



*A not-for-profit  
health and tax policy  
research organization*

# Health Care Reform: What To Do Now?

*Grace-Marie Turner*

*September 12, 2012*

*Association of Washington Business*



/GalenInstitute  
www.galen.org



**HANDS OFF MY HEALTH CARE!**  
and the way to health care for all  
AMERICAN JOB PROSECURITY

OBAMA CARE IS BANNED!

HANDS OFF MY HEALTH CARE!

RESIST  
MARTIN LUTHER KING JR. BLVD



**We**  
**ObamaCare**

MY HEALTHCARE IS A RIGHT.  
DON'T DENY IT.  
PROTECT THE LAW

DENY  
CARE

HEALTHCARE

HEALTHCARE

HEALTHCARE



**Single Payer  
Now**

**Strike Down  
Obama  
Mandate**

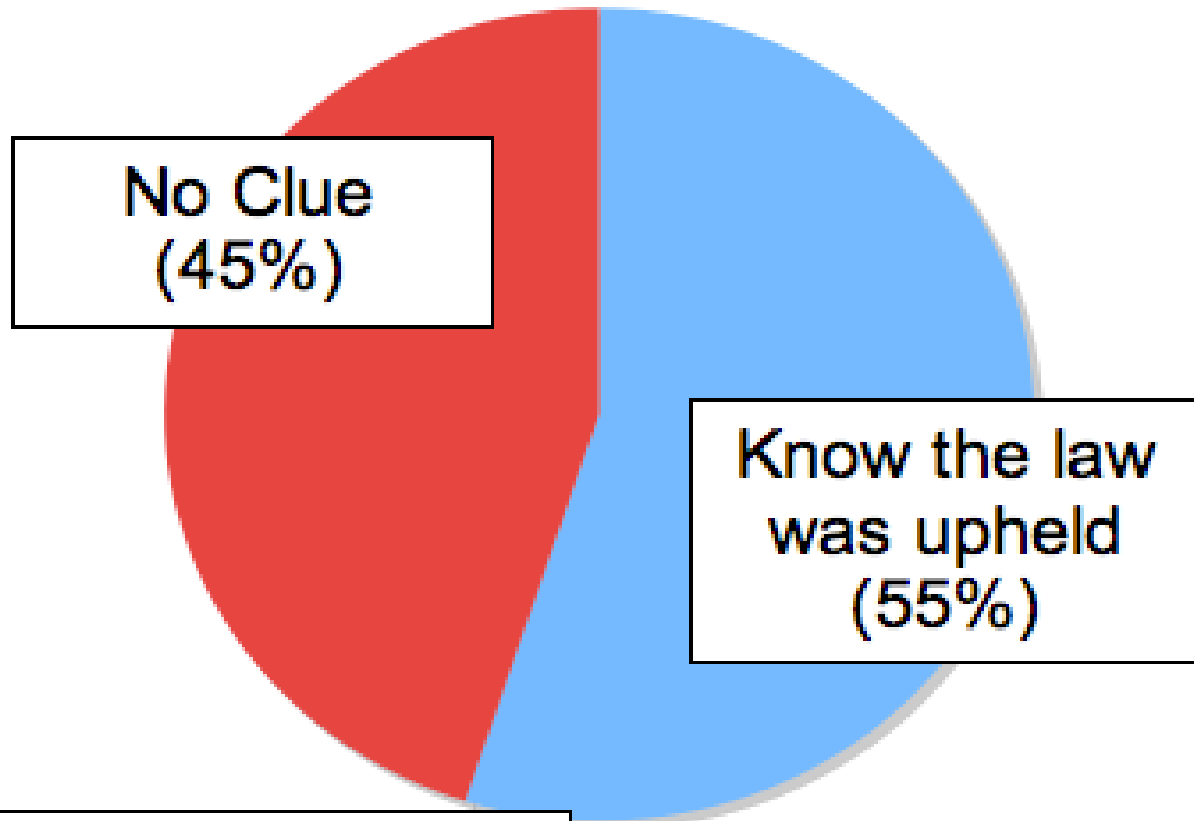
[singlepayeraction.org](http://singlepayeraction.org)

**PROTECT  
WOMEN'S  
HEALTH**

**ECT  
LAW**



## Americans' Knowledge of Health Care Ruling



*Pew Research Center, 7/2/12*

# Americans agreed on goals for health reform...

- The U.S. needs health reform to:
  - make coverage more affordable
  - assure quality, and
  - expand access to insurance
- Most people rate their own coverage as good or excellent
- They want stability. Change is *for others*.

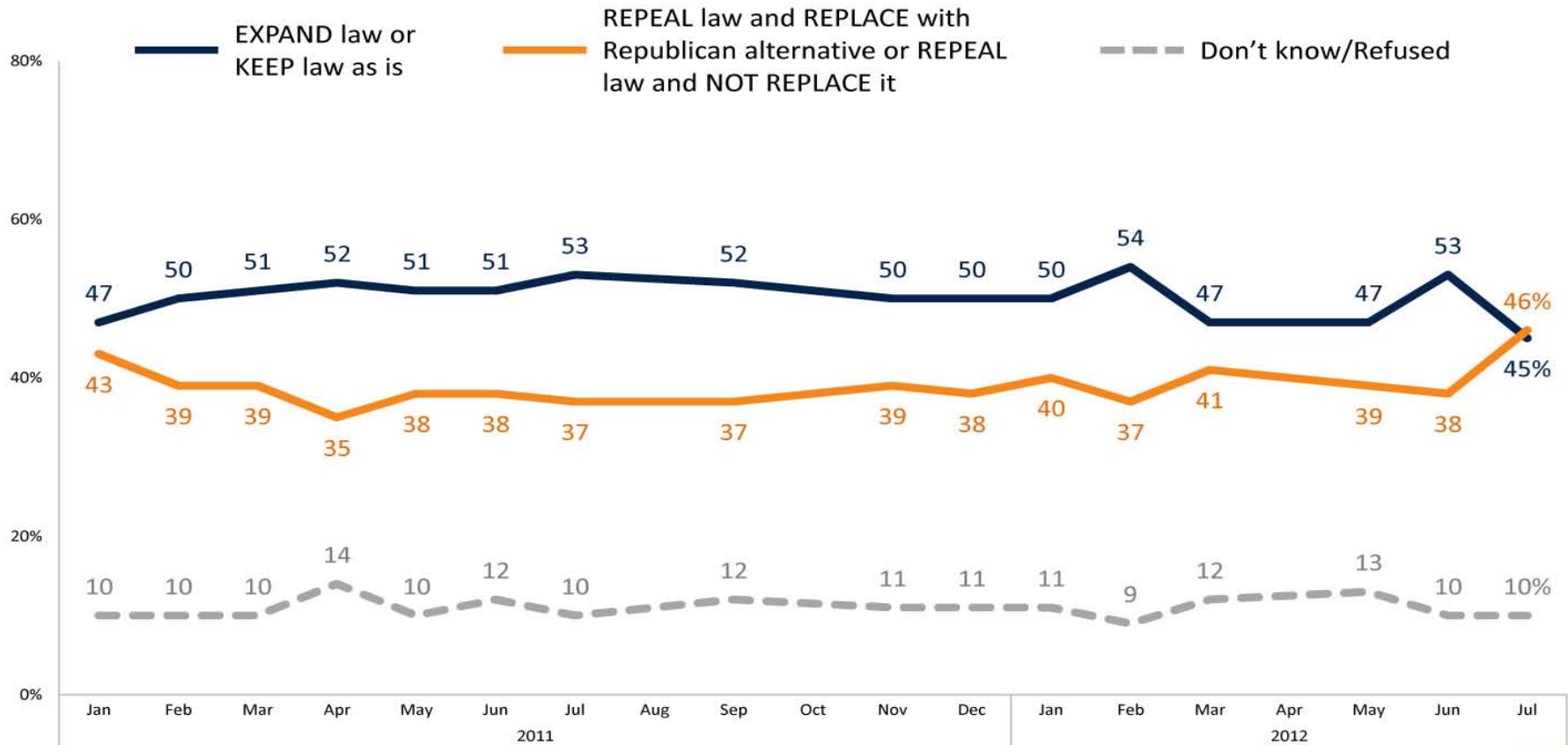
# Americans' views of health law after Supreme Court decision

- Americans say it will make things worse rather than better for taxpayers, businesses, doctors, and those who currently have health insurance.
- Health care will be an extremely or very important issue for 82% of Americans in deciding their vote for the president in November.
- Opposition to the law is higher now than before the Supreme Court decision.



