Health Care Reform

How Does It Affect You?

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Health Care Reform: How Does It Affect You

Now that comprehensive health-care reform has been signed into law, how will it affect you? While some portions of the law become effective in 2010, other provisions are phased in over time. This summary is designed to explain the impact of health care reform for 1) individuals without insurance, 2) individuals with insurance but not Medicare, 3) individuals with Medicare, and 4) business.

By 2014, most U.S. citizens and legal residents will be required to have qualifying health insurance or face a possible fine. But even if you already have insurance, some reform provisions may affect you.

I Do Not Have Health Insurance

If you don't have insurance, or if it's too expensive, the new reforms may make it easier for you to get and keep health insurance. By 2014, insurers will have to accept you regardless of your health history, and premiums can only vary based on tobacco use and age. Prior to that time, if you haven't been able to get insurance for at least six months due to a pre-existing condition, you will be able to purchase insurance through temporary high-risk pools.

In 2014, Medicaid availability is expanded to those under age 65 with incomes up to 133% of the Federal Poverty Level (FPL). You will also have state-based American Health Benefit Exchanges, available by 2014, through which you can buy health insurance from various plans. In addition, premium and cost-sharing subsidies will be available for individuals and families with incomes at or below 400% of the FPL, which can aid in reducing the cost of insurance purchased through exchanges.

I Have Health Insurance But It is Not Medicare

Beginning this year, you generally can keep your adult child on your coverage up to age 26. And, your insurer will no longer be able to rescind your coverage if you get sick, impose lifetime coverage limits, rescind your coverage except for fraud, or impose coverage exclusions for your child due to pre-existing health conditions. In 2014, you can no longer be charged higher rates based on your health status or gender, and insurers cannot extend waiting periods beyond 90 days.

Starting next year, reimbursements from health flexible spending accounts (health FSAs) and health reimbursement accounts (HRAs) for over-the-counter drugs will be restricted. Tax-free reimbursements from health savings accounts (HSAs) and Archer MSAs for over-the-counter drugs will not be allowed, while the tax on HSAs and Archer MSAs increases for distributions not used for qualified medical expenses.

Beginning in 2013, contributions to health FSAs will be limited to $2,500 per year. Finally, starting in 2013, the income threshold for itemizing medical expense deductions will increase from 7.5% to 10%.

Starting sometime after 2011 (depending on when final regulations are published), The Community Living Assistance Services and Support program (CLASS) will be established as a voluntary insurance program, financed through payroll deductions and available to all working adults who choose to participate. This national program allows participants with functional limitations to maintain their personal and financial independence by providing a cash benefit of at least $50 per day (after a five-year vesting period) for nonmedical services, such as home-care services, family caregiver support, and adult day-care or residential-care services. In order to qualify, a participant must need help with at least two activities of daily living, such as eating, toileting, transferring, bathing, dressing, or continence.

I'm On Medicare

At the outset, the new legislation does not affect Medicare's guaranteed benefits. However, a goal of the new health-care legislation is to slow the increasing cost of Medicare premiums paid by beneficiaries, and to ensure that Medicare will not run out of funds. Beginning in 2011, cuts in Medicare spending will occur over a ten-year period, particularly targeting Medicare Advantage programs -- Medicare programs provided through private insurers but subsidized by the federal government.

These cuts could reduce or eliminate some of the extra benefits Medicare Advantage plans may offer, such as dental or vision care, and some insurers may choose to increase premiums. But Medicare Advantage plans cannot reduce primary Medicare benefits, nor can they impose deductibles and co-payments that are greater than what is allowed under the traditional Medicare program for comparable benefits.

Beginning in 2010, Medicare Part D participants who pay a part of their drug cost after a certain threshold (a situation referred to as the "donut hole"), will gradually see their out-of-pocket expenses decrease, with the payment of a $250 rebate, until 2020, when the donut hole is completely filled. Beginning in 2011, Medicare recipients will be covered for most preventive and wellness care expenses without co-payments.

I'm A Business

Beginning in 2014, employers who have at least 50 full-time employees, and do not offer health insurance, may be assessed a fee of $2,000 for each full-time employee (excluding the first 30 employees) if at least 1 employee is receiving a premium credit. (A premium credit can be used by eligible individuals and families who purchase health insurance through state-based exchanges to reduce the premium cost.)

Employers with fewer than 50 full-time employees are exempt from these fees. But, employers with 200 or more employees must automatically enroll employees in health insurance plans offered by the employer. The employee may voluntarily opt out of the employer's plan.

In addition, employers that offer employee health insurance must offer a free choice voucher to employees who elect to enroll in a state-based American Health Benefit Exchange plan. The value of the voucher is equal to the amount the employer would have paid to cover the employee under the employer's plan. Employees may enroll in an exchange plan if the employee's income is less than 400% of the Federal Poverty Level (FPL) and the employee's cost to participate in the employer's plan is between 8% and 9.8% of the employee's income. The voucher can be used to offset the employee's cost to participate in the exchange plan.

Incentives For Businesses To Offer Health Insurance

As an incentive for small businesses to offer employee health insurance, from 2010 to 2013, employers with 25 or fewer full-time employees with average annual wages less than $50,000 may be eligible for a tax credit of up to 35% of the employer's total premium cost. In 2014, small businesses that buy insurance through state exchanges for their employees may receive a credit of up to 50%. In either case, the credit decreases as the number of employees and average annual wage increases.

By 2014, in an effort to promote wellness and decrease health insurance costs, employers will be able to offer employees rewards, such as premium discounts and added benefits, for participating in wellness programs and meeting certain health-related standards. The value of the rewards can equal as much as 30% of the cost of coverage and may even reach 50% in some cases.

Employers who provide insurance for retired employees who are over age 55, but not yet eligible for Medicare, may receive reimbursement for 80% of retiree claims between $15,000 and $90,000. This temporary reinsurance program begins in 2010 and is available until 2014. On the other hand, employers who currently receive a tax deduction for Medicare Part D drug subsidy payments will see that deduction eliminated in 2013.

Small businesses with up to 100 employees may be able to purchase health insurance through state-based Small Business Health Options Program (SHOP) exchanges by 2014. The exchanges will offer at least four benefit categories of plans based on covering an increasing percentage of benefit costs.

Paying For It

Adding an estimated 32 million Americans to the insurance rolls is expected to cost $940 billion over 10 years. Over one-half of the cost is to be paid from Medicare spending cuts. The remainder comes from taxes and other "revenue raisers", including:

- Starting in 2013, individuals and married couples filing jointly with earned income in excess of $200,000 and $250,000, respectively, will see their Medicare tax increase from 1.45% to 2.35% (a 0.8% increase). In addition, a Medicare tax of 3.8% will be applied to some types of investment income, such as rent, capital gains, and annuity payments. While distributions from qualified retirement plans such as IRA's and 401k accounts are exempt from the tax, these distributions are included in determining one's eligibility for the Medicare tax.
- Individuals with annual incomes greater than $85,000, and couples with incomes exceeding $170,000, will see their Part D premiums increase as the federal subsidy offsetting some of the cost of Medicare Part D premiums is reduced.
- Beginning in 2018, there is a tax on so-called "Cadillac" insurance plans. These are plans that whose annual inflation-adusted premiums for individuals is $10,200 and $27,500 for families.

Planning Implications

It is important to understand the changes to ordinary income and capital gain tax rates. Currently, the long-term capital gains rate of 15% is set to expire at the end of this year. Most believe it will become 20% starting in 2011. Then in 2013, when the 3.8% Medicare tax is implemented, long-term capital gains tax would increase to 23.8% for high-income earners.

On income, when the Bush tax cuts expire, the highest marginal rate will increase from its current 35% to 39.6%. Then, in 2013, with the Medicare tax, the highest marginal rate will become 43.4%. Lastly, neither figure includes the fact that itemized deductions will be phased out.

If you have a flexible spending account, starting in 2013, your contributions will be restricted to $2,500. Plan on using pre-tax money in 2011 or 2012 for expensive items like orthodontia and eye surgery. Remember, your procedure must be done the same year you put the money aside.

Since it will be taxed at a higher marginal rate, high income earners should seriously consider whether they want to defer compensation. Similarly, consider excercising eligible non-qualified stock options this year. Any gain will be taxed as compensation subject to ordinary income and Medicare taxes -- but at existing rates.

If you need to fund a large expense, consider selling stock this year to lock in the current capital gain rate. If there are any unrealized losses in taxable accounts, consider realizing the loss to bank the loss against future gains (that will be at the higher capital gains rate).

For high income earnings, location of assets becomes even more important. Consider keeping corporate bonds and Treasuries in tax-deferred accounts and municipal bonds and individual stocks in taxable accounts.