

Health Care Reform Update

With the recent passage of the Patient Protection and Affordable Care Act and the Health Care and Education Reconciliation Act the United States has collectively entered into a new uncharted territory as it relates to our National Health Care system. A few of the Bills components will be implemented within 2010 while much of the legislation will be phased in over the next 3 to 4 years. This correspondence is intended to update our clients on the major aspects of the bill as well as set some time parameters for future implementation of the legislation.

Changes for 2010

- Small businesses are eligible for tax credits
 - Small employers with less than 25 employees are eligible for tax credits on a sliding scale up to 35% of the cost for the employer contributions towards the Health insurance for up to 2 years. The average salary must be below \$50,000 excluding owners.
 - Maximum Amount. The credit is worth up to 35 percent of a small business' premium costs in 2010. On Jan. 1, 2014, this rate increases to 50 percent (35 percent for tax-exempt employers).
 - Phase-out. The credit phases out gradually for firms with average wages between \$25,000 and \$50,000 and for firms with the equivalent of between 10 and 25 full-time workers.
 - For more information on the tax credits visit
<http://www.irs.gov/newsroom/article/0,,id=220839,00.html>
- All group plans will be required to meet the discrimination tests associated with section 105 of the IRS code ensuring that plans do not discriminate contributions in favor of highly compensated employees.
- High risk pools for those who cannot attain coverage due to pre-existing conditions will be set up.
- Requires the states to develop and set up web-portals for information on affordable coverage, including group plans, Medicaid, CHIP, and the high risk pools.
- Lifetime limitations will be removed from policies.
- All plans will have to include coverage for dependents up to age 26
- All plans will cover preexisting conditions for children 19 and under.
- Emergency services will be covered regardless whether the services are performed by a network provider.
- New coverage appeals process
- Federal grant program for small employers providing wellness benefits to their employees.

Changes for 2011

- Over the counter medications will no longer be eligible expenses through FSA's, HRA's, and HSA's.
- Employers will be responsible to report contributions towards health insurance on w-2's

- Tax on distributions for non qualified expenses from a HSA will go from 10% to 20%.

Changes for 2012

- All plans must provide 4 page benefit summaries to their employees with specific language as outlined by HHS (US department of Health and Human Services)

Changes for 2013

- Medicare Hospital Insurance Tax on self employed and employees with earnings greater than \$200k for individuals, and \$250k for Joint Filers (not indexed for COLA adjustments)
- Additional 3.8% Medicare contribution for certain unearned income for individuals with adjusted gross income over \$200k individual and \$250k for those filing jointly.
- The threshold for the Itemized deductions for unreimbursed medical expenses will increase from 7.5% to 10% of adjusted gross income.
- \$2,500 annual maximum established for medical FSA contributions. (indexed for inflation)
- Employers must provide written notice to employees on the existences of state based Health Insurance Exchanges.

Changes for 2014

- Requires States to set up health insurance exchanges to facilitate the sale of qualified benefit plans to individuals and employer groups.
 - The state can set up exchanges to service both markets under one exchange or they can set up employer group exchanges and individual group exchanges separately.
 - States may choose to let larger employers (more than 100 employees) into the exchanges in 2017.
- Requires all American citizens and legal residents to purchase qualified health insurance coverage.
 - Penalties imposed for non compliance; either a flat dollar amount or a percentage of the individuals income, whichever is higher.
- New federal tax imposed for group plans equal to \$2 per enrollee.
- New annual taxes imposed on private health insurance companies based on net premiums.
- Exclusions based on preexisting conditions will be prohibited in all markets.
- Sliding scale tax credits for non Medicaid eligible individuals with incomes up to 400% of the federal poverty level to buy coverage.
- Employers with more than 50 full time employees will be required to provide coverage that meets federal mandates.
 - Coverage must meet minimum essential benefit requirements to comply with the mandate.
 - When determining the number of employees, part time employees must be taken into consideration based on the aggregate number of hours worked.
 - Employers will face fines on ALL employees if even one employee receives a tax credit and purchases coverage through the exchanges.

- Fines for non compliance are \$2,000-\$3,000 annually (depending on the circumstances) per employee excluding the first 30 employees (i.e. if the employer has 51 employees and is fined, they only pay the fine for 21 employees)
- Individuals who receive coverage through their employer sponsored plan and have income up to 400% of the FPL are eligible for a tax credit to purchase coverage through the exchange instead of the employer coverage if:
 - The actuarial value of the employers coverage is below the minimum standard
 - Or the employees contribution through the employer plan is greater than 9.5% of the employees family income
- Waiting periods in excess of 90 days are prohibited
- Requirement for employers to provide benefit vouchers that eligible employees can use to purchase coverage through the exchanges.
 - The amount of the voucher is equivalent to the employer contribution for the most expensive premium plan offered.
 - If the voucher is of greater value than the total cost of the plan through the exchange, the excess belongs to the employee.
 - Employees income cannot exceed 400% of the FPL
 - Eligible employees are those whose contribution towards employers coverage is greater than 8% of the premium, but does not exceed 9.8% of the employees household income.
- Catastrophic-only policies available for those 30 and younger.
- Employers with more than 200 employees or full time equivalents will be required to automatically enroll all new employees into the employer sponsored health coverage.
 - This requirement might be implemented earlier should congress make additional changes.
- Expansion of Medicaid for all individuals making up to 133% of the FPL.
- Mandatory state premium assistance programs set up to help eligible individuals who have employer sponsored coverage.
 - States will also create non Medicaid plans for those individuals whose income falls between 133%-200% of the FPL that don't have access to an employer sponsored plan.

Changes for 2018

- A 40% excise tax will be placed on “Cadillac plans” with aggregate values that exceed \$10,200 for singles and \$27,500 for families.

The above bullet points are our attempt to summarize two very complex bills at a high level. Both bills are filled with many mandates and processes that are still open for interpretation and have yet to be clarified. As your benefits Advocate staying up to date on the various components of the legislation will be our utmost priority. Please be assured that we will continue to communicate with you on new regulations, compliance, and tax incentives and how they will impact your group offerings. Our website will be an additional source for communications regarding healthcare reform. Please check under news and updates for additional information and resources. Should you have additional questions on any aspects of the legislation we would ask that you contact your group representative.