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Deciphering the Healthcare Bill – Part 2: Blocking and Tackling

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Part 2: Blocking and Tackling

By Bridget McCrea

The Healthcare Reform Bill (officially titled the Patient Protection and Affordable Care Act) that was signed into law in March 2010 left a lot of businesses wondering exactly how the sweeping law would affect them. With new rules, regulations and requirements, "basic" health care plans will no longer be enough to satisfy Uncle Sam.

We're here to help. In Part 1 of this two-part series "Rules of the Game" (Precast Inc. Nov/Dec 2010), we investigated the new law and showed you what's changed. We also helped you figure out what those changes mean for your firm. Now, in Part 2, we offer some solid tips on blocking and tackling: how to deal with the changes and stay on the right side of the law without sacrificing too much time or money in the process.

What's in store

First, just a quick recap. The health care bill changed the way in which employers handle their workers' health insurance coverage. It also put more of the burden of health care on the individuals themselves (through wellness and smoking cessation program incentives, for example) and created tax incentives for companies with fewer than 25 employees. Here's a quick look at the major changes:

- Employer Requirement: Penalties would be assessed on employers with 50 or more employees who fail to offer coverage to their staffs.
- Individual Requirement: The new law requires individuals to purchase health insurance coverage or pay a tax penalty beginning in 2014.
- Excise Tax on High-Value Health Plans (also known as the "Cadillac" tax): Employers offering health plans that exceed a certain cost (the total employee and employer cost) would be subject to an excise tax on the amount above that value.
- Insurance Market Reforms: The new law requires insurance plans to provide coverage to any individual who requests insurance. It also includes a prohibition on pre-existing condition restrictions in the individual and small-group health care market.
- Wellness Programs: Employers can offer increased incentives or rewards to employees for participation in a wellness program or for meeting certain health status targets beginning in 2014.
- Free Choice Vouchers: Employers offering coverage are required to provide "free choice vouchers" to qualified employees to purchase insurance through the exchanges.
- Flexible Spending Accounts (FSAs): Contributions to health FSAs would be capped at $2,500 beginning in 2013 and over-the-counter medicines would qualify for reimbursement only with a doctor's prescription.
- Medicare Hospital Insurance Tax: Beginning in 2013, an additional Medicare tax of 0.9% is imposed on joint filers with income in excess of $250,000 or $200,000 for single filers.

The changes imposed by the law aren't limited to these bullet points, and in fact reach into pretty much every aspect of an individual's health care. Because of this, Barry Sloane, small business expert and CEO at New York-based Newtek Business Services, says precast manufacturers should start drawing up their action plans sooner rather than later.

"Health insurance and health care costs keep spiraling upward, and in an environment where revenues are hard to come by, it's particularly important to control your expenses," says Sloane, noting that those firms that get out in front of the health care reform law today will be the ones that stand the best chance of keeping those spiraling costs under control.

"In its current state, the bill doesn't reduce health care costs, but actually increases those costs, particularly for employers," says Sloane. "Because of this, the bill is a significant concern for companies nationwide that have weathered the worst of the recession, and now have to increase the level of benefits and insurance that they provide for employers."

The fines and penalties associated with the health care reform bill should be of particular concern for precasters, says Sloane, who warns owners and managers to be cognizant of those additional fees. The penalties assessed on companies with 50 or more workers for not providing adequate health insurance coverage, for example, are assessed if even one employee receives a subsidy to purchase coverage through a health insurance exchange.

Employers would also incur penalties if the coverage they offer is considered “unaffordable” to the employee or if the health plan has an actuarial value of less than 60% or pays less than 60% of covered health care expenses. “Precasters can’t ignore the health care requirement,” Sloane warns, “and must either provide the adequate coverage or be willing to pay a fine.”

The fine print

There are other strategies that precasters can use to avoid penalties and stay on the right side of the new law. Tax planners, accountants and/or financial advisors need to be brought into the process, for example, since so many of the new requirements are tied into tax credits and tax obligations.

