

Summary and Timeline of the *Patient Protection and Affordable Care Act*

The *Patient Protection and Affordable Care Act* (PPACA) was signed into law on Tuesday, March 23, 2010 and dramatically reformed the delivery of health care. The U.S. Supreme Court upheld PPACA's mandate to purchase health insurance on June 28, 2012. As a result, the major provisions of the law were unaffected, with some limits on the Medicaid expansion funding to the states.

Many of the law's provisions did not come into immediate effect upon passage in 2010, but phase in over a period of years until 2018. Below is a summary of the benefits and tax implications of those changes and their effective dates.

Highlights

- No lifetime benefit limits and only limited annual benefit limits
- Coverage for dependent children up to age 26, as long as they do not have access to other employer-sponsored health coverage
- No preexisting conditions for children under age 19
- No cancellation of health coverage for individuals, except in cases of fraud
- Tax penalty on individuals who do not purchase health insurance
- Tax penalty on employers with 50 or more employees that fail to offer coverage to their employees
- New limitations on Flexible Spending Accounts (FSAs) and Health Savings Accounts (HSAs)
- Higher taxes on wages and investment income for taxpayers with earnings over \$200,000 (single)/250,000 (joint) and no inflation adjustment included for those thresholds

In Effect as of 2012

Small Business Tax Credit. Tax credit of up to 35 percent of premiums made available to small businesses that choose to offer health coverage, with no more than 25 employees and average annual wages of no more than \$50,000. In 2014, the credit increases to 50 percent of premiums. Many small businesses have failed to claim this credit.

Eliminated Pre-Existing Condition Exclusions for Children. Health insurance companies barred from imposing pre-existing condition exclusions on children's coverage. (This provision will apply to all people in 2014.)

Prohibited Rescissions. Health insurance companies prohibited from rescinding existing health insurance policies when a person gets sick (except in cases of fraud or intentional misrepresentation of material fact).

Eliminated Lifetime Limits and Restricting Use of Annual Limits. Lifetime limits on benefits prohibited in all group health plans and in the individual market and restricts the use of annual limits. (The use of annual limits will be banned for new plans beginning 2014.)

Extended Dependent Coverage. Plans that provide dependent coverage required to continue coverage until the child turns 26 years of age.

Expanded Certain Patient Protections. Plan members allowed to pick any participating primary care provider, prohibits insurers from requiring prior authorization before a woman sees an ob-gyn, and ensuring access to emergency care.

Prohibited Discrimination Based on Salary. Group health plans prohibited from establishing any eligibility rules for healthcare coverage that have the effect of discriminating in favor of higher-wage employees.

Reduced the Cost of Covering Early Retirees. Temporary reinsurance program created to help companies offset the cost of providing early retiree health benefits for those ages 55-64.

Reduced the Medicare (Part D) "Donut Hole" or Coverage Gap. In 2010, all Part D enrollees who entered the "donut hole" were provided a \$250 rebate check for. As of 2011, people in the donut hole receive a 50-percent discount on brand-name drugs. The donut hole is eliminated in 2020.

Tax Relief for Health Professionals with State Loan Repayment. Excludes from gross income payments received from a state loan forgiveness program designed to address health professional shortage.

Disallowed reimbursement for over-the-counter medications without a doctor's prescription. Conformed the definition of qualified medical expenses for HSAs, FSAs, and HRAs to the definition used for the itemized deduction. Purchases of over-the-counter medicine with a doctor's prescription still qualify.

Increased Additional Tax for Withdrawals from Health Savings Accounts and Archer Medical Savings Account Funds for Non-Qualified Medical Expenses. Increased the additional tax for HSA withdrawals prior to age 65 that are not used for qualified medical expenses from 10 to 20 percent. Increased the additional tax for Archer MSAs from 15 to 20 percent.

Ensuring Medicaid Flexibility for States. States allowed to cover parents and childless adults up to 133 percent of the Federal Poverty Level (FPL).

ABANDONED: Voluntary Options for Long-Term Care Insurance. The healthcare reform bill included a provision to establish long-term care insurance programs to be financed by voluntary payroll deductions, but only if the program could be self funding. In October 2011, officials at the US Department of Health and Human Services announced they were unable to design a program that could meet the self-funding requirement.

REPEALED: Information Reporting on Payments to Corporations. To offset the costs of the legislation a provision was included that required businesses to report payments for property and services, such as office equipment leasing, cleaning services, or shipping services, that aggregated to \$600 or more annually. The provision was viewed as costly and onerous on small business and was subsequently repealed after lobbying effort by FPA and other organizations.

Beginning 2013

Additional Hospital Insurance Tax for High Wage Workers. Increases the hospital insurance tax (commonly referred to as Medicare payroll tax) rate by 0.9% to 2.35% on taxpayers with wages and earnings over \$200,000 (\$250,000 for married filing jointly). The earnings threshold does not adjust for inflation.

