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Health Care Reform Legislation and You

Timelines and Implications of
the New Law for Individuals

Updated as of May 2011



The Health Care Reform Legislation and You

The *Patient Protection and Affordable Care Act* and the *Health Care and Education Reconciliation Act of 2010* (collectively referred to as “2010 health care reform legislation”) were signed into law in March 2010. The primary purpose of the legislation is to extend health care to millions of uninsured Americans.

To prepare for the short- and long-term impacts of this health care legislation, you should be aware of changes before they occur.

This overview highlights provisions of the new legislation that may already be in effect or are planned to go into effect over the coming years, in order to help you understand the potential impact of these changes on you. The new laws will certainly affect your health care options, in some cases ensuring coverage will be available where none may have been before. Both Medicare and Medicaid will undergo changes. In 2014, everyone will be required to have medical insurance or face penalties.

As is often the case with long-range legislation, however, some of the health care reform provisions will likely be modified or undergo changes before they take effect, and new provisions will undoubtedly emerge, too.

Your CPA will help guide you through this legislation. For more information on upcoming provisions, contact your CPA today — they look forward to hearing from you!



This overview highlights provisions of the new legislation that may already be in effect or are planned to go into effect over the coming years, in order to help you understand the potential impact of these changes on you.

Health Care Reform Timeline

The 2010 health care reform legislation contains provisions that will have a significant impact in the coming years. Some highlights of these provisions in 2010 include not allowing policies to be canceled due to serious illness and no longer allowing lifetime limits on essential health benefits. In 2011, HSA, HRA, or medical FSA reimbursement for over-the-counter medicine not prescribed by a doctor will end. In 2014, all individuals must carry insurance for themselves and their dependents.

Health Care Changes in 2010 - 2011

PROVISION	EFFECTIVE DATE	WHAT THIS MEANS FOR YOU
Lifetime Limits: Insurers no longer can impose lifetime limits on essential benefits or cancel policies due to serious illness.	2010	To ensure no individual is "cut off" from needed health coverage, lifetime limits on insurance coverage are no longer allowed, and policies cannot drop you due to serious illness.
Children with Pre-existing Conditions: Children under age 19 cannot be excluded from health insurance because of pre-existing conditions.	2010	If you have children, be aware that insurers are required to make health insurance available for children under 19 years of age, regardless of any pre-existing conditions.
Individuals with Pre-existing Conditions: The Pre-Existing Condition Insurance Plan (PCIP) is created to provide temporary health insurance (until 2014) to individuals without coverage due to pre-existing conditions.	2010	If you have had difficulty getting insurance because of a pre-existing condition, the PCIP will provide insurance that covers primary and specialty care, hospital care and prescription drugs. The PCIP will not charge a higher premium because of your medical condition and does not base eligibility on income. More information is available on the PCIP website at pcip.gov
Dependents Age Expanded: Participants of the health FSA can submit eligible expenses incurred by their adult dependents on or after March 30, 2010, through the end of the calendar year in which the dependent turns 26.	2010	Contact your benefits provider or plan administrator for specifics related to your FSA plan.
Part D Coverage Gap: Medicare beneficiaries will receive a \$250 rebate against out-of-pocket costs paid in the Part D coverage gap.	2010	The Medicare Part D coverage gap is the difference between the initial Medicare coverage limit and the catastrophic coverage threshold. For 2010, an individual on Medicare would be responsible for 100% of the total drug costs above \$2,830 (the initial coverage limit) and less than \$4,550 (the catastrophic coverage threshold). If you are on Medicare and your total drug costs have reached the Part D coverage gap level, you are eligible to automatically receive a rebate of \$250 to help with these out-of-pocket costs.
Emergency Area Health Hazards: Medicare coverage expanded to individuals exposed to health hazards from living in an area subject to an emergency declaration made as of June 17, 2009, and who have developed health conditions as a result.	2010	If you live in an area declared a state of emergency before June 17, 2009, and have developed health conditions as a result, Medicare coverage is now extended to you. (For a listing of declared emergency states, visit the Disasters & Maps area of the fema.gov website.)
Drug Rebate Increased: Medicaid drug rebate percentage for brand-name drugs increased to 23.1%. Medicaid drug rebate percentage for generic drugs increased to 13% of average manufacturer price.	2010	If you are on Medicaid, you will receive a larger rebate than before when you purchase brand-name drugs or generic drugs.
Indoor Tanning Tax: A 10% tax imposed on the amount paid for indoor tanning services.	2010	A tanning salon owner must pay a new tax on their services, so expect the price of the tanning salon visit to increase.
W-2 Reporting Requirement: Employers filing 250 or more Forms W-2 must report the aggregate value of health coverage benefits. There are certain amounts that are not required to be included (refer to the IRS for more details).	2011 (required for tax year 2012, for employers filing 250 or more Forms W-2)	If your employer files 250 or more Forms W-2, this requirement means additional documentation for your employer, who will report for information-gathering purposes only. Employers filing 250 or more Forms W-2 in 2011 must include the cost of employer-sponsored health coverage on the forms for the tax year 2012. This requirement does not represent a new tax to be imposed on you.
Ineligible Medicines: Over-the-counter drugs and medicines (other than insulin) will no longer be eligible for reimbursement under a HRA, HSA or medical FSA unless prescribed by a doctor. (This does not affect other eligible medical care items such as bandages, contact lens solution, etc.)	2011	You may purchase drugs or medicines without a doctor's prescription, but the funds for these purchases will be HSA or FSA.
HSA Distribution Penalty: Penalties for HSA distributions used for purposes other than to pay qualified medical expenses will increase from 10% to 20%.	2011	Since HSA contributions are not taxed, if HSA funds are used for reasons other than qualified medical expenses, you will be charged a penalty of 20% on the funds used. The term "qualified medical expenses" means amounts paid for the medical care of yourself, your spouse or your dependents, but only if the amounts are not compensated by insurance or otherwise. Refer to your HSA plan or your insurance provider for a list of qualified medical expenses.