# Views On Congress' Next Steps Evenly Split This Month

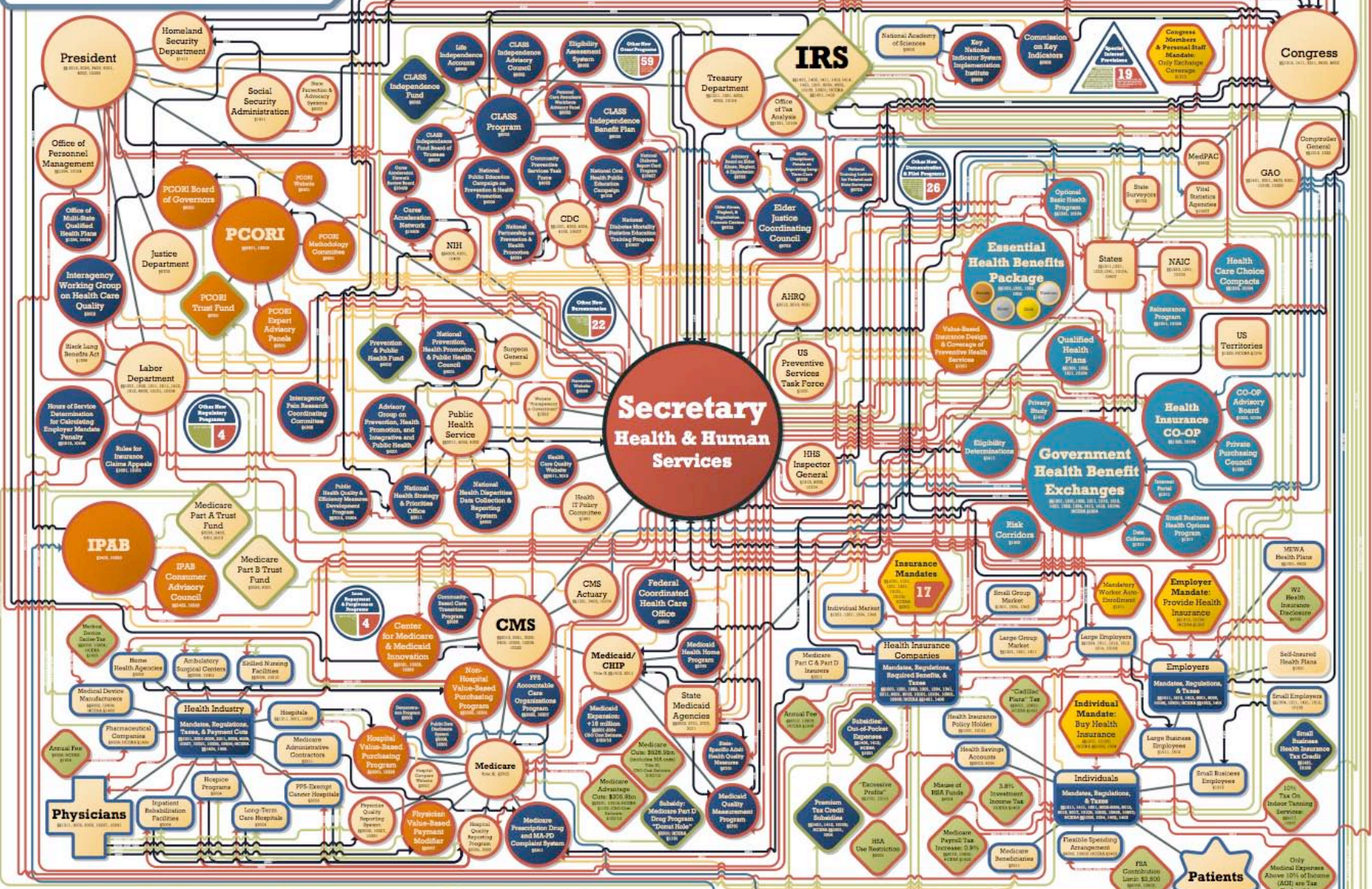
What would you like to see Congress do when it comes to the health care law?



Source: Kaiser Family Foundation Health Tracking Polls



# Your New Health Care System



New Government	Expanded Government	Private	New Relationships
<ul style="list-style-type: none"> <li>Rationing Potential</li> <li>Involvement in Health Insurance Market</li> <li>Other Expansions</li> <li>Represents Bundles of Additional Entities</li> </ul>	<ul style="list-style-type: none"> <li>Mandates</li> <li>Taxes and Monetary Fees/Penalties/Cuts</li> <li>Trust Fund (Rationing Potential)</li> <li>Other New Trust Funds/Monetary Benefits</li> </ul>	<ul style="list-style-type: none"> <li>Government with Expanded Authority/Responsibility</li> <li>Government Financial Entity with New Inflows/Outflows</li> <li>State/Territory with Expanded Authority/Responsibility</li> </ul>	<ul style="list-style-type: none"> <li>Private Entity with New Mandates/Regulations/Responsibilities</li> <li>Unchanged Private Entity</li> <li>Special Interest Provisions</li> <li>Regulations/Requirements/Mandates</li> <li>Reporting Requirements</li> <li>Overnighting</li> <li>Money Flows</li> <li>Consultation/Advisory/Info Sharing</li> <li>Structural Connections (Includes Existing)</li> </ul>

**Legend:**  
 AGI: Adjusted Gross Income  
 AHRQ: Agency for Healthcare Research and Quality  
 CDC: Centers for Disease Control and Prevention  
 CHIP: Children's Health Insurance Program  
 CLASS: Community Living Assistance Services & Supports  
 CMS: Centers for Medicare & Medicaid Services  
 CO-OP: Consumer Operated and Oriented Program  
 FFS: Fee-for-Service  
 FSA: Flexible Spending Arrangement  
 GAO: Government Accountability Office  
 HCTA: Health Care & Education Reconciliation Act  
 HHS: Health & Human Services Department  
 HSA: Health Savings Account  
 IPAB: Independent Payment Advisory Board  
 ISB: Internal Revenue Service  
 MA-PD: Medicare Advantage Prescription Drug  
 Medicaid: Medicaid Payment Advisory Commission  
 MERP: Medical Early Risk Detection  
 EALORS: Executive Auxiliary Linked Office Regional Systems  
 MEWS: Multiple Employer Wellness Arrangement  
 NAIC: National Association of Insurance Commissioners  
 NIH: National Institutes of Health  
 PCORI: Patient-Centered Outcomes Research Institute  
 PPS: Prospective Payment System

**Key Legislation:**  
 Patient Protection and Affordable Care Act, P.L. 111-148;  
 Health Care & Education Reconciliation Act, P.L. 111-152  
 Prepared by: Joint Economic Committee, Republican Staff  
 Congressman Kevin Brady, Senior House Republican  
 Senator Sam Brownback, Ranking Member

# Navigating the Small Business Tax Credit

**START:** Do you (employer) offer health insurance to your employees?

If "Yes," you might be eligible for the tax credit

If "No": STOP, you are ineligible for tax credit

**SECOND QUESTION:** How many full-time equivalent employees (FTE) do you have?

**DETOUR: CALCULATION**  
**Formula:**  $FTE = (E_1 \times H_1) + (E_2 \times H_2) + (E_N \times H_N) / 2080$  (rounded down to the nearest whole number)  
**Calculate the total full-time equivalent employees (FTE) by:**

- Calculating the number of employees (E) (excluding owners, partners, family members, and seasonal workers employed 120 days or less)
- Calculating the total number of hours (H) worked for EACH employee (including paid vacation days, holidays, sick leave, disability leave, layoff, jury duty, military duty or leave of absence (capped at no more than 160 hours for an employee for a single continuous period)).
- Multiplying the number hours worked for each employee and take the sum of this calculation for all employees and dividing it by 2,080 hours to arrive at the total FTE.

If FTE is fewer than 25 you might be eligible for the tax credit

If your FTE is 25 or more: STOP, you are ineligible for tax credit

Employer can get back on the road to the credit by **FIRING EMPLOYEES**

**DETOUR: CALCULATION**  
**Formula:**  $PP = \frac{\text{Employer's Share of Premium}}{\text{Total Premium}}$   
**Calculate the percentage of premiums paid (PP) by:**

- Collecting premium information on ALL health-related insurance policies for which you are seeking a credit. This amount represents total dollars spent by employer's on health insurance premiums (ESP).
- Determining the percentage of the premium paid for your employees enrolled in self-only and family coverage.

**NOTE:** ESP is capped at 50% of the state's average small group premium. Some employers may reduce health benefits so their premiums don't exceed the average.

**FOURTH QUESTION:** Do you pay at least 50% of your employees' premiums (including health, vision, dental, long-term care, nursing home care, home health care community-based care)?

Employer can get back on the road to the credit by **CUTTING EMPLOYEE WAGES**

If AAW is less than \$50,000 you might be eligible for the tax credit

If your AAW is \$50,000 or higher: STOP, you are ineligible for the tax credit

**DETOUR: CALCULATION**  
**Formula:**  $AAW = (E_1 \times W_1) + (E_2 \times W_2) + (E_N \times W_N) / FTE$  (rounded down to the nearest \$1,000)  
**Calculate the total wages paid to his/her employees by:**

- Taking the number of employees calculated in question 2
- Taking the number of hours each employee worked as calculated in question 2
- Determining the wage (W) that was paid for EACH employee for each of the hours worked
- Multiplying the wage for each employee and taking the sum of this calculation for all employees and dividing it by the number of FTE (see question 2) to arrive at AAW.

