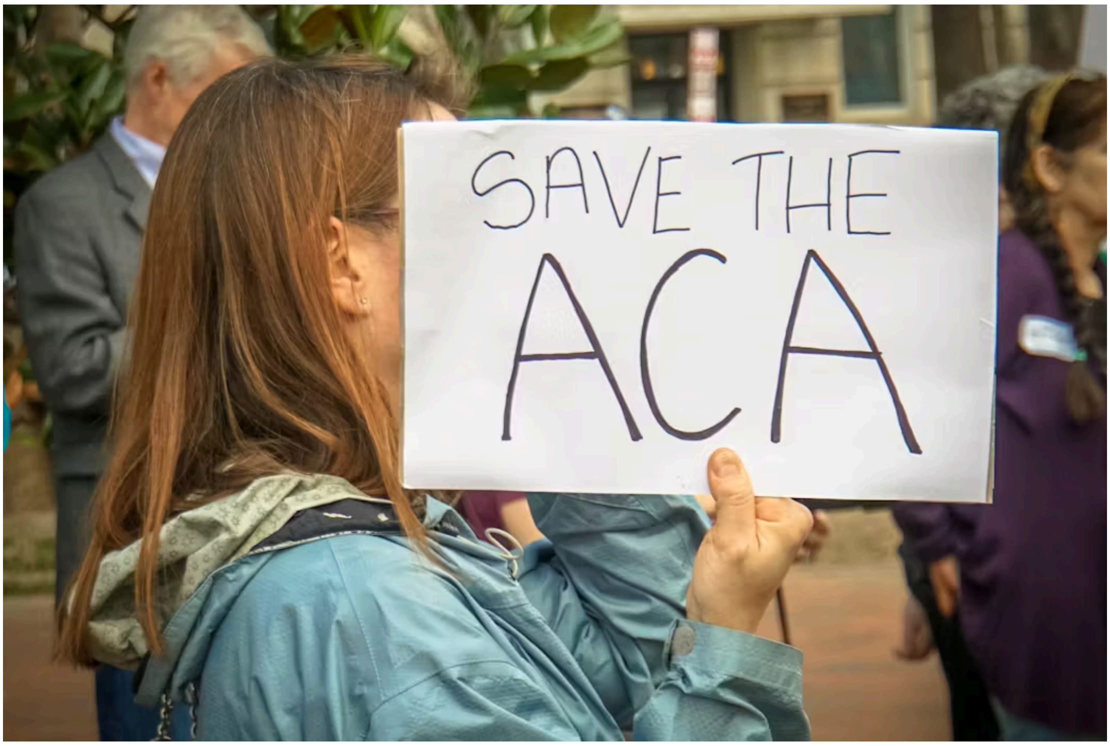

Lawmakers limited Affordable Care Act subsidies to a few years, setting the stage for a fight over them in 2025.

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As the federal government entered a shutdown on Oct. 1, 2025, competing narratives quickly emerged about the cause.

Some Republican lawmakers objected to Democrats' push to include an extension of the expanded Affordable Care Act premium subsidies in a short-term funding bill and cited concerns about long-term spending. Democratic leaders countered that the subsidies are not a new demand but rather the continuation of a program that has helped keep record numbers of Americans insured since the pandemic – and therefore that the issue could not be delayed.

The result is a standoff that blends fiscal and policy disagreements – a hallmark of contemporary budget politics.

As experts in health law, we see this issue as simple but consequential from a legal standpoint. Congress authorized the enhanced subsidies in 2021, originally to cushion the economic fallout from COVID-19 for families, and extended them through 2025 in the Inflation Reduction Act.

