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Summary of New Health Care Reform Law

Recently, two pieces of legislation, the Patient Protection and Affordable Care Act and the Health Care and Education Reconciliation Act of 2010 were signed into law. Together, these pieces of legislation make the most significant reform to health care in the United States since the enactment of Medicare. The Congressional Budget Office estimates that by 2019, approximately 32 million currently uninsured Americans will have health insurance, at a cost of about \$940 billion. A major component of the reform legislation is the creation of state-based American Health Benefit Exchanges and Small Business Health Options Program Exchanges to provide health insurance for low-income individuals and small businesses. The following is a brief description of some of the most important provisions of the health care reform legislation.

For individuals

- U.S. citizens and legal residents will be required to have health insurance by 2014, with some exceptions. Those without insurance will face a tax penalty of as much as 2.5% of taxable income.
- Existing employer-sponsored health insurance plans will be allowed to remain essentially the same except the plans will be required to extend dependent coverage to qualifying children through age 26, lifetime limits (and eventually, annual dollar limits) on coverage must be eliminated, waiting periods for coverage cannot extend beyond 90 days, and insurers will not be able to deny coverage or charge higher premiums to people based on their health status and gender.
- Medicaid eligibility will be expanded to include individuals under age 65 whose income is less than 133% of the Federal Poverty Level.
- For families with incomes up to 400% of the Federal Poverty Level, tax credits and subsidies will be available to purchase health insurance through state-run exchanges, and to offset out-of-pocket costs.
- Contributions to a health flexible spending account will be limited to \$2,500 per year. Reimbursements from health FSAs and HRAs for over-the-counter drugs will be restricted, and tax-free reimbursements from HSAs and Archer MSAs for over-the-counter drugs will not be allowed, while the tax on HSAs and Archer MSAs increases for distributions not used for qualified medical expenses.
- A rebate of \$250 will be available to Medicare Part 0 (drug coverage) beneficiaries who reach the coverage gap (donut hole) and the coinsurance rate for costs within this gap are gradually reduced to 25%.
- Adults with pre-existing conditions will be able to purchase coverage from temporary high-risk pools until 2014, when coverage cannot otherwise be denied for pre-existing conditions.
- A national program will be established to provide limited reimbursement for long-term care expenses for individuals who participate by contributing to the program's cost through voluntary payroll deductions.

For employers

- Employers with 50 or more employees that do not offer health insurance coverage will generally have to pay a premium tax of up to \$2,000 per full-time employee.
- Employers with more than 200 employees must automatically enroll employees in health insurance plans from which employees may opt out.
- Employers providing health insurance must offer a voucher to qualifying employees to purchase insurance through an exchange.
- Qualifying small employers may receive a tax credit for providing health insurance to employees.

Tax changes

- The threshold for itemized deductions for qualified medical expenses will be increased from 7.5% of adjusted gross income (AGI) to 10% of AGI, though a temporary exception will be maintained for those 65 and older.
- The tax for Medicare Part A (hospitalization coverage) is increased 0.9% for individuals with earnings exceeding \$200,000, and for couples with joint earnings greater than \$250,000. Also, high-income taxpayers will be subject to a surtax of 3.8% on unearned income, such as capital gains, dividends, annuities, and rental income.
- The law imposes a 10% tax on the amount paid for indoor tanning services.
- Some of these provisions are effective immediately while others will be implemented over the next several years. Consult with your financial professional to see how these laws may affect you.

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