How Will Healthcare Reform Affect Your Life?

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There's been a lot of talk, on both sides of the debate, about the healthcare reform package either resulting in dire personal consequences, or solving all our healthcare problems. The truth is, for the average healthcare consumer, it's neither, despite all the rhetoric. So, what's the reality? What's in it for you, how will it affect your life?

If you need a quick bullet-point summary of who is affected and how, here it is (see the rest of the article for details and when they take effect):
—**Parents**, you get to keep your kids on your insurance through age 26. You also will no longer have to worry about pre-existing condition restrictions on their coverage.
—Those of you with **chronic ill health** get big-time help: eventually no more pre-existing condition restrictions, and a transitional program to cover you in the meantime.
—If you're **low- or middle-income and uninsured** you will get subsidies to buy affordable insurance through exchanges, or through Medicaid.
—**Senior citizens,** you will get help with Medicare drug coverage, eventually closing the so-called "donut hole." This year, you'll get a $250 rebate on that "hole." But you seniors who get additional benefits by paying for Medicare Advantage programs, will likely see some insurers either drop those programs or cut the benefits.
—**High-income earners** (those of you making more than $200,000 a year) will pay more in a number of ways. New taxes for you will include a Medicare Payroll tax on both earned and investment income.
—**Other tax changes** include a new limit on FSA's (Flexible Spending Accounts) and a higher threshold on using medical deductions, as well as a new tax on high-end "Cadillac" insurance plans.
—Those of you who currently **choose not to insure yourselves**, may end up paying for insurance you may not feel you want or need.

There are other parts of the bill that affect companies and businesses, which the detailed part of this article will not cover—I'm focusing here on the effects on individual health consumers. Of course, the effects on business will probably get passed on to employees and consumers. Whether that will, in the end, be a positive or negative thing is the great unknown. Some argue that the added business regulations, taxes and fees will cost jobs, but the flip side of that is that 30+ million new health consumers can't help but generate greater economic activity.

Here's just a quick summary of the effects on businesses:
—**Small business owners** will get tax credits to help buy insurance for their employees, but will not be required to do so (if smaller than 50 employees).
—**Health insurance companies** will face a variety of new restrictions, regulations, penalties and taxes.
—This September a **10% tax on indoor tanning services** will take effect.
—An excise tax will be imposed on **pharmaceutical companies**, depending on their market share.
—**Medical device manufacturers** will have to pay 2.9% excise tax.
—The biggest hammer is a **tax penalty of $2000 per employee** for those businesses with over 50 employees who do not offer adequate insurance to their full-time workers. A formula will be used to gauge if most of a company's employees are relying on taxpayers for their insurance. If that's the case, the company may have to pay certain penalties.

For the average health consumer, of average income and health, who probably gets coverage through their employer, the immediate or near-term effects are neither of much benefit nor harm. No one will lose their doctor, get more limited healthcare choices or get poorer care. This of course does not take into account all the unknowns and potential unintended consequences.

The positive viewpoint is that it will help society as a whole, because the general health of our population will increase. Costs shared by all will be reduced, such as emergency room care for the sick and indigent, and lost productivity due to lack of preventive care.

It remains to be seen if this reform package will really "save" our healthcare system, in the sense of lowering the spiraling costs for businesses and consumers. For some, the most important perspective is that it fulfills a moral imperative, ending the contradiction of the richest nation on earth being lower on the scale than many developed nations, on some standards of healthcare such as life expectancy and infant mortality.

As far as that "average consumer" goes, I'll use myself as an example of what to expect. I get my insurance through my employer and am in fairly good health. For me, for now, nothing really changes. I get to keep my current plan, I don't think my rates are not going to be increased (though I'll see for sure once the renewal period comes this Fall), and I will not pay more in taxes or fees (unless I suddenly get rich).

One benefit for me—sort of—will be that I will no longer have to co-pay for preventive care visits to the doctor or for certain (approved) preventive care services such as annual check-ups. **(WEBLINK1)** (Note: all Weblinks are at end of document) Here's the catch: it only goes into effect for "new" plans. I get that only if I switch to a new job with a "new" plan, or if my company's plan changes enough to be considered "new." If I stay in my current job and plan, I don't get free preventive care until 2018, when all plans must have it.

