

Healthcare Reform 2011:

The good, the bad and the ugly. (Part 1)



Presented by:

HEALTH OPTIONS
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HOW Shows You Where

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The good, the bad and the ugly (Part 1) discussed by Health Options Worldwide

Fact:

In the following years there will be many changes made due to the Affordable Care Act that was passed in March of 2010. The changes will happen sporadically over the next few years. The main years which many new changes are currently scheduled to occur are 2010, 2013, 2014 and 2018. Many states are fighting back against the healthcare reform bill and some are even winning. One large change taking place in 2014 is the allowing of individuals whose employers don't offer coverage to will be allowed to purchase healthcare coverage through state health exchanges. Once the exchanges are in place nobody can be excluded from coverage. This will allow the peace of mind to individuals who fear leaving their job because they will lose their health insurance. This includes individuals who are interested in starting their own business.

HOW's interpretation: In theory the exchanges are a good idea. However there are many complications that can be expected of these exchanges. One foreseen problem is the major effects that these exchanges are going to have on the state computer systems. With this increase of millions of new individuals into the system, the question is if the system itself can handle this. Many states are currently strained by the large increase in Medicaid and food-assistance clients and they do not have the proper infrastructure to handle this many new customers. Another foreseen problem is funding of the exchanges. Everyone assumes that the Feds will pay for the exchanges. The reality is that after the exchanges are rolled out in 2013 and operations begin in 2014, federal money to support the exchange will disappear. This will leave states to figure out on their own how they will pay for the exchanges. It is very likely that these fees that need to be covered will be included in the premiums leaving the insurance company or consumer to pay the costs.

Fact:

The Affordable Care Act will now make it illegal to not have health insurance. If you are caught without health insurance you can now face fines. These fines will start at \$95 growing each year until it tops out at an amount greater, either \$695 or 2.5% of a person's taxable income. An inevitable problem will be the enforceability of this law. It is mandated in almost every state for drivers to have car insurance, however 15% of drivers still drive without insurance.

HOW's interpretation: The Affordable Care Act has many glitches that still need to be worked out. Even though there are fines that will be given to those who decline health insurance many will gladly take the fines rather than pay high premiums. Now that restrictions will have been lifted for those with pre-existing conditions as well as annual and lifetime caps, people will be able to purchase health insurance when they need it and drop it when they don't. The result of this will most likely be a major market destabilization as it underscores the principles of underwriting for insurance companies.

Fact:

Another change that has been made in the Healthcare Reform Bill is the definition of a Qualified Medical Expense. This will impact the reimbursements and withdrawals for all types of health care accounts such as Flexible Spending Accounts, Health Savings Accounts, Health Reimbursement Accounts, etc. One major change is that over-the-counter or OTC medications can no longer be paid for or reimbursed by any healthcare accounts, unless your doctor gives you a prescription for an OTC medication then it can be paid for with any FSA-type account. Without a prescription for OTC medications the tax penalties on withdrawals that aren't used for Qualified Medical Expenses increases from 10% to 20%. Starting in 2013, employees will only be allowed to contribute up to \$2,500 to their FSA.

HOW's interpretation of implications of the Healthcare Reform Bill for Employers:

The Healthcare Reform Bill will now allow dependents up to 26 years of age to be covered on their parents health plans. This benefit will of course come at a cost to employers who will see an increase in their premiums to subsidize the extra coverage.

The 1099 tax provision is important for employers also. The IRS has openly admitted that it would be too difficult to monitor which companies are or are not in compliance. This mandate would require all employers to report any expenditures with another company they did business with that totaled \$600 or more. This of course means more paperwork which most smaller employers aren't equipped with large enough accounting departments to handle all this. Which means that this could cost companies more to hire someone to do the paperwork or for their accounting department to work more hours to make sure all this new paperwork is properly filled out.

There are tax credits available for small businesses. This should help to offset the cost of health coverage for employees at least a little. Employers can use a new form 8941 to calculate their actual tax credit. These credits are based on a sliding scale and to be eligible the employer must pay annual wages under \$50,000 and have less than the equivalent of 25 full-time employees.

Employers must now note on every W-2 form the value of each employee's health benefits. This will not be considered taxable income; however it will be important in 2018 when the Cadillac Taxes come into effect. Essentially, those employers who offer health plans that are valued at more than \$10,200 for an individual or \$27,500 for families will be hit with a 40% tax. This will have a negative effect on employers and cost them substantial amounts of money. Substantial enough that they will be forced to either cut their labor force, reduce their plan's coverage or maybe cancel coverage all together. Verizon estimated that the Cadillac Tax will cost them an extra \$255 Million a year.

Fact:

The Healthcare Reform Bill now requires that companies that have at least 50 full-time employees must either provide affordable health coverage or pay a fine of \$2,200 per employee per year. A full-time employee is someone who works at least 30 hours per week. Affordable means the employees premiums don't exceed 9.5% of their household income.

Employers must pay at least 60% of the plan's total cost. Employers will have to pay a fine if their plans are too rich or if they are too poor.

HOW's interpretation: These fines could very likely lead to many employers dropping their coverage all together. Many employers would rather pay a fine instead of pay the higher costs as a result of the reform. AT&T for example found that they spend about \$2.4 Billion per year for its 300K employees. If they were to cancel their coverage, their fines and penalties would only be about \$600 Million a year. It is hard to predict what will happen with this and if employers will decide to keep health insurance or just pay fines. Health insurance has for a long time been a recruitment vehicle for many employers and many employers will continue to offer it for that reason alone.

It is hard to predict 100% what will be the outcome of the Healthcare Reform Bill. It is clear to see that there are many new laws and possible fines and taxes. Every employer might find a different solution to the reform better for them. There are of course many new costs and it will be interesting to see how over the next few years employers handle these costs. Employers are being required to do so much more, however if cutting jobs is the only way to afford the costs of Healthcare Reform who will it really help?



In 2008, a small company called Health Options Worldwide (HOW) began with the simple goal of helping self-paying patients find qualified physicians. Today, Health Options Worldwide is a fast growing healthcare IT company and strategic partner that delivers a tailored network of global medical facilities to improve retention and reduce costs.