



## **OVERVIEW OF THE NEW HEALTH CARE LAW**

The massive new health care legislation includes sweeping changes for businesses and individuals, although certain "grandfather" rules may apply. Here is a summary of several key provisions.

**\*Employer responsibilities:** Beginning in 2014, if an employer with 50 or more employees does not provide minimal essential coverage to an eligible employee, it may be assessed a penalty of \$2,000 per full-time employee (excluding the first 30 employees). However, a qualified small business may use a special tax credit to offset employer-provided coverage.

A "small business" is generally one with no more than 25 employees and average annual wages of less than \$50,000 per employee. For 2010 through 2013, the maximum tax credit is 35% of the employer's contribution toward the employee's health insurance premium. Beginning in 2014 and thereafter, the maximum increases to 50% for two years for eligible small businesses purchasing coverage through a state exchange. Finally, the full 100% credit will be available to employers with 10 or fewer employees and average annual wages of less than \$25,000.

Employers offering coverage must provide certain low-income employees with a "free choice voucher" to enroll in an exchange. Employers providing free choice vouchers are not subject to penalties for employees who receive premium credits in a state-run exchange.

An employer with more than 200 employees must automatically enroll employees in its health plan. However, employees may opt out of this coverage.

Effective 90 days after enactment and extending through 2013, employers may join a temporary government reinsurance program to partially reimburse them for the cost of health insurance coverage for retirees age 55 years or older who are not eligible for Medicare.

**\*Individual responsibilities:** Beginning in 2014, individuals are generally required to obtain health insurance coverage. Otherwise, you must pay a tax penalty equal to the greater of \$695 per person per year up to a maximum of three times that amount per family or 2.5% of household income. The penalty will be phased in over a three-year period ending in 2016. After 2016, the figures will be indexed for inflation. Exemptions are available for certain low-income taxpayers.

**\*Health insurance exchanges:** Beginning in 2014, state-based American Health Benefit Exchanges and the Small Business Health Options Program (SHOP) will offer coverage to individuals and small businesses with up to 100 employees. After 2016, states may permit businesses with more than 100 employees to purchase coverage in the SHOP exchange.

**\*Premium assistance credits:** Beginning in 2014, refundable premium assistance credits will be available to certain low-income individuals and families. A credit is generally available to taxpayers with a household income between 100% and 400% of the federal poverty level.

**\*Tax on health insurance plans:** Effective in 2018, an excise tax is imposed on insurers of employer-sponsored health plans with aggregate values exceeding \$10,200 for individual coverage and \$27,500 for family coverage. Although this tax is imposed on insurers, higher costs under "Cadillac plans" may be passed on to consumers.

**\*Benefit designs:** Effective in 2014, an essential health benefits package is established that provides a comprehensive set of services, covers at least 60% of the actuarial value of the covered benefits, limits annual cost-sharing and is not more extensive than the typical employer plan. All qualified health benefits plans, including

those offered through the exchanges and private plans (except grandfathered plans), are required to offer at least an essential health benefits package.

**\*Preexisting conditions:** Effective within 90 days of enactment and extending through 2013, a temporary national high-risk pool is established to provide health coverage to individuals with preexisting medical conditions. Individuals who have a preexisting medical condition and who have been uninsured for at least six months will be eligible to enroll in the high-risk pool and receive subsidized premiums.

**\*Private insurance:** Effective in 2010, health insurance plans are required to report the proportion of premium dollars spent on clinical services, quality and other costs. Beginning in 2011, insurers must provide rebates to consumers for the amount of the premium spent on clinical services and quality that is less than 85% for plans in the large-group market and 80% for plans in the individual and small-group markets.

Effective six months after enactment, all individual and group policies must provide dependent coverage for children through age 26, individual and group health plans are prohibited from placing lifetime limits on the dollar value of coverage and insurers cannot rescind coverage (except for fraud).

Beginning in 2014, individual and group health plans are prohibited from placing annual limits on the dollar value of coverage. Prior to 2014, plans may only impose annual limits on coverage as determined by the government. Effective in 2014, waiting periods for coverage are limited to 90 days, and states have the option of merging the individual and small-group markets.

Six months after enactment, grandfathered plans are required to extend dependent coverage to age 26, prohibit rescissions of coverage, and eliminate waiting periods for coverage of greater than 90 days, lifetime limits on coverage and preexisting condition exclusions for children. Beginning in 2014, grandfathered group plans must eliminate all preexisting condition exclusions and annual limits on coverage.

**\*Health care accounts:** Among other changes for various health care accounts, the annual contribution limit for flexible spending accounts is capped at \$2,500 in 2013 (with future inflation adjustments).

**\*Medical deductions:** Beginning in 2013, the threshold for medical deductions increases from 7.5% of AGI to 10%. Exception: An individual (and spouse) who is age 65 or older is temporarily exempt from this increase for 2013 through 2016.

**\*Prescription drugs:** Changes in Medicare Part D will effectively close the "doughnut hole" for prescription drug coverage.

There are many other important provisions in the new health care legislation. Seek assistance from your professional advisers.