Businesses with fewer than 25 employees and average wages of less than $50,000, for example, could qualify for a tax credit of up to 35 percent of the cost of their premiums as a result of the new law. “These and other tax-related issues are going to be a major part of any company’s tax filing,” says Sloane, “so get your advisors on board and involved early.”

Precasters should also be aware of some of the moves being made by insurance firms right now, says Sloane, who has noticed that more than one provider has already upped their renewal costs by at least 20 percent as a result of the new law.

“The insurance companies are getting ahead of the curve and raising their rates significantly,” says Sloane. “Now is the time for businesses to assess their current plans, decide what level of benefits they have to offer and whether or not to have employees bear more of the financial burden of those plans (via self-insurance plans like Health Savings Accounts, for example).”

What precasters shouldn’t be doing right now, says Sloane, is burying their heads in the sand, hoping beyond hope that the new law goes away, or somehow doesn’t affect them. “Waiting until the last minute is not the way to go under these circumstances,” says Sloane. “Start by setting up some meetings with your accountants and tax professionals to strategize, and to ascertain the best route for your firm to take.”

Batten down the hatches

The new health care bill presents both benefits and challenges for American companies, according to William Ruse, adjunct faculty member at the University of Findlay in Findlay, Ohio, and a former health care CEO. Companies with 25 or fewer employees, for example, could see substantial benefits in the way of tax credits that start at 35% (of health insurance premiums paid) and that increase to 50% by 2014.

The precaster that shells out $100,000 annually in health insurance premiums, for example, would get $35,000 of that sum back in tax credits in 2011, and $50,000 in 2014 (some restrictions apply in this situation, so be sure to talk to your tax advisor about your firm’s eligibility). “This is by far the most favorable point for businesses to come out of the reform act,” says Ruse, “so be sure to take advantage of it if you can.”

Rob Wilson, president at Westmont, Ill.-based Employco USA., a human resources provider for small and midsized firms, concurs with Ruse, and says “the precast firm with 20 workers and an average health care cost of $400 per employee could receive a tax credit of just over $33,000 per year on average.” Understand that employees’ average wages must be less than $50,000 annually for the business to qualify for the credit, he adds. “This is a boon for the firm that stays under 25 workers and within that wage average.”

To ensure your firm complies with the new rules while also taking advantage of any and all benefits that might come with them, Sloane says now is the time to look at issues like rising premium costs and expected tax credits. For some firms, it may also be the time to start cutting back on expenses in other operational or administrative areas in anticipation of higher health care-related costs.

“Assume that your costs are going to increase and start making decisions that will result in better cash flow, regardless of whether your firm stands to benefit from the law or not,” Sloane advises. “This isn't a free lunch, so make sure you have the cash flow and capital on hand to deal with the changes, and that you're reducing other expenses to make sure your firm can meet its obligations."

Bridget McCrea is a freelance writer who covers manufacturing, industry and technology. She is a winner of the Florida Magazine Association's Gold Award for best trade/technical feature statewide.

Sidebar 1: ***Received a Postcard from the IRS?***

Millions of small-business employers received postcards from the IRS beginning in April that alerted them to the new Small Business Health Care Tax Credit and encouraged them to check their eligibility. Even if you didn't receive a postcard, your business still may be eligible. Here are the eligibility rules for the tax credit. Keep these in mind as you plan your firm's blocking and tackling moves:

What your firm must do:

- Providing health care coverage: A qualifying employer must cover at least 50% of the cost of health care coverage for some of its workers based on the single rate.
- Firm size: A qualifying employer must have less than the equivalent of 25 full-time workers (for example, an employer with fewer than 50 half-time workers may be eligible).
- Average annual wage: A qualifying employer must pay average annual wages below $50,000.
- Both taxable (for profit) and tax-exempt firms qualify.

