

Quick Information about Federal Health Reform 3-23-2010

- For detailed information about health reform, go to <http://healthreform.kff.org/>
- A description of federal health reform's impact on the health care industry can be found on pages 1-3ⁱ.
- Information about federal reform's immediate impact can be found on page 3ⁱⁱ.
- An FAQ describing what health reform means for consumers can be found on page 4ⁱⁱⁱ.

FEDERAL HEALTH REFORM: Health Care Industry's Perspective by Phil Galewitz, Kaiser News Service

HOSPITALS: "The hospitals are ultimately the winners — one doesn't increase spending on health care by nearly \$1 trillion without some significant part of it flowing to hospitals," said Sheryl Skolnick, a hospital analyst with CRT Capital Group in Stamford, Conn.

- Pros:
 - Worried they might get hit hard by the health legislation, hospitals were the first industry to make a deal with President Barack Obama and the Senate Finance Committee last year. Hospital groups agreed to give up \$155 billion in Medicare funding over the next decade. But they are expecting that to make more than that – at least \$170 billion - by having to treat fewer uninsured patients.
 - An individual insurance mandate and subsidies for low-income Americans to buy coverage means hospitals will have more paying customers.
 - Hospitals got guarantees that cuts in federal Disproportionate Share payments that they receive for treating the uninsured wouldn't occur until the insurance expansion is in place. And even then, some of the funding will remain to help hospitals treat illegal immigrants and recipients of Medicaid, the state-federal program for the poor.
- Cons:
 - Hospitals are slated to lose \$155 billion in federal funding over a decade.
 - A new independent commission would have broad authority over Medicare spending, though most of its powers don't kick in until 2018.
- Mixed
 - The bill sharply expands Medicaid, which will reduce the number of uninsured patients. But Medicaid typically pays less than private insurers or Medicare.

INSURERS : In the short term, insurers will gain enrollment but the bill may cost them in the long run if health costs don't come under control," said Peter Kongstvedt, a McLean, Va.-based insurance industry consultant.

- Pros
 - The individual health insurance mandate, along with subsidies for low-income Americans, will bring insurers tens of millions of new customers.
 - The expansion of Medicaid will also provide new customers; many recipients will be covered by private managed care plans.
- Cons
 - The bill calls for \$132 billion in cuts to Medicare Advantage plans, the private health plans that cover one in five seniors (only one in ten seniors in Kansas).

- New taxes on the industry total \$70 billion over 10 years, beginning in 2014.
- Insurers are facing a new requirement to spend 85 percent of their premium dollars on health care, potentially leaving less money for administration, marketing and profits.
- The so-called "Cadillac" tax on high-cost health plans is aimed at insurers, though it won't take effect until 2018.
- Lawmakers called for relatively low penalties -- just \$95 in 2014 -- for not buying insurance, which could encourage many healthy people to skip coverage.

PHARMACEUTICAL COMPANIES: "Pharma is one of the big winners," said Nancy Chockley, president of the National Institute for Health Care Management, a nonpartisan health policy research organization funded by Blue Cross and Blue Shield plans and government grants.

- Pros
 - The drug industry will put up \$84.8 billion to help fund the legislation. Part of that goes to making brand-name drugs more affordable for seniors who hit the Medicare coverage gap - the "doughnut hole." But pharmaceutical firms stand to make much more in return. With more Americans insured, more can buy brand-name drugs.
 - Expensive biologic drugs would get 12 years of exclusivity protection from generics. Obama, AARP and the generic drug industry were calling for a 5- or 7-year limit. While biologic drugs are only a small portion of industry sales, they represent the fastest-growing segment of the market.
 - The legislation, despite the pleas of some lawmakers, doesn't make it easier for Americans to buy less expensive drugs from abroad. Nor does it allow the government to negotiate lower drug prices for Medicare.
- Cons
 - The industry will pay out \$84.8 billion in new fees, rebates and discounts over the next decade.

DOCTORS: "Primary care doctors got a bump up in funding and overall doctors got a pass," said Gail Wilensky, a senior fellow at Project Hope and former head of the Medicare program.

- Pros
 - Primary-care doctors and surgeons practicing in areas with a shortage of physicians get a 10 percent bonus payment from Medicare from 2011 to 2015. Medicaid will pay primary care doctors Medicare rates in 2013 and 2014, to coincide with the Medicaid expansion. Medicare typically pays at least 20 percent higher rates than Medicaid.
- Cons
 - No significant medical liability changes are in any of the overhaul bills, though there is money for states to run pilot programs.
- Mixed
 - The Medicaid expansion, to everyone under 133 percent of the federal poverty level (\$29,326 for a family of four) means more patients have insurance, though at the lower Medicaid rates.
 - The current Medicare physician payment formula that each year threatens to slash doctor payments was left untouched. But Congress traditionally steps in to nullify the cuts.

