

## Health Care Reform: What's in the Law

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August 2012

On June 28, 2012, the United States Supreme Court upheld the Affordable Care Act, also known as ObamaCare. The Supreme Court's ruling means that the act's **private insurance reforms** move forward, that those who use the individual and small group market will have new **voluntary Health Insurance Exchanges** through which to purchase insurance, and that states may **expand Medicaid** to cover working adults and families.

The Act guarantees Americans access to affordable health insurance by reforming private health insurance, expanding Medicaid and improving Medicare. New estimates from the Congressional Budget Office calculate that by 2019 the new law will reduce the number of uninsured by 30-33 million, insuring 92-95% of Americans and legal immigrants, depending on how many states expand Medicaid coverage. The Act also guarantees that comprehensive insurance is available to the 25 million Americans who are "underinsured" because they have insurance that does not provide adequate coverage.

The law's private insurance reforms will be fully implemented in 2014. This brief provides an overview of what has happened already and what reform will look like in 2014. It also outlines the important role that Missouri and other states will play in implementing the law.

### WHAT'S HAPPENED ALREADY?

#### PRIVATE INSURANCE

The Affordable Care Act guarantee Americans better access to private health insurance, better quality private insurance and places new controls on private health insurance costs.

#### New Coverage

- **Children** with pre-existing conditions cannot be denied coverage on their parents' plans.
- **Young adults up to age 26** can be covered by their parents' plans.
- **New High Risk Pools for adults** offer more affordable coverage for those with pre-existing conditions.

#### Better Quality Coverage

- People who **get sick cannot be dropped** from their plans.
- All new plans must now cover **preventive services with no deductibles or copays**.
- **Life time limits** are prohibited and new plans have tight restrictions on the use of annual limits.

## **New Cost Controls**

- **Caps on insurance company administrative overhead and profits** require insurers to spend at least 85% of premiums on medical care in the group market and 80% in the individual market.
- Insurance companies that spend too much on profits and overhead must pay **refunds** to policy holders.
  - In 2012, 600,000 Missourians are due refunds averaging \$173 each.
- **New oversight of insurance premium rate increases** require companies to publicly post and attempt to justify rate increases of 10% or more.
  - Missouri is one of only 6 states that have not enacted effective rate review legislation which means rate review for Missouri policy holders is done by the U.S. Department of Health and Human Services.
  - As of July 2012, 6 Missouri insurance companies have posted rate increases of 10% or more: 2 were deemed unjustified, 2 are pending, only 1 was found to be a justified rate hike. HHS does not have authority to block unreasonable increases.
  - Bills to give the state's Department of Insurance legal authority to collect and review health insurance premium rates will be introduced during the 2013 legislative session.
- Small businesses, including not for profits, are eligible for **new tax credits** to help subsidize the cost of employee health insurance premiums.

## **MEDICARE**

The reform law expands Medicare coverage for seniors and people with disabilities and makes it more financially sustainable over the long term.

### **Better coverage**

- **Prescription drug coverage has expanded, reducing the Part D donut hole.** In 2012 those in the donut hole, get a **50% discount on brand name drugs** and a 14% discount on generic drugs. Discounts increase each year until 2020 when the donut hole is gone.
- **Preventive services** are no longer subject to co-pays or deductibles and include an **annual check-up.**
- Payments for **primary care** physicians have increased by 10%.

### **Protects Medicare's financial sustainability**

- **Reduces overpayments to Medicare Advantage plans** and begins rewarding plans with high quality ratings.
  - HHS estimates the law will reduce Part B premiums by \$200 a year by 2018.
  - In 2014, Medicare Advantage Plans will have to spend at least 80% of premium dollars on medical care and quality, limiting overhead and profits to 20%.
- **Slowed the growth** of Medicare provider payments to hospitals and other institutional providers by about 1% a year—an amount hospitals and other providers agreed was reasonable given savings that result from comprehensive health reform designed to provide all Americans with health insurance.
  - The Medicare Board of Trustees reported to Congress that savings from the Affordable Care Act will **extend the Medicare Part A Trust Fund's solvency** by a dozen years, from 2017 to 2029.

## WHAT'S COMING JANUARY 1, 2014?

### PRIVATE HEALTH INSURANCE REFORMS

The Affordable Care Act changes how private insurance companies do business to guarantee access to health insurance, prohibit discrimination based on health status, and control health care costs.

#### Access to Health Insurance for All

- Private insurance companies will be **prohibited from turning down** individuals because of pre-existing medical conditions.
- Insurance companies will also be **prohibited from charging more because of pre-existing conditions, gender or occupation**, and may only vary premiums based upon age (but only up to a 3:1 ratio). Plans will still be able to vary premiums based upon location and may charge smokers 50% more.