Health Care Changes in 2011 and Beyond

PROVISION	EFFECTIVE DATE	WHAT THIS MEANS FOR YOU
Brand-Name Prescription Discount: Pharmaceutical manufacturers to provide 50% discount on brand-name prescriptions filled in the Medicare Part D coverage gap.	2011	If you are on Medicare and your total drug costs have reached the Part D coverage gap level, the cost of brand-name prescriptions will be discounted 50% by the pharmaceutical manufacturer.
Rebates of Health Insurance Premiums: The new law requires health plans to provide rebates to enrollees if less than 80% of their premiums was spent on clinical services and health care quality improvement activities.	2011	Health plans will be required to report the percentage of each premium dollar that insurers spend on paying actual medical claims. If this percentage is less than 80%, rebates will be made to enrollees. (Depending on the size, this could be 85% for larger insurers.)
National Voluntary Long-Term Care Program Established: The Community Living Assistance Services and Supports (CLASS) Program is established as a voluntary insurance program.	(Pending guidance due by October 2012)	Enrollment in CLASS will be voluntary and offered to working people over the age of 18. After contributing to the program for a minimum of 5 years, enrollees who are found to have functional limitations expected to last at least 90 days will receive a cash benefit to help remain independent.
Increased Medicare Taxes: The employee portion of Medicare taxes increases from 1.45% to 2.35% on earnings of more than \$250,000 for joint returns, \$125,000 for those married and filing separately, or \$200,000 for other individuals. A Medicare tax of 3.8% will be imposed on unearned (passive) income for these same higher-income taxpayers.	2013	If you are a high-income taxpayer as discussed, you can expect to see these increases in taxes. Contact your CPA to determine the actual impact you will experience from these tax increases.
Itemized Deduction Threshold Increased: Itemized deduction threshold for unreimbursed medical expenses increases to 10% of AGI (but remains 7.5% through 2016 for individuals age 65 or older).	2013	If you have medical expenses, you can claim an itemized deduction for unreimbursed medical expenses in excess of 10% of your adjusted gross income. This threshold for claiming the deduction is increased from 7.5% of adjusted gross income. Contact your CPA to determine if this change will have an impact on you, and to develop a plan to offset this change, if necessary.
FSA Contribution Limit: Contributions to medical FSA are limited to \$2,500 per year (to increase annually for cost of living).	2013	If you contribute funds from your paycheck to a medical flexible spending account, the maximum amount you will be allowed to contribute per year will be the lesser of the plan maximum or \$2,500 (statutory maximum). Prior to the new law, the maximum FSA contribution amount was up to the employer. There was no statutory limit.
Insurance Required: All individuals must carry insurance for themselves and their dependents or pay penalties, which increase annually. In 2014, the penalty will be the greater of \$95 or 1% of income over the filing threshold; in 2015, the penalty will be \$325 or 2%; and the penalty will be \$695 or 2.5% in 2016 and beyond.	2014	Similar to car insurance for licensed drivers, minimum health insurance coverage is required for all U.S. citizens and legal residents. If you are unable to obtain health insurance through your employer, you will be able to purchase qualified insurance coverage through state-based insurance exchanges.
Waiting Period Limits: Employers cannot wait longer than 90 days from the beginning of employment to provide health insurance to employees.	2014	You should be offered enrollment into your employer's health insurance plan no later than 90 days after you begin employment.
Deductible Limits: Deductibles for health plans in the small group market limited to \$2,000 for individuals and \$4,000 for families.	2014	If you are enrolled in a health insurance plan in the small group market, the largest deductible amount you will have to cover will be \$2,000 per year for an individual and \$4,000 for a family.
State Basic Health Programs: Individual states may establish basic health programs to provide coverage to low-income residents who are younger than age 65, have gross family income above 1.3 times and below 2 times of the Federal Poverty Level, are not eligible for Medicaid, and who do not have access to affordable employer-sponsored coverage.	2014	If your income is less than 1.3 times the Federal Poverty Level and you have not been eligible for Medicare, you may now be eligible for Medicaid. For guidelines of the Federal Poverty Level, by year, visit the U.S. Department of Health & Human Services at aspe.hhs.gov .



The 2010 health care reform legislation is the result of hard work by a lot of people for the ultimate goal of extending health care insurance to the currently uninsured.

Some of the provisions included in the legislation will have a positive impact on individuals, including:

- Insurance companies will no longer be able to refuse coverage based on pre-existing conditions or lifetime dollar limits
- More employers offering health insurance coverage
- A rebate against costs incurred in the Medicare Part D coverage gap
- An increase to the Medicaid drug rebate percentage
- A 50% discount on brand-name prescriptions filled in the Medicare Part D coverage gap
- Employers must offer health insurance to employees within 90 days from the beginning of employment

However, some of the provisions required by the legislation may not be as welcome by individuals, including:

- Over-the-counter drugs and medicine will no longer be eligible for reimbursement under an HRA, HSA, or medical FSA unless prescribed by a doctor
- The penalty for a non-qualified HSA distribution increases from 10% to 20%
- Increased Medicare taxes for certain higher-income individuals
- Generally, all individuals must carry insurance for themselves and their dependents beginning in 2014

Your CPA can help guide you through this legislation. For more information on current and upcoming provisions of the 2010 health care reform legislation, contact your CPA today.

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