NURSING HOMES: Because most nursing home patients are covered by Medicare or Medicaid, reducing the number of uninsured doesn't really help the facilities. As a result, the industry doesn't see much gain in the overhaul.

- Pros
 - The bill would establish the Community Living Assistance Services and Supports (CLASS) Act, a national voluntary insurance program that would allow people to finance their long-term care in advance through payroll deductions. It would provide a cash benefit of about \$50 a day for long-term care, including nursing homes, in the home and adult day care.
- Cons
 - Nursing homes would see their Medicare reimbursements cut by about \$15 billion over the next decade. While Medicare comprises only about 13 percent of nursing home revenue, the industry relies on the money to offset low Medicaid reimbursement.

FEDERAL HEALTH REFORM: Provisions that will have an immediate impact by Julie Appleby & Kate Steadman; Kaiser News Service

Some of the items that go into effect in the first year include:

New help for some uninsured: People with a medical condition that has left them uninsurable may be able to enroll in a new federally subsidized insurance program that is to be established within 90 days. The legislation appropriates \$5 billion for this, although that may not be enough to cover all who apply; it's not clear how much consumers would pay as their share of the cost. About 200,000 people are covered in similar state programs currently, at an estimated cost of \$1 billion a year, says Karen Pollitz, a research professor at Georgetown University.

Discounts and free care in Medicare: The approximately 4 million Medicare beneficiaries who hit the so-called "doughnut hole" in the program's drug plan will get a \$250 rebate this year. Next year, their cost of drugs in the coverage gap will go down by 50 percent. Preventive care, such as some types of cancer screening, will be free of co-payments or deductibles starting this year.

Coverage of kids: Parents will be allowed to keep their children on their health insurance plan until age 26, unless the child is eligible for coverage through a job. Insurance plans cannot exclude pre-existing medical conditions from coverage for children under age 19, although insurers could still reject those children outright for coverage in the individual market until 2014.

Tax credits for businesses: Businesses with fewer than 25 employees and average wages of less than \$50,000 could qualify for a tax credit of up to 35 percent of the cost of their premiums.

Changes to insurance: All existing insurance plans will be barred from imposing lifetime caps on coverage. Restrictions will also be placed on annual limits on coverage. Insurers can no longer cancel insurance retroactively for things other than outright fraud.

Government oversight: Insurers must report how much they spend on medical care versus administrative costs, a step that later will be followed by tighter government review of premium increases.

FEDERAL HEALTH REFORM: Information for consumers by Phil Galewitz, Kaiser News Service

Q: I don't have health insurance. Would I have to get it, and what happens if I don't?

A: Under the legislation, most Americans would have to have insurance by 2014 or pay a penalty. The penalty would start at \$95, or up to 1 percent of income, whichever is greater, and rise to \$695, or 2.5 percent of income, by 2016. This is an individual limit; families have a limit of \$2,085. Some people would be exempted from the insurance requirement, called an individual mandate, because of financial hardship or religious beliefs or if they are American Indians, for example.

Q: I want health insurance, but I can't afford it. What do I do?

A: Depending on your income, you might be eligible for Medicaid, the state-federal program for the poor and disabled, which would be expanded sharply beginning in 2014. Low-income adults, including those without children, would be eligible, as long as their incomes didn't exceed 133 percent of the federal poverty level, or \$14,404 for individuals and \$29,326 for a family of four, according to current poverty guidelines.

Q: What if I make too much for Medicaid but still can't afford coverage?

A: You might be eligible for government subsidies to help you pay for private insurance that would be sold in the new state-based insurance marketplaces, called exchanges, slated to begin operation in 2014.

Premium subsidies would be available for individuals and families with incomes between 133 percent and 400 percent of the poverty level, or \$14,404 to \$43,320 for individuals and \$29,326 to \$88,200 for a family of four.

The subsidies would be on a sliding scale. For example, a family of four earning 150 percent of the poverty level, or \$33,075 a year, would have to pay 4 percent of its income, or \$1,323, on premiums. A family with income of 400 percent of the poverty level would have to pay 9.5 percent, or \$8,379.

In addition, if your income is below 400 percent of the poverty level, your out-of-pocket health expenses would be limited.

Q: How would the legislation affect the kind of insurance I could buy? Would it make it easier for me to get coverage, even if I have health problems?

A: If you have a medical condition, the bill would make it easier for you to get coverage; insurers would be barred from rejecting applicants based on health status once the exchanges are operating in 2014.

In the meantime, the bill would create a temporary high-risk insurance pool for people with medical problems who have been rejected by insurers and have been uninsured at least six months. That would occur this year.

And starting later this year, insurers could no longer exclude coverage for specific medical problems for children with pre-existing conditions, nor could they any longer set lifetime coverage limits for adults and kids.

In 2014, annual limits on coverage would be banned.