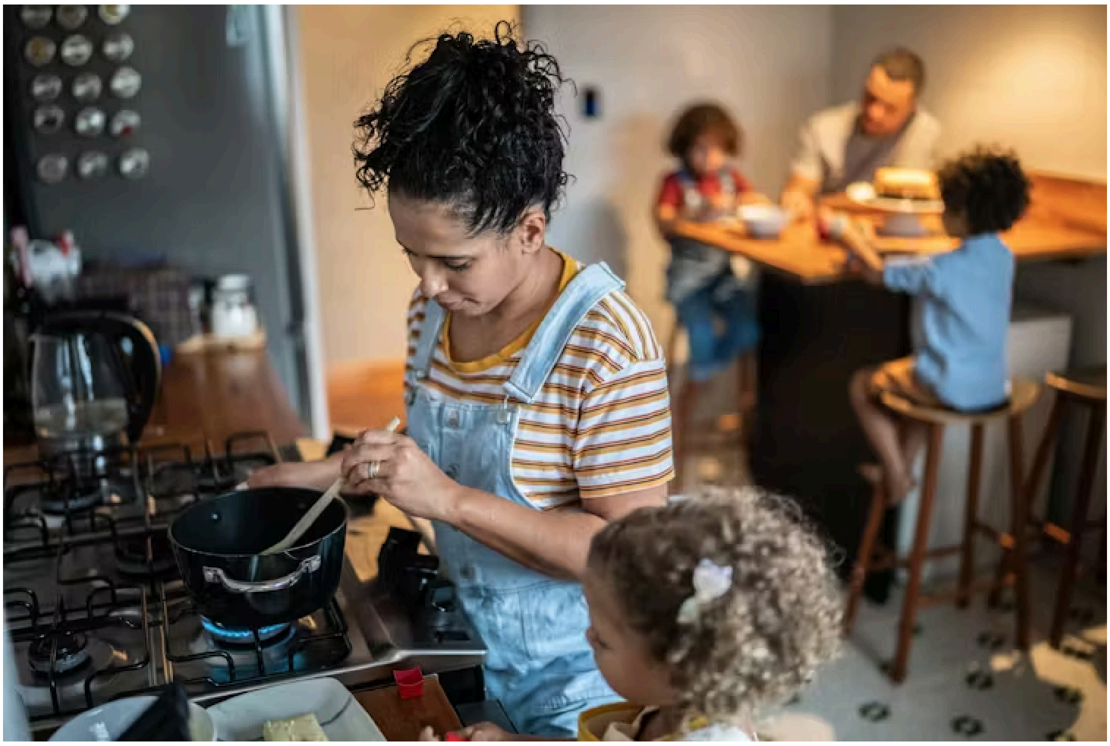
Without new legislation, the subsidies revert to pre-2021 levels on Jan. 1, 2026 – which would lead to a jump in the cost of health insurance and would make coverage unaffordable for millions of Americans.

Enhanced subsidies explained

Most Americans under age 65 get insurance through their employers, which the federal government subsidizes by making it tax-free. Medicare, the program for older Americans, and Medicaid, the program that mainly serves low-income Americans, are heavily supported by subsidies too.

But as of 2025, about 1 in 6 people under age 65 do not have access to this coverage, including many small-business owners and tradespeople, as well as part-time workers and those in the gig economy. For them, unsubsidized health insurance can be prohibitively expensive.

To address this affordability problem, the ACA provided for households earning between 100% and 400% of the federal poverty level to receive subsidies for purchasing policies on the ACA marketplace, effectively lowering premiums. The original law limited subsidies only to those making under 400% of the federal poverty level, which is, for a family of four in 2025, around US$128,000 per year. A family making $129,000 a year, however, would have to pay full price.



If the current ACA subsidies expire, almost 5 million people are likely to lose their health insurance coverage.
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The American Rescue Plan temporarily made two major changes in 2021:

It removed the 400%-of-poverty eligibility ceiling, extending help to many middle-income families.

It capped the maximum household contribution at 8.5% of income for everyone, ensuring affordability regardless of income.

If these reforms expire in 2026, the Internal Revenue Service must revert to the older, less generous formula.

What the subsidies accomplished

The enhanced subsidies drove ACA marketplace participation to historic highs – more than 24 million people selected plans for 2025, up from about 11 million in 2020. The Department of Health and Human Services found disproportionate enrollment gains among Black and Latino Americans, helping to reduce racial disparities in coverage.

For many low-income enrollees, mid-level plans – called silver plans in the ACA marketplace – effectively became free. Middle-income families who previously earned just above the cutoff gained meaningful relief, sometimes saving thousands of dollars a year.

What happens if subsidies expire?