**THIRD QUESTION:** What is the average annual wage (AAW) across all your employees?

If your PP is at least 50%, you might be eligible for the tax credit

If your PP is less than 50%: STOP, you are ineligible for the tax credit

Employer can get back on the road to the credit by **CUTTING WAGES** or **BENEFITS** to spend more for insurance

**FIFTH QUESTION:** You've finally navigated through the winding road, what size tax credit do you qualify for?

**DETOUR: CALCULATION**  
 If you have 10 or fewer FTE and \$25,000 or less in AAW, you receive the maximum credit (MC) amount.  
**Taxable small business:**  $MC = ESP \times 35\%$   
**Tax-exempt small employer:**  $MC = ESP \times 25\%$

**DETOUR: CALCULATION**  
 If you have more than 10 FTE and \$25,000 or less in AAW, you receive a partial credit (PC1).  
 $PC1 = MC - [MC((FTE - 10) / 15)]$

**DETOUR: CALCULATION**  
 If you have 10 or fewer FTE and more than \$25,000 in AAW, you receive a partial credit (PC2).  
 $PC2 = MC - [MC((AAW - 25,000) / 25,000)]$

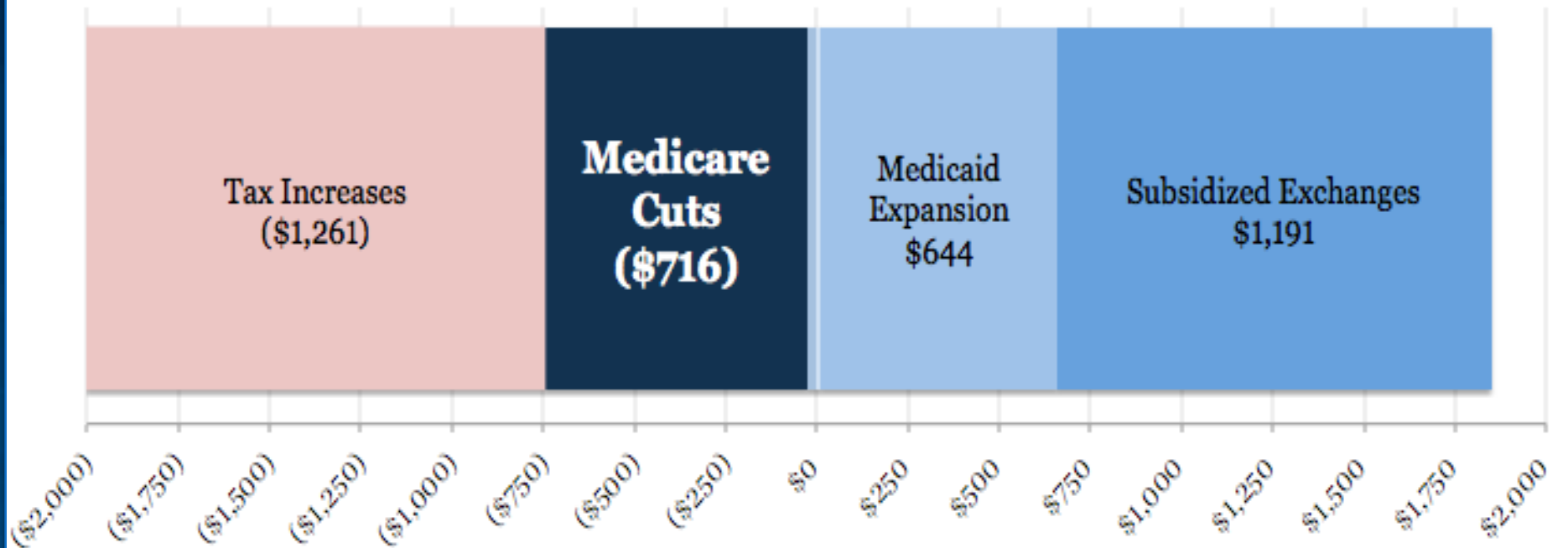
**DETOUR: CALCULATION**  
 If you have more than 10 FTE and more than \$25,000 in AAW, you receive a partial credit (PC3).  
 $PC3 = MC - [MC((FTE - 10) / 15)] + [MC((AAW - 25,000) / 25,000)]$

# What supporters highlight:

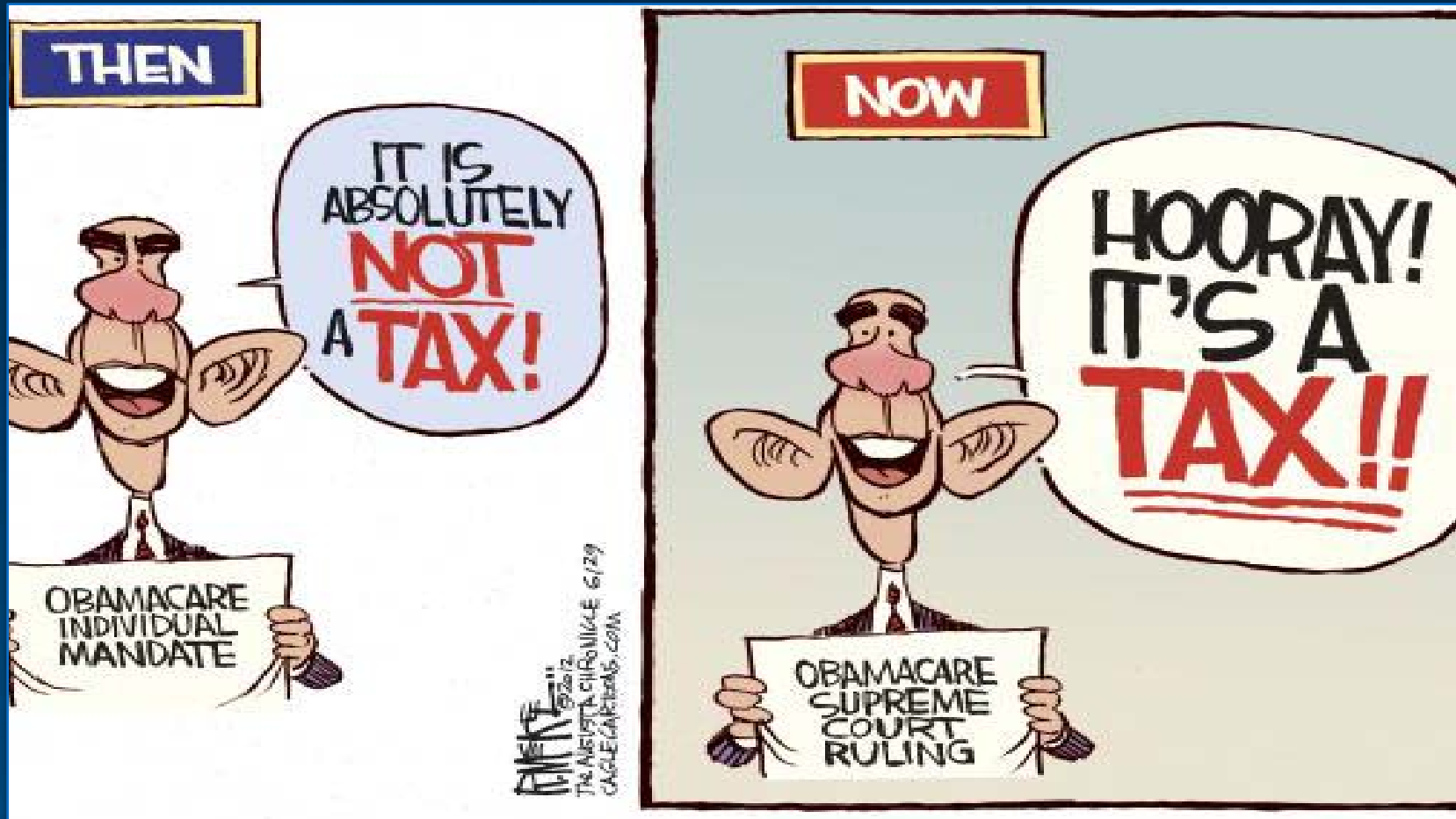
- “Free” preventive care
- Allowing “children” up to age 26 on parent’s policies
- Pools for pre-existing condition policies
- \$250 for seniors with high drug costs

# The health law in one graph

**Deficit Impact of Major Fiscal Components of the Affordable Care Act, 2013-2022**



# Two issues: Taxes. Trust.



# The health law's New Taxes

Provision	March 2010 Estimate, 2010-2019, \$US billion	June 2012 Re-Estimate, 2013-2022, \$US billion
Additional 0.9 percent payroll tax on wages and self-employment income and new 3.8 percent tax on dividends, capital gains, and other investment income for taxpayers earning over \$200,000 (singles) / \$250,000 (married)	210.2	317.7
"Cadillac tax" on high-cost plans *	32	111
Annual tax on health insurance providers *	60.1	101.7
Annual tax on drug manufacturers/importers *	27	34.2
2.3 percent excise tax on medical device manufacturers/importers*	20	29.1
Limit FSAs in cafeteria plans *	13	24
Raise 7.5 percent AGI floor on medical expense deduction to 10 percent *	15.2	18.7
Deny eligibility of "black liquor" for cellulosic biofuel producer credit	23.6	15.5
Codify economic substance doctrine	4.5	5.3
Increase penalty for nonqualified HSA distributions *	1.4	4.5
Impose limitations on the use of HSAs, FSAs, HRAs, and Archer MSAs to purchase over-the-counter medicines *	5.0	4

