

# REFORM *Update*

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Last night the U.S. House of Representatives passed major health care legislation. The House passed a bill previously approved by the Senate called The Patient Protection and Affordable Care Act. President Obama has indicated he will sign the legislation, and so it will become law.

In one more important step, the House passed an amendment to the health reform legislation called the Health Care and Education Affordability Reconciliation Act of 2010. This amendment must still be approved by the Senate before it becomes law. The Senate is anticipated to consider this amendment under a process called “reconciliation.”

The process of passing health care reform was complex, and further political and legal battles appear likely to follow. **None of the health care reform changes affecting employer health plans will be effective until later this year.** We are reviewing the legislation and will be providing further information as it becomes available.

## **THE PATIENT PROTECTION AND AFFORDABLE CARE ACT**

Based on our current understanding of the key provisions, we offer the following summary:

### ***Effective later this year (six months after enactment)***

- Employers will need to understand how three changes apply to their plans:
  - ▶ Lifetime maximums will be prohibited for both individual and group health plans
  - ▶ Coverage will be extended to age 26 for dependent children
  - ▶ Medically underwritten policies and the application of pre-existing condition limitations will be curtailed

### ***Effective beginning in 2011***

- New maximum for employees taking advantage of pre-tax health care reimbursement accounts - initial maximum set at \$2,500 to be adjusted annually
- Eliminates tax-favored status of Medicare Part D government subsidies to employers
- Delays to both of these changes are found in House amendment (noted below)

### ***Effective beginning sometime after 2013***

- Health insurance will be mandatory for U.S. citizens and legal residents with a “qualifying coverage level”, a tax penalty for non-compliance, and exemptions for reasons including financial hardship
- Establishment of new state-based health insurance exchanges where individuals can purchase health insurance coverage
- Creation of a high risk pool to cover high risk individuals

- Federal government subsidies to help individuals and families afford coverage when the family makes up to 400% of the Federal poverty level ... this provision in the Act creates a substantial new entitlement program under U.S. law
- Employers with more than 50 employees required to provide coverage for employees or pay a fine. There are also fines if one of their employees relies on government subsidies to purchase coverage
- Employers will be fined if new hire waiting periods exceed 60 days duration
- Medicaid eligibility will be expanded for families earning less than 133% of the Federal poverty level
- Medicare spending will be cut substantially to help pay cost of expanded coverage ... subsidies to insurance carriers offering Medicare Advantage plans will be curtailed and the Act contemplates a reduction in fees to providers
- Medicare payroll taxes will be increased for high income individuals (earnings above \$250,000 per year for families)

### **HEALTH CARE AND EDUCATION AFFORDABILITY RECONCILIATION ACT OF 2010**

This House passed amendment (sent to the Senate for consideration) must still be approved by the Senate to take effect (it is not yet law). If the Senate makes changes to the House amendments, the whole package will move back to the House again for another vote.

If it becomes law, it includes a number of important changes:

- Increase in tax credits available to low income individuals to purchase health coverage
- Reduction in penalties for individuals failing to obtain mandated health coverage
- Increase in penalties employers must pay for failing to provide coverage under the Act
- Process to close “donut hole” under Medicare Part D coverage by 2020...and a \$250 rebate this year for Medicare beneficiaries that reach the donut hole in 2010
- Delays until 2013 the implementation of federal pre-tax health care maximums and elimination of tax-favored status of Medicare Part D government subsidies to employers

Though The Patient Protection And Affordable Care Act will be signed into law this week, the ultimate impact of legislation is still dependent upon many details to be established through the process of administrative regulations. Additionally, the reconciliation bill that follows the Act will change key components of health care reform.

McGraw Wentworth will continue to keep you advised as details are released.

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