

An Overview of Federal Health Care Reform and Major Components

On March 23, 2010, the Patient Protection and Affordable Care Act (also called the Affordable Care Act) was signed into law by President Obama. The new health care reform law will have an impact on many individuals, families, and businesses - from how they buy coverage to what that insurance covers. The Affordable Care Act will expand coverage to an estimated 32 million Americans, including 400,000 Missourians. Moreover, small businesses and non-profit organizations are expected to receive almost \$40 billion in support to provide coverage to their employees over the next 10 years.

Overview

The Affordable Care Act has several overarching goals. Among these are: increasing the number of people with health coverage, improving the quality of health coverage, and increasing wellness and disease prevention efforts in businesses and communities across the country. The law includes a variety of mechanisms to reach these goals, including investment in public health; demonstration projects to identify what works prior to being implemented across the system; and new insurance regulations.

Insurance Regulations

There are a number of new rules for insurers that deal with the overarching goals of the Affordable Care Act mentioned above. Some of these insurance regulations include:

- Allowing young adults to stay on parents' coverage up to age 26;
- Certain preventive services will be covered without requiring co-payments or deductibles;
- Ending the practice of dropping insurance coverage when a person becomes ill (rescission); and
- Ending the maximum amounts an insurance company will pay per year (annual limits) and for an individual over the course of their life (lifetime limits).

Coverage and Affordability

The main method for increasing the number of people with insurance is new coverage opportunities. Individuals, families, and small businesses will be able to easily compare and purchase health insurance plans through marketplaces called Exchanges. For those with the lowest incomes, who are most likely to not receive coverage from their employers, Medicaid will be expanded. Medicaid is the state-federal program for people with the lowest incomes.

The Affordable Care Act will also provide individuals and families with financial support to buy health insurance. Tax credits for the purchase of insurance, also called subsidies, will be available to people based on their income. These subsidies will help cover the cost of insurance premiums and reduce out-of-pocket health costs. Small businesses (25 or fewer employees) will also be eligible for tax credits to help cover part of the cost of health insurance provided to their employees.

One approach to controlling the cost of health coverage is a requirement that insurance companies spend a specific portion of premium dollars (80-85%) on health services, limiting how much can be spent on administration or kept as profit. This is often referred to as the medical loss ratio or MLR. Insurers will have to give consumers a rebate if they do not meet the requirement.

Essential Benefits and Health Insurance Exchanges

In addition to the insurance regulations previously discussed (e.g., ending annual and lifetime limits and no co-pays for preventive care) new health insurance plans must include coverage of essential benefits. These benefits include:

- Preventive care (e.g., cancer screenings);
- Prescription drugs;
- Hospitalization and emergency services;
- Maternity and newborn care;
- Mental health and substance abuse treatment; and
- Oral and vision care for children.

The law allows for the creation of state or regional Exchanges. Exchanges offer the opportunity for more Americans to purchase insurance at a lower price and reduce some administrative costs. These are marketplaces where individuals and small businesses can compare insurance plans and purchase coverage which includes the essential benefit package. There will be four health plan levels in the Exchanges, which will cover 60 to 90 percent of the cost of covered health benefits. A catastrophic plan, which will only cover three primary care visits and expensive care like a hospitalization for surgery, will be available to individuals under age 30.

Requirements, Penalties, and Assistance

Individuals: Beginning in 2014, most people will be expected to have health insurance or pay a fine. Exceptions to this requirement will be made for incarcerated individuals, undocumented immigrants, people meeting financial hardship criteria, and for specific religious objections. The fine will be phased in over three years and will be equal to 2.5 percent of household income or \$695 for an individual and \$2,085 for a family in 2016.

Subsidies will be available to help pay for premiums and to reduce out-of-pocket costs for people earning between 133 and 400 percent of the federal poverty level (income between \$29,300 and \$88,200 for a family of four in 2010). Eligibility for these subsidies is limited to U.S. citizens and legal immigrants. People working for businesses that offer coverage will not be eligible for a subsidy unless their share of the premium is considered too high (more than 9.5% of their income) or the coverage is considered inadequate (pays for less than 60% of covered health costs). The value of subsidies will depend on household income and will be determined when an individual applies for health insurance through an Exchange.

Businesses: Businesses have different requirements, penalties, and assistance based on their number of employees. Small businesses (50 or fewer employees) are not required to offer health coverage to their workers. Small businesses will not be subject to fines related to health coverage. Some small businesses (25 or fewer employees) will be eligible for tax credits to help cover the cost of health insurance offered to their workers. These subsidies begin this year and are worth 35 percent of the employer's contribution for coverage of employees.

Larger businesses (more than 50 employees) are not required to offer their employees health insurance. However, businesses with more than 50 workers will have to pay a fine if any of their employees receive a premium subsidy. The amount of the penalty will range from \$2,000 to \$3,000 per employee (not including the first 30 workers) depending on whether or not the business offers health coverage. Businesses with more than 200 employees offering health coverage will be expected to automatically enroll their workers into a health insurance plan. Employees may opt out of this coverage, but will still be subject to the requirement to have health coverage or pay a fine.

If a business offers coverage to their employees, the employer may offer free choice vouchers to eligible employees. Workers with a household income below 400 percent of the federal poverty level (\$43,320 for

an individual or \$88,200 for a family of four in 2010), and whose contribution for employer-sponsored insurance is considered too high (more than 8% of the employee's income) would be eligible for a free choice voucher. The voucher amount will equal what the employer would have paid for coverage of the employee. Businesses providing free choice vouchers will not be subject to the penalties described above.

Public Programs and Prevention

Medicare and Medicaid: The Affordable Care Act makes several changes related to Medicare, the federal program for seniors, and Medicaid, the state-federal program for the poor. People enrolled in these programs will no longer have to make copayments for preventive care services (e.g., mammograms and annual physicals). Access to primary care doctors should improve in both Medicare and Medicaid due to higher reimbursement rates. Medicaid payment rates will be increased to match Medicare rates. Also, there will be bonus payments for primary care services provided under Medicare. The higher reimbursement for these services should encourage more doctors to accept patients with Medicare and Medicaid.

The most significant change to Medicare has to do with the gap in prescription drug coverage (Part D) where enrollees must pay the full cost of any medications. In 2010, Medicare enrollees affected by the gap or "donut hole" will receive a \$250 rebate to offset the cost of medications. In later years, drug companies will provide a discount on medications, and the coverage gap will be phased out completely by 2020.

A key change to Medicaid is the expansion of coverage to low-income childless adults and families with incomes up to 133 percent of the federal poverty level (\$14,400 for an individual or \$29,300 for a family of four in 2010). This expansion is fully funded by the federal government for the first 3 years. Federal funding for the expansion will be stepped down to cover 90 percent of the cost in 2020 and subsequent years. Each state has the option to expand coverage to people with incomes up to 133 of the federal poverty level before 2014.

Prevention: The Affordable Care Act makes a substantial investment in preventive care and wellness activities over the next five years. The National Prevention, Health Promotion and Public Health Council will be established to coordinate federal wellness and public health activities. There are new grant opportunities and pilot projects for health promotion and wellness programs (e.g., smoking cessation and diabetes prevention) and dedicated funding for prevention and public health activities. There are also incentives for businesses to establish and improve wellness programs. For example, employers may offer employees premium discounts up to 30 percent for participating in a wellness program.

Long-Term Care

A national, voluntary insurance program for buying Community Living Assistance Services and Supports, also called the CLASS program, is included in the Affordable Care Act. This program allows individuals with different levels of disabilities (mental and physical) to stay in their home, instead of having to go to a nursing home. The CLASS program will pay around \$50 a day for supports like a personal care attendant. After paying into the CLASS program for five years, people will be eligible for this benefit. The program will be self-sustaining and paid for with voluntary payroll deductions. All working adults will automatically be enrolled in the program, unless they choose to opt out.

Conclusion

The Affordable Care Act will have an impact on most Americans. More people will have access to health insurance, and many individuals and small businesses will receive help paying for coverage. Individuals, families, and businesses may see their insurance costs reduced as a result of subsidies, efficiency and competition within Exchanges, and new rules on insurance companies. The effect of the health care law will not be fully known until all of these different mechanisms are in place and operational.

A Health Care Reform Timeline

2010

Businesses	Individuals & Families
Small businesses are eligible for tax credits if they provide insurance to employees.	Young adults may remain on their parents' insurance up to age 26.
Employers may apply for a reinsurance program to lower their costs of coverage for retirees.	A temporary high risk pool will open for uninsured individuals with a pre-existing condition.
	Children cannot be denied coverage because of a pre-existing condition.
	People can no longer be dropped from insurance if they become sick (rescission).
	Caps on the maximum amount that can be spent on an individual (lifetime limits) are no longer allowed.
	New health plans must cover preventive services with no co-pays.

2011

Individuals & Families	Providers
Insurance companies must provide a rebate to enrollees if they don't spend 80 - 85% of premiums on health services.	Primary care doctors and general surgeons in shortage areas (rural and urban) will see Medicare payments go up 10%.

2012

Businesses	Individuals & Families
Employers must report the value of health coverage on the employees' W-2 form (this is optional in 2011). This value is not considered taxable income.	Enrollment opens for a new, voluntary long-term insurance program (CLASS), which allows individuals to buy community living assistance services and supports.

2013

Businesses	Providers
A tax-deduction for employers who receive subsidy payments for retiree drug coverage ends.	Medicaid payments to doctors for primary care services increase to Medicare rates.

2014

Businesses	Individuals & Families
Small business (less than 100 employees) can buy coverage for workers in insurance Exchanges.	Insurance Exchanges open in each state and subsidies for buying coverage will be available to individuals and families based on income.
Businesses with more than 50 employees will pay a fine if workers receive subsidized coverage through an Exchange.	Most Americans will be required to have insurance or pay a penalty of \$95 per individual or \$285 per family. This penalty increases over time.
Employers can offer rewards (up to 30% of the employee's share of insurance premium) to workers participating in a wellness program.	Medicaid coverage is expanded to include low-income families and adults without children (income below 133% of federal poverty).
The tax credit for small businesses offering insurance to workers increases from 35% to 50% of the employer's share of premium.	Insurers cannot charge higher premiums or deny coverage to people with a pre-existing condition (e.g., high blood pressure).
	Insurers can no longer set a maximum amount that can be spent on an individual in a year (annual limit).