



# Federal Health Reform Update

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# The Legislation

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- H.B. 3590, The Patient Protection and Affordable Care Act (PPACA)
- Includes modifications from H.R. 4872 Health Care and Education Reconciliation Act
- Became law in March 2010; rules and regulations will be produced over time



# The Legislation

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## What is in the bill?

- Changes for public and private health insurance
- Individual and employer responsibilities
- New public health, prevention and wellness efforts
- Health care delivery, cost containment and payment reforms
- Greater transparency and consumer information



# Focus for Today

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- Reform's impact on individual consumers
- Reform's impact on employers
- Which provisions are immediate, and which will be implemented over time



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# CONSUMER IMPACT: HAPPENING NOW



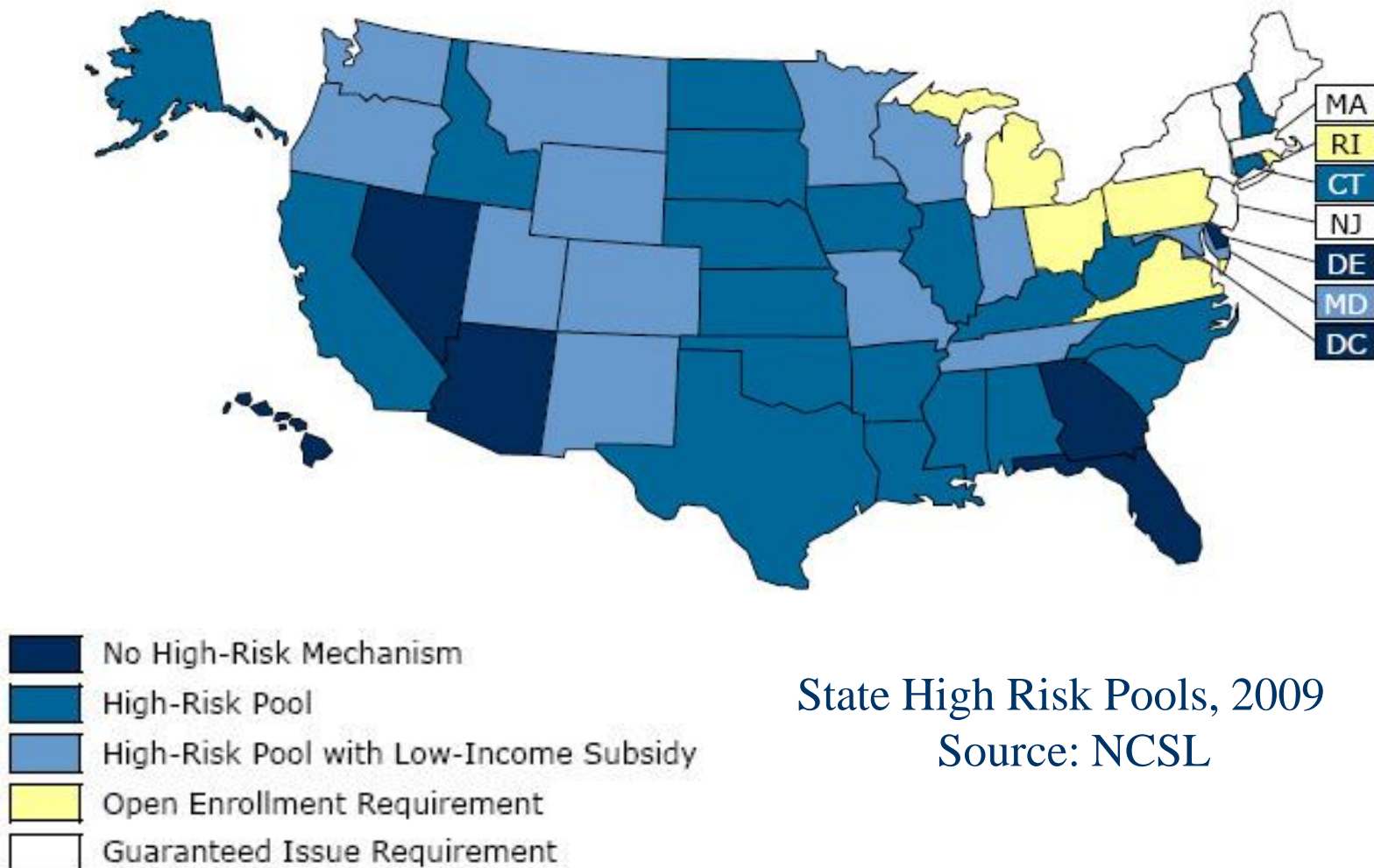
# Happening Now: High Risk Pool

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- Temporary Federal High Risk Pool
  - Individuals with medical conditions who have been uninsured for 6 months
  - Out-of-pocket amounts limited to \$5,950 for an individual and \$11,900 for a family
  - Kansas is among 28 states that have agreed to operate a federal pool