Enough about me, let's pick some other "typical" people and see how it affects them. Here are the details for specific groups of people:

PARENTS AND THEIR KIDS

Starting this October, plans must let you insure your kids, under your plan, until they're 27. That's a big change for twenty-somethings in college or in entry-level jobs without insurance. According to one study, 54% in that age group do not have health insurance. **(WEBLINK2)** An open question, of course, is who'll pay for it, Mom or Dad or junior.

Even if Dad won't foot the bill, the new health exchanges, not to mention the mandate that you must have insurance, should put a big dent in that number.

For those parents who have kids with pre-existing conditions, it will be much easier to add them to your insurance plan, starting in September. There was some initial controversy about implementing this, with apparent poor drafting of the regulations. **(WEBLINK3)** But a compromise has now been worked out, and insurers are on board.

THOSE WITH PRE-EXISTING CONDITIONS

Those with pre-existing conditions will no longer need to fear losing their employer-based insurance if they lose their jobs, with no good options for affordable health insurance on the open market.

Beginning June 21, temporary high-risk pools are supposed to be set up for those with such conditions. Under this "Plan B", if you've been uninsured for at least six months, you can sign up and get subsidies for the premiums. The result will be a premium for you comparable to a normal risk insurance pool. For many in dire health straits, this may help avoid the choice between bankruptcy and neglecting their health.

The Plan B's will disappear in 2014, when every insurance plan will have to accept those with pre-existing conditions, at the same rates as anyone else.

A couple of other key provisions will greatly help those who have chronic health issues. Most importantly, by September 23, insurers won't be able to drop you when you get sick. Also, they'll get new regulations making it tougher to put annual spending caps on your coverage, and those will be completely prohibited by 2014.

On the other hand, some with big annual healthcare spending may be negatively affected by other tax changes. Read below in OTHER TAX CHANGES about changes to FSA's limits and Schedule A deductions.

LOW- AND MIDDLE-INCOME UNINSURED

For many healthcare activists, this is the crux of the program, potentially enabling millions who currently do not have insurance to now be covered. Some of that will be taken care of through the changes to pre-existing condition rules (see above). But for many others, it has been a matter of just not being able to afford insurance. The basic concept under the reform is that no one should have to pay more than 9.5% of their income on health insurance.

A lot of this expansion of coverage will not begin in earnest until 2014. One way this will get done is by expanding Medicaid coverage, through big changes in the eligibility requirements. The only requirement now will be income. The way it currently works, certain groups are favored, such as parents with children, pregnant women, and the disabled. Now everyone, regardless of category, can apply if their income is under 133% of the poverty line. Adults without dependent children, formerly excluded, can now apply.

I've seen different figures, but for example by one official measure, the current poverty line is $11,161 for a non-elderly individual, $22,128 for a family of four. **(WEBLINK4)** Roughly, that means individuals earning less than $14,844 can now get Medicaid, as can a family of four earning less than $29,430.

Another problem has been inconsistent standards from state to state. For example, 34 states currently set eligibility at only 100% of the federal poverty level. That will change to the 133% level for all states. To help pay for that, all states (not just Nebraska), will get more federal funding to help pay for this new coverage.

One criticism of expanding Medicaid is that not all doctors will accept it, partly because of poor reimbursement rates. Those rates are due to be increased under the reform, so that more doctors will accept Medicaid patients. Also, coverage will be expanded to more rural care providers and hospitals.

If you don't quality for Medicaid but still can't afford health insurance, the other big new mechanism to help you will be state-created health insurance exchanges. This was the compromise offered in place of the controversial federal "public option."

States are supposed to create these exchanges by 2014. If they opt not to do that—as many Republican governors are threatening to do—your state's exchange will get created by the Department of Health and Human Services (or they'll contract with a non-profit organization to do it).

If buying insurance on your own, or even through your employer, will costs you more than 9.5% of your income in premiums and out-of-pocket costs, then you can buy into the exchanges instead. The premiums may still be pretty high for these exchanges, but you'll get subsidies so that you don't go over the percentage limit.

You'll probably never see the subsidies yourself, because they'll be sent directly to the exchange insurer. They'll just show up as discounts on your bill. They are technically "advanceable tax credits," which you can get even if you don't pay any taxes.

Complicated, I know, but just remember the main point: no one will pay more than 9.5% of their income for health insurance. That standard will actually be on a sliding scale. For example, if you make just $14,000 a year ($29,000 for a family of four) you will not have to pay more than 3%-4% of your income.

