



Hibbs-Hallmark & Company

Newsletter

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With the recent enactment of sweeping health care reform legislation, the US is undertaking a major overhaul of the health care system that will affect everyone - from insurance companies and health care providers to individuals and employers. All stakeholders should expect, and begin preparing for, substantial changes in the way health care is obtained, delivered, paid for and regulated.

This summary outlines the key elements of the Patient Protection and Affordable Health Care Act (1: the Act), how the Federal Government will pay for the increased health care spending, and a timeline for when major provisions will take effect.

Health care reform has passed: "What now?"

What does the legislation do?

The primary goals of the Act are to: (i) expand coverage to an estimated 32 million Americans without health insurance; (ii) reform the delivery system to improve quality; and (iii) lower the overall costs of providing health care.

To accomplish the goal of expanding coverage, the legislation mandates that all Americans maintain a minimum level of health coverage. It expands Medicaid coverage and provides federal subsidies to assist low-income individuals in obtaining health insurance. The legislation also implements insurance market reforms, including a ban on exclusions for preexisting conditions, premium rate restrictions, extension of dependent coverage through age 26, and mandatory coverage of preventive services.

The Act establishes insurance exchanges through which individuals and small employers can shop for health insurance. It also mandates, for the first time, that employers with 50 or more full-time employees provide certain minimum benefits or pay penalty fees. Employers will need to analyze the cost implications of proposed changes to their benefit plans, payroll taxes, administrative functions and other compliance obligations.

Health care cost reductions stem from cuts to Medicare and Medicaid payments, provisions to reduce fraud, waste, and abuse in those public programs, and other delivery reforms to their payment systems. These reforms present both challenges and opportunities for health care industry sectors as they analyze the impact of increased patient volume, reimbursement cuts, changes in relationships between hospitals and other providers, and modifications to their administrative operations and cost structures.

How is the money spent and where does it come from?

The bulk of the Act's almost \$950 billion price tag comes from: (i) providing federal tax subsidies to help individuals and small businesses pay for health insurance coverage; and (ii) expanding Medicaid to cover individuals with incomes up to 133% of the federal poverty level. A mix of tax increases and Medicare spending cuts provide the funding for these coverage expansions. Notable tax increases include an excise tax on high-cost health plans; a new Medicare payroll tax for individuals with annual income over \$200,000 (\$250,000 for couples); and annual taxes on health insurers, drug manufacturers and sales of medical devices.

When do these changes take place?

While the coverage expansions and tax subsidies do not go into effect until 2014, a number of reforms take effect immediately or over the next several years. Full implementation of the Act will run through 2020. Federal agencies will be required to develop extensive regulatory guidance to flesh out the details of the numerous new programs created by the Act. The following timeline illustrates when major provisions will take effect.

KEY EFFECTIVE DATES

2010

- Immediate health insurance market reforms
- Increased Medicaid prescription drug rebates
- Medicare Part D "donut hole" relief begins
- Medicare provider rate cuts begin
- Comparative effectiveness institute established
- FDA biosimilars pathway established
- Codification of economic substance

2011

- HRA, FSA, and HSA restriction on OTC drugs
- Drug manufacturers' fee
- Medicare Advantage payment cuts begin
- Ban on physician ownership of hospitals

2012

- Corporate information reporting

2013

- Increase Medicare payroll tax by 0.9% on earned income
- Impose 3.8% tax on investment income
- Eliminate deduction for Medicare Part D subsidy
- FSA limitations
- Excise tax on medical devices
- Medical expense deduction floor increases to 10%

2014 - Coverage expansions take effect

- Medicaid expansion
- State exchanges established
- Individual mandate and subsidies
- Employer mandate
- Small business subsidies
- Other insurance market reforms take effect
- Medicaid 100% federal match to states
- Health insurers' fee
- Medicare/Medicaid DSH payment cuts to begin
- Medicare Commission's first report to Congress

2016

- Medicaid 100% match ends

2018

- 40% excise tax on high-cost health plans

2020

- Medicare Part D donut hole closed
- Medicaid federal match at 90% for subsequent years

ALL INFORMATION CONTAINED IN THIS EMAIL WAS ORIGINALLY WRITTEN BY ERNST & YOUNG, Health care reform has passed, April 8, 2010 publication ([http://www.ey.com/Publication/vwLUAssets/Health_care_reform_has_passed/\\$FILE/Health%20care%20reform%20has%20passed.pdf](http://www.ey.com/Publication/vwLUAssets/Health_care_reform_has_passed/$FILE/Health%20care%20reform%20has%20passed.pdf)).

You can view the full article at:

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Please contact your Hibbs-Hallmark & Company account representative for more information on Health Care Reform.

Sincerely,

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