#### Better Coverage and More Choice of Plans

- Individual and small group health insurance plans will be required to cover **essential services** that include preventive care, maternity care, hospital, physician, prescription drugs, mental and behavioral health, substance use, dental and vision care for children, rehabilitative and habilitative services and devices, and other services with the details to be developed by the state.
  - During 2013, the state of Missouri will define an **essential services** package by choosing among: (1) state employees plan; (2) federal employees plan; (3) three largest small group plans; and (4) largest HMO plan offered in the state.
- **Prohibits annual limits** on coverage.
- **Requires annual out of pocket spending caps** for consumers, set at Health Savings Account (HSA) limits, \$5,950 for individuals and \$11,900 for families in 2010, with additional protections for those who qualify for sliding scale premiums.
- **More choice of plans** in the individual and small group market because insurers must offer plans that, on average, cover at least 60% of the cost of covered benefits, as well as offering richer plans, covering 70% to 90% of costs. Almost all individual plans now offered in Missouri are low value plans with high out of pocket costs. Young adults under age 30 will also have the choice of catastrophic plans that also offer primary care.
- **Limits deductibles** in the small group market to no more than \$2,000 for individuals and \$4,000 for families, with additional protections for those who qualify for sliding scale premiums.

#### Making it Easier to Shop for Insurance

New voluntary **Health Insurance Exchanges** create **new online marketplaces** where people can go to shop for coverage if they do not have an affordable employer-based health plan. It is also the place to get new Federal Premium Tax Credits.

- Exchanges will bring **new transparency and accountability** to the small group and individual market.
- Individuals and small employers will be able to **comparison shop and choose among a variety of types of plans**, with individuals making their own trade-offs between lower premiums and higher out of pocket costs.
- Exchanges **will not replace employer-sponsored benefits**. The Exchanges will be for those who do not have coverage or from whom employer sponsored coverage is too expensive.

- Employees whose employer plans do not cover, on average, 60% of the cost of covered benefits or that cost the employee more than 9.5% of income have the option of using the Exchange.
- All states will have an Exchange which, at the state's option will be (1) a State-run Exchange, (2) a Partnership Exchange run by the state and federal governments together, or (3) a fully Federal-run Exchange.
- About 22-25 million Americans are expected to use Exchanges to purchase health insurance, including many who now purchase individual policies.

### **Making Insurance Affordable**

In 2011 premiums for employer sponsored insurance averaged \$5,400 for an individual and \$15,000 for family coverage, with generous contributions from employers offsetting most of the cost. The new law creates new **Federal Premium Tax Credits** and a **Medicaid Expansion** to make health insurance affordable for low and moderate income Americans who do not have an employer contributing toward their premium costs.

- New Federal Premium Tax Credits create **sliding scale premiums, ranging from 2-9.5% of income for moderate income Americans** with incomes between 100% and 400% federal poverty line (FPL), \$19,000-\$77,000 for a family of three.
  - Additional tax credits will be available to **reduce out of pocket** costs for those with incomes up to 200% FPL.
  - According to the Congressional Budget Office, by 2020 between 20-22 million Americans will use the new Federal Premium Tax Credits to obtain private insurance.
- **Medicaid Expansion allows states to cover low-income working adults and families** with incomes up to 133% of the federal poverty line (FPL), \$26,000 for a family of three and \$15,000 for an individual.

### **Health care for all: Putting it together**

Many Americans will still get affordable health insurance through their employer. If not, they'll have new health insurance options through the Health Insurance Exchanges.

If you are a family of 3 making...	...less than \$26,000 per year	...\$19,000-77,000 per year	...more than \$77,000 per year
<b>You can get health insurance through...</b>	... <b>Medicaid:</b> (No premiums)	<b>Exchanges with tax credits</b> to make premiums affordable	<b>Exchanges,</b> with new protections

If you are an individual making...	...less than \$15,000 per year	...\$11,000-45,000 per year	...more than \$45,000 per year
<b>You can get health insurance through...</b>	... <b>Medicaid:</b> (No premiums)	<b>Exchange with tax credits</b> to make premiums affordable	<b>Exchanges,</b> with new protections

## The Importance of the Medicaid Expansion

The **State must decide** whether to expand Medicaid. The U.S. Supreme Court held that states cannot be compelled to expand Medicaid, but the Medicaid Expansion remains available.