# Happening Now: High Risk Pool





# Happening Now: Insurance Regulations

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- All plans
  - No lifetime limits
  - No rescissions
  - Must provide coverage to dependents up to age 26



# Happening Now: Insurance Regulations

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- Impact in Kansas
  - Lifetime limits allowed
  - No dependent coverage law
  - Rescissions permitted but rare



# Happening Now: Insurance Regulations

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- Definition of “grandfather” is pending
- No pre-existing condition exclusions imposed on children (adults in 2014)
- Proven preventive services to be covered at no cost to individual



# Happening Now: Insurance Regulations

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## ■ Impact in Kansas

- Some protection against pre-existing condition exclusions now
- Plans offered in Kansas are required to abide by some provider and service mandates



# Happening Now: Medicare Changes

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- A \$250 rebate will be provided to Part D beneficiaries who fall in to the “donut hole”
- Starting in 2011
  - No cost-sharing for proven preventive services
  - Freeze threshold for Medicare Part B premiums at 2010 levels (until 2019)
  - 50% discount on brand-name drugs



# Happening Now: Medicare Changes

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## ■ Impact in Kansas

- Roughly 416,000 total Medicare enrollees in the state
- Approximately 73,000 Kansans will reach the “donut hole” this year



# Happening Now: Medicare Changes

- Adjustments to Medicare Advantage (MA) payment model
  - Makes MA payments more comparable to traditional fee-for-service plans
  - Beginning 2014, MA plans not reaching a certain threshold of benefit would be required to remit payment



# Happening Now: Medicare Changes

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## ■ Impact in Kansas

- Approximately 9% of Medicare enrollees are in MA plans
- The payment reforms may reduce premium costs by \$45 a year for those in traditional Medicare plans



# Happening Now: Medical Savings Accounts

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- Greater penalties for withdrawals made from Health Savings Accounts (HSAs)
- Limits reimbursement for over-the-counter drugs in various medical savings account arrangements



# Happening Now: Medical Savings Accounts

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## ■ Impact in Kansas

- Not comprehensive data in Kansas, but a growth trend in uptake nationwide
- Of approximately 100,000 State Employee Health Benefit Plan enrollees, less than 1% chose the high-deductible HSA-compliant plan



# CONSUMER IMPACT: FUTURE CHANGES



# Future Changes: Individual Mandate

- Beginning in 2014
- Exceptions for religious and financial reasons

Individual Mandate Penalties	
2014	Greater of \$95 or 1% of income
2015	Greater of \$325 or 2% of income
2016	Greater of \$695 or 2.5% of income, to maximum of \$2,085



# Future Changes: Individual Mandate

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- Impact in Kansas
  - Rate of uninsured is 12.4%
  - IRS will likely enforce the penalty, though states will play role in eligibility determination



# Future Changes: Health Insurance Exchanges

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- States will form health insurance Exchanges
  - Initially, one Exchange for individual plans and one for small group plans
  - Later, states may choose to merge the individual and small group markets
  - Exchanges are limited to employers with fewer than 100 employees until 2017



# Future Changes: Health Insurance Exchanges

- Plans offered in the Exchanges will be private but fairly well regulated
- Plans will adhere to a minimum standard and vary by “actuarial value”

Insurance Exchange Plan Tiers	
“Bronze”	60% of the benefit costs covered by the plan
“Silver”	70% of the benefit costs covered by the plan
“Gold”	80% of the benefit costs covered by the plan
“Platinum”	90% of the benefit costs covered by the plan
“Catastrophic”	Not tied to actuarial value limit



# Future Changes: Health Insurance Exchanges

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## ■ Impact in Kansas

- Operation of the Exchanges will likely include the Kansas Insurance Department and the Kansas Health Policy Authority



