Health Care Reform: Overview of the New Legislation

Satellite Conference and Live Webcast
Tuesday, December 14, 2010
12:00 – 1:30 p.m. Central Time

Produced by the Alabama Department of Public Health
Video Communications and Distance Learning Division

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Overview of PPACA

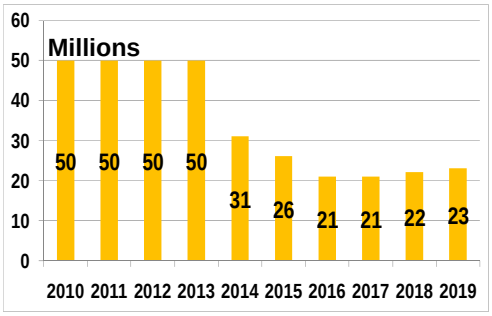
- Individual mandate
- Government plans
- Exchanges
- Employer plans
- PPACA Funding
- Medicare
- Taxes and fees

Overview of PPACA

- 2010 – 2011 changes

* Most provisions take effect in 2014

The Uninsured



CBO, March 20, 2010, Table 4

Individual Mandate

- Requires most U.S. citizens and legal residents to have health insurance
  - Penalty for going without coverage
  - Subsidies for lower income people
  - Requires "qualifying" coverage

Why a Mandate?

- Want everyone to have coverage
- Eliminate pre-existing condition provisions
- Adverse selection
  - People know more about there likely use of health services than does an insurer

Why a Mandate?

- Those most likely to use services are most likely to be the ones to obtain coverage

Elimination of Pre-existing Conditions for Children

- Effective for new polices after September 23, 2010
- Large number of private insurers stopped writing policies for new enrollees in child-only policies
- Fear of adverse selection

Penalties

- Tax penalty of $695/year to a maximum of 3 times that amount per family, or 2.5% of household income whichever is greater
- Phased-in
  - 2014
    - $95/year or 1.0% of income

Penalties

- 2015
  - $325/year or 2.0% of income
- 2016
  - $695/year or 2.5% of income
- Adjusted for cost of living after 2016

Subsidies

- Refundable, advanceable premium credits to individuals and families with incomes between 133-400% of Federal Poverty Line
  - Pegged to the second lowest cost “silver plan” in the area
  - < 133% FPL
    - 2.0% of income

Subsidies

- 133-150% FPL
  - 3.0-4.0% of income
- 150-300% FPL
  - 4.0-9.5% of income
- 300-400% FPL
  - 9.5% of income
- Adjusted over time to reflect premium vs. income growth

Federal Poverty Line - 2010

	100%	133%	150%	300%	400%
1 Person	$10,843	14,421	$16,265	$32,529	$43,372
2 People	$14,570	$19,378	$21,855	$43,710	$58,280
3 People	$18,310	$24,352	$27,465	$54,930	$73,240
4 People	$22,050	$29,327	$33,075	$66,150	$88,200

Lister Hill Center for Health Policy
The University of Alabama at Birmingham

Medicaid and CHIP

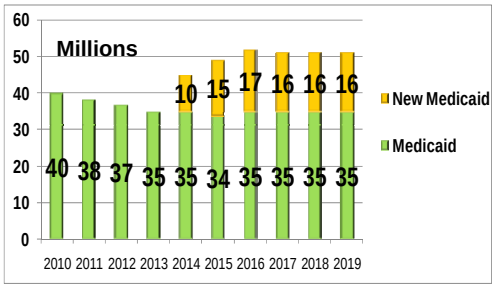
- Currently Medicaid covers
  - Pregnant Women and Children aged 0 - 5
    - At 133% FPL in Alabama
  - Children aged 6 - 18
    - At 100% FPL in Alabama

Medicaid and CHIP

- CHIP covers:
  - Children aged 0 – 18
    - At 300% FPL in Alabama
- In addition, under PPACA Medicaid will cover:
  - ALL people aged 19-64 at 133% (actually 138%) of FPL are eligible

Medicaid

- 138% of FPL for those 19 to 64



CBO, March 20, 2010, Table 4

Exchanges

- Create state-based individual and small business Exchanges
  - Individuals and small firms with ≤100 workers can buy
  - States may allow larger firms to participate
  - States may create multi-state exchanges

Exchanges

- States may combine individual and small

Exchange - Benefit Tiers

- Create 4 levels of benefits, all of which must cover "essential health benefits" with an out-of-pocket spending limit equal to current HSAs
  - Coverage in the exchanges must adhere to state insurance mandates as well
- Each tier pays for a differing percent of covered benefit costs

Exchange - Benefit Tiers

- Bronze – 60%
- Silver – 70%
- Gold – 80%
- Platinum – 90%
- Catastrophic plan for those aged ≤30
  - Individual market only