Amount of credit your firm will receive:

- Maximum amount: The credit is worth up to 35% of a small business' premium costs in 2010. On Jan. 1, 2014, this rate increases to 50% (35% for tax-exempt employers).
- Phase-out: The credit phases out gradually for firms with average wages between $25,000 and $50,000 and for firms with the equivalent of between 10 and 25 full-time workers.

Sidebar 2: ***Changes: 2012 and Beyond***

In Part 1 of this two-part series on health care reform, we broke down the key changes impacting group health plans in 2010 and 2011. Here's the rest of the story – for 2012 and beyond:

2012

- $2,500 contribution cap on FSAs
- Impose a hospital insurance tax of 0.5% on high-income individuals
- The U.S. government will set up a program to create nonprofit insurance co-ops
- Medicare payment reforms will encourage "accountable care organizations"
- A pilot program will be created to test more efficient ways to pay for Medicare
- Medicare payments to hospitals with high rates of preventable readmissions will be reduced

2013

- The Medicare payroll tax will increase from 1.45% to 2.35% on individuals with adjusted gross income (AGI) in excess of $200,000 and couples with AGI in excess of $250,000
- A new 3.8% tax will be imposed on investment income for individuals with AGI in excess of $200,000 and couples with AGI in excess of $250,000
- Contributions to health care FSAs will be limited to $2,500 per year

- The threshold for itemized medical deductions will be raised from 7.5% to 10% of AGI for people under the age of 65
- A 2.3% tax will be imposed on certain medical device manufacturers and importers

2014

- Employers with more than 50 employees must offer group coverage
- A temporary reinsurance program would be created for employers providing coverage to retirees over age 55 who are not eligible for Medicare
- Employers with more than 200 employees would be required to automatically enroll employees into health insurance plans offered by the employer with a choice available for employees to individually opt out
- Employers would be permitted to offer employees rewards of up to 30% of the cost of participating in a wellness program
- Reporting on effectiveness and impact of wellness programs would be required
- Phase II of the Small Business Tax Credit would provide a tax credit of up to 50% of the employer's contribution toward the employee's health insurance premium if the employer contributes at least 50% of the total premium cost
- Health insurance carriers would be required to have guaranteed issue and guaranteed renewal
- Individual Mandate requires individuals to obtain insurance or pay a penalty, unless affordable coverage is not available
- Health Insurance Exchange would require all new plans to comply with one of four benefit categories. The Exchange would be offered to individual and small group markets
- Health plans will be prohibited from denying coverage to adults for pre-existing medical conditions; therefore state high-risk pools will be phased out
- Health plans will be prohibited from imposing annual limits on benefits
- Small businesses with fewer than 25 employees and average wages of less than $50,000 will be able to qualify for a tax credit of up to 50% of the cost of the health care premiums for workers
- New health insurance exchanges will be created by the states
- People earning up to 133% of the federal poverty level ($29,327 for a family of four as of 2009, to be indexed) will qualify for Medicaid; childless adults will be eligible for the first time
- People earning up to 400% of the federal poverty level ($88,200 for a family of four as of 2009, to be indexed) will qualify for subsidies on a sliding scale to purchase health insurance through the newly created insurance exchanges
- Most U.S. citizens will be required to buy health insurance or pay a penalty, except for certain financial hardship cases
- Employers with more than 50 employees that do not offer health coverage will be fined if at least one employee uses tax credits to purchase an individual plan through an insurance exchange
- Insurers will not be allowed to charge women higher premiums
- Health insurers will be required to pay annual fees

2016

- The threshold for itemized medical deductions will be raised from 7.5% to 10% of AGI for people 65 and over

2018

- A 40% excise tax would be imposed on insurers of employer-sponsored health plans with aggregate values that exceed $10,200 for individual coverage and $27,500 for family coverage
- Health plans will be required to eliminate co-payments and deductibles for preventive services
- A 40% excise tax will be imposed on health insurance plans costing more than $10,200 for an individual or $27,500 for a family, excluding stand-alone vision and dental plans; higher thresholds will be implemented for certain high-risk industries