# Future Changes: Premium Credits and Subsidies

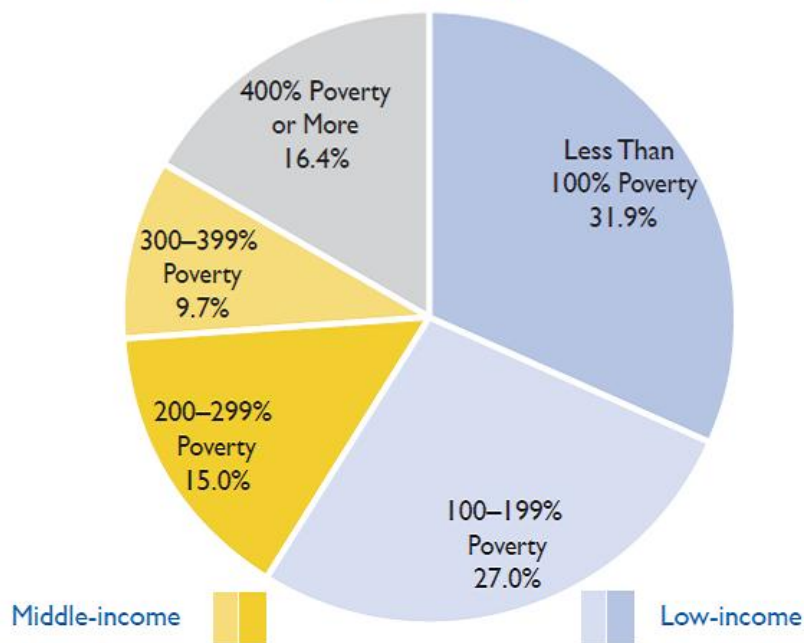
- The federal government will provide premium credits and cost-sharing subsidies based on Federal Poverty Level (FPL)

<b>Out-of-pocket Limits for Subsidized Coverage</b>	
100 – 200% FPL	\$1,983.00 per individual, \$3,967.00 per family
200 – 300% FPL	\$2,975.00 per individual, \$5,950.00 per family
300 – 400% FPL	\$3,987.00 per individual, \$7,974.00 per family



# Future Changes: Premium Credits and Subsidies

Figure 15. Uninsured Kansans by Poverty Category  
(2007–2008)



Notes: Uninsured Kansans: Approximately 338,000.

Percentages may not sum to 100 percent because of rounding.

Source: KHI estimates are two-year averages based on the 2008 and 2009 Annual Social and Economic Supplements to the Current Population Surveys.



# Future Changes: Medicaid Expansion

- Every state will be required to extend Medicaid benefits to individuals up to 133% of FPL

<b>Enhanced Federal Matching Rates for Newly Eligible Individuals</b>	
2014 – 2016	100% federal funding
2017	95% federal funding
2018	94% federal funding
2019	93% federal funding
2020 and beyond	90% federal funding



# Future Changes: Medicaid Expansion

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## ■ Impact in Kansas

- Currently very low eligibility for adults with dependent children
- No eligibility for non-disabled, childless adults
- Potential addition of 87,000 to Medicaid roles with potential for an additional 33,000--already eligible--to join, after individual mandate becomes law



# Future Changes: More Insurance Regulations

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- In 2014, “essential benefits package”, required of new plans offered inside and outside of the Exchange
- Most new insurance plans will be “guaranteed issue”; accessible to all applicants



# Future Changes: More Insurance Regulations

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- Rating limited to;
  - Tobacco use
  - Age
  - Family composition
  - Geographic variation



# Future Changes: More Insurance Regulations

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## ■ Impact in Kansas

- Provider and service mandates, no minimum benefit threshold
- Small group market is guaranteed issue, not individual market
- Rating bands in small group market, not in individual market



# Future Changes: New Tax Rules

- In 2013, threshold for itemized deduction of unreimbursed medical expenses raises from 7.5% to 10%
- For individuals earning more than \$200,000 and families earning more than \$250,000
  - 0.9% increase in Medicare Part A tax
  - 3.8% tax on investment income



# Future Changes: New Tax Rules

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## ■ Impact in Kansas

- 4% of Kansas families earned over \$200,000 in 2008
- Few Kansas families will be impacted by higher tax rates