Exchanges - Underwriting

- Require guaranteed issue and renewal
- Underwriting allowed for:
  - Age (3 to 1)
  - Geographic area
  - Family composition
  - Tobacco use (1.5 to 1)

Exchanges - Underwriting

- Require risk adjustment in individual and small group markets and in the exchange

Exchanges - Requirements

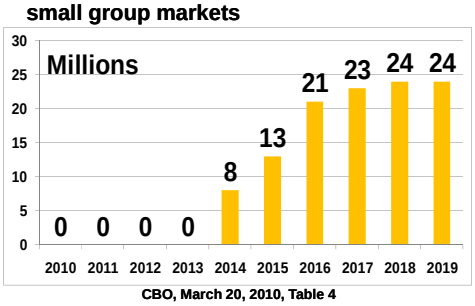
- Maintain call center
- Establish procedures for enrolling individuals and businesses and determining eligibility for tax credits
- Develop single form for applying for state health subsidy programs
- Permitted to contract with Medicaid to determine eligibility

Exchanges - Requirements

- Federal financial reporting and oversight

The Exchanges

- Mandates with subsidies – individual and small group markets



CBO, March 20, 2010, Table 4

PPACA and Employers

- Large employers
  - Generally modest effects in the short-run
  - Long-run issues of grandfathered plans and Cadillac tax
- Small employers (<50 employees)
  - No penalties for not participating

PPACA and Employers

- Subsidies are very short term
- May shift to exchange plans or drop coverage entirely

PPACA and Large Employers

- Employers with >50 workers required to offer coverage, or
  - Pay fee of $2,000 per full time employee
- Those offering insurance but who have 1 or more full time employee who get a premium tax credit

PPACA and Large Employers

- Pay lesser of $3,000 fee per "credited" employee or $2,000 per worker
- This "pay or play" mandate will have almost no effect on the decision of large employers to offer coverage

PPACA and Large Employers

- Those offering coverage must provide "free choice voucher" to employees with incomes <400% FPL whose out-of-pocket premium contribution is between 8% and 9.8% of their family income and who choose to enroll in the Exchange
  - Voucher equal to the employer cost of health insurance

PPACA and Large Employers

- Those with ≤50 workers are exempt from penalties
- Likely to have a very small impact

Large Employers

- Excise tax of 40% on value of ESHI plans which exceed $10,200/$27,500
  - "Cadillac Plans"
    - Includes payments from FSAs and contributions to HSAs
    - Indexed for inflation beginning in 2020

Large Employers

- Modest impact due to indexing in short run
- Larger effect in long run because premiums increase more than inflation

Large Employers

- Eliminate tax deduction for employers who receive Medicare Part D retiree drug subsidy payments
  - Substantial shift by the largest employers away from Rx coverage in their retiree plans

Large Employers

- Grandfathering
  - Grandfathered plans are exempt from coverage requirements established by the Exchanges

* BUT an offered plan is no longer grandfathered if:

  - Enter into new policy with an insurer

Large Employers

- Change the insurance issuer
- Increase cost-sharing too much
- Increase employee share of premium too much

* Proposed interim rules

Large Employers

- Static large employer plans
- Rising premiums due to aging workforce and a reluctance to increase cost sharing
- Eventual shift to Exchange plans
  - Or equivalent

Small Employers

- No insurance mandate for those with ≤50 employees
- Employers with ≤25 employees & annual wages of <$50,000 are eligible for tax credits

Small Employers

- 2011-2013
  - Tax credit up to 35% of employer's contribution toward premium if employer contributes at least 50% of premium or of benchmark premium
    - Phases out with rise in employment or wages

Small Employers

- 2014+
  - Tax credit of up to 50% of the employer's contribution toward purchase of coverage through state Exchange
    - Available for two years

Small Employers

- Only short lived premium subsidies
- Grandfathered premiums likely to be lower than those offered by the Exchanges
  - Due to the underwriting provisions in the Exchanges

Small Employers

- As grandfathering declines:
  - Incentives to drop coverage
    - And raise wages
- Coverage may shift dramatically to the Exchanges
  - Depends on:
    - Premiums charged by the Exchanges

Coverage Requirements

- Provide dependent coverage for children up to age 26 in all individual and group policies (2010)
- Prohibit pre-existing condition clauses
  - For children in 2010
- Limit waiting periods to 90 days
- Prohibit lifetime maximum limits

Coverage Requirements

- Prohibit annual limits on dollar value of coverage
- New policies must comply with the four benefit tiers of coverage

Coverage Requirements

- Temporary high risk pools (2010-2014)
  - 28 states + DC set up state plans
  - 22 states defaulted to the federal plan

Coverage Requirements

- Impose guaranteed issue, renewal and underwriting provisions on individual and small group markets as in the Exchanges
- Limit deductibles in small group market to $2,000/$4,000
- Allow states to merge the individual and small group markets

Coverage Requirements

- Ratio of claims to premiums
  - = 80% in individual and small group markets
  - = 85% in large group market
  - Rebates to consumers if below these thresholds