# More Health Law Taxes

Provision	March 2010 Estimate, 2010-2019, \$US billion	June 2012 Re-Estimate, 2013-2022, \$US billion
Impose fee on insured and self-insured health plans; patient-centered outcomes research trust fund *	2.6	3.8
Eliminate deduction for expenses allocable to Medicare Part D subsidy	4.5	3.1
Impose 10 percent tax on tanning services *	2.7	1.5
Limit deduction for compensation to officers, employees, directors, and service providers of certain health insurance providers	0.6	0.8
Modify section 833 treatment of certain health organizations	0.4	0.4
Additional requirements for section 501(c)(3) hospitals	Negligible	Negligible
Employer W-2 reporting of value of health benefits	Negligible	Negligible
Employer mandate *	52	Pending
Individual mandate *	17	Pending
Other Revenue Effects	60.3	Pending
<b>Total Gross Tax Increase:</b>	<b>569.2</b>	<b>804.6**</b>
* Provision targets households earning less than \$250,000.		
** Based on 2010 estimates for the individual mandate, employer mandate and other revenue effects.		



# 7 Tax Hikes On Under \$250,000-A-Year Earners

Obamacare Tax Hike	Effective Start Date
1. The Indoor Tanning Services Tax	July 1, 2010
2. Health Savings Account Withdrawal Penalty	Jan. 1, 2011
3. The Over-The-Counter Drugs Trap	Jan. 1, 2011
4. The Medical Itemized Deduction Hurdle	Jan. 1, 2013
5. The Healthcare Flexible Spending Account Cap	Jan. 1, 2013
6. The Individual Mandate Excise Tax	Jan. 1, 2014
7. The Cadillac Health Insurance Plan Tax	Jan. 1, 2018

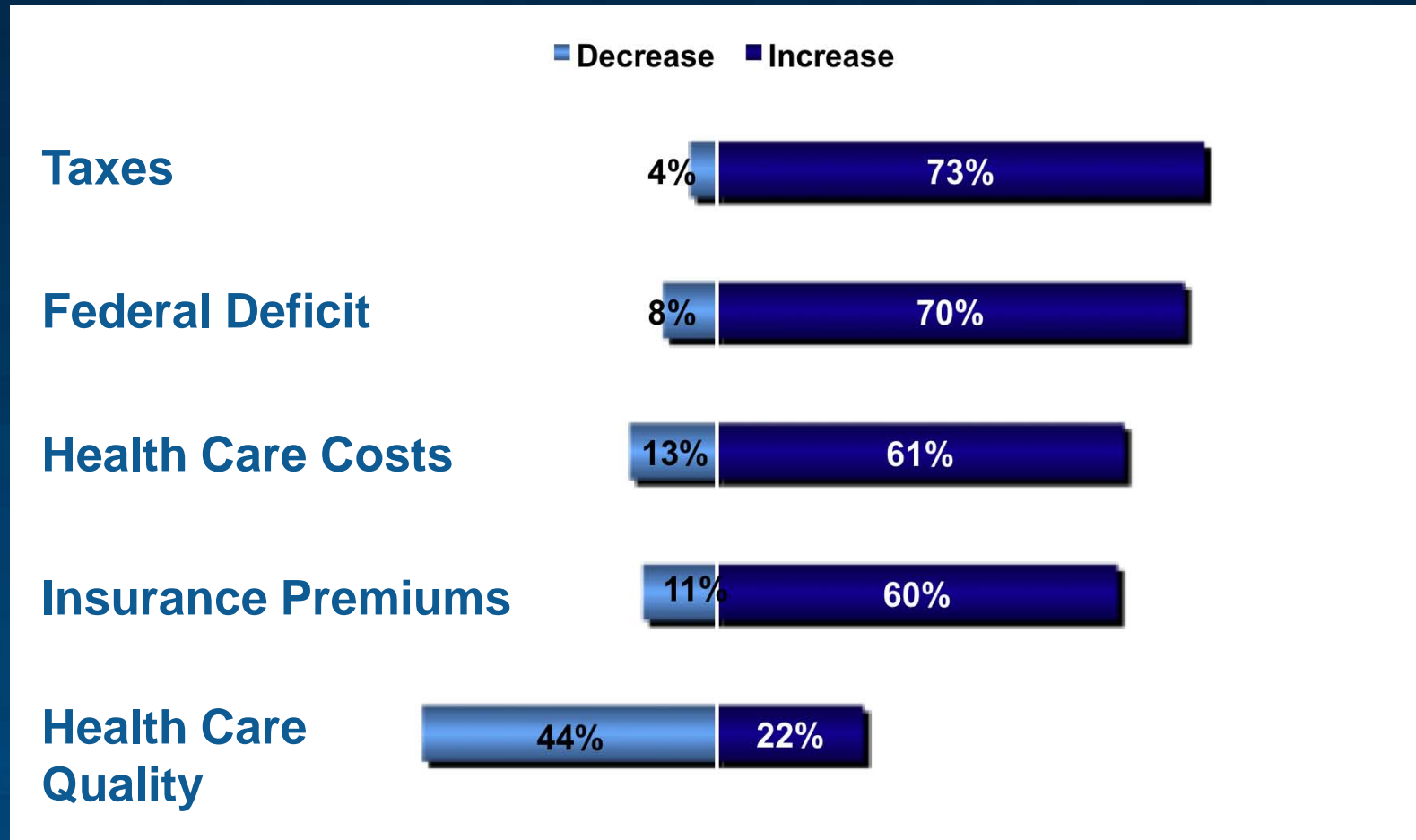
# HEALTH CARE REFORM



WHERE DOES IT SAY I PAY LESS FOR HEALTH CARE?



# Do you think the health care reform plan that Congress passed recently will increase, decrease, or have no effect on each of the following:



# TRUST: Costs will go *UP*

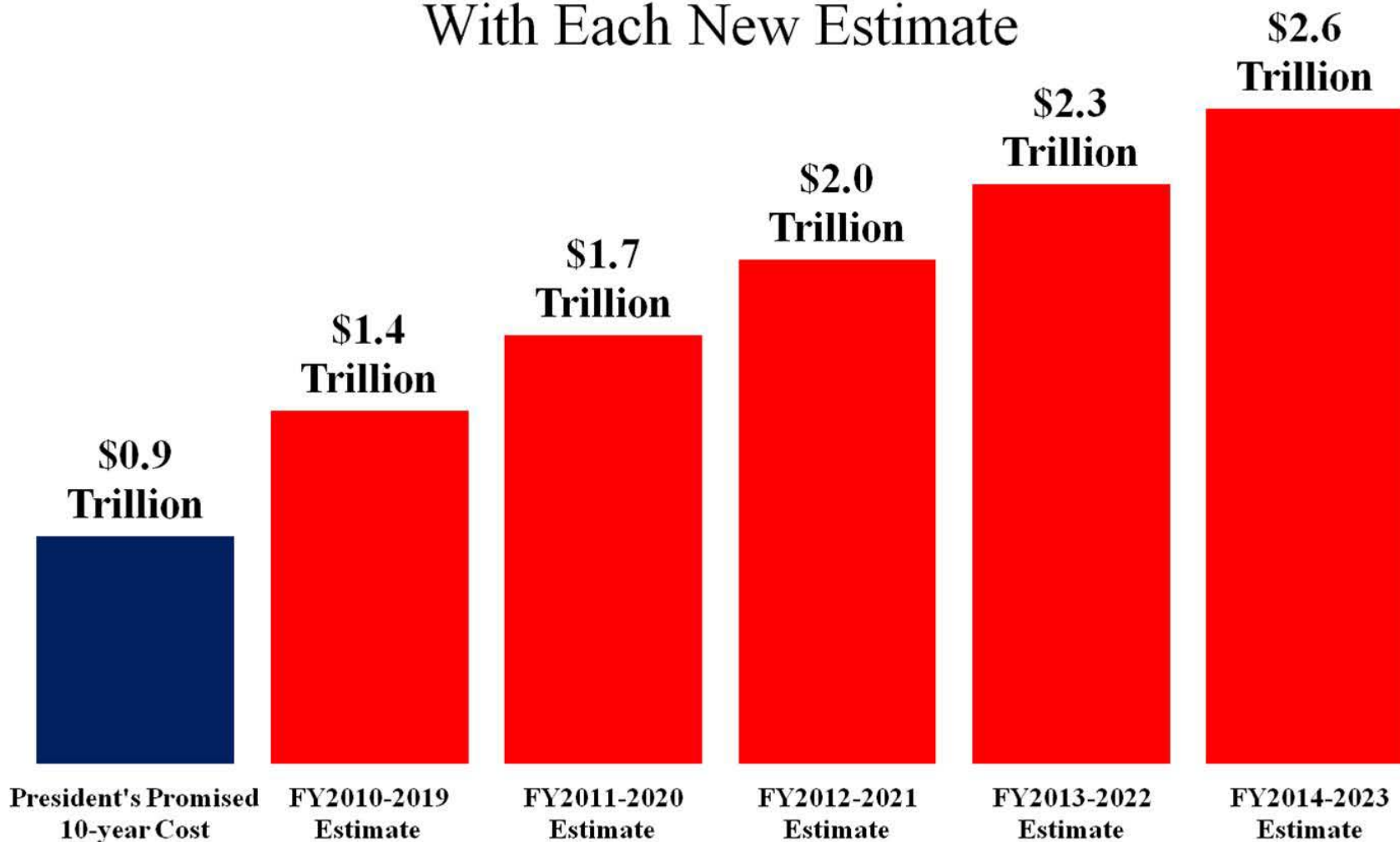
- Foster: “False more so than true” that law will lower costs for taxpayers

- Insurance now \$15,500/yr. for a family

Latest CBO cost estimate: \$2.6 trillion/10 yrs.