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# EMPLOYER IMPACT: HAPPENING NOW

Information Current as of 5.17.10



# Happening Now: Tax Credits

- Starting this year, employers of fewer than 25 employees may be eligible for tax credits
- Must contribute certain percentage of plan costs

Small Employer Tax Credits	
Tax years 2010 - 2013	35% credit
	25% if tax-exempt
Tax years 2014 and later	50% credit
	35% if tax-exempt



# Happening Now: Tax Credits

- Impact in Kansas
  - 67% of Kansas adults have insurance through an employer
  - 43,000 small businesses may qualify for the tax credit
  - 20% of those working at eligible small employers currently do not receive employer-sponsored coverage



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# EMPLOYER IMPACT: FUTURE CHANGES



# Future Changes: Employer Penalties

- Beginning in 2014, employers who do not provide adequate coverage will be asked to pay penalties
- Employers of fewer than 50 are exempt

Situation	Penalty
Employers not providing coverage	\$2,000 per each employee receiving a subsidy
Employers offering inadequate coverage	\$3,000 per each employee receiving a subsidy or \$2,000 per employee



# Future Changes: Employer Penalties

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- Impact in Kansas
  - Roughly 75% of Kansas businesses are “small”, meaning less than 50 employees
  - As such, only 25% of businesses may be subject to the new employer requirements



# Future Changes: Employer Responsibilities

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- Free Choice Voucher
  - Employees at or below 400% FPL
  - When share of premium is between 8 - 9.8% of income
  - Voucher amount must equal the amount paid for coverage in the employer's plan



# Future Changes: Employer Responsibilities

- Impact in Kansas
  - 50.87% of employed Kansans are below 400% FPL

Employed Kansans by FPL	
6.15%	Less than 100% FPL
13.57%	Between 100 – 199% FPL
14.98%	Between 200 – 299% FPL
16.17%	Between 300 – 399% FPL
49.14%	At or above 400% FPL



# Future Changes: Employer Responsibilities

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## ■ Enrollment

- Employers of more than 200 employees must automatically enroll their employees in health plan

## ■ Written Notice

- If employer's coverage constitutes less than 60% of actuarial value, must provide notice of other options



# Future Changes: Employer Responsibilities

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- Impact in Kansas
  - Given the large number of small employers in the state, may not be many employers impacted by auto-enrollment requirement



# What to Expect Next

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- Legislation is the beginning, not the end
- Rules and regulations will be produced over many years
- Several key definitions still pending
- Consumer information to become readily accessible

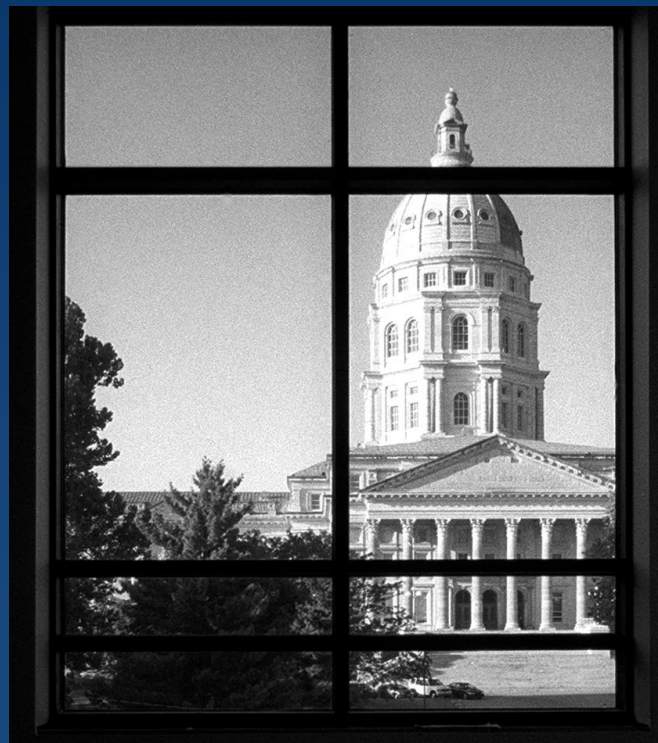


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# QUESTIONS?



# Kansas Health Institute



*Information for policymakers. Health for Kansans.*

Information Current as of 5.17.10