10 Year PPACA Financials (in Billions)

Spending		Revenue	
Exchanges	$464	Medicare	
		-Medicare Advantage	- $136
		-Reduce fee updates	- $196
		- Other	- $123
Medicaid/CHIP	$434	Penalty Payments	$ 69
Small Emp Credit	$ 40	Cadillac Coverage Tax	$ 32
		Fees on Manuf. & Ins	$107
		Part A tax	$210
		Other Revenue	$208
TOTAL	$871	TOTAL	$1,081
		Reduction in deficit	- $143

CBO, March 20, 2010 – Table 2

Medicare

- Medicare Advantage
  - Reduce payments by $136 billion by 2019
  - We estimate that a 10% reduction in payments will reduce enrollment by nearly 10%
- Physician payments
  - Reduced by $196 billion by 2019

Medicare

- Continuation of the "sustainable growth" formula
- Hospital "DSH" payments
  - Reduced by something approaching 75%

Taxes and Fees - Industries

- Impose new annual fee on pharmaceutical manufacturers
  - $2.8 billion in 2012-2013
  - $3.0 billion in 2014-2016
  - $4.0 billion in 2017
  - $4.1 billion in 2018
  - $2.8 billion in 2019 +

Taxes and Fees - Industries

- Impose new annual fee on health insurance sector
  - $8 billion in 2014
  - $11.3 billion in 2015-2016
  - $13.9 billion in 2017
  - $14.3 billion in 2018
  - Prior year fee + %↑ in premiums in 2019 +

Taxes and Fees - Industries

- Impose new annual fee on health insurance sector
  - For non-profit insurers only 50% of premiums are considered
- Impose new tax of 2.3% on sale of any durable medical equipment (2013)

Taxes and Fees - Individuals

- Tax penalty for not acquiring coverage
- Exclude over the counter medications from HSAs or FSAs (2011)
- Increase tax on non-medical withdrawals from HSAs to 20%

Taxes and Fees - Individuals

- Limit contribution to FSA to $2,500/year adjustment for inflation (2013)
- Increase threshold for unreimbursed medical expenses to 10% of AGI (2013)

Taxes and Fees - Individuals

- For those earning more than $200K/$250K (2013)
  - Increase Medicare Part A tax rate on wages by 0.9%
  - Impose Medicare Part A tax of 3.8% on unearned income
  - Thresholds not adjusted for inflation

Taxes and Fees - Employers

- Fees on large employers who do not provide coverage
- Eliminate tax deduction for employers who receive Medicare Part D retiree drug subsidy payments

Taxes and Fees - Employers

- Excise tax of 40% on value of ESHI plans which exceed $10,200/$27,500
  - Includes payments from FSAs and contributions to HSAs
  - Indexed for inflation beginning in 2020

Provider Issues

- Expanded coverage implies increased demand for services
- "Essential services" as defined by the Exchanges will affect coverage and demand for less traditional providers and services
- Payment levels are key
  - Medicare "sustainable growth" model still in place

Provider Issues

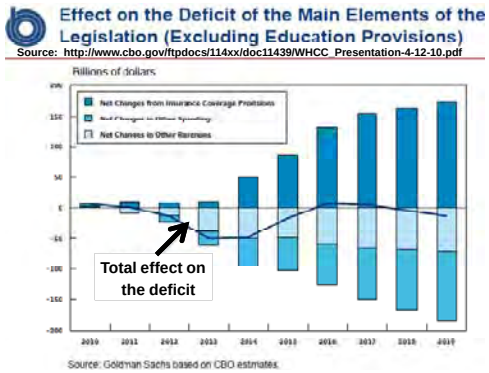
- Definition of "medical services" under the ratio of claims to premiums

Provider Issues

- Lesser issues
  - Accountable Care Organizations
    - Touted as a key cost containment element
    - Recent concern that ACOs are leading to provider consolidation
  - Pilot program in service bundling under Medicare

Provider Issues

- Independent Payment Advisory Board
- Comparative Effectiveness Research



What Happened as of September 23, 2010?

- Beginning with new plan year, insurers must allow parents to keep adult children on their health plan until age 26
- Insurers must cover children up to age 19 with a pre-existing medical condition

What Happened as of September 23, 2010?

- Grandfathered individual plans can refuse
- Lifetime maximum limits are eliminated
  - Annual limits at least $750,000 for employer and new individual plans

More Modest Immediate Changes

- No co-pays or deductibles for preventive services
  - Grandfathered plans not affected
- Insurers can't cancel policy if subscriber becomes sick
  - Called "rescission"

More Modest Immediate Changes

- Consumers get choice of primary care, ob-gyn, and pediatrician from the insurer's panel
- Insurers cannot require higher co-pays or deductibles for emergency care in an ED that is not in network
- $250 payment to Medicare beneficiaries in donut hole