- Gruber: Premiums up to 30% higher than without the law

# Cost Of President's Health Law Rises With Each New Estimate



Estimates of the gross outlays under the President's health care law in nominal dollars using CBO estimates of major coverage provisions, as well as Senate Budget Committee Republican projections based on CBO estimates of the remaining costs.

Sources: CBO. Produced by SBC Republican staff, Ranking Member Jeff Sessions || <http://budget.senate.gov/republican>

# Costs won't fall by \$2,500/family

CBO:

The law will raise some family premiums by \$2,100 in 2016 above what they would have been without the reform law

Health insurance already has increased by \$3,065 for the average family since 2009 to \$15,745 in 2012

Richard S. Foster, Chief Actuary, "Estimated Financial Effects of the Patient Protection and Affordable Care Act, as Amended," U.S. Department of Health and Human Services, Centers for Medicare & Medicaid Services, Office of the Actuary, April 22, 2010, [www.cms.gov/ActuarialStudies/Downloads/PPACA\\_2010-04-22.pdf](http://www.cms.gov/ActuarialStudies/Downloads/PPACA_2010-04-22.pdf).  
Congressional Budget Office and the Joint Committee on Taxation, "An Analysis of Health Insurance Premiums Under the Patient Protection and Affordable Care Act," November 30, 2009, [www.cbo.gov/ftpdocs/107xx/doc10781/11-30-Premiums.pdf](http://www.cbo.gov/ftpdocs/107xx/doc10781/11-30-Premiums.pdf).  
"Employer Health Benefits 2012 Annual Survey," The Kaiser Family Foundation and Health Research & Educational Trust, September 11, 2012,

# TRUST:

## “If you like your health insurance...”

- **51 to 80% of Americans will lose current coverage, according to Obama admin. estimates**
- **CBO: Up to 20 million could lose job-based plans**
- **McKinsey: Up to 80 million will be forced to change policies**
- **Child-only policies will vanish in 17 states**
- **35 million more will move from job-based insurance to taxpayer-subsidized exchanges**

“Fact Sheet: Keeping the Health Plan You Have: The Affordable Care Act and ‘Grandfathered’ Health Plans,” U.S. Department of Health and Human Services, HealthReform.gov, [http://www.healthreform.gov/newsroom/keeping\\_the\\_health\\_plan\\_you\\_have.html](http://www.healthreform.gov/newsroom/keeping_the_health_plan_you_have.html).

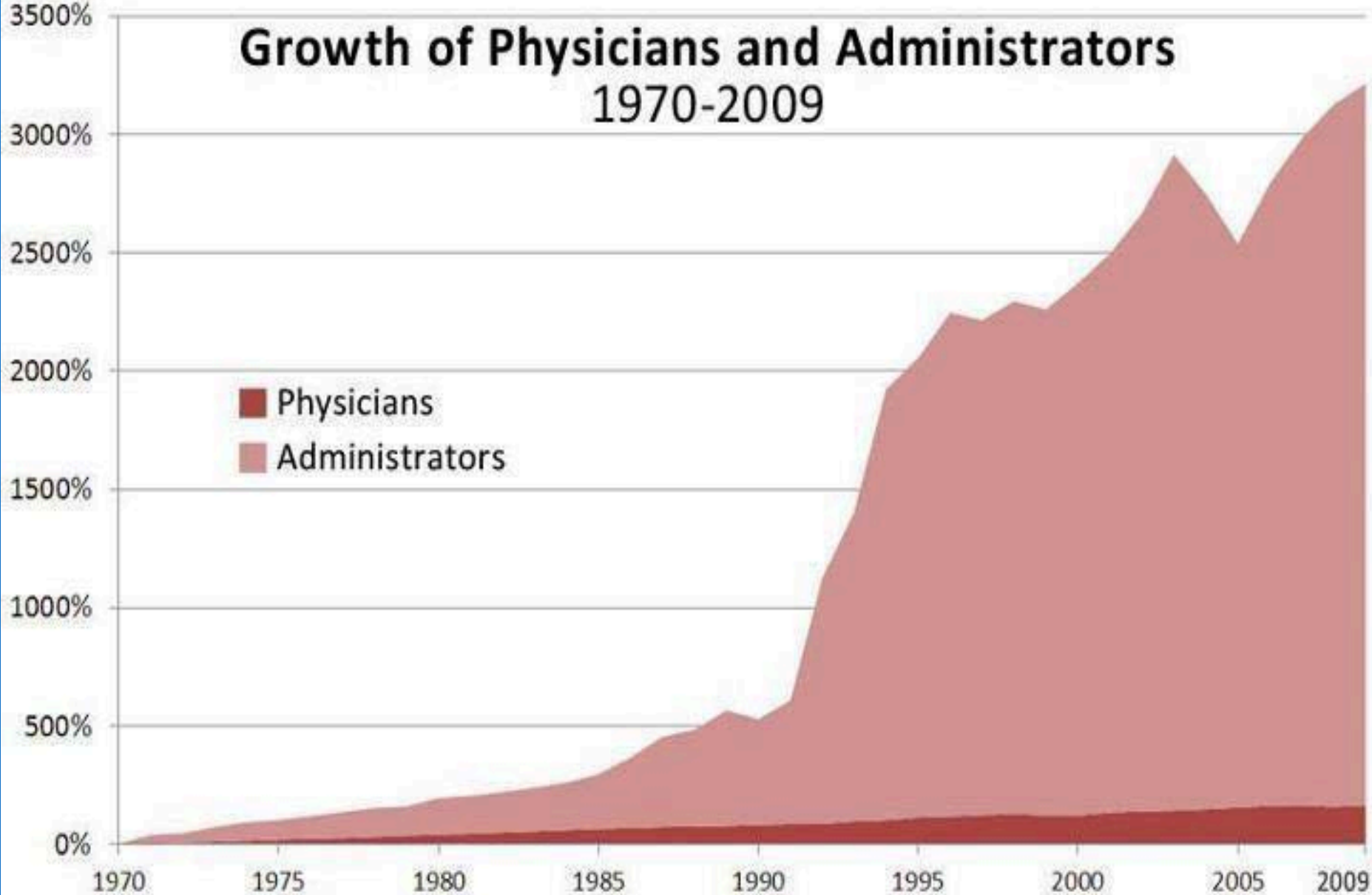
“CBO and JCT’s Estimates of the Effects of the Affordable Care Act on the Number of People Obtaining Employment-Based Health Insurance,” Congressional Budget Office, March 2012, <http://www.cbo.gov/publication/43082>.

Shubham Singhal, Jeris Stueland, and Drew Ungerman, “How US health care reform will affect employee benefits,” *McKinsey Quarterly*, June 2011, [www.mckinseyquarterly.com/Health\\_Care/Strategy\\_Analysis/How\\_US\\_health\\_care\\_reform\\_will\\_affect\\_employee\\_benefits\\_2813](http://www.mckinseyquarterly.com/Health_Care/Strategy_Analysis/How_US_health_care_reform_will_affect_employee_benefits_2813).

“Health Care Reform Law’s Impact on Child-Only Health Insurance Policies,” Senate Committee on Health, Education, Labor and Pensions, August 2, 2011, <http://www.help.senate.gov/imo/media/doc/Child-Only%20Health%20Insurance%20Report%20Aug%202011.pdf>.