Analysts broadly agree that returning to the pre-2021 rules would mean large cost increases and coverage losses. On average, the premiums that Americans will pay for ACA marketplace plans would more than double. The Kaiser Family Foundation estimates that average annual out-of-pocket premiums for an individual would jump from about $888 in 2025 to $1,900 in 2026.

With these increases, millions of Americans will lose their health insurance coverage. The Urban Institute, a think tank, projects that 7.3 million fewer people would receive subsidized marketplace coverage and 4.8 million more would become uninsured.

This is highly consequential, as research shows that insurance coverage saves lives by ensuring access to care. Knocking nearly 5 million people off insurance may cause as many as 500 additional deaths per year.

Losses would disproportionately impact low- and middle-income families. Free premium plans would disappear. Those making below 250% of the federal poverty level could see their net premiums rise more than fourfold, while those between 250% and 400% would see their premiums double. What’s more, rural Americans, already under pressure from the state of the economy, face higher risks.

The fiscal and policy trade-offs

On the flip side, making the enhanced credits permanent would add about US$350 billion to federal deficits between 2026 and 2035, according to the Congressional Budget Office's estimates. Proponents argue that the cost is justified by reduced medical debt, fewer uninsured, greater household stability and ultimately saving lives. Short-term savings from cutting the subsidies would also lead to higher health care costs, longer-term. But critics worry it's a broad and expensive way to support affordability, benefiting some higher-income households that could otherwise afford coverage, even though it would cost more than 8.5% of their income.

Another concern is how the subsidies affect price competition. Under the ACA, the government pays most of the difference between what a household is expected to contribute and the actual cost of a standard benchmark plan. That means if health insurance companies raise their premiums, those who receive subsidies don't feel the effect of the premium increases, because the federal subsidy simply grows to cover it. That means companies have fewer reasons to compete on price.

Legal and administrative constraints

Because the subsidies are written into the tax code, only Congress can extend them or make them permanent. The question of whether to renew them was already debated strenuously when Congress passed the big tax and spending package that President Donald Trump signed into law on July 4, 2025. By omitting the subsidies, the bill effectively raised health care costs for millions of middle-income Americans. States that run their own marketplaces may add some aid, but few can match the scale of federal support.

Administrative timing matters too. The IRS, health insurers and the online marketplace all need to know how the subsidy amounts will be calculated – in other words, which income limits and premium caps Congress wants to use. These figures determine how much financial help people get when they sign up for coverage. Late or temporary fixes can create confusion for both consumers and administrators.

Options before Congress

Lawmakers have several options, each with different trade-offs.

A permanent extension would provide stability for consumers and insurers – but at the cost of higher long-term federal spending. A short-term renewal of one to four years could soften the immediate jump in premiums while giving Congress time to reassess the policy, but it would continue the cycle of temporary fixes.

Alternatively, a targeted approach might preserve the larger subsidies for lower-income households but gradually reduce assistance for higher earners so that they aren't guaranteed a cap of 8.5% of their income for insurance. This would make the policy more fiscally restrained but less universal.

Some legislators have also proposed offsetting the cost of ACA subsidies by pairing an extension with savings elsewhere in the health system. Those savings could come from trimming what the government pays insurers to lower patients' out-of-pocket costs or by reducing Medicare payments to doctors.

Each of these options reflects a different balance among affordability, fiscal responsibility and administrative simplicity. Together, they highlight how difficult it is to design a policy that meets all three goals at once.

A structural challenge

The problem isn't just political – it's built into how time-limited programs like the enhanced ACA subsidies are designed. The subsidies have always reflected partisan divides, but their temporary nature makes those divides even sharper. Lawmakers limited them to a few years to keep costs down, but that choice now means Congress has to reopen the same debate every year.

When deadlines for renewing programs collide with larger funding fights, important benefits can lapse, not because lawmakers chose to end them but because the fights over broader spending leave little room for resolution.

In the end, it's up to Congress to decide not only whether these subsidies continue, but whether big social policies like this should be settled through last-minute budget showdowns. For now, getting the government running and keeping health insurance affordable are part of the same fight.

Wendy Netter Epstein is a member of the Illinois Health Benefits Exchange Advisory Committee.

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