Healthcare Answers for Today's Questions

The Tax Office Inc.

The Final Piece of the Puzzle

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President Obama promised us change when he was elected President in 2008, and that promise he has kept. His White House has managed to change the way our society, and our country works in regards to our healthcare system.

Two years after his inauguration President Obama signed into law the one of the most complicated pieces of legislature around. It has caused political and legal upheaval since his signature appeared on the dotted line. With so much controversy involved over this new law, it is no wonder that there is such vast confusion over how the law works and how it affects the populace at large.

This paper is intended to answer the questions that plague the mind and heart:

- What is it all about?
- How does is affect me?
- Am I going to be forced to get health insurance?
- Who's paying for it?
- What's all this talk about free healthcare?
- Who's looking out for our senior citizens and Medicare?
- What is an exchange & how do they work?

With these questions in mind, we invite you to learn more about the Patient Protection and Affordable Care Act, or ObamaCare.

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Introduction

In 2008 when Barack Obama was initially running for President, the one thing he promised to bring to our country was change. Two years after becoming President, he fulfilled his promise. The change he brought was to restructure our healthcare system. The Patient Protection and Affordable Care Act, or ObamaCare, as it is more commonly called, was signed into law on March 23, 2010. It has faced many legal and political issues since that time.

Trying to force an American citizen to do anything is like trying to shove a bull elephant into a small box. It may eventually happen, but getting us there is going to be a serious struggle. The Affordable Care Act mandates that every American citizen obtain health insurance or pay a fine. In June of 2012, the Supreme Court of the Land ruled in favor of the Obama Administration with a 5-4 vote on the constitutionality of the mandate under the federal government's power to impose taxes on citizens. So by not having health insurance, the federal government is able to apply a tax-fine.

The Act was also trying to force individual states to expand their Medicaid coverage in order to have a universal amount of coverage throughout the country by pulling their funding if they did not comply, however the courts ruled against this. So, in order to achieve their goal of having a universal amount of Medicaid coverage, the government has made a generous offer to the states. The federal government currently pays 57% of the cost of current Medicaid enrollees in each state. To encourage expansion of Medicaid coverage, each state will have about 93% of the cost of the "newly eligible" covered by the federal government from 2014 – 2020.

Initially, contraception for all women was a very large issue for the healthcare act. It too became a legal and political problem for the Obama Administration. In answer, the White House has backed off its initial position, granting waivers and allowing religious organizations to shift

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contraception coverage into the hand of the insurance companies. This issue is still a hot topic, with lawsuits still occurring.

Back in 2010, there was an inclusion in the healthcare act for Community Living Assistance and Support, more commonly referred to by its acronym CLASS. It caused a great deal of controversy and was finally repealed on January 2, 2013.

With health insurance premiums rising and the individual mandates going into effect, many businesses owners have been in a quandary. What exactly were they supposed to do? If they were to stay afloat, they could not afford to pay the high costs of health insurance for their employees and yet their employees needed to have health insurance according to the law. If they dropped the insurance coverage on their employees, they would be fined, however the fine was less expensive than the cost of the insurance premium. To prevent a very large increase in the number of uninsured Americans, the White House has issued over 1625 non-compliance waivers affecting almost 4 million people, allowing them to side-step the mandates for a short time. This too is a hot topic as many employers are affected by the rise in insurance premiums and the decision over what they are going to do for their employees and if the White House Administration will be lending them a helping hand as well.

Goals

With millions of American citizens unable to afford the cost of medical insurance, the Affordable Healthcare Act provides financial assistance through Medicaid or subsidized health insurance purchased through a marketplace. Currently our healthcare system runs on a “fee-for-service” system. We pay for each service we get, which can rack up the cost, as some physicians, hospitals, etc., can order unnecessary and often costly, tests. While we agree that there are also many other factors that can run up the costs as well, focusing on quality of service rather than quantity of service may reduce the costs of healthcare in the end.

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Often times insurance companies try to adjust your coverage, usually right after you've caught some bug. This claim occurs when you have gotten sick and suddenly you no longer have coverage because of an error in your paperwork. While this paperwork issue has already been addressed in California, it is now being addressed nationwide. Insurance companies will also no longer be able to refuse coverage due to pre-existing conditions, charge you a higher premium because you are older or have a chronic disease that increases your use of healthcare services. Lastly, your policy can no longer have annual or lifetime limits.

The Healthcare Act also has goals for prevention and wellness programs. We could all stand to be a little healthier. There are several pilot programs in place to test new ways of delivering and paying for healthcare with the goal of improving efficiency and reducing cost in the system.