These exchanges will also help some middle-class families, not just those traditionally considered "low-income". The cutoff level will be four times the federal poverty level, which comes out to about $44,000 a year for one person, $88,000 for a family of four. Again, the true measure will be, don't pay over 9.5% of your income for insurance.

Another way to expand coverage will be to encourage small business owners to offer insurance. Small businesses with less than 25 employees will get tax credits to help pay for employee benefits. The credits will start at 35% of benefits this year and go up to 50% by 2014. This will help a lot of those small coffee shops finally offer benefits. If they still choose not to—because there will still be a cost to owners—Medicaid or the exchanges will still be options for employees. There will be no penalty against small businesses not offering insurance.

SENIOR CITIZENS

There are pluses and minuses for senior citizens in this package. The one that will benefit most is the closing of the so-called "donut hole," the complicated pricing mechanisms that forces them to pay their own drug bills after reaching a certain level ($2700 thru $6154 a year). The bad news is that the "hole" won't be completely closed until 2020.

In the meantime, you'll get benefits that will, little by little, alleviate the pain. This year, you'll get a $250 rebate to ease the donut burden. In 2011, you'll get some deep discounts (up to 50%) that will help move towards the 2020 closing of the hole.

The flip side for senior citizens is that, to help pay for the healthcare reforms, there will be cuts to some Medicare Advantage Program subsidies. These cuts, to be phased in from 2011 to 2014. are supposed to amount to $132 billion over 10 years. Because of the cuts, it's likely that some insurers will either drop those programs or cut benefits.

Those Advantage plans are not part of traditional Medicare, and are purchased through private insurers. They offer extra benefits that other Medicare users don't get. It depends on your point of view, but in the opinion of some this is an unfair bonus that taxpayers can't afford to subsidize anymore.

Also in 2014, other spending cuts may affect senior's coverage. These include promised cuts in Medicare provider payments, and reductions in Medicare and Medicaid drug reimbursement rates. Home healthcare payments would be reduced by $40 billion between now and 2019.

Bigger cuts may be in the offing after that, because the package also creates an Independent Payment Advisory Board. This Board would submit proposals to reduce per capita Medicare spending if that spending grows too fast, as in exceeding the Consumer Price Index. They are actually restricted from getting too draconian, because they won't be able to suggest rationing care, raising taxes, or changing benefits. And there's no guaranteeing Congress or the President will go along, the fate of many such commissions offering politically unpopular choices. (Just to be clear, these are not the so-called "death panels" that sparked so much controversy. That portion of the bill was dropped.)

HIGH-INCOME EARNERS

Now we get to who will actually pay for all these changes, besides the cuts in Medicare benefits. Much of the burden will fall on those earning over $200,000 a year (and couples above $250,000). I am definitely not in that category, though like many Americans I dream of being there someday.

The biggest bite will come in the form of an entirely new tax, a 3.8% Medicare Payroll tax. This will be levied not just on earned income, but also on so-called unearned income such as investments. Even for those barely reaching that level, it will likely mean thousands of dollars in extra taxes. This starts in 2013.

OTHER TAX CHANGES

Some other changes will affect all taxpayers, but are more likely to affect wealthier citizens. The threshold for being able to use medical expenses as a deduction on Schedule A will go up from the current 7.5% of income, to 10%.

Also, if you use FSA's (Flexible Spending Accounts) to lower your tax burden, starting in 2013 you'll be limited to putting in 2,500 a year (an amount to be indexed annually to the Consumer Price Index after that).

I personally have never even come close to either the current Schedule A threshold, or the new FSA limit (I put in just $750 this year).

Another much-discussed tax change is the new so-called "Cadillac" plan taxes. Starting in 2018, insurance companies (not taxpayers) will have to pay a 40% tax on high cost insurance plans. The threshold is plans with over $27,500 in total premiums for family coverage, or $10,200 for individuals. The thresholds are higher if you're a retiree or in a high-risk job such as a firefighter ($30,950 family, $11,850 individual).

The tax would be on the amount of premium over the threshold, not on the entire premium. There is much debate on the effect of this tax. Some say it will only affect wealthier citizens with truly "gold-plated" plans. Others say, because of flawed indexing in the reform, eventually even middle-class taxpayers will be affected, or that insurers and employers will just pass on the costs of the taxes by raising all premiums. A counter-argument is that most employers will probably strive to keep total premiums below the threshold.