New policies sold on the exchanges would be required to cover a range of benefits, including

hospitalizations, doctor visits, prescription drugs, maternity care and certain preventive tests.

Q: How would the legislation affect young adults?

A: If you're an unmarried adult younger than 26, you could stay on your parent's insurance coverage as long as you are not offered health coverage at work.

In addition, people in their 20s would be given the option of buying a "catastrophic" plan that would have lower premiums. The coverage would largely only kick in after the individual had \$6,000 in out of pocket expenses.

Q: I own a small business. Would I have to buy insurance for my workers? What help could I get?

A: It depends on the size of your firm. Companies with fewer than 50 workers wouldn't face any penalties if they didn't offer insurance.

Companies could get tax credits to help buy insurance if they have 25 or fewer employees and a workforce with an average wage of up to \$50,000. Tax credits of up to 35 percent of the cost of premiums would be available this year and would reach 50 percent in 2014. The full credits are for the smallest firms with low-wage workers; the subsidies shrink as companies' workforces and average wages rise.

Firms with more than 50 employees that do not offer coverage would have to pay a fee of up to \$2,000 per full-time employee if any of their workers got government-subsidized insurance coverage in the exchanges. The first 30 workers would be excluded from the assessment.

Q: I'm over 65. How would the legislation affect seniors?

A: The Medicare prescription-drug benefit would be improved substantially. This year, seniors who enter the Part D coverage gap, known as the "doughnut hole," would get \$250 to help pay for their medications.

Beyond that, drug company-discounts on brand-name drugs and federal subsidies and discounts for all drugs would gradually reduce the gap, eliminating it by 2020. That means that seniors, who now pay 100 percent of their drug costs once they hit the doughnut hole, would pay 25 percent.

And, as under current law, once seniors spend a certain amount on medications, they would get "catastrophic" coverage and pay only 5 percent of the cost of their medications.

Meanwhile, government payments to Medicare Advantage, the private-plan part of Medicare, would be cut sharply starting in 2011. If you're one of the 10 million enrollees, you could lose extra benefits that many of the plans offer, such as free eyeglasses, hearing aids and gym memberships. To cushion the blow to beneficiaries, the cuts to health plans in high-cost areas of the country such as New York City and South Florida – where seniors have enjoyed the richest benefits -- would be phased in over as many as seven years.

Beginning this year, the bill would make all Medicare preventive services, such as screenings for colon, prostate and breast cancer, free to beneficiaries.

Q: How much is all this going to cost? Will it increase my taxes?

A: The bill is estimated to cost \$940 billion over a decade. But because of higher taxes and fees and billions of dollars in Medicare payment cuts to providers, the bill would narrow the federal budget deficit by \$138 billion over 10 years, according to the Congressional Budget Office.

If you have a high income, you face higher taxes. Starting in 2013, individuals would pay a higher Medicare payroll tax of 2.35 percent on earnings of more than \$200,000 a year and couples earning more than \$250,000, up from the current 1.45 percent. In addition, you'd face an additional 3.8 percent tax on unearned income such as dividends and interest over the threshold.

Starting in 2018, the bill would also impose a 40 percent excise tax on the portion of most employer-sponsored health coverage (excluding dental and vision) that exceeds \$10,200 a year for individuals and \$27,500 for families.

The bill also would raise the threshold for deducting unreimbursed medical expenses from 7.5 percent of adjusted gross income to 10 percent.

The bill also would limit the amount of money you can put in a flexible spending account to pay medical expenses to \$2,500 starting in 2013. Those using an indoor tanning salon will pay a 10 percent tax starting this year.

Q: What will happen to my premiums?

A: That's hard to predict and the subject of much debate. People who are sick might face lower premiums than otherwise because insurers wouldn't be permitted to charge sick people more; healthier people might pay more. Older people could still be charged more than younger people, but the gap couldn't be as large.

The bigger question is what happens to rising medical costs, which drive up premiums. Even proponents acknowledge that efforts in the legislation to control health costs, such as a new board to oversee Medicare spending, wouldn't have much of an effect for several years.

In November, a CBO report on how the legislation – which at that point had a tougher Cadillac tax – would affect premiums said big employers would see premiums stay flat or drop 3 percent compared to today's rates. It also noted that employees with small-group coverage might see their premiums stay the same. And Americans who received subsidies would see their premiums decline by up to 11 percent, according to the CBO.

ⁱ Galewitz, Phil (March 22, 2010) "Doctors, Hospitals, Insurers, Pharma Come Out Ahead With Health Bill" *Kaiser Daily Health Policy Report*.

ⁱⁱ Appleby, Julie and Steadman, Kate (March 22, 2010) "The Immediate Effects Of The Health Reform Bill" *Kaiser Daily Health Policy Report*

ⁱⁱⁱ Galewitz, Phil (March 21, 2010) "Consumer Guide to Health Reform" *Kaiser Daily Health Policy Report*.

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