nextep {Healthcare Reform}

Info Sheet: The Reconciliation Act and Healthcare Reform

On March 30, President Obama signed into law the **Health Care and Education Reconciliation Act** of 2010 *(H.R. 4872)*, also referred to as the "Reconciliation Act." This comes just days after the March 23, 2010 enactment of the Patient Protection and Affordable Health Care Act ("PPACA") *(H.R. 3590)*.

Provisions have been made for employers in a PEO relationship. All business tax credits, employer mandates, and non-discrimination testing apply at the client level. In other words, your relationship with Nextep will not be a factor; the mandates will apply at the client level and thus allow each client to be eligible for tax credit benefits.

The Reconciliation Act cements the government's plans for Healthcare Reform and sets into motion sweeping changes to occur over the next several years. Below is a timeline of plan highlights.

2010

Tax Credit for Small Businesses. Businesses with 25 or fewer employees who earn average annual wages of $50,000 or less may receive a tax credit of up to 35% of the employer's contribution towards health insurance costs if the employer pays at least 50% of the total premium cost. Tax credits will phase to higher amounts through 2013 and will vary based on employer size and wages.

No Exclusion for Children. Insurers may not deny coverage to children under age 19 based on pre-existing medical conditions.

Extended Dependent Coverage. If an adult child is not eligible to enroll in his or her own employer-sponsored plan, he or she can maintain dependent coverage on parental insurance until age **26,** regardless of tax-dependent status.

Preventive Care Covered. All new plans must provide first-dollar coverage for preventive services, such as immunizations and screenings for infants, children, adolescents and women. *Group health plans that were in place on or before March 23, 2010 are considered to be grandfathered in and are not subject to this requirement.*

Emergency Services. Under certain circumstances, out of network emergency room care must be covered as an in-network service. *Grandfathered plans are not subject to this requirement.*

No Lifetime Caps or Rescissions. Insurance companies will be barred from setting lifetime limits or restrictive annual limits on coverage, and from rescinding coverage except in cases of fraud.

Medicare Part D Rebate. Medicare patients in the "donut hole" gap in prescription drug coverage will receive a one-time rebate of $250, with changes in the plan to bridge the gap in the coming years.

Coverage for Pre-Existing Conditions. Temporary provision in which adults with pre-existing conditions who have been uninsured for at least six months may gain coverage that does not impose restrictions.

Premium Cost Containment. Health insurers must report on annual dollars spent towards medical care to ensure that less goes towards administration and profit. If the medical loss ratio is more than 80%, or 85% for large group market, policyholders must receive a rebate of the overage.

2011

Medicare Part D Discounts. Prescription drugs in the Medicare "donut hole" are discounted 50%. Additional discounts phase in to completely close the hole by 2020.

W-2 Reporting. Form W-2 will show the employer contribution to the employee's health plan.

FSA Drug Limitations. Over the counter drugs will no longer be a tax-exempt qualified expense under a flexible spending account (FSA) or health savings account (HSA) unless accompanied by a doctor prescription.

HSA Tax Penalties. Money taken out of an HSA for a **non** medically-qualifying expense will incur a 20% penalty tax (increased from the current penalty of 10%). This does not apply to people over age 65.

2012

Hospital Reform. 2012 is largely dedicated to hospital; reform, including development and use of integrated health systems, tracking of hospital readmission rates for certain high-volume or cost events or conditions, and financial incentives to prevent readmissions.

2013

FSA Reduction. Annual FSA contributions and expenses are limited to $2,500 and adjusted for inflation in subsequent years.

Plan Standardization. Health plans must implement uniform standards and rules for the electronic exchange of information in order to promote paperlessness and reduce administrative cost.

Medicare Tax Increase. Medicare tax will be increased by 0.9% on wages for individual taxpayers with an adjusted gross income of $200,000 ($250,000 filing jointly). This tax is just assessed to employees and does not increase the employer portion of Medicare tax.

2014

Health Insurance Exchange. Each state will create health insurance exchanges to individuals and small employers. Members can comparison shop four levels of standardized health packages (bronze, silver, gold, and platinum) with increasing amounts of coverage and cost, including a catastrophic/preventive only plan for individuals up to age 30. Individuals may qualify for tax credits to assist with the cost of coverage if they earn more than Medicaid eligibility and less than 400% of the federal poverty level.

Company Group Coverage. Companies that don't offer qualified health insurance, have more than 50 employees, and have at least one employee who receives a federal subsidy will pay a $2,000 tax penalty for every employee. The company will be exempt from paying the penalty on the first 30 employees. If the company *does* provide health insurance, but it is either unaffordable (more than 9.5% of household income) or has an actuarial value of under 60% (the plan must pay at least 60% of covered expenses), that employee may also be eligible for a federal subsidy. In this case, the company will be assessed a $3,000 penalty, but only for those employees who receive the subsidy.

Individual Coverage. Individuals who do not obtain acceptable health care coverage must pay a penalty of $95 in 2014, increasing in steps up to $695 or 2.5% of income in 2016. Families will pay half of the amount for children, up to a cap of $2,250 per family. If affordable coverage is not available to an individual, there will be no penalty.

Free Choice Vouchers. If an employee's company plan is between 8 and 9.8% of his or her income and s/he earns less than 400% of the federal poverty level, then that employee may take the employer health insurance contribution in the form of a "free choice voucher" and apply this money to an exchange plan.

Automatic Enrollment. Companies with more than 200 employees must automatically enroll employees into the group's health plan. Employees may then opt out of the plan. While there is no official deadline for this provision, it is widely believed to be effective 2014.

Waiting Periods Restricted. Employers may not impose more than a 90 day waiting period to obtain coverage through the company's health plan.

Insurance Regulations. Health plans may not impose annual limits on a patient's amount of coverage. Insurance companies also may not refuse to sell or renew policies based on a member's health status, cannot exclude treatments for pre-existing conditions, and are limited in their ability to charge higher rates based on member demographics such as gender and health status. Geography, tobacco use, family size, and age may continue to be factors in premium cost.

2018

"Cadillac Plans" Penalized. High-priced health plans costing more than $10,200 annually for individuals and $27,500 for family coverage will incur an excise tax.

Additional Changes Possible

While this is the "final" version of Healthcare Reform, changes and clarifications are likely to occur in the coming months and years.

As of March 31, 15 state General Attorneys (including Texas and Florida) have pending suits to block reform. These suits will be resolved by the courts, but until then, all states are subject to the federal Healthcare Reform laws.

There is a good chance that some of these mandates may be modified or dissolved in the future. Nextep will remain alert for the most up to date legislation to ensure compliance and to keep our clients informed.