



# Healthcare Reform is here... **NOW WHAT?**

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## Today's Agenda:

1. Current status of PPAACA
2. How did we get in this mess?
3. Healthcare reform timeline
4. Projections for how HCR will impact employers/individuals
5. Other changes around the corner
6. What's an employer to do?



## Current Status

*Patient Protection  
and Affordable  
Care Act  
as amended  
by the  
Health Care  
and  
Education  
Reconciliation Act*

- On March 22, the House passed HR 3590, which was passed by the Senate on December 24, 2009
- The President signed the bill March 23, 2010
- The House and Senate then passed a reconciliation bill, HR 4872, to “fix” the original Senate bill
- The President signed the bill March 30, 2010
- *Regulations and Rules now being released...*

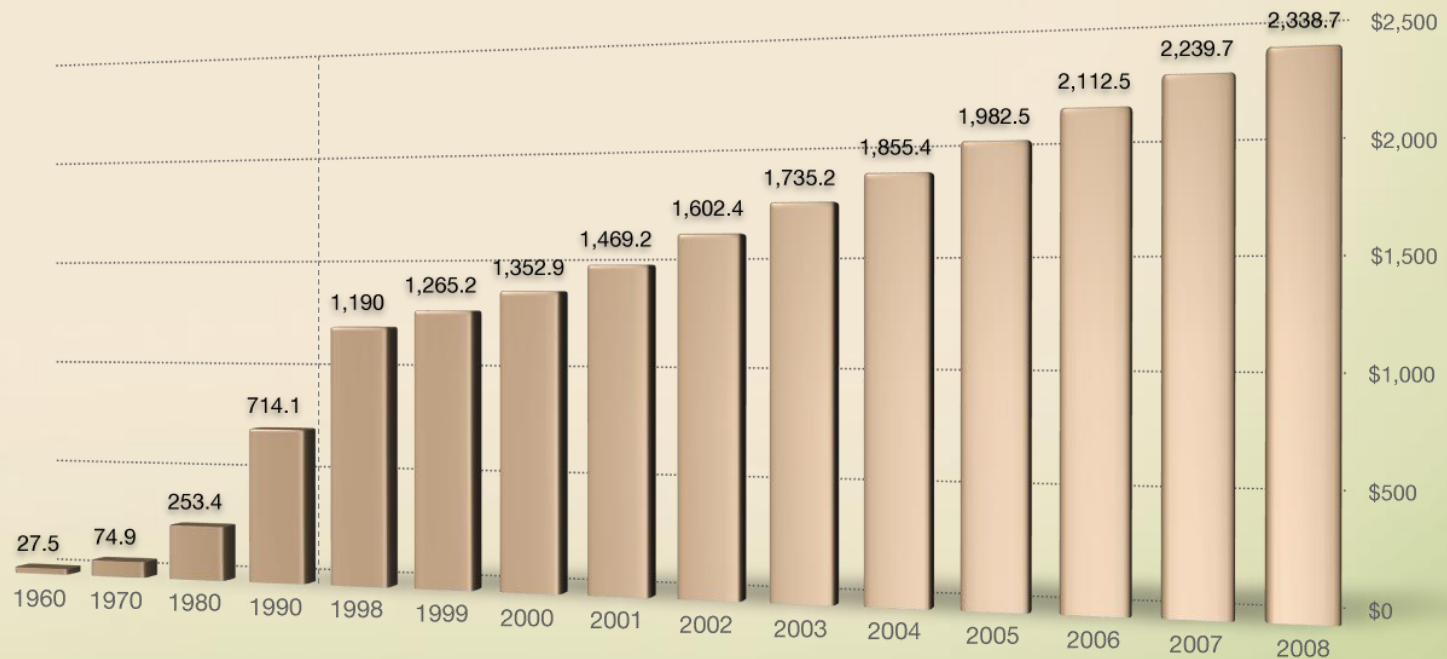


How Did We Get In  
This Mess?