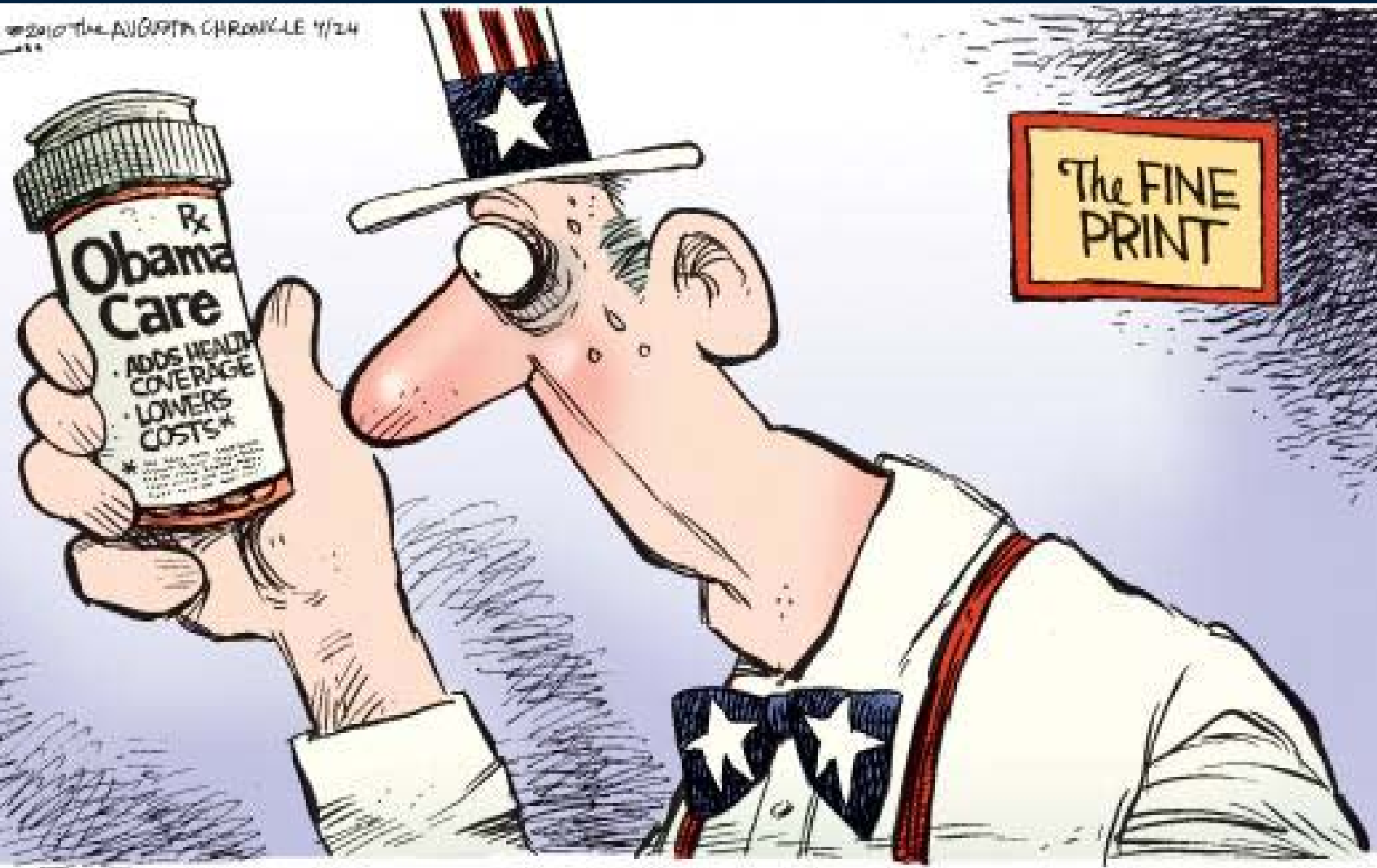
Douglas Holtz-Eakin and Cameron Smith “Labor Markets and Health Care Reform: New Results,” American Action Forum, May 27, 2010, [http://americanactionforum.org/sites/default/files/OHC\\_LabMktsHCR.pdf](http://americanactionforum.org/sites/default/files/OHC_LabMktsHCR.pdf).

# Growth of Physicians and Administrators 1970-2009



Source: Bureau of Labor Statistics; NCHS; and Himmelstein/Woolhandler analysis of CPS





\*DOES NOT ACTUALLY LOWER COSTS, MAY CAUSE SENIORS TO LOSE MEDICARE COVERAGE. SIDE EFFECTS INCLUDE NAUSEA, RAPID HEARTBEAT, SWEATY PALMS, HEADACHES, CHEST PAINS, FEELINGS OF FEAR AND ANXIETY, BULGING EYEBALLS, A LIGHTNESS IN THE WALLET AREA, HYSTERIA AND VOMITING, IF CONDITIONS PERSIST FOR MORE THAN TEN YEARS, CONSULT YOUR PHYSICIAN, (IF YOUR PHYSICIAN STILL IS YOUR PHYSICIAN, AND IF YOU CAN ACTUALLY GET IN.)

# Employer mandate penalties

For companies with +50 employees

- \$2,000 per year per employee for not providing coverage (minus first 30)
  - \$3,000 per year for any employee getting insurance through the Exchanges
- \* If an employer offers employee-only coverage that's "affordable" to the worker, family members are not eligible for Exchange subsidies

# Some things to think about

1. Employers with <50 FTE EE's have no 3k/2k penalty
2. Employers with no employee's accessing a subsidy face no penalty
3. But employers offering qualified and affordable coverage can actually be hurting their employees

Example



# Generous Subsidies in Exchanges

## Examples:

- A person earning \$42,000 a year with a family of 4 qualifies for \$14,759 in new health insurance subsidies
- A single person earning \$20,600 qualifies for \$5,156 in new health insurance subsidies

But only if employer doesn't offer coverage or if it's not "affordable" (costs >9.5% of income)

# Studies on employers' plans

## *Deloitte*

- 1 in 10 plan to drop coverage; 1/3 considering it

## *Mercer*

- 60% expect higher costs
- Up to 46% plan changes to avoid penalties
- 56% were waiting until after SCOTUS to plan; 11% will wait until after November

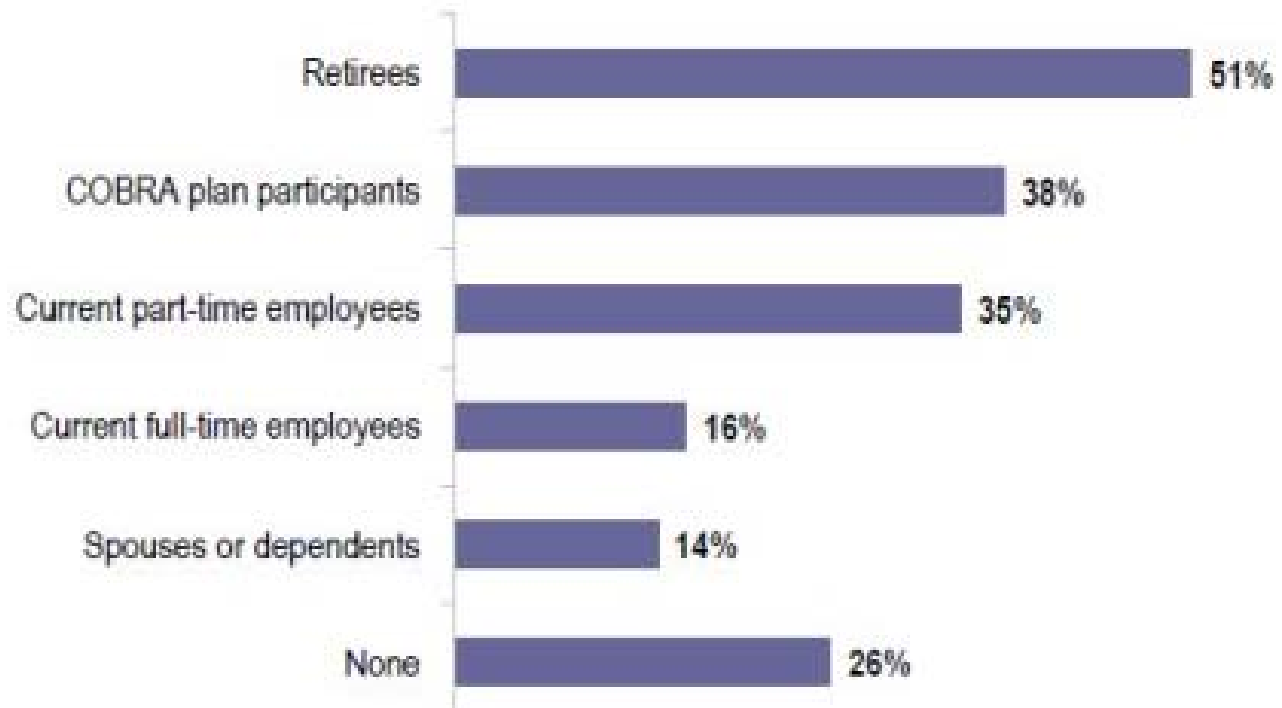
## *National Business Group on Health*

- Health costs expected to rise by 7% next year
- 60% expect to increase employees' premium share