- According to the Congressional Budget Office, about **half the uninsured, 17 million Americans, will be eligible for the Medicaid Expansion**
- Medicaid Expansion is the **only source of affordable health insurance for the state's lowest income working people** (those earning below the federal poverty level, \$19,000 for a family of three) if they do not have employer-sponsored insurance. These workers are not eligible for the new Federal Premium Tax Credits.
  - Now, only adults who are parents, disabled, or elderly can be covered by Medicaid, and income limits are so low that those who work cannot qualify.
    - Parents who work as little as 19 hours a week for minimum wage make too much. A parent in a family of three earning \$6,900 a year earns too much.
    - Income limits for people with disabilities are higher (\$9,000/yr for a single person) but they are not eligible for Medicaid if they work in "substantial, gainful employment."
- Medicaid is a **good choice** for states.
  - Good quality outcomes
  - Lower per person costs than private insurance
  - Allows the state to target support for safety net hospitals, clinics and other providers who serve underserved communities
- The Medicaid Expansion is a **good financial investment for the state.**
  - **Federal government pays the full cost for the Medicaid Expansion from 2014-2016** (first 3 years), phasing down to 90% in 2020 and thereafter.
    - A 90% federal match means that that every \$1 of state funds spent on Medicaid brings in \$9 in federal funds.
  - The Medicaid Expansion will **help the state's economy** bringing \$6 billion in federal funds into Missouri from 2014-2017.
    - It will cost Missouri only 1.7% more to cover 300,000 more people, from 2014-2020, 40% of which is paid for by existing fees on hospitals, pharmacies and other health providers.

## SHARED RESPONSIBILITY

Everyone is concerned about how to pay for health reform, but the key to making coverage affordable is for everyone to do his and her part.

- **Those without coverage** will be asked to pay health insurance premiums on an affordable sliding-scale based on income, whether they are young and healthy or older with complex medical needs. Younger adults will pay lower premiums than older adults.
  - The **shared responsibility mandate**, (also referred to as the individual mandate) provides for a penalty only if "affordable" coverage with premiums costing no more than 8% of income is available. There are also exemptions for those facing financial and other "hardships," and incomes below the tax filing threshold (\$9,500 for an individual and \$19,000 for married couples for 2011).
  - The penalty is the higher of **\$695 per adult or 2.5% of income up to the average premium level**, with a **family maximum of \$2,085**.

- **Employers** are also expected to do their part, which will level the playing field between those companies that provide coverage and those that do not.
  - There is **no employer mandate**.
  - The Act assesses a **free rider penalty against larger employers**, those with more than 50 full time employees, only if at least one employee receives an insurance premium tax credit. The penalty for **employers who do not offer health insurance** is **\$2,000 per employee**. The penalty for employers who offer health insurance that is unaffordable is \$3,000 but only for those employees who receive a federal tax credit to make insurance affordable.
  - **Assistance to small businesses**. Small employers, those with 50 or less employees, are not subject to the employer free rider penalty.
    - Small businesses also benefit from the more affordable coverage available in the Exchange, regardless of health status of employees.
    - Very small businesses are also eligible for new tax credits to help subsidize the cost of employee health insurance premiums.

### **PAYING FOR REFORM**

While the federal budget price tag for expanded health coverage seems staggering—about \$938 billion over ten years—this amounts to less than 2-3% of total health care spending. Overall, counting private as well as public spending, it will cost more to do nothing. The CBO estimates that the new law will **reduce the federal deficit** by \$124 billion over 10 years.

- Estimates from The Commonwealth Fund and the Center for American Progress show that health reform could **reduce annual growth in health care spending** by 5.7-6.3% over the next decade—a savings of \$590 billion—while lowering annual premiums by nearly \$2,000 for the typical family.
- The Medicare Board of Trustees reported to Congress that savings from the Affordable Care Act will **extend the Medicare Part A Trust Fund's solvency** by a dozen years, from 2017 to 2029.
- About **half the cost** of health reform will be financed by **slowing the growth of Medicare provider payments** by about 1% a year—an amount hospitals and other providers agreed is reasonable given savings that result from comprehensive health reform designed to provide all Americans with health insurance. Now that states get to decide whether to expand Medicaid, providers are worried that about how these reimbursement changes will impact them in states that do not implement comprehensive reform that includes the Medicaid Expansion.
- Other **Medicare savings** come from cuts in the prices of **brand name drugs** sold to seniors and eliminating **overpayments to Medicare managed care plans**.
- Additional savings come from **price cuts for drugs** purchased by state Medicaid programs.
- New **fees** will be imposed on health insurers, drug makers and medical devices, and indoor tanning studios.
- Extends the Medicare payroll tax to include certain interest and dividend income of taxpayers **earning over \$200,000 for an individual or \$250,000 for a couple**.
- An excise tax on **very high cost health insurance plans** valued at \$10,200 for individual coverage and \$27,500 for family coverage beginning in 2018. Presently, the average cost for coverage in the employer market is \$5,400 for individual plans and about \$15,000 for family coverage.