## National Health Expenditures and Their Share of Gross Domestic Product, 1960–2008

Dollars  
in Billions:

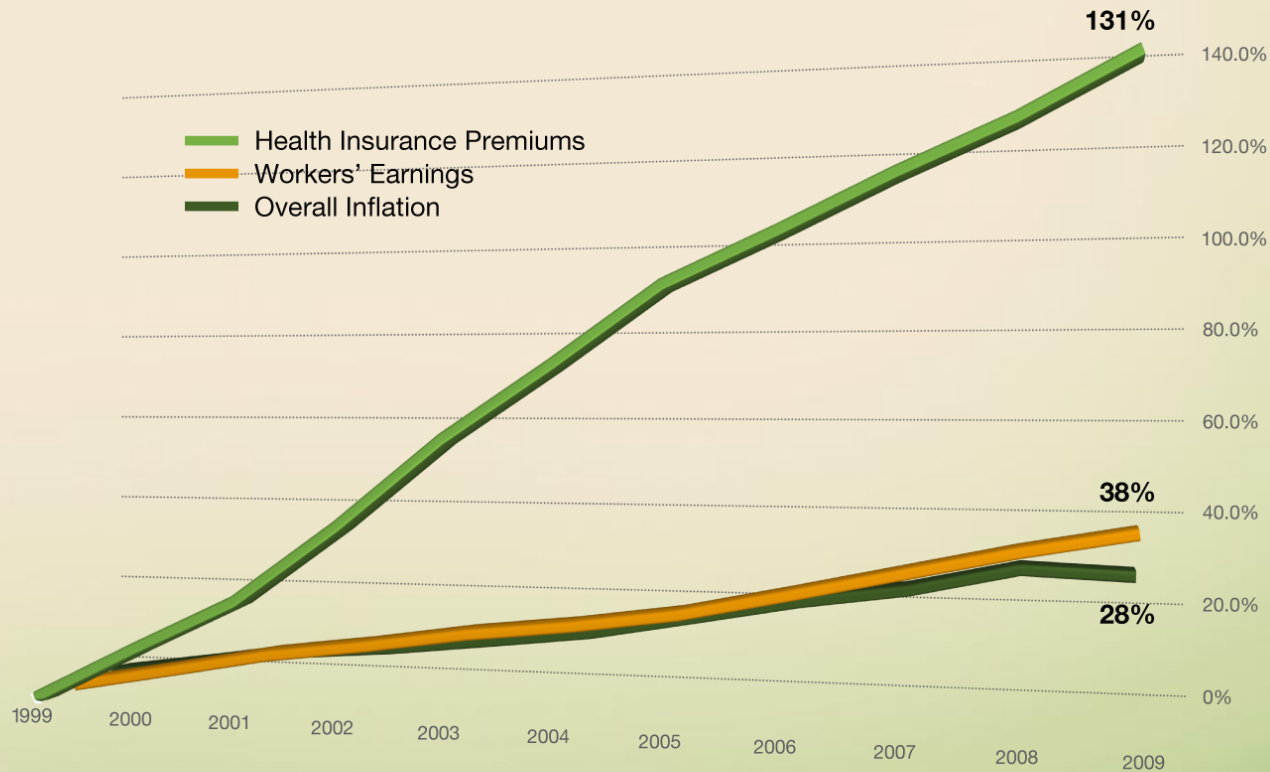


### NHE as a Share of GDP

5.2% 7.2% 9.1% 12.3% 13.5% 13.5% 13.6% 14.3% 15.1% 15.6% 15.6% 15.8% 15.9% 16.2%

Source: Centers for Medicare and Medicaid Services, Office of the Actuary,  
National Health Statistics Group, at <http://www.cms.hhs.gov/NationalHealthExpendData/>  
(see Historical; NHE summary including share of GDP, CY 1960-2008; file nhegdp08.zip).

## Cumulative Changes in Health Insurance Premiums, Inflation, and Workers' Earnings, 1999–2009



Source: Kaiser/HRET Survey of Employer-Sponsored Health Benefits, 1999-2009. Bureau of Labor Statistics, Consumer Price Index, U.S. City Average of Annual Inflation (April to April), 1999-2009; Bureau of Labor Statistics, Seasonally Adjusted Data from the Current Employment Statistics Survey, 1999-2009 (April to April).



Implementation  
Timeline



# 2010

## In Place Now:

### June 1, 2010

- Financial help for plans covering pre-65 retirees
- Medicare Part D RX “doughnut hole” begins to close — \$250 rebate

### July 1, 2010

- Uninsured adults with a pre-existing condition have immediate access to insurance for
  - \$5B temporary high-risk insurance pool
  - Ends when Exchanges are operational
- 10% tax on indoor tanning services in lieu of the tax on cosmetic surgery





# 2010

## Employer Impacts

### Small Employer Tax Credit

- Less than 25 (FT equivalency) employees
- Average wages <\$50K
- Reimbursed up to 35% of contribution for taxed entities / 25% for non-taxed entities
- Non-profit reimbursement regulations begin released in December



# 2010

## Employer Impacts

### Grandfathering Decision

- Remaining grandfathered can be beneficial

BUT...