# NBGH Large employer survey

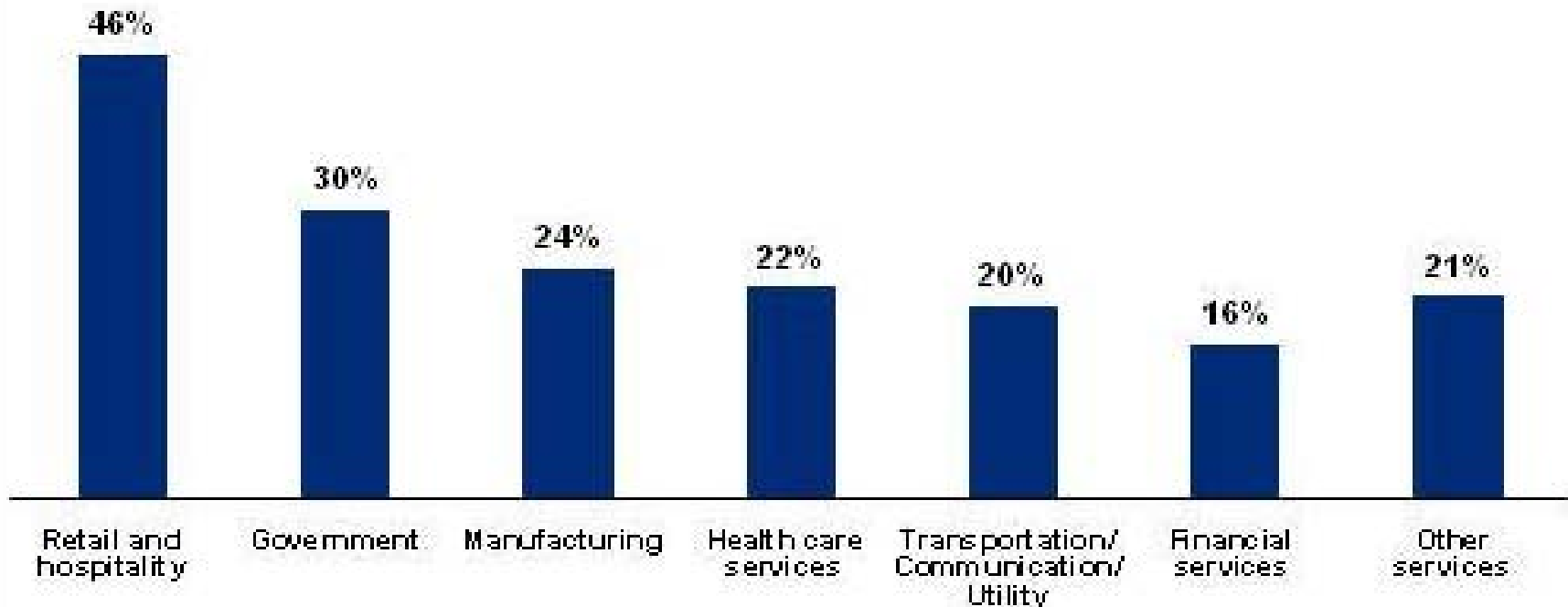
Q: Do you anticipate that exchange coverage will be an option for any of the following who may be currently covered by your plans?

(Number of Responses=77)



# Mercer study on what employers expect

Employers need to make changes to comply with 30-hour requirement



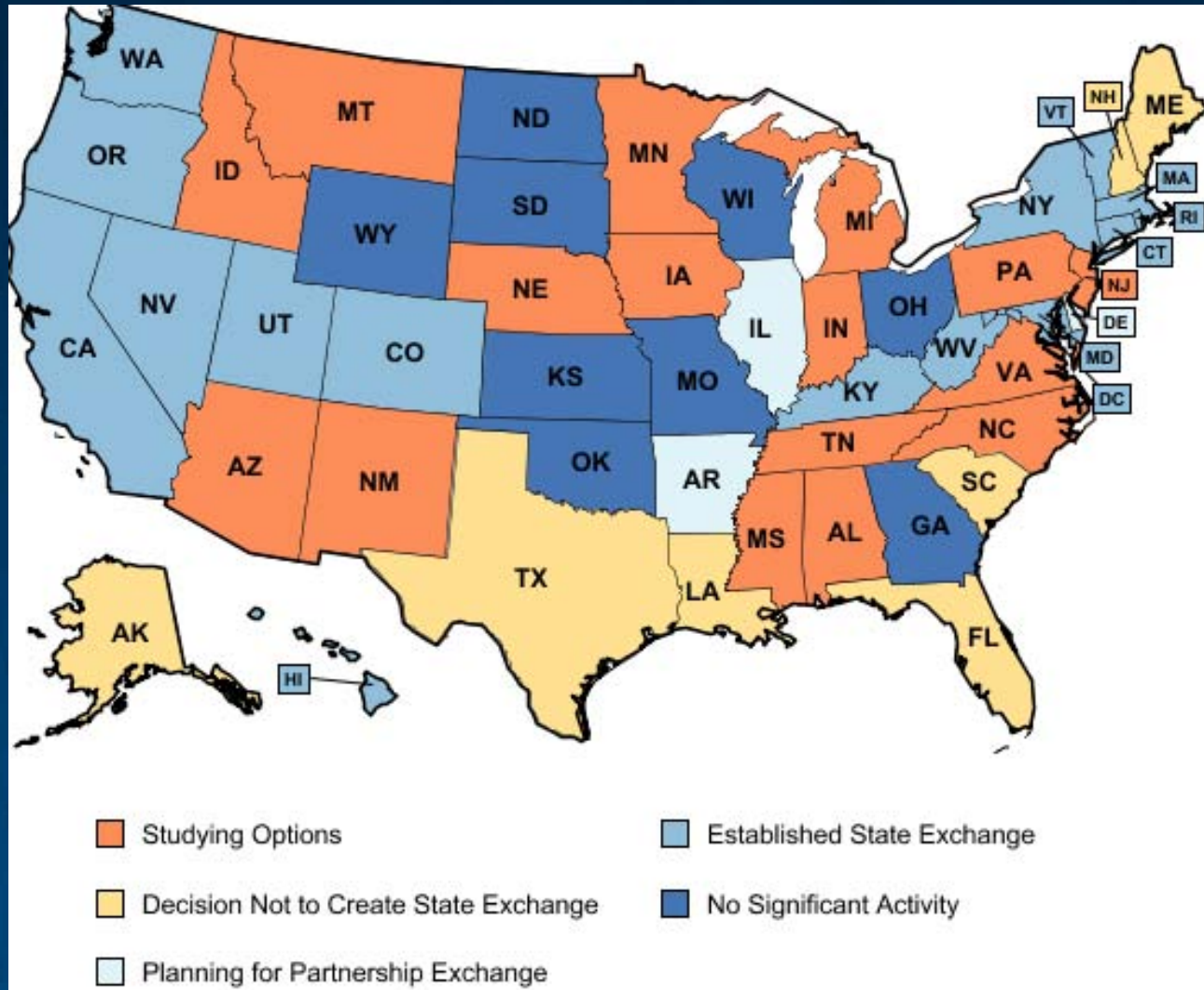
# **What's Wrong With Health Insurance Exchanges...**

