

MYTHS & REALITIES OF HEALTH CARE REFORM

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Myths & Realities of
Health Care Reform

Introduction

- On March 23, 2010, the Patient Protection and Affordable Care Act (PPACA) and the Health Care and Education Affordability Reconciliation Act of 2010 were signed into law



Introduction

Health Care Reform was designed to expand health coverage by:

- Developing a new marketplace for purchasing insurance
- Mandating individuals to enroll in health coverage
- Expanding eligibility for Medicaid
- Subsidizing low and middle income enrollees in the new marketplace
- Imposing fines on employers who do not offer coverage, or offer coverage that is unaffordable



Introduction

- Health Care Reform affects everyone, but today our focus will be on the application of health care reform to solo and small firms by discussing:
 - Health coverage issues for small employers
 - Overview of the individual mandate
 - Characteristics of the new marketplace
 - Options available
 - Next Steps



Coverage for Small Employers

- Law does not require employers to offer health coverage to their employees
- Large employers that do not offer affordable coverage that has a required minimum value to all full-time employees (and their dependents) may be subject to a penalty
- For purposes of the penalty, a *large employer* is an employer who has 50 or more full-time employees or full-time equivalents for preceding year



Coverage for Small Employers

- Although no requirement to offer coverage, if coverage is provided, must comply with certain legal requirements
 - No pre-existing condition exclusions
 - Waiting periods cannot exceed 90 days
 - No annual dollar limits or lifetime limits
 - Modified community rating for individuals and small group
 - Age, where you live, size of family, tobacco



Coverage for Small Employers

- Increase in wellness incentives from 20% to 30% (50% for smoking)
- Increase in small business tax credit to 50% (35% for tax exempt)
- No cost sharing in excess of limits on high deductible health plans



Coverage for Small Employers

- Coverage for routine costs of clinical trials
- Form W-2 reporting
- Summary of Benefits and Coverage
- Medical loss rates/rebates
- Coverage for clinical trials
- Preventive care
- Patient protections



Coverage for Small Employers

Nondiscrimination

- Originally, for plan years beginning on or after September 23, 2010, nondiscrimination requirements were to apply to fully insured plans
- Rules “similar” to self-insured
- Awaiting guidance for implementation
- Take actions now to prepare
 - Are employee contributions identical for each benefit level?
 - Do maximum benefits vary based on age, years of service, or compensation?
 - Are the same type of benefits available to HCIs and to non-HCIs?
 - Are waiting periods the same for all?



Coverage for Small Employers Assessments, Taxes and Fees

- **Reinsurance (2014-2016):**
 - Reimbursement to fund large claims in the individual market
 - Assessments to all groups
 - \$5.25 PMPM in 2014 / \$3.50 PMPM in 2015 / \$2.19 PMPM in 2016
- **Health Insurer Premium Taxes (2014 & beyond):**
 - Funding of ACA / approx 2%-3% of underwriting premium
 - \$8 billion 2014 / \$11.3 billion 2015 & 2016 / \$13.9 billion 2017 / \$14.3 billion 2018
- **Comparative Effectiveness Research Fee (2012-2019)**
 - Research fee \$1.00 PMPY / \$2.00 PMPY
- **High-Cost Insurance Tax (2018 & beyond):**
 - 40% tax on health plans for coverage in excess of \$10,200 EE Only / \$27,500 Family



Coverage for Small Employers

Assessments, Taxes and Fees

- **Medicare Payroll Tax (2013): Additional 0.9%**
Medicare payroll tax on wages in excess of \$250,000 for joint return filers (\$200,000 for others)
- **Medicare Contribution Tax (2013): 3.8%** Medicare contribution tax on unearned income for joint filers with modified AGI in excess of \$250,000, \$200,00 for singles, \$120,000 for married filing separately
- **Medical expense deduction**
- **Schedule A medical deduction threshold goes from 7.5% to 10% of AGI**
 - Delayed until 2017 if either spouse turns 65 by year-end



