LESSON · HEALTH CARE & ACA

The ACA Subsidy Cliff Is Back: What Early Retirees Need to Know

If you're retiring before 65, your ACA premium can be one of your biggest expenses — and one MAGI decision can swing it by thousands of dollars a year. Here's how the subsidy actually works, and what quietly counts against you.

Read time: 9 minutes **Level:** Foundational **Includes:** Knowledge check

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If you're retiring before 65 — before Medicare eligibility — health coverage through the ACA marketplace is often one of the largest line items in the whole plan. What you actually pay depends heavily on your household income relative to the Federal Poverty Level (FPL), which means a decision that looks purely like a tax question can quietly change your health insurance bill by thousands of dollars a year. New to the marketplace? Start with The ACA Marketplace, Explained, which covers how plans, tiers and the premium tax credit work.

How the subsidy is actually calculated

ACA premium subsidies are based on your Modified Adjusted Gross Income (MAGI) compared to the Federal Poverty Level for your household size. The subsidy caps what you pay for a benchmark silver plan at a percentage of your MAGI. For 2026 coverage, that cap runs from about 2% of income at the lowest eligible incomes up to 9.96% of income between 300% and 400% of FPL. As MAGI rises, the subsidy shrinks. Above 400% of FPL, there is no subsidy at all.

Worked example

Picture a household of two with a benchmark silver plan costing $1,200/month ($14,400/year). For 2026 coverage, 400% of FPL for a household of two is about $84,600. At a MAGI of $80,000, the household pays 9.96% of income, about $664/month, and the subsidy covers the remaining $536/month, or about $6,400 a year. Now add a $5,000 Roth conversion, pushing MAGI to $85,000. The household is just over 400% of FPL, the entire subsidy disappears, and the premium jumps to the full $1,200/month. An extra $5,000 of income cost about $6,400 in lost subsidy, before any income tax on the conversion.

The cliff is back. From 2021 through 2025, temporary enhancements removed the 400% cutoff and capped premiums at 8.5% of income at every income level. Those enhancements expired on December 31, 2025. Starting with 2026 coverage, going even one dollar over 400% of FPL means losing the entire subsidy at once, rather than phasing out gradually. Congress has debated restoring the enhancements, and the House passed a three-year extension in January 2026, but as of this writing none has become law. Plan on current law, and confirm the current-year rules each fall during open enrollment rather than assuming a fix is coming.

Why Blueprint targets 398%, not 400%, of FPL

With the cliff back, 400% of FPL is a hard edge, not a gentle slope: one dollar over can cost a household thousands. Blueprint plans toward 398% of FPL as an intentional 2% safety buffer, not 400% exactly, so a small income surprise (an extra dividend, a slightly larger-than-planned withdrawal, an unanticipated capital gains distribution from a mutual fund) doesn't accidentally push a household over the line.

What actually counts toward MAGI (this trips people up)

For ACA purposes, MAGI is a specific calculation, and one piece of it surprises almost everyone the first time: **all Social Security benefits count toward ACA MAGI, including the portion that isn't taxable for regular income-tax purposes.** Someone who has very little "taxable" income by ordinary standards can still have a meaningfully higher ACA MAGI once their full Social Security benefit is added back in.

MAGI decisions that quietly raise your premium

Several planning moves that seem unrelated to health insurance actually count toward the MAGI your ACA subsidy is based on: Roth conversions, capital gains from selling taxable investments, RMDs (once they start, though by then most people are on Medicare instead), and the full amount of Social Security benefits received. Qualified Roth withdrawals and money spent from an HSA on qualified medical expenses generally do not count.

The "family glitch" and other coverage nuances

If your spouse has access to affordable employer coverage, that used to block your household from ACA subsidies entirely, even if your own coverage through that employer's plan was actually unaffordable for you specifically — a quirk known as the "family glitch." Recent rule changes fixed this in many cases, evaluating affordability separately for each family member rather than the household as a whole. If a spouse's former employer offers retiree coverage or COBRA, it's worth comparing the real cost against a marketplace plan with your subsidy factored in, rather than assuming the employer option is automatically cheaper.

Timing: the mid-year retirement problem

If you retire partway through the year, your subsidy is based on your MAGI projection for the entire calendar year, not just the months remaining after you stop working. Overestimate your income and you'll get a credit back at tax time (via IRS Form 8962). Underestimate it and you'll owe the excess back. Starting with 2026 coverage, the caps that used to limit that repayment are gone, so you repay the full difference, and if your final MAGI lands above 400% of FPL, you repay the entire year's advance subsidy. Re-project your full-year MAGI as soon as your income situation changes, and update your marketplace estimate rather than leaving it untouched all year.

How Blueprint approaches this

Because ACA planning depends on year-specific MAGI, not just a single "income" number, Blueprint shows the subsidy as its own credit line item on your retirement paycheck stub, so its value is visible rather than buried inside a larger number. It's offered as part of the paid Plus tier, since it takes ongoing MAGI tracking to get right. Blueprint also starts with a nationwide-average premium estimate and then points you to your state's ACA exchange — for example Pennie in Pennsylvania — to pull your actual plan cost and MAGI-based subsidy, replacing the default with real numbers.

Before you retire early on ACA coverage:

- [ ] Know your household size and the current Federal Poverty Level figure for it
- [ ] Project your MAGI for the full year, not just what you've already earned
- [ ] Remember that your full Social Security benefit counts toward ACA MAGI, even the non-taxable portion
- [ ] Know which income sources count toward MAGI (conversions, capital gains, RMDs, Social Security) and which generally don't (qualified Roth withdrawals, HSA spending)
- [ ] Plan any large one-time income events around your subsidy math before you trigger them, not after
- [ ] Re-check your subsidy estimate as soon as your income situation actually changes mid-year

KNOWLEDGE CHECK

Test what you just learned

Answer four quick questions to test what you just learned.

1. What does ACA subsidy eligibility for an early retiree mainly depend on?

> A. Net worth
> B. MAGI relative to the Federal Poverty Level
> C. Age alone

2. Why might a Roth conversion in a given year reduce your ACA subsidy that same year?

> A. It doesn't — conversions have no effect on ACA subsidies
> B. The converted amount adds to your MAGI for that year
> C. Roth conversions are only allowed after 65

3. Which of these counts toward ACA MAGI, even though it often surprises people?

> A. The full amount of Social Security benefits received, including the non-taxable portion
> B. Money spent from an HSA on qualified medical expenses
> C. Qualified Roth IRA withdrawals

4. Why does Blueprint plan toward 398% of FPL instead of exactly 400%?

> A. It's an arbitrary rounding choice
> B. It's a small, deliberate buffer against crossing a subsidy threshold on a minor income surprise
> C. 398% is required by federal law

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