Tax on Investment Income. Implements a "Medicare contribution tax" of 3.8 percent on net investment income (e.g., dividends, capital gains, rents, passive income) for taxpayers with Adjusted Gross Income greater than \$200,000 (\$250,000 MFJ). The AGI threshold does not adjust for inflation.

Limiting Health Flexible Savings Account Contributions. Limits the amount of contributions to health FSAs to \$2,500 per year, indexed by CPI for subsequent years.

Increased Threshold for Claiming Itemized Deduction for Medical Expenses. Increases the adjusted gross income threshold for claiming the itemized deduction for medical expenses from 7.5 to 10 percent. Individuals over 65 will be able to claim the itemized deduction for medical expenses at 7.5 percent of adjusted gross income through 2016.

Eliminating Deduction for Employer Part D Subsidy. Eliminates the deduction for employers who maintain prescription drug plans for their Medicare Part D eligible retirees.

Beginning 2014

Establishing State Health Insurance Exchanges. Opens health insurance exchanges in each State for the individual and small group markets. This new venue will enable people to comparison shop for standardized health packages. It facilitates enrollment and administers tax credits so that people can obtain affordable coverage.

Individual Penalty for Failure to Obtain Health Insurance. Requires most individuals to obtain acceptable health insurance coverage or pay a penalty of \$95 for 2014, \$325 for 2015, \$695 for 2016 (or, up to 2.5 percent of income in 2016). Families will pay half the amount for children, up to a cap of up to a cap of \$2,250 per family. After 2016, dollar amounts are indexed. If affordable coverage is not available to an individual, they will not be penalized.

Employer Penalty for Failure to Obtain Health Insurance. Imposes a fee on businesses with 50 or more employees that do not provide insurance for their employees. The fee is based on the number of full-time employees, less the first 30 employees, multiplied by \$2,000.

Reforming Health Insurance Regulations. Insurers can no longer exclude coverage for treatments based on pre-existing health conditions. Limits insurers from charging higher rates due to health status, gender, or other factors. Premiums can vary only based on age (no more than 3:1), geography, family size, and tobacco use.

Eliminating Annual Coverage Limits. Prohibits insurers from imposing annual limits on the amount of coverage an individual may receive.

Ensuring Choice through a Multi-State Option. Provides a choice of coverage through a multi-State plan, available nationwide, and offered by private insurance carriers under the supervision of the Office of Personnel Management.

Providing Health Care Tax Credits. Makes insurance premium tax credits available to ensure low-income people can obtain affordable coverage. Credits are available for people with incomes above Medicaid eligibility and below 400 percent of poverty who are not eligible for, or offered, other acceptable coverage.

Ensuring Choice through Free Choice Vouchers. Workers who qualify for an affordability exemption to the individual responsibility policy but do not qualify for tax credits can take their employer contribution and join a state exchange plan.

Increasing Access to Medicaid. Medicaid eligibility will increase to 133 percent of poverty for all non-elderly individuals to ensure that people obtain affordable health care in the most efficient and appropriate manner. States will receive 100 percent federal funding for the first three years of this coverage expansion.

Small Business Tax Credit Increased. Tax credit of up to 50 percent available to firms that choose to offer coverage. The full credit is available to firms with 10 or fewer employees with average annual wages of \$25,000, while firms with up to 25 or fewer employees and average annual wages of up to \$50,000 are eligible for a reduced credit.

Beginning 2015

Independent Payment Advisory Board to Lower Health Costs. Establishes an Independent Payment Advisory Board to develop and submit proposals to Congress and the private sector aimed at extending the solvency of Medicare, lowering health care costs, improving health outcomes for patients, promoting quality and efficiency, and expanding access to evidence-based care.

Beginning 2018

High-Cost "Cadillac" Plan Excise Tax. Imposes an excise tax of 40 percent on insurance companies and plan administrators for any health insurance plan that is above the threshold of \$10,200 for self-only coverage and \$27,500 for family plans. The tax would apply to the amount of the premium in excess of the threshold. The threshold would be indexed at CPI-U plus one percentage point for 2019 and CPI for years thereafter. An additional threshold amount of \$1,650 for singles and \$3,450 for families is available for retired individuals over the age of 55 and for plans that cover employees engaged in high risk professions. Employers with higher costs on account of the age or gender demographics of their employees when compared to the age and gender demographics nationally may adjust their thresholds even higher.

Sources

Deloitte. *Prescription for change 'filled': Tax provisions in the Patient Protection and Affordable Care Act.* (www.deloitte.com)
United States. Cong. Senate. Democratic Policy Committee. *The Patient Protection and Affordable Care Act Implementation Timeline.* (<http://dpc.senate.gov/>)

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