UNINSURED BY CHOICE

The uninsured fall into two categories, either uninsured by choice or because they can't afford it. Those who can't afford it, we've already talked about all the new options for them. But what if you're young and/or very healthy and just don't feel like you need health insurance?

Therein comes a controversial part of the bill, the requirement that you have insurance regardless of your health, or you pay a penalty. Starting in 2014, all citizens and legal residents will be required to have a minimum level of health insurance coverage. The penalty for not having it will depend on your income. That first year of the mandate, your cost will be $95 or 1% of your income, whichever is greater. That will go up to $695 or 2.5% of income, whichever is greater, by 2016. The limit for families will be $2,085 in penalties. You can escape the penalties if you can prove your religious beliefs would be violated.

There are passionate arguments on both sides about this mandate, debates about freedom vs. responsibility.

The mandate's supporters argue that, even if you don't think you need insurance, your non-participation imposes a cost on society. If you do happen to get sick and don't have insurance, those who do have insurance, and taxpayers, will be forced to pick up the costs. If you go to an emergency room, they can't just turn you away.

Some of the willfully uninsured may argue, so be it, if they have to go to the emergency room or get hospitalized, they'll take the risk of having to pay the costs, even if it bankrupts them. The counterargument to that is, you may think you can pay, but in most cases, you won't be able to pay for that $20,000 emergency operation. Again, society would be left with the tab.

In part, the mandate can also be seen as a fair—or not so fair, depending on your viewpoint—payback to the health insurance industry for all the new regulations and requirements imposed on them. The point is that, they are now going to be required to take on a slew of high-risk customers they could previously reject—people with high-cost pre-existing conditions, for example. In exchange, to help pay for this added cost of business, they will get a lot of low-risk new customers, these young and/or healthy people who never had to buy insurance before.

Besides this debate over the fairness of the mandate, there is controversy over its enforcement. In fact, enforcement mechanisms in the bill are relatively lax. There have been some scare stories out there about police coming to arrest you if you refuse to get insurance or to pay the penalty, or the government confiscating your house. In fact, the bill specifically prohibits the federal government from either jailing you or from confiscating any of your property, or even putting a lien on your property.

The main enforcement mechanism, in fact, may be the Internal Revenue Service (which will handle enforcement because it is technically a tax) sending you stern-sounding letters, but not doing much else. There is some debate as to whether they can refuse to send you your tax refund if you owe a health insurance penalty. If true, that may be the government's best bet for strict enforcement: no health insurance, no tax refund.

The bill's supporters, however, hope all the various carrots in the reform package will prove to be more important than this stick. After all, if health insurance truly becomes affordable for all to have, the argument goes, why would you refuse to get it, thereby putting your economic health at great risk if you get seriously sick or injured? To some, such a refusal would be the proverbial cutting off of the nose to spite the face.

I hope this helped anyone still confused about what's really in the reform package. Here are just some of the research resources I used online to get most of this information:

RESEARCH LINKS (all links are active):

Congressional Budget Office
http://www.cbo.gov/doc.cfm?index=4750&type=0
Christian Science Monitor
http://www.csmonitor.com/USA/Politics/2010/0324/Health-care-reform-bill-101-rules-for-reexisting-conditions
Wikipedia
http://en.wikipedia.org/wiki/Patient_Protection_and_Affordable_Care_Act#Effective_September_23.2C_2010
The Huffington Post
http://www.huffingtonpost.com/2010/03/22/health-reform-bill-summary_n_508315.html#s75157
CBS News
http://www.cbsnews.com/8301-503544_162-20000848-503544.html
New York Times
http://www.nytimes.com/interactive/2010/03/21/us/health-care-reform.html
Society for Human Resource Management (SHRM)
http://www.shrm.org/Publications/HRNews/Pages/CoverPreventiveCare.aspx
Examiner.com
http://www.examiner.com/x-209-Baltimore-Health-Examiner~y2009m12d2-What-the-healthcare-reform-bill-says-about-preventive-care

WEBLINKS (all links are active):

1. http://blogs.wsj.com/health/2009/05/21/which-tests-and-procedures-are-considered-preventive-care/tab/article/
2. http://www.pbs.org/newshour/indepth_coverage/health/uninsured/adultrisk.html
3. http://news.firedoglake.com/2010/03/30/insurance-industry-long-game-on-pre-existing-conditions/
4. http://www.census.gov/hhes/www/poverty/threshld/thresh09.html