- Can have significant cost implications
- [www.healthcare.gov](http://www.healthcare.gov)
  - Search “Grandfathered Plans”



# 2010

## Consumer Impact

**For plans effective on or after  
September 23, 2010:**

- Dependent children up to age 26 remain on parents' policies regardless of student status, employment or marital status
- No rescission of coverage (except in cases of fraud)
- No lifetime coverage limits
- No restrictive annual limits on *essential* benefits



# 2010

## Consumer Impact

### For plans effective on or after September 23, 2010:

- No pre-existing condition exclusions for children under age 19
- Most health plans to cover preventive benefits at 100%
- Additional resource for claims appeal
- Online health insurance comparative tool for consumers



# 2010

## System Impacts

- New infrastructure to reduce and prevent health care fraud
- Standardized schedule of benefits
- Additional government programs to help disease and illness prevention



# 2011

## HRA/FSA/HSA

- Tax on non-medical distributions from HSAs will increase from 10% to 20%
- Over-the-counter drugs *not prescribed* by a doctor not reimbursable through FSA, HRA, or HSA (213d expenses)
- Non-medicine/non-RX can still be reimbursed through FSA without a prescriptions; i.e. Band-Aids, contact lens solutions, blood sugar test strips, etc.
- Estimated 65% of OTC items still reimbursable





# 2011

## Medicare Impacts

- **Continuation of Medicare Part D Donut Hole Phase Out**
  - 50% discount on brand-name drugs for Medicare Part D RX filled in the coverage gap
  - Additional discounts on brand-name and generic drugs phased in to close the “doughnut hole” by 2020
- **Eliminate Medicare cost-sharing for covered preventive services and personalized prevention plans**
- **Medicare Advantage reimbursement rates frozen at 2010 levels**



# 2011

## System Impacts

- **Loss Ratio Requirements**
  - Insurers required to spend specified percentage of premiums on health care services and claims
  - Rebates to customers if requirements not met
  - 80% for small group, 85% for large
  - Insurance Brokers commission already being reduced by insurance companies
- **Require chain and vending food to display nutritional information**



# 2012

## Employer Impacts

### Medical Cost Reporting

- Employers disclose cost of medical benefits on W-2's issued in 2013
- Begin tracking costs in 2012
- Includes HRA/HSA contributions
- Benefits not taxable
- **1099 Increased Reporting**



# 2013

## Consumer Impacts

- **Contributions to FSAs limited to \$2,500 per year, indexed by the Consumer Price Index in subsequent years**
  - \$1,400 average spend / 33% participate
- **Increase threshold for itemized deduction for unreimbursed medical expense**
  - Current: 7.5% AGI
  - 2013: 10% of AGI
- **Medicare payroll tax increase from 1.45% to 2.35% for individuals earning more than \$200,000 and married over \$250,000**
- **Impose a 3.8% assessment on unearned income for higher-income taxpayers**



# 2014

## Consumer Impacts

- **Mandate everyone purchase insurance**
  - Health Care Sharing Ministries qualify as *insurance* for the purpose of the insurance mandate
  - No insurance — you are penalized
    - 2014 — \$95 or 1% of income
    - 2015 — \$325 or 2% of income
    - 2016 — \$695 or 2.5% of income
- **Health insurance exchanges open in each state**
  - Provide individual and small employer coverage
- **Require guarantee issue and renewability**



# 2014

## Consumer Impacts

- **Federal Subsidies**
  - Federal subsidies are offered to qualified Americans (<400% of poverty level) to offset the cost of insurance
  - Clergy housing allowance is NOT included in income calculation to determine federal subsidy eligibility
  
- **Health Plan Prohibitions**
  - Imposing annual limits
  - Setting deductible and coinsurance greater than the HSA limits





# 2014

## Employer Impacts

- **Employer Mandate to Provide Coverage**
  - Employers with >50 workers, who do not offer health benefits are penalized
- **Employers are prohibited from imposing waiting periods greater than 90 days**



# 2018 – 2020

- **40% tax on insurers offering “Cadillac” plans:**
  - Cadillac plan = Greater than \$27,500 for family coverage and \$10,200 for single coverage
- **Medicare's “doughnut hole” for prescription drugs will be closed in 2020**



# But wait...there's more!

## **Other Group Health Plan changes for 2009 to 2011 NOT discussed today:**

- CLASS ACT — National LTC program
- CHIPRA
- Mental Health Parity
- Mandatory Medicare Secondary Payer Reporting
- Genetic Nondiscrimination (GINA)
- Michelle's Law
- American Recovery and Reinvestment Act requirements
  - COBRA premium subsidy provisions
  - Amendments to HIPAA privacy and security rules



# Confused? Implementation Overload?

*2,400 page bill...  
100,000 pages  
of regulation*

***DON'T PANIC YET!***

*Don't memorize this!  
We are at the end of the beginning —  
7 to 10 years of rule-making and changes.*



# Immediate Impact of Reform for Employers

- **Possibility of increased insurance premiums**
- **Increased regulations**
  - W-2
  - Taxes — 1099 reporting
- **FSA changes — system / payroll, etc.**
- **Possible increase in group claims due to age 26 dependent coverage and no pre-existing condition exclusion for children under age 19**



# Immediate Impact of Reform for Employers

- **PROS**

- Enhanced benefit coverage with fewer restrictions
- Appeal process improvement
- Benefit description improvement
- Coverage for older dependent children
- Seniors receive prescription drug assistance

- **CONS**

- Prescription required for FSA reimbursement of OTC drugs
- Possible increase in premium





What can an  
employer do to  
prepare?



Consider your health plan and ways to “remodel” to help you weather the days ahead...

## **Consumer directed plans**

- QHDHP
- HSA
- HRA



Qualified High  
Deductible Health  
Plan (QHDHP)



## What is a QHDHP?

### Federally-qualified and designed plan

- Allows eligible enrollee to make contributions to a Health Savings Account (HSA)
- Government defines benefit limits
- No “first dollar coverage”
  - Deductible must be satisfied for medical and prescription drug services before insurance company pays
  - Scheduled wellness/preventive care is covered 100% prior to deductible being met



Health Savings  
Account (HSA)



## **What is an HSA?**

- **Created to help individuals save for future qualified medical and retiree health expenses on a tax-free basis**
- **Individually owned savings account**
- **Participant must be enrolled in a federally-qualified High Deductible Health Plan (QHDHP) to contribute to HSA account**
- **No “use it or lose it” rule**
- **Tax-favored status**
- **Completely portable**





# HSA Tax Advantage

- **Tax-free money going in**
  - Contributions deductible from federal gross income
- **Tax-free withdrawals**
  - Withdrawals for QUALIFIED medical expenses free from federal income tax
- **Tax-deferred interest earned**
  - Earnings accumulate tax-deferred



# HSA Eligibility

- **Eligible**
  - Covered by a federally-qualified High Deductible Health Plan
- **Not Eligible**
  - Covered by any other first dollar health plan
  - Enrolled in Medicare
  - Claimed as a dependent on someone else's tax return



# HSA Pros and Cons

- **Pros**

- Lower premium of QHDHP
- Employees encouraged to be responsible with their health care and spend their dollars wisely
- Tax-free savings vehicle

- **Cons**

- Restrictive health plan regulations
- Not everyone in your group may be eligible
- If you contribute to the HSA on behalf of the employee you can't get money back
- Portable so it goes with them
- Education needed to ready employees for this change



IRC Section 105:  
Health Reimbursement  
Arrangements



## What is an HRA?

### An employer-provided medical reimbursement plan that:

- Is funded solely by employer
- Reimburses employee tax free for “medical care expenses” defined by the employer
- Is funded up to an employer-specified dollar amount per coverage period
- Must be non-discriminatory in reimbursement for all eligible employees



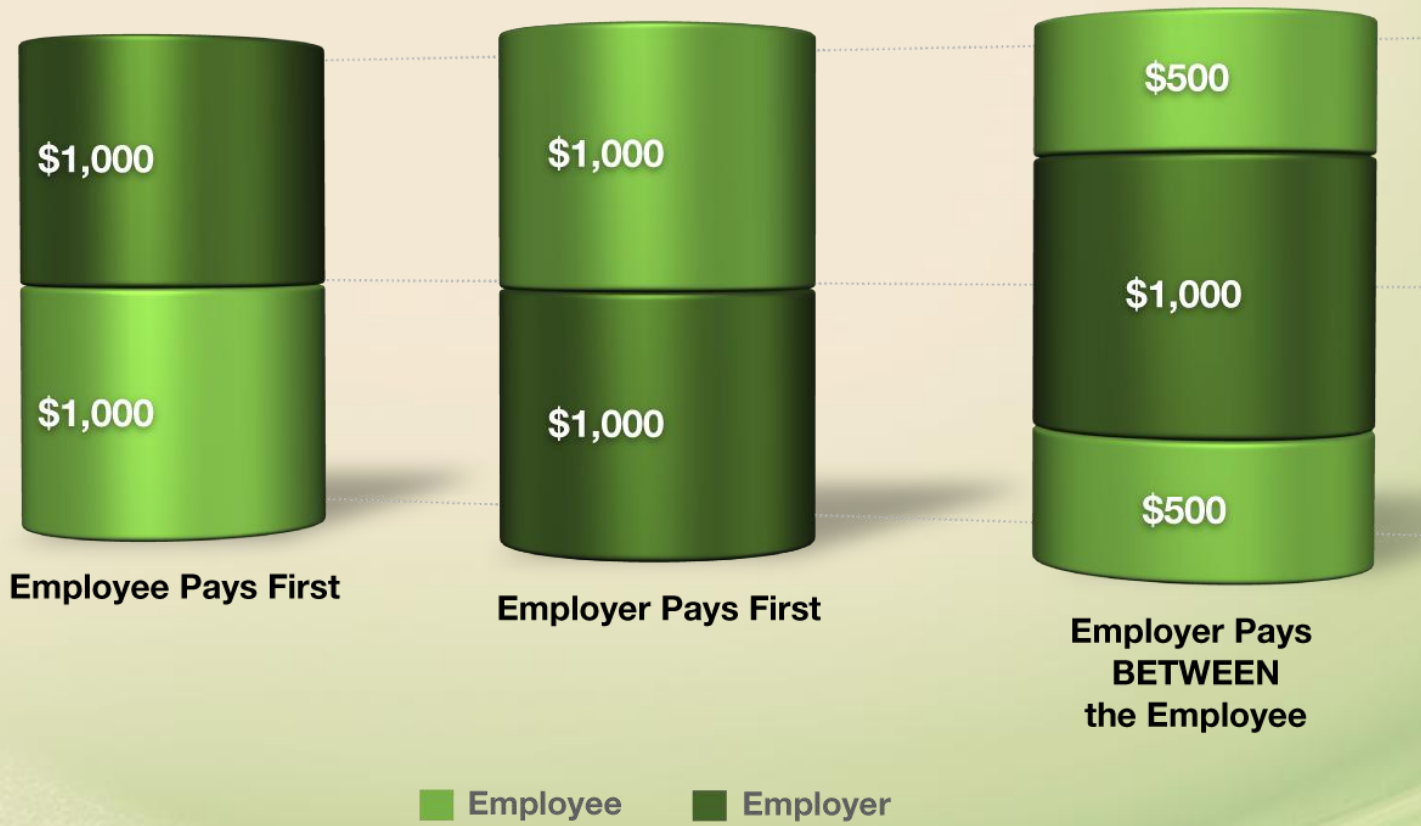
## HRA Advantages

- Can pair with a higher deductible plan to reduce premiums
- Benefit Design Flexibility
- Offsets the higher deductible shock to the employee by providing deductible cost sharing
- *Unfunded* approach allows payments to be made from employer's general assets
- Flexibly designed — employer determines:
  - Timing of HRA fund availability
  - Amount of HRA
  - Who pays first — employer or employee



## HRA Risk Sharing Options

Using a \$2,000 deductible plan as a model





# In Summary...

- Explore consumer-directed programs — HSA, HRA and/or FSA
- Encourage consumers to be aware of the true cost of health care to become wiser health care consumers
- READ and be educated:
  - [www.guidestone.org](http://www.guidestone.org)
  - [www.KFF.org](http://www.KFF.org)
  - [www.healthcare.gov](http://www.healthcare.gov)
- BE READY!



Questions and  
Answers





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