

*Tuesday, March 23, 2010*

## This Week in Health Care Reform

As many of you know, sweeping Health Care Reform was approved by the House of Representatives Sunday night. President Obama signed the health care legislation this morning at The White House.

The Senate will now begin considering a package of House changes to the Senate measure known as "reconciliation." The Senate needs a simple majority of 51 votes to approve the changes. Once this process is complete, President Obama would then sign the reconciliation bill.

The health care reforms will unfold slowly. Below, we have provided a detailed timeline highlighting the major changes that would take place year-by-year. Please know that the implementation process could change as the carriers begin to incorporate these reforms into their various contracts. SML will, of course, keep you posted as things develop.

### **Timeline for Implementation:**

#### **2010**

- Sets up a high-risk health insurance pool to provide affordable coverage for uninsured people with medical problems.
- Requires all health insurance plans to maintain dependent coverage for children until they turn 26. Prohibits insurers from denying coverage to children because of pre-existing health problems.
- Bars insurance companies from putting lifetime dollar limits on coverage and canceling policies except for fraud.
- Provides tax credits to help small businesses with up to 25 employees attain and keep coverage.
- Begins narrowing the Medicare prescription coverage gap by providing a \$250 rebate to seniors in the gap, which starts this year once they have spent \$2,830. The gap would be fully closed by 2020.
- Reduces projected Medicare payments to hospitals, home health agencies, nursing homes, hospices and other providers.
- Bans health plans from dropping people from coverage when they get sick.
- Imposes 10% sales tax on indoor tanning.

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## **2011**

- Creates a voluntary long-term care insurance program to provide a modest cash benefit helping disabled people stay in their homes, or cover nursing home costs. Benefits can begin five years after people start paying a fee for the coverage.
- Imposes a \$2.3 billion annual fee on drug makers, increasing over time.
- Requires employers to report the value of health care benefits on employees' W-2 tax statements.
- Provides Medicare recipients in the prescription coverage gap with a 50 percent discount on brand-name drugs; begins phasing in additional drug discounts to close the gap by 2020.
- Provides 10% Medicare bonus to primary care doctors and general surgeons practicing in underserved areas, such as inner cities and rural communities.
- Freezes payments to Medicare Advantage Plans. The first step in reducing payments to the private insurers who serve about one-fourth of seniors. The reductions would be phased in over three to seven years.

## **2012**

- Sets up a program to create nonprofit insurance co-ops that would compete with commercial insurers.
- Penalizes hospitals with high rates of preventable readmissions by reducing Medicare payments.
- Initiates Medicare payment reforms by encouraging hospitals and doctors to band together in "accountable care organizations" along the lines of the Mayo Clinic. Sets up a pilot program to test more efficient ways of paying hospitals, doctors, nursing homes and other providers who care for Medicare patients from admission through discharge. Successful experiments would be widely adopted.

## **2013**

- Standardizes insurance company paperwork, first in a series of steps to reduce administrative costs.
- Limits medical expense contributions to tax-sheltered flexible spending accounts (FSA's) to \$2,500 a year, indexed for inflation. Raises threshold for claiming itemized tax deduction for medical expenses from 7.5% of income to 10%. People over 65 can still deduct medical expenses above 7.5% of income through 2016.
- Imposes a 2.3% sales tax on medical devices. Eyeglasses, contact lenses, hearing aids and many everyday items bought at the drug store are exempt.

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- Increases Medicare payroll tax on couples making more than \$250,000 and individuals making more than \$200,000. The tax rate on wages above those thresholds would rise to 2.35% from the current 1.45%. Also adds a new tax of 3.8% on income from investments.

## **2014**

- Prohibits insurers from denying coverage to people with medical problems or refusing to renew their policy. Health plans cannot limit coverage based on pre-existing conditions or charge higher rates to those in poor health. Premiums can only vary by age, place of residence, family size and tobacco use.
- Coverage expansion goes into high gear as states create new health insurance exchanges - supermarkets for individuals and small businesses to buy coverage.
- Medicaid expanded to cover low- income people up to 133% of the federal poverty line, about \$28,300 for a family of four. Low-income childless adults covered for the first time.
- Requires citizens and legal residents to have health insurance, except in cases of financial hardship, or pay a fine to the IRS. Penalty starts at \$95 per person in 2014, rising to \$695 in 2016. Family penalty capped at \$2,250. Penalties indexed for inflation after 2016.
- Penalizes employers with more than 50 employees if any of their workers get coverage through the exchange and receive a tax credit. The penalty is \$2,000 times the total number of workers employed at the company. However, employers get to deduct the first 30 workers.
- Provides income-based tax credits for most consumers in the exchanges, substantially reducing costs for many. Sliding-scale credits phase out completely for households above four times the federal poverty level, about \$88,000 for a family of four.

## **2018**

- Imposes a tax on employer-sponsored health insurance worth more than \$10,200 for individual coverage, \$27,500 for a family plan. The tax is 40% of the value of the plan above the thresholds, indexed for inflation.

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**2020**

- Coverage gap in Medicare prescription benefit is phased out. Seniors continue to pay the standard 25 percent of their drug costs until they reach the threshold for Medicare catastrophic coverage, when their co-payments drop to 5 percent.

Should you have any questions or concerns regarding this piece, please do not hesitate to contact your SML Account Team.

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