By Rita E. Numerof, Ph.D. • May 2012

<http://www.galen.org/assets/WhatsWrongWithExchanges.pdf>



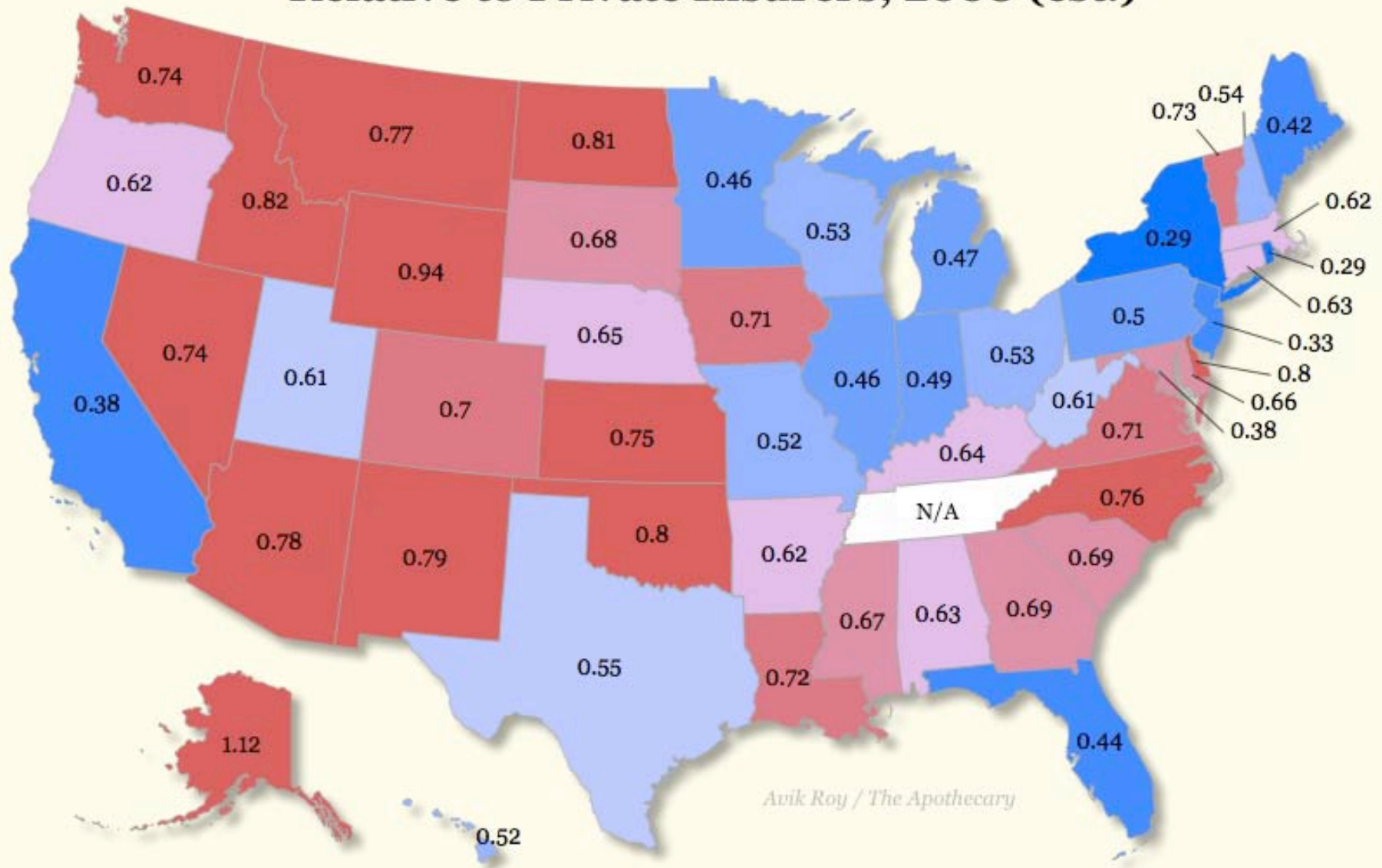
# State Action (or not) Re: Exchanges



# The risks of new exchanges

- Few choices for those eligible: “Precious metals” policies
- Medicaid payment rates are likely, leading to more cost shifting to private insurance
- Will likely crowd-out, then destroy private market options for small and medium-sized employers after 2016
- Massive and intrusive new bureaucracy

# Medicaid Reimbursement Rates for Primary Care, Relative to Private Insurers, 2008 (est.)



Avik Roy / The Apothecary

# Better incentives for states

Allow more choices for workers

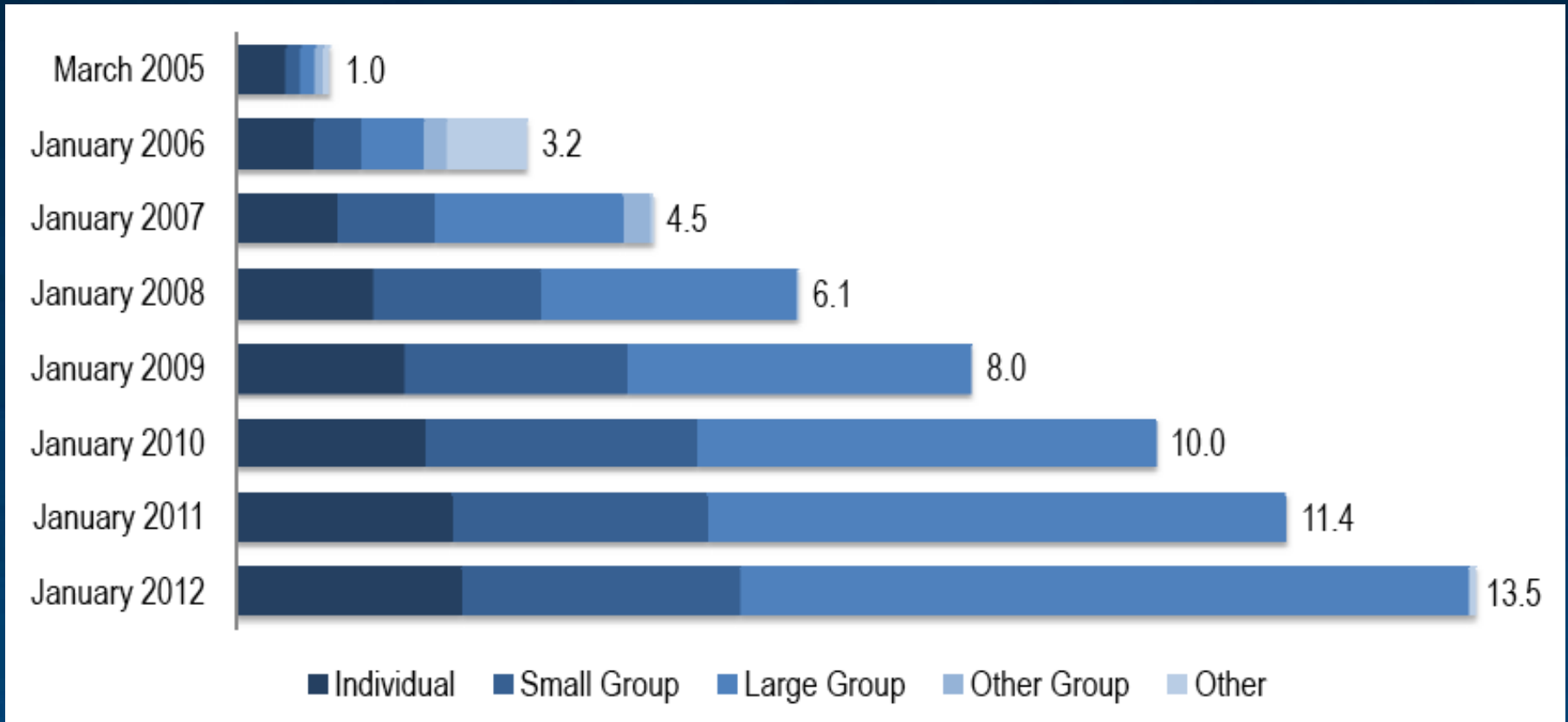
- Association Health Plans work!
- Better safety net with functional high risk pools
- More competition that gives workers more choices of affordable coverage
- Value the role of employers in facilitating a healthier workforce

# Health care in 2012

- **Legislation**  
Depends upon the outcome of the election
- **Regulation**  
13,000+ pages so far
- **Legal**  
Other court challenges continue
- **Political**  
The voters will ultimately decide on Nov. 6

# Some realities

# Growth of HSA-Qualified High-Deductible Health Plan March 2005 to January 2012



Note: Companies reported enrollment in the large- and small-group markets according to their internal reporting standards, or by state-specific requirements for each state. The "Other Group" category contains enrollment for companies that could not break down their group membership into large- and small-group categories within the deadline for reporting. The "Other" category was necessary to accommodate companies that were able to provide information on the total number of people covered by HSA/HDHP policies, but were not able to provide a breakdown by market category within the deadline for reporting.

# Why ObamaCare Is Wrong for America

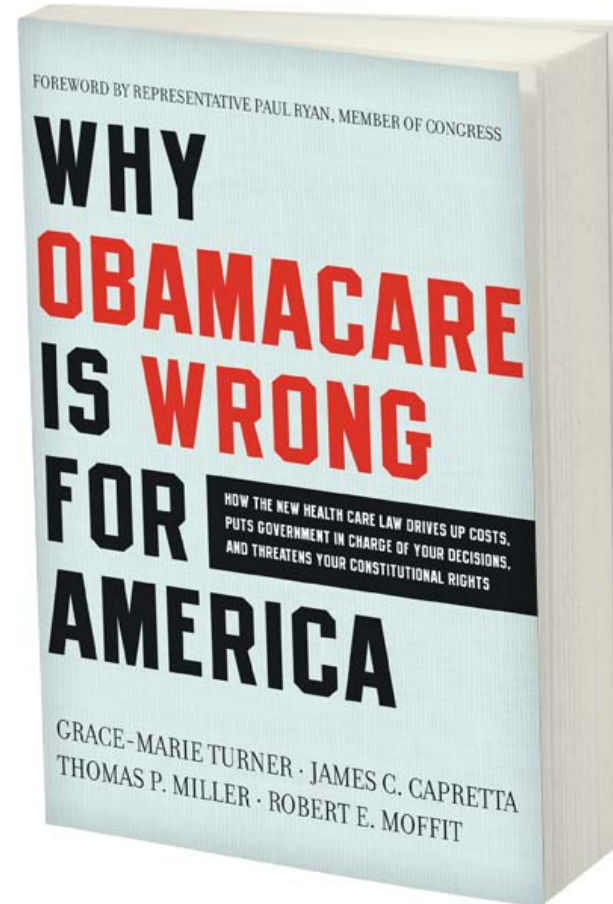
How does the health care law drive up costs?

Is your doctor really in charge of your health care decisions?

Are your Constitutional rights threatened?

**Discover the law's impact on your life in a new book from four nationally recognized health policy experts**

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