PATIENT PROTECTION AND AFFORABLE CARE ACT

A Brief Summary

Presented by
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The PPACA, informally known as “Obamacare,” is in force now, but a major milestone becomes effective January 1, 2014, for individuals and businesses. For the benefit of its clients, SCORE-San Diego has developed this brief summary of key aspects of the law. It does not provide legal or tax advice and readers are encouraged to seek competent, professional advice for specific questions in those areas.

In General

The purpose of the ACA is to bring as many as possible of the 30 million Americans without health insurance into the insurance system. Those currently without coverage do not have it for a variety of reasons, including—cannot qualify for individual insurance, pre-existing conditions, too expensive, do not want to buy it, employer does not provide it.

The law requires that most people have insurance effective January 1, 2014, and in return the law imposes several changes on insurance companies and coverage that benefit consumers, including:

- No pre-existing conditions exclusions or other health status discrimination
- No lifetime or annual benefit limits
- Prohibits cancellation of coverage, including once the person becomes sick, except in cases of fraud.
- Requires new plans to cover preventive services and immunizations without co-pays, deductibles or other cost-sharing arrangements
- Allows unmarried, childless adults to remain on their parents’ policies until they become 26

Individual Mandate

Effective January 1, 2014, virtually all individuals are required to have health insurance individually, through their employers, or under Medicare. If they do not obtain insurance, they are subject to fines, as follows—

- 2014--$95/adult, $285/family; or 1% of family income, whichever is greater
- 2015--$325/adult, $975/family; or2% of family income, whichever is greater
- 2016--$695/adult, $2,085/family; or 2.5% of family income, whichever is greater

- 2017 and later—above fines indexed for inflation

In order to make insurance more affordable for those with lower incomes, the ACA provides caps and credits—

- For those enrolled in employer sponsored programs, the cap is 9.5% of family income. If the employee's share of the premium exceeds this amount, the employee receives a credit for the excess.
- For those who purchase individual insurance through the state exchanges (more on this later), their premiums are capped at a percentage of income tied to the Federal Poverty Level (FPL). The caps range from 2% of income for 100-133% of FPL to 9.5% for 300-400% of FPL, with credits provided to offset premiums in excess of the caps.
- The FPL is $11,490/person, $23,550/family of 4. Therefore, the cap and credit max out at $45,960/person, $94,200/family of 4.

Employers with Fewer than 50 Full-Time Equivalent Employees (FTE)
Employers with fewer than 50 FTEs are not required to offer health insurance to their employees. A full-time employee is one who works 30 or more hours per week. 93% of employers have fewer than 50 FTEs.

For those employers with 25 or fewer employees, the ACA provides tax credits as an incentive to provide insurance for their employees through the state exchanges.

- Tax years 2010-2013—maximum tax credit is 35% of premiums paid (25% for non-profits).
- Tax years 2014 and later—maximum tax credit is 50% of premiums paid (35% for non-profits).
- Employer must pay at least 50% of the employee's premium.
- Maximum credit applies to firms with 10 or fewer FTEs with average annual wages of $25,000 or less, excluding owners.
- Credit declines as number of employees and/or average wages increases.
- Credit disappears at 25 FTEs with $50,000 average annual wages.
- The tax credit directly reduces the tax bill an employer would otherwise pay.
- See www.irs.gov and search for small business health care tax credits for more details.

Employers with 50 or more Full-Time Equivalent Employees (FTE)
Employers with 50 or more FTEs are not required to provide health insurance for their full-time employees, but those that do not may incur fines effective January 1, 2014, according to PPACA. However, this date was extended by the administration to January 1, 2015 to give employers more time to comply. In some cases, employers

who do offer insurance may incur fines. 95% of employers with more than 50 FTEs currently provide health insurance for their employees.

- If insurance is offered, it does not have to be offered to part-time employees.
- If insurance is not offered and at least one full-time employee obtains coverage through the state exchange, the fine is $2,000 times the number of all full-time employees minus the first 30. While FTEs are calculated to determine the 50 FTE threshold, only full-time employees are counted when determining the fine.
- If insurance is offered, but the employer pays less than 60% of the cost, then the fine is $3,000 for each full-time employee who obtains coverage through the state exchange and receives a tax credit. The aggregate fine for all such employees is capped at the amount in the preceding bullet.
- If insurance is offered, but the employee's share of the premium exceeds 9.5% of family income and he or she obtains coverage through the exchange and receives a tax credit, the fines and cap are the same as in the preceding bullet.
- For an explanatory chart, go to Kaiser Family Foundation, www.kff.org, click on Health Reform on the left, then put "employer penalty flowchart" in the search window; and then select the item with "employer penalty flowchart."

Health Insurance Exchange

ACA requires each state to set up a health insurance exchange by January 1, 2014, to offer individuals and small businesses with up to 100 employees a market for health insurance in addition to what may otherwise be available from individual insurance companies in the private marketplace.

- Insurance companies will compete to offer plans in the exchange.
- Four plans will be available with various levels of coverage—Bronze, Silver, Gold and Platinum.
- Plans and rates are not yet available.
- Enrollment is set for October 1, 2013.
- See California Health Benefit Exchange, consumer portal, www.coveredca.com, for details thus far on coverage for individuals and businesses up to 50 employees.
- Small Business Health Options Program (SHOP) is also being set up by the Health Benefit Exchange to offer group coverage for employers with up to 100 employees.
- The administrative site for the exchange is www.healthexchange.ca.gov.

Summary

- Virtually every individual is required to have health insurance by January 1, 2014. Sources of coverage are employers, the private marketplace, state exchange, Medicare.

- Employers with fewer than 50 FTEs are not required to provide coverage.
- Employers with 25 or fewer FTEs with average payroll of $50,000 or less may qualify for a tax credit of up to 35% now (25% non-profits) and up to 50% (35% non-profits) effective January 1, 2014.
- Employers with 50 or more FTEs must provide full-time employees with affordable health insurance by January 1, 2015 or pay fines. Coverage need not be offered to part-time employees.
- Individuals may be eligible for credits to cap their premiums at no more than 9.5% of family income.
- Individuals and small employers will be able to obtain insurance through the CA Health Benefit Exchange effective January 1, 2014.