Coverage for Small Employers

Special Considerations

- Health FSAs are limited to \$2,500 beginning in 2013
- Application of health care reform to Health FSAs and HRAs
 - Excepted benefits
 - Annual limits and preventive care
- Purchase of individual insurance



Individual Mandate

- **Individual mandate to obtain health coverage:** Beginning in 2014, most individuals must obtain a minimum-level of health insurance coverage or pay a penalty
- **Minimum essential coverage includes:**
 - Medicare, Medicaid, TRICARE
 - Insurance purchased through an exchange, on the individual market
 - Employer-sponsored coverage
- **Penalties for failure to obtain coverage:**
 - In 2014: greater of \$95 or 1.0% of income
 - In 2015: greater of \$325 or 2.0% of income
 - In 2016: greater of \$695 or 2.5% of income (indexed after 2016)
 - Penalty is capped at three times the per person amount for a family
 - Assessed penalty for dependents is half the individual rate



Individual Mandate

- **Medicaid expansion:** Expands eligibility to individuals and families up to 133% of the federal poverty level (FPL)
 - If cost effective, states can opt to subsidize employer-sponsored premiums for this group
- **Premium and cost share assistance:**
 - Individuals and families with household income of 100 - 400% FPL may be eligible for sliding-scale assistance in the form of:
 - Tax credits to help pay premiums; and
 - Out-of-pocket reductions to help with cost sharing (e.g., co-payments and co-insurance)
 - Subsidies based on silver level plan

2013
133% FPL
Individual =
\$15,282
Family of 4 =
\$31,322

2013
400% FPL:
Individual=
\$45,960
Family of 4=
\$94,200



State Exchanges

- January 1, 2014: State health exchanges are generally required to be established for individuals and small employers of 100 or fewer employees
 - Small Business Health Options Program – SHOP
 - Small employer tax credit available if use SHOP
 - Prior to 2016, States may limit the exchanges to employers with less than 50 employees
 - Beginning 2017, States may open the exchanges to all employers
- If States fail to open an exchange, Federal government is authorized to step in and establish an exchange
- Open enrollment for the exchanges begins October 1, 2013



State Exchanges

Types of exchange plans to be offered by insurers

- **Bronze** = 60% actuarial value
- **Silver** = 70% actuarial value
- **Gold** = 80% actuarial value
- **Platinum** = 90% actuarial value
- All exchange “metal” plans must be “qualified health plans” - cover essential health benefits, limit cost-sharing and have a specified actuarial value
- **Catastrophic plan**
 - Only available to individuals < 30 years old, or those exempted from the individual mandate due to unaffordability or hardship
 - Plan must cover:
 - Essential health benefits, but no benefit until the individual has incurred cost-sharing expenses up to the yearly limit
 - Deductible cannot apply to three primary care visits per year



State Exchange Notice

- Employers must notify all current employees of:
 - The employee's right to purchase health insurance coverage through a state insurance exchange, the services provided by the exchange and how to contact the exchange;
 - The employee's possible eligibility for government subsidies; and
 - The employee's possible loss of an employer subsidy, if any, (in the form of a tax-free contribution to the employer-provided health coverage) if health insurance coverage is purchased through the exchange
 - If the employer has a plan, the notice describes eligibility
- The notice must be given to new hires
- No specific penalty for failure to provide such notice but there are risks



Available Options

Decision Process

- Offer coverage
 - through insurance coverage
 - through Marketplace
- Offer no coverage to employees
 - pay more wages but cannot subsidize



Available Options

Decision Process

- **Economic Considerations**
 - Current insurance costs
 - Number of employees/participants
 - Cost of providing coverage
 - Cadillac Tax
 - Cost of coverage under the Marketplace



Options Decision Process

- **Noneconomic Considerations**
 - Employee Expectations
 - Industry Standards
 - Types of coverage options available through the Marketplace
 - Demographics of workforce
 - Increase in the penalties over time for individuals



Summary/Next Steps

- Communicate with employees
- Employers need to have a team to implement necessary changes
- Decisions cannot be made in a vacuum
- Advisors, consultants, brokers (and even attorneys) need to work together to determine the best course of action



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