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# U.S. Health Care Reform

## *An Overview of the New Law*

After a year of negotiations, deal-making and procedural maneuvering, the United States Congress passed extensive health care reform legislation, which President Obama signed into law. In the process there has been much confusion on just what is contained in the 2,000+ pages of the legislation, which actually required passage of multiple bills.

This newsletter provides an overview of the coming changes taking place in the next few years. It should be noted, however, that many of the details are still to be worked out by various government agencies, including the Department of Health and Human Services, the Department of Labor and the Internal Revenue Service. As the new regulations are enacted we will do our best to keep you well informed.

### Coming in 2010

- **Insurance market reforms:**
  - o Insurers will not be permitted to set lifetime benefit limits.
  - o No pre-existing condition exclusions to those 19 years of age and younger.
  - o Insurers must offer dependent coverage to individuals up to age 26.
  - o Insurers must cover emergency services without prior authorization.
  - o Insurers must offer minimum coverage for preventive services with no cost sharing, including recommended immunizations, preventive care for infants, children and adolescents and additional preventive care and screenings for women.
  - o Health plans will be required to report the proportion of premium dollars spent on clinical services, quality and other costs and provide rebates to consumers to offset the amount of premium clinical services and quality that is less than 85% for large group plans and 80% for individual and small group plans.

Note: Reporting will begin with the 2010 plan year; however, the rebate requirement will not become effective until January 1, 2011.

- o Establish an independent, non-profit organization to conduct patient-centered, comparative effectiveness research.
- **Small business:**
  - o Provide tax credits of up to 35% of premium cost to small employers (less than 25 employees) and average annual wages of less than \$50,000 that provide health insurance for their employees.
- **Tax changes:**
  - o Impose a 10% tax on indoor tanning services.
  - o Establish additional requirements for non-profit hospitals with a penalty of \$50,000 per year for failure to meet the new requirements
- **Medicare changes:**
  - o \$250 rebate to Medicare beneficiaries to cover the “doughnut hole” gap in coverage in Medicare Part D.

### Coming in 2011

- **Medicare changes:**
  - o Part D – Provides a 50% discount for name brand drugs in the “doughnut hole” for retirees in a prescription drug plan, with a 75% discount on generic drugs.
- **Tax changes:**
  - o Exclude the cost of over-the-counter drugs not prescribed by a doctor from reimbursement via an HRA or FSA and from reimbursement on a tax-free basis via an HSA or Archer Medical Savings Account.
  - o Increase the tax on distributions from HSAs or an Archer MSA that are not used for qualified medical expenses to 20% of the disbursed amount.
- **CLASS Act:**
  - o Creates government-run, voluntary long-term

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care program. (Community Living Assistance Services and Supports program)

## Coming in 2012

- **Medicare changes:**
  - o Reduce Medicare payments to hospitals to account for preventable hospital readmissions.
  - o Bonuses paid to reward high quality Medicare Advantage plans.
  - o Reduction in rebates for Medicare Advantage plans.
  - o Reward providers designated as Accountable Care Organizations (ACOs) who meet specified quality standards to share in the cost-savings achieved for the Medicare program.

## Coming in 2013

- **Insurance reforms:**
  - o Creation of Co-Op programs – non-profit, member-run health insurance companies operating in all 50 states and D.C. to offer qualified health plans.
- **Tax changes:**
  - o Reduce the maximum contribution amount of flexible spending accounts (FSA) for medical expenses to \$2,500 per year, increased annually by the cost of living index adjustment.
  - o Eliminate the tax deduction for employers who receive Medicare Part D retiree drug subsidy payments.
  - o Increase the Medicare Part A (hospital) tax rate on wages from 1.45% to 2.35% on individual earnings over \$200,000 and on married couples earning over \$250,000 who file jointly.
  - o Impose a 3.8% assessment on unearned income for higher-income taxpayers.
- **Medicare changes:**
  - o In addition to the 2011 discount for prescription drugs in Medicare part D, phase-in federal subsidies to 25% by 2020.
- **Other changes:**
  - o Require providers to disclose financial relationships among doctors, hospitals, manufacturers, distributors, pharmacists and other providers.

## Coming in 2014

- **Insurance reforms:**
  - o Establish the state-based American Health Benefit Exchanges and the Small Business Health Options Program (SHOP) Exchanges through which individuals and small businesses

(up to 100 employees) can purchase qualified plan coverage.

- o The exchanges shall be administered either by a governmental agency or a non-profit organization.
- **Group health plan mandates:**
  - o Employers with more than 50 employees who do not offer coverage, with at least one full-time employee receiving a premium tax credit, will pay a penalty of \$2,000 per full-time employee.
  - o Employers with at least 200 employees will be required to automatically enroll their employees into the health care insurance plans offered by the employer. The employees have the option to opt out.
  - o Require qualified health plans to meet new operating standards and reporting requirements.
- **Individual mandate:**
  - o Individual citizens, as well as legal residents, will be required to have health care insurance that meet certain minimum standards. The penalty for non-compliance is \$325 in 2015 and \$695 in 2016 up to a maximum of \$2,085 or 2.5% of income by 2016
  - o Provide subsidies and premium credits for eligible individuals and families with incomes between 133 – 400% of the federal poverty level to purchase insurance through exchanges.
- **Small business:**
  - o Limit deductibles for small group health plans to \$2,000 for individuals and \$4,000 for families unless contributions are offered that offset deductible amounts above these limits.
- **Wellness programs:**
  - o Permit employers to offer employee incentives of up to 30%, increasing up to 50% if appropriate, of the cost of coverage for participating in a wellness program and meeting specified health-related standards.

## Coming after 2014

- Excise tax on insurers of employer-sponsored health plans with aggregate values that exceed \$10,200 for individual coverage and \$27,500 for family coverage, effective January 1, 2018

Again, as the new regulations are enacted we will do our best to keep you well informed.