What the Act Means for You

If you happen to be single and earn more than $200,000 per year, (or $250,000 for couples) you will see an increase in taxes for Medicare hospital insurance to 2.35%. For everyone else, under the new law, the income requirement to get into Medicaid has been raised to 133% of the federal poverty line. In 2013, for a family of 4, 133% of the federal poverty line is $31,322.00

Federal Poverty Line Charts

48 Contiguous States & DC						
Household Size	**100%**	**133%**	**150%**	**200%**	**300%**	**400%**
1	$11,490	$15,282	$17,235	$22,980	$34,470	$45,960
2	15,510	20,628	23,265	31,020	46,530	62,040
3	19,530	25,975	29,295	39,060	58,590	78,120
4	23,550	31,322	35,325	47,100	70,650	94,200
5	27,570	36,668	41,355	55,140	82,710	110,280
6	31,590	42,015	47,385	63,180	94,770	126,360
7	35,610	47,361	53,415	71,220	106,830	142,440
8	39,630	52,708	59,445	79,260	118,890	158,520
For each additional person, add	$4,020	$5,347	$6,030	$8,040	$12,060	$16,080

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The 100% column shows the federal poverty level for each family size, and the percentage columns above represent income levels that are commonly used as guidelines for health programs.

Alaska						
Household Size	**100%**	**133%**	**150%**	**200%**	**300%**	**400%**
1	$14,350	$19,086	$21,525	$28,700	$43,050	$57,400
2	19,380	25,775	29,070	38,760	58,140	77,520
3	24,410	32,465	36,615	48,820	73,230	97,640
4	29,440	39,155	44,160	58,880	88,320	117,760
5	34,470	45,845	51,705	68,940	103,410	137,880
6	39,500	52,535	59,250	79,000	118,500	158,000
7	44,530	59,225	66,795	89,060	133,590	178,120
8	49,560	65,915	74,340	99,120	148,680	198,240
For each additional person, add	$5,030	$6,690	$7,545	$10,060	$15,090	$20,120

Hawaii						
Household Size	**100%**	**133%**	**150%**	**200%**	**300%**	**400%**
1	$13,230	$17,596	$19,845	$26,460	$39,690	$52,920
2	17,850	23,741	26,775	35,700	53,550	71,400
3	22,470	29,885	33,705	44,940	67,410	89,880
4	27,090	36,030	40,635	54,180	81,270	108,360
5	31,710	42,174	47,565	63,420	95,130	126,840
6	36,330	48,319	54,495	72,660	108,990	145,320
7	40,950	54,464	61,425	81,900	122,850	163,800
8	45,570	60,608	68,355	91,140	136,710	182,280
For each additional person, add	$4,620	$6,145	$6,930	$9,240	$13,860	$18,480

Source: Calculations by Families USA based on data from the U.S. Department of Health and Human Services

An estimated 15 million additional people will be able to get Medicaid coverage and low income earners who are unable to qualify will most likely qualify for government subsidies offered by the marketplaces. If you happen to be unemployed, you might find that it is still difficult to find employment as businesses continue to be selective when hiring new workers because each new hire costs the employer more due to the healthcare mandates.

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The Individual Mandate

For those who live in states that have agreed to participate, eligibility requirements for Medicaid will be significantly loosened with higher income individuals now being let into the program. Those with an income between 133% and 400% of the poverty line will be able to get financial assistance from the government to buy healthcare coverage on their state's marketplace. Those with an income above the 400% of the poverty line will still be able to buy coverage through their state's marketplace but will be ineligible for government financial assistance. If small businesses offer their employees a basic level of coverage, the business will qualify for tax credits.

If you are wondering what happens if you decide you don't need health insurance, you get to deal with the IRS. The Healthcare Act empowers the IRS to seize tax refunds, assuming you get refunds, as payments towards an unpaid penalty. The IRS is also free to send out intimidating letters, implying incarceration and large financial penalties for non-compliance to any citizen, regardless of whether they receive a tax refund or not. The amount of the fine-tax varies depending upon the year it is incurred. With the individual mandate taking effect in 2014, if you do not obtain health insurance by the end of the year, you will have to pay a flat fee of $95, or 1% of your income up to a maximum of $285, whichever is higher.

There are also select groups who will be exempt from any financial penalties if they do not get health insurance:

- *Those who can prove financial hardship – the lowest cost plan is greater than 8% of their income.*
- *Those who have an income below the tax filing threshold.*
- *Native Americans.*
- *Those who have been without health insurance for less than 3 months.*
- *The prison population*
- *Those with religious objections.*
- *Illegal immigrants*
- *Young adults up to age 26 may remain a dependent on their parents' health insurance plan.*
- *Young adults under age 30 may purchase a "catastrophic health plan" through their state's marketplace at a price below that of the least expensive plan available.*

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The Expansion of Medicaid

Created in 1965, the Medicaid program provides health insurance for the poorest Americans and children who would otherwise have none. This program is managed jointly by the states and the federal government with each paying a share of the costs. Eligibility for Medicaid depends on where you live as some states have stricter requirements than others.

With the changes to Medicaid, all of the new people who sign up above the federal government's old income thresholds will be classified as "newly eligible." The federal government will pay for 100% of all of the "newly eligible" people in Medicaid, with that level being reduced to 90% by 2020. Currently states received 50-75% of their Medicaid costs covered by the federal government depending upon the wealth of the state.

In order to build up the Medicaid program, both now and during the expansion, the Healthcare Act investigated increasing the payment rates of physicians. New rates for Medicaid physicians will be raised to Medicare levels in 2014 and will expire at the end of that same year. Each state will also receive a 23% increase to their Children's Health Insurance Funding.

Health Insurance Exchanges

The Healthcare Act revolves around the state exchanges, or "marketplaces". Each marketplace will offer different insurance plans where individuals will be able to easily compare the plans to one another based on price and quality. Plans sold through the marketplaces by different companies must contain identical levels of benefits at specific tiers of coverage so consumers can make accurate comparisons between plans. As a consumer, you will have the confidence to know you are purchasing a quality plan no matter which insurance company you choose as each plan is required to cover "essential health benefits."

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You will be able to access your state's marketplace by visiting the government office that manages it, or by visiting the marketplace's website, once in operation. In California, health insurance brokers are available to assist you to work through the California Marketplace. The marketplaces are open to workers whose employers offer them health insurance that does not cover at least 60% of their medical costs or if their employee's share of premiums exceeds 9.5% of their wages.

Companies with up to 100 employees may purchase health insurance for their employees through a marketplace. There is a marketplace specifically for businesses, called the Small Business Health Options Program, or SHOP. It is kept separate from the individual marketplaces in each state.

Each state marketplace is required to have 4 standardized insurance plans which collectively provide a range of coverage from low to high. The designation of these plans is Bronze, Silver, Gold, and Platinum. Each plan must include the "essential health benefits," however at this time we are still uncertain about what those benefits include, beyond being compared to a typical employer-based plan. Any health plan sold outside on a marketplace is also required to include these essential benefits. After meeting the minimum requirements, the tiers of insurance coverage come into play. There may be some difference in how the states arrange/set-up their tiers.

Bronze	60% of coverage
Silver	70% of coverage
Gold	80% of coverage
Platinum	90% of coverage

Under the new law, each state can create a "Basic Health Plan" for uninsured individuals with incomes between 133% and 200% of the federal poverty line. States offering this Basic plan will receive 95% of the money that would have been paid by the federal government in subsidies to those individuals who would

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have been covered by it. The individuals who enroll in such plans will not be able to get subsidies through a marketplace.

Small Business Incentives

If you run a small business and have employees, the Healthcare Act is going to have kind of impact on you. According to a survey conducted by Mercer, a benefits consulting firm, about 20% of small businesses are expected to drop their coverage once the marketplaces begin to operate. About 20% fewer small businesses today provide coverage for their employees than a decade ago.

If your small business has less than 50 employees it is exempt from penalties. Businesses that do not offer their employees health insurance will be fined $2000 for every full time equivalent employee that received a government subsidy for purchasing coverage through a marketplace, excluding the first 30 employees. A “full time employee” is anyone who works 30 hours or more per week. A seasonal employee becomes a full time employee after 120 days. 2013 will be the base year determining employee counts for 2014. That 50 employee number becomes very important when you think about it.

People and companies can fulfill the mandate by purchasing health insurance outside of a marketplace provided the plan meets the percent of coverage has the essential benefits.

Medicare

In 2010 the federal government spent $528 billion dollars to support Medicare. It is estimated that by 2020 that amount will rise above $1 trillion dollars. To fund the Healthcare Act, the Congressional Budget Office estimates that 42% of the $1trillion dollar cost will come from cuts in Medicare spending over the next decade. These cuts will come from two areas: a reduction in payment rates to providers and a reduction of payment rates to Medicare Advantage plans.

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Cutting payment rate to providers means longer wait times in doctors' offices and hospitals. It could also mean that the quality of care is reduced as doctors who accept Medicare are stretched thin and are harder to find.

Medicare Advantage is a supplemental insurance plan provided to add assistance to lower income senior citizens. It can also include coverage for hearing aids or gym memberships which are not necessarily covered by the standard Medicare coverage. The Healthcare Act cuts $136 billion dollars out of the Medicare Advantage program over the next ten years.

A new presidential commission called the Independent Payment Advisory Board will be given significant power over Medicare spending in the future. The Board will consist of a panel of 15 experts chosen from academia, think tanks, and the healthcare industry. Appointees will be hand-picked by the President and must be approved by the Senate before they can take their seat. The Board's decisions will automatically take effect unless counteracted by Congress. It will take a three-fifths "super-majority" vote to overturn a Board decision by the U.S. Senate.

The "Cadillac" Tax

Beginning in 2018 the "Cadillac Tax", a 40% tax on medical insurance plans, not including dental and vision, will be imposed on the value of insurance benefits exceeding a certain amount: for individual coverage, $10,200; for family coverage, $27,500. These amounts increase for people who work in high-risk professions and for employers that have a disproportionately older population.

The Medical Device Tax

The Healthcare Act imposes a 2.3% excise tax on gross receipts in excess of $5 million dollars for domestically sold medical devices. Some products which are "generally purchased" by the general public for individual use at retail are exempt from the tax. This tax was intended to

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help fund the healthcare act, however it has raised some rather large issues. This topic is currently undergoing conversation on the Hill.

The Cost

The Healthcare Act increases the tax penalty from 10% to 20% for non-allowable purchase made using funds from an HSA or FSA. No more over the counter purchases! As of 2012, HSA and FSA funds may only be used to purchase prescription drugs. Ask your doctor to write a prescription for those allergy medications now. Beginning in 2012, employers that have 250 or more W2s in a year are required to list the value of the health insurance they provide on their employee's W2 forms documenting their earnings for the year. In 2013, employers will only be able to make tax free contributions to an employee's FSA up to $2500 per year.

In Conclusion

Like any other law in the initial period after its enactment, the Affordable Care Act lives in a fluid state. As more and more issues come to light it is likely that new developments will come into play causing the Healthcare Act to mutate and form into something far different from what its creators imagined it to be back in those early days in 2010. We can only wait and see, and hope that when it has completed its metamorphosis, like a butterfly, it is a beautiful creature, and true to its name: The Patient Protection and Affordable Care Act.

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About Us

Northern California's Most Reliable Tax, Bookkeeping and Business Advisors

Since 1986, The Tax Office, Inc. has been the "go to" tax, accounting and bookkeeping for hundreds of people and businesses throughout Northern California. Let us help you solve your tax, accounting, payroll, or bookkeeping puzzle.

Among the issues we help our clients address are:

- How to pay the least possible amount of Federal and State taxes.
- Preparing the ever-growing pile of complicated tax forms.
- Protecting you (and your wallet) by fighting the IRS and other Government agency tax audits.
- Keeping the books of your business up to date with QuickBooks and online bookkeeping.
- Interpreting the numbers of your financial situation to pinpoint ways to improve the profitability and performance of your business.
- Lowering the costs and eliminating the hassles of doing payroll.

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President Obama Signed the Affordable Care Act Into Law
March 23, 2010

Children under age 18 can no longer be rejected by insurers for a pre-existing condition.
September 2010

Insurance plans can no longer impose an annual or lifetime limit on a policy holders benefit plan.
September 2010

Insurance companies can no longer use rescissions to abruptly cancel policies.
September 2010

Small businesses with fewer than 25 employees can earn a tax credit of 35% by providing health insurance for their staff.
September 2010

. "Donut Hole" in Medicate prescription plan begins to close. It will disappear by 2020.
HSA's & FSA's can only be used to purchase prescription medication.
January 2011

Income tax deduction threshold for medical expenses rises from 7.5% to 10%.
January 2013

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Medicaid expands across the US to include people with an income up to 133% of the poverty level in every state that chooses to participate.
January 2014

Health exchanges selling insurance to individuals and small businesses begin to operate in each state.
January 2014

Americans who do not obtain health insurance expose themselves to a maximum penalty of $285 per year.
January 2014

Americans who do not obtain health insurance expose themselves to a maximum penalty of $975.
January 2015

The Independent Payment Advisory Board can begin making recommendations to cut Medicare spending.
January 2015

Americans who do not obtain health insurance expose themselves to a maximum penalty of $2085.
January 2016

Insurance companies can no longer use rescissions to abruptly cancel policies.
Health exchanges can be opened up to businesses with over 100 employees.
January 2017

Independent Payment Advisory Board's recommendations about Medicare's budget